

Decelerating global growth remains vulnerable to further negative shocks

On track for the third-weakest growth year in the last three decades, overshadowed only by the global financial crisis and the pandemic

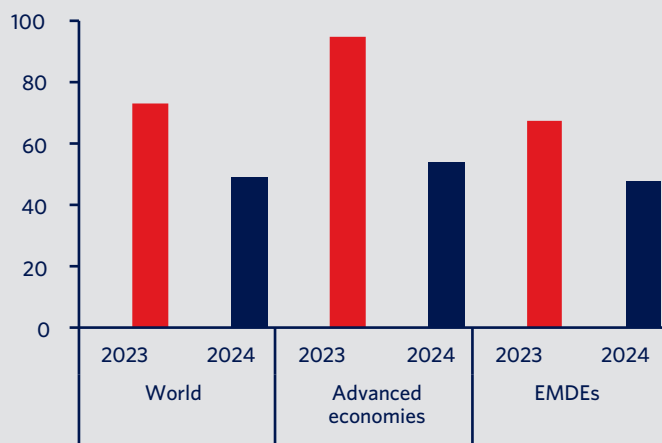
Global GDP growth* (%)



*Forecasts up to 2024

Growth projections for this year have been downgraded for almost all advanced economies and about two-thirds of EMDEs*

Share of economies downgraded since June 2022



*EMDEs = emerging markets and developing economies

Global inflation pressures starting to abate

Fewer countries are experiencing an acceleration in price increases

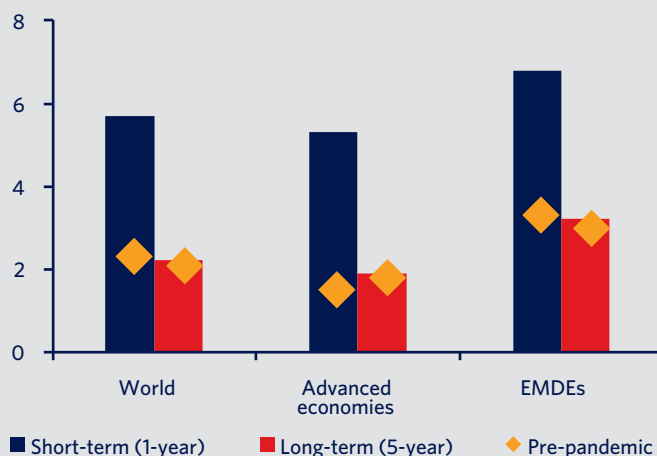
Share of economies with rising inflation (%)



Data up to November 2022

Short-term inflation expectations have risen but long-term expectations have been more stable

Inflation expectations (%)



Pre-pandemic = January 2020
Median expectations for 33 advanced economies and 50 EMDEs

Risks to the global outlook remain skewed to the downside



Persistent inflation

- Renewed supply disruptions
- Elevated core inflation



Unanticipated policy tightening

- To quell additional inflationary pressures



Financial stress

- Falling confidence amid elevated debt levels



Geopolitical turmoil

- Disruptions to commodity and financial markets
- Trade and migration linkages



Energy and food insecurity

- Trade restrictions on food
- Weather-related events
- Conflict



Climate-related disasters

- Weather events
- Natural disasters



Social tensions

- Food insecurity
- Rise in violence



COVID-19 outbreaks

- Waning immunity
- Low vaccination rates



Global trade fragmentation

- Disrupted investment and financial networks



Lower structural growth

- Development challenges
- Setback to global prosperity

January 2023

UNITED STATES

Growth in gross domestic product (GDP) fared better than expected with the economy expanding by 2.9% on an annualised basis in the fourth quarter of 2022 (and 2.1% for the year as a whole), relative to consensus estimates of 2.6%. Nonetheless, a slowdown from 3.2% in the prior quarter points to the dampening effects of the tighter monetary policy. A rebuild in inventory (contributing nearly 1.5% to the overall growth figure) and household spending on services were the primary drivers of the fourth quarter figure. Meanwhile, growth in fixed investment shrank 6.7%, largely owing to a deep contraction in housing-related investment. Resilience in growth is unlikely to persist in the coming quarters given still-high inflation, a further expected increase in interest rates and a decline in excess savings. A congressional standoff over raising the debt ceiling later this year could further knock sentiment.

Forecast 2023:

GDP: -0.1%

Core PCE Inflation: 3.4%

Forecast 2024:

GDP: 1.3%

Core PCE Inflation: 2.3%

EUROZONE

The tone at the World Economic Forum improved for the Eurozone outlook. The threat of a deeper energy crisis retreated on warmer weather conditions, resulting in weaker demand. European natural gas prices fell to levels last seen before the Russian invasion of Ukraine, allowing for more gas to be directed to Europe's storage facilities.

According to Gas Infrastructure Europe, gas storage levels are at 76% of capacity, on average, across the European Union. Nonetheless, restocking gas supplies for next year may prove more challenging in light of lower gas volumes supplied from Russia and more intense competition for liquified natural gas from China as its growth rate recovers. While a better outcome on energy rationing could take the sting out of the more pessimistic growth views on the Eurozone, the consensus expectation for further interest rate tightening to 3.5% could still damage growth prospects.

Forecast 2023:

GDP: -0.6%

HICP Inflation: 5.6%

Forecast 2024:

GDP: 1.3%

HICP Inflation: 2.2%

UNITED KINGDOM

The Standard and Poor's (S&P) Global/CIPS Flash United Kingdom (UK) purchasing managers' index sank to a two-year low of 47.8 points in January 2023. The survey results indicated that higher interest rates and low consumer confidence were the main culprits behind the sustained downturn in UK business activity. Even after the GfK consumer confidence survey showed an improvement in the last quarter of 2022, the index deteriorated close to an all-time low in January due to continued cost-of-living pressures. The sub-index measuring major purchases suffered its largest monthly decline in January. Similarly, the Credit Conditions Survey pointed to the biggest-ever drop in mortgage demand last quarter. Nevertheless, high underlying inflation and strong wage growth point to further interest rate increases on top of the cumulative 350 basis points the Bank of England has already implemented.

Forecast 2023:

GDP: 1.2%

Inflation: 2%

Forecast 2024:

GDP: 1.0%

Inflation: 1.4%

JAPAN

After initially expanding the trading range for Japanese 10-year government bonds in December 2022 from 0.25% to 0.5% (on either side of 0%), investors got excited about the beginning of the end of yield curve control. However, after January's interest rate decision, it was clear that the Bank of Japan (BoJ) intended to maintain the pillars of its ultra-easy monetary policy. Nonetheless, Japanese government bonds rebounded on the announcement of the expanded lending programme. Under this programme, the BoJ aims to offer loans of up to 10 years to commercial banks at variable interest rates, instead of at a previously fixed 0% rate. The future of the BoJ's yield curve control policy will likely lie in the hands of the next governor after Haruhiko Kuroda steps down after a 10-year stint.

CHINA

Forecast 2023:

GDP: 5%

Inflation: 2.4%

Forecast 2024:

GDP: 5.1%

Inflation: 2.3%

A rapid unwind in pandemic controls has led to a surge in COVID-19 infections. According to the *Financial Times*, a top government epidemiologist confirmed that 80% of China's population had already been infected. Consequently, the risk of a large country-wide rebound in infections in the coming months is deemed to be relatively low. That said, the annual migration of urban workers to rural areas poses a risk given the low rate of vaccination and a lack of access to pharmaceutical products. The reopening of the Chinese economy could boost growth in regions such as Southeast Asia, where exposure to Chinese tourism is the highest. Although the recovery is likely to be centred around services, goods demand may improve as well, allowing for a boost to exports from commodity-oriented exporters of energy and metals.

Forecast 2023:

GDP: 4%

Inflation: 5.7%

Forecast 2024:

GDP: 4.4%

Inflation: 4.2%

EMERGING MARKETS

Growth across emerging markets is expected to be constrained this year by still high food and energy costs, tightening financial conditions and ongoing fiscal consolidation. The lingering effects of the Russian-Ukrainian war are likely to dampen prospects in Emerging Europe and Central Asia, while fading commodity tailwinds and higher interest rates will curb growth in Latin America this year. After a significant boost from energy prices in 2022, growth in the Middle East and North Africa is set to slow into 2023. The World Bank projects a mediocre outlook for growth in Sub-Saharan Africa, which will remain contingent on the commodity cycle and the outlook for global growth. Prospects appear brighter for South Asia given a strong outlook for Indian growth. Although, economic troubles in Sri Lanka and Pakistan may take away from growth in the overall composite. Meanwhile, growth in East Asia will take its cue from firmer Chinese growth as a result of lower COVID-19 regulations.

Forecast 2023:

GDP: 1.1%

Inflation: 5.8%

Forecast 2024:

GDP: 1.6%

Inflation: 4.6%

SOUTH AFRICA

A less supportive global backdrop and local challenges continue to weigh heavily on the country's growth outlook. Extensive power cuts, insufficient railway and port infrastructure and cost inefficiencies are expected to keep a lid on growth in the medium term. The South African Reserve Bank (SARB) recently downgraded its projection for economic growth for this year to a dismal 0.3%. Growth is expected to remain tepid at 1% by 2025 on the back of crippling energy supply shortages. The deterioration in the SARB's growth outlook is largely owing to its expectations of more intense loadshedding. It estimates 250 days of loadshedding this year, 150 next year and 100 days in the year after that. The SARB has calculated the cost of loadshedding to overall growth per stage, per day at between R0 million and R1.2 million for stages 1 and 2 and between R204 million and R899 million for stages 3 to 6. Based on these figures, the SARB assumes that loadshedding is likely to detract 2% from the expected growth rate this year. A weaker growth trajectory and dulled confidence is expected to cap growth in fixed investment, while cost-of-living pressures and higher interest rates will likely see a slowdown in growth in household consumption this year. Moreover, the SARB warns that declining commodity prices and softer global growth will hinder export prospects. Despite a notably weaker growth outlook, the SARB hiked rates by an additional 25 basis points to 7.25% to anchor inflation expectations and to arrest the cost-of-living crisis.

The macro research desk

Herman van Papendorp is the head of the Momentum Investments research and insights team and takes ultimate responsibility for macro research and asset allocation. Economist, Sanisha Packirisamy, is responsible for providing a macro framework to inform investment opportunities and strategies.



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Indices summary for January 2023

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (Alsi)	8.89%	19.56%	11.83%	16.63%	14.18%	9.81%	10.83%	10.76%	10.53%
FTSE/JSE Shareholder Weighted Index (Swix)	7.23%	14.75%	8.58%	12.00%	9.98%	6.05%	7.86%	8.07%	9.11%
FTSE/JSE Capped Swix All Share index	6.96%	13.97%	9.07%	13.57%	10.35%	6.39%	7.53%	7.84%	8.90%
FTSE/JSE All Share Top 40 Index	9.69%	22.51%	12.99%	17.87%	15.28%	10.67%	11.83%	11.13%	10.84%
FTSE/JSE Mid Cap Index	3.83%	3.69%	5.91%	6.31%	7.08%	3.99%	4.24%	7.05%	7.54%
FTSE/JSE Small Cap Index	2.33%	3.29%	11.50%	20.70%	13.18%	7.48%	6.24%	9.32%	9.61%
FTSE/JSE Resources Index	6.27%	18.99%	11.39%	24.24%	23.20%	21.65%	19.60%	23.86%	8.65%
FTSE/JSE Financials Index	3.93%	3.98%	8.49%	6.94%	2.43%	1.87%	4.36%	4.92%	7.53%
FTSE/JSE Industrials Index	12.78%	28.27%	10.74%	14.84%	13.51%	6.58%	8.45%	7.22%	10.78%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	9.32%	17.82%	15.59%	19.91%	15.43%	11.50%	12.21%	14.01%	10.81%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	8.91%	16.94%	14.72%	19.06%	14.81%	10.93%	11.26%	13.59%	10.38%
FTSE/JSE SA Listed Property Index (Sapy)	-1.00%	6.44%	2.41%	-2.72%	-4.46%	-5.48%	-3.98%	-1.42%	2.57%
FTSE/JSE All Property Index (ALPI)	-0.79%	6.13%	0.20%	-3.47%	-5.44%	-6.41%	-4.91%	-3.48%	1.75%

Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	2.94%	7.63%	6.42%	7.70%	7.90%	8.07%	8.52%	8.99%	7.36%
FTSE/JSE All Bond Index 1-3 years (Albi)	1.31%	3.72%	6.92%	7.22%	7.36%	7.64%	8.00%	8.15%	7.31%
FTSE/JSE Inflation-linked Index (Ili)	-1.05%	2.45%	4.35%	7.47%	5.71%	5.21%	4.24%	4.62%	4.89%
Short-term Fixed Interest Composite Index (Stefi)	0.58%	1.66%	5.46%	4.80%	5.41%	5.78%	6.07%	6.27%	6.15%

Commodities									
NewGold Exchange-Traded Fund	8.49%	11.21%	20.08%	11.98%	17.09%	15.64%	12.50%	9.07%	8.05%
Gold price (in rands)	7.95%	12.03%	20.66%	12.44%	17.45%	15.93%	12.73%	9.44%	8.40%
Platinum Exchange-Traded Fund	-2.71%	1.43%	10.61%	6.50%	12.03%	7.58%	4.27%	3.02%	
Platinum price (in rands)	-3.63%	2.65%	8.97%	5.93%	12.06%	7.48%	4.13%	3.07%	0.68%

Currency movements									
Rand/euro movements	4.36%	4.07%	8.97%	4.58%	5.55%	5.02%	4.43%	1.35%	4.54%
Rand/dollar movements	2.72%	-5.17%	12.34%	5.25%	7.03%	7.95%	4.36%	1.31%	6.90%

Inflation index									
Consumer Price Index (CPI)			7.20%	5.36%	5.02%	4.92%	4.88%	5.15%	5.20%

Important notes

- Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
- Returns for periods exceeding one year are annualised.
- The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
- The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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