

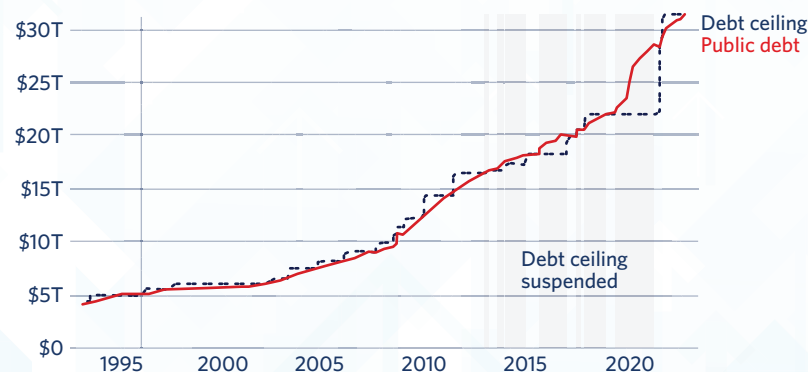
# RAISING THE US DEBT CEILING

## What is the debt ceiling?

The debt ceiling serves as a mechanism for Congress to oversee and control the government's borrowing activities. It refers to a limit that the government sets on the amount of money it can borrow to fund its operations and meet its financial obligations, functioning as a cap on the total outstanding debt that government can have. When the government spends more money than it collects in taxes, it needs to make up the shortfall by borrowing money. The debt ceiling comes into play here, as government cannot freely borrow an unlimited amount of money. It needs congressional approval to increase the debt ceiling and allow for additional borrowing beyond the existing limit.

**The US\$31.4 trillion debt limit was set on 16 December 2021**

## Total US government debt



**78**

**The number of times the debt ceiling was raised since 1960**

## What could happen if the US defaulted?

Negative market sentiment and higher market volatility harming global financial stability

Reduced creditworthiness of the country which could lead to higher borrowing costs for government, businesses and individuals

Reduced buffers to offset economic pain

Higher interest rates reflecting higher perceived risk associated with government debt

Government could default on meeting obligations, leading to a loss in confidence



## Americans weigh in on the debt ceiling issue

### Those in support of Congress raising the debt ceiling (%)

- 40% of whites
- 45% of blacks
- 36% of Hispanics
- 42% of 18 - 29 year olds
- 38% of 30 - 44 year olds
- 37% of 45 - 64 year olds
- 49% of 65+ years olds
- 40% of earners below US\$50k
- 44% of earners between US\$50k and US\$100k
- 42% of earners above US\$100k
- 62% of Democrats
- 35% of Independents
- 24% of Republicans

## Lawmakers' reactions

“We’ve got to find a way that we can curb our spending, raise our debt limit and also grow our economy.”

Republican Kevin McCarthy, Speaker, House Of Representatives



“Number one, we know we’re not going to default. They know it, we know it. We’re running out of time.”

Mitch McConnell, Senate Republican Leader



“We don’t have much time, but default is just the worst, worst alternative, and having a bipartisan bill in both chambers is the only way, the only way we’re going to avoid default.”

Democrat Chuck Schumer, Senate Majority Leader



“We believe there is a path forward on a bipartisan deal that lifts the debt limit and makes important reforms to improve our nation’s fiscal health.”

Neil Bradley, Chief Policy Officer, Us Chamber Of Commerce



May 2023

## UNITED STATES

The United States (US) Treasury warned that government may exhaust funds by 1 June, resulting in implications such as missed payments to the retired, delayed wages for federal employees and the military, closed government offices and an increase in interest rates due to declining US creditworthiness. An agreement is taking shape following discussions, although any deal carries significant political risks for both sides. *BBC News* reports that key points of contention include the return of unused COVID-19 funds to the federal government, streamlining the permit-granting process for private companies for energy development, setting spending limits in the 2023-24 budget and attaching requirements to government assistance. Raising the debt ceiling requires reaching a consensus on a combination of these factors and overcoming objections from hard-liners on either side.

**Forecast 2023:**  
GDP: 0.5%  
HICP Inflation: 5.3%  
**Forecast 2024:**  
GDP: 1%  
HICP Inflation: 2.3%

## EUROZONE

Eurostat reported that food prices within the European Union increased by 16.6% in the year leading up to April, significantly surpassing the headline inflation rate of 8.1%. Several Central and Eastern European governments have implemented price caps on essential goods, while Greece has limited prices by imposing caps on retailers' profit margins for food and other necessities. In France, supermarkets are offering a range of products at the lowest feasible prices, and Spain, Cyprus, and Portugal have reduced value-added tax on food items. Nonetheless, the World Bank cautions against untargeted price support measures, such as price controls and subsidies, as they distort price signals for both consumers and producers. Instead, they advocate for a finely-tuned macroeconomic policy mix that safeguards the most vulnerable while avoiding instability in financial markets.

**Forecast 2023:**  
GDP: -0.2%  
Inflation: 6.7%  
**Forecast 2024:**  
GDP: 0.7%  
Inflation: 2.3%

## UNITED KINGDOM

Recent estimates released by the Office for National Statistics (ONS) show that net migration has nearly doubled compared to the level observed just before the European Union (EU) referendum. The ONS attributes this rise to more people from outside the EU arriving on student and work visas, the Russian invasion of Ukraine and the resettlement of British citizens from Hong Kong. Government has primarily focused on addressing illegal immigration, but there is growing concern that the ongoing increase in net migration goes beyond the scope of unauthorised entries, with government policy decisions largely to blame. Prominent members of the Cabinet have urged Prime Minister Rishi Sunak to fulfil the Conservative Party's commitment to reduce overall immigration figures to satisfy their voter base. However, Sunak appears to be adopting a more moderate stance and has not committed to a specific target for acceptable legal migration.

**Forecast 2023:**  
GDP: 1.1%  
Inflation: 2.6%  
**Forecast 2024:**  
GDP: 1%  
Inflation: 1.6%

## JAPAN

First-quarter growth in Japan surpassed market expectations at 0.4%. This expansion marked the fastest pace since the second quarter of 2022 and was primarily fuelled by a robust recovery in private consumption and business investment. Notably, private consumption experienced a significant upswing of 0.6%, representing the strongest growth in three quarters. This increase was attributed to households spending more on goods and services following the complete lifting of stringent border controls. Additionally, business investment rose unexpectedly by 0.9%, bouncing back from a 0.7% decline in the previous quarter. The Bank of Japan notes that while growth is expected to exceed potential in the near term, a waning in the materialisation of pent-up demand and lessening effects from government's stimulus measures could dampen longer-term growth.

## CHINA

**Forecast 2023:**

GDP: 5.6%

Inflation: 1.8%

**Forecast 2024:**

GDP: 5%

Inflation: 2.3%

China's economy grew by 4.5% in the first quarter of 2023, beating market expectations of 4.0%. This was the fastest pace of expansion since the fourth quarter of 2021. Private consumption rose 3.3%, the most in eight months, as households spent more on goods and services after the easing of COVID-19 restrictions. Investment also rose 6.1%, the fastest pace since the first quarter of 2021, as businesses boosted spending on infrastructure and manufacturing. Steps to support the economy, including additional fiscal stimulus and easing monetary policy bode well for growth in the remainder of the year. Government is also backing first-time property buyers, to help the ailing property sector, by lowering down-payment requirements, providing subsidies and easing lending standards.

**Forecast 2023:**

GDP: 4.3%

Inflation: 6.2%

**Forecast 2024:**

GDP: 4.3%

Inflation: 4.8%

## EMERGING MARKETS

In a fiercely-contested presidential election in Turkey, neither incumbent President Recep Tayyip Erdogan nor his main challenger, Kemal Kilicdaroglu, who leads a six-party opposition coalition, won an outright majority in the first round. Despite polls suggesting broad dissatisfaction with Erdogan's recent performance amid soaring prices and a cost-of-living crisis, Erdogan's deal with a nationalist third-party candidate secured him a win in the run-off election. In Thailand, the general election yielded a major victory for the youth-led opposition Move Forward Party and was a setback for the military-backed government.

Rising support for the reformists marks a shift in Thailand's voter landscape. Nevertheless, despite the party's victory, the formation of a new government may take time. According to the constitution created by the military, Move Forward's eight-party coalition needs additional support from either the unelected conservative-leaning senate or other parties to establish a government.

**Forecast 2023:**

GDP: 0%

Inflation: 5.8%

**Forecast 2024:**

GDP: 1%

Inflation: 4.7%

## SOUTH AFRICA

Actions undertaken by the South African (SA) government in recent years have resulted in strained international relations. In February 2022, the United Nations Security Council voted on a resolution condemning Russia's invasion of Ukraine. SA's decision to abstain from the vote was interpreted by some as a lack of commitment to upholding international law. Despite the US State Department's call for SA to impose sanctions on Russia in March 2022, SA did not take such action. More recently, US Ambassador to SA Reuben Brigety's assertion that SA had sold arms/ammunition to Russia earlier in the year has rattled investors. While it is unlikely that the US will pursue sanctions against SA based on the Ambassador's allegations, the US government may seek to exert less aggressive economic pressure to encourage SA to adopt a more neutral stance. This could potentially include excluding SA from the Africa Growth and Opportunity Act (AGOA), which Standard Bank estimates benefited around US\$3 billion worth of SA exports (out of a total of US\$11 billion) last year. In the near future, the Russia-Africa Summit in July, SA's hosting of the BRICS Summit in August and the AGOA Summit in November will pose risks to strengthening international relations between the US and SA. Additionally, the outcome of the US elections in 2024 will hold even greater significance for diplomatic relations between the two countries.

## 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 May 2023

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
<b>Equity indices</b>									
FTSE/JSE All-Share Index (Alsi)	-3.92%	-1.93%	8.54%	18.51%	11.85%	9.90%	9.58%	8.49%	9.53%
FTSE/JSE Shareholder Weighted Index (Swix)	-5.85%	-4.54%	1.45%	14.07%	7.39%	6.04%	5.79%	5.38%	7.82%
FTSE/JSE Capped Swix All Share index	-5.81%	-4.48%	1.11%	16.84%	8.16%	6.25%	5.81%	5.21%	7.62%
FTSE/JSE All Share Top 40 Index	-3.48%	-0.92%	11.15%	18.82%	13.00%	10.88%	10.50%	9.09%	9.88%
FTSE/JSE Mid Cap Index	-7.75%	-8.39%	-6.43%	14.94%	4.85%	3.96%	3.66%	3.71%	6.32%
FTSE/JSE Small Cap Index	-5.12%	-5.37%	-1.06%	32.84%	12.82%	6.94%	5.95%	5.88%	8.50%
FTSE/JSE Resources Index	-2.22%	4.20%	-6.72%	20.26%	18.62%	18.21%	20.10%	17.42%	8.45%
FTSE/JSE Financials Index	-7.52%	-10.33%	-10.17%	17.49%	0.81%	0.91%	2.58%	2.60%	6.24%
FTSE/JSE Industrials Index	-3.27%	-1.13%	30.55%	16.16%	11.80%	8.60%	6.92%	6.27%	9.46%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	-4.31%	-3.05%	4.66%	24.40%	12.70%	10.94%	11.47%	10.75%	9.92%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	-4.56%	-3.87%	2.49%	23.36%	11.79%	10.12%	10.69%	10.16%	9.36%
FTSE/JSE SA Listed Property Index (Sapy)	-5.32%	-3.64%	-2.27%	15.75%	-4.30%	-4.40%	-4.74%	-3.58%	1.79%
	-5.41%	-3.90%	-3.36%	15.21%	-4.79%	-5.68%	-5.81%	-5.31%	0.82%
<b>Interest-bearing indices</b>									
FTSE/JSE All Bond Index (Albi)	-4.79%	-4.60%	0.32%	5.58%	5.80%	6.19%	6.88%	7.78%	6.75%
FTSE/JSE All Bond Index 1-3 years (Albi)	-1.75%	-0.91%	3.85%	4.97%	6.34%	7.11%	7.22%	7.59%	7.11%
FTSE/JSE Inflation-linked Index (Ili)	-2.40%	-0.58%	-1.15%	7.93%	5.37%	4.59%	4.40%	4.04%	4.58%
Short-term Fixed Interest Composite Index (Stefi)	0.65%	1.88%	6.50%	4.90%	5.43%	5.80%	6.06%	6.29%	6.24%
<b>Commodities</b>									
NewGold Exchange-Traded Fund	6.63%	16.34%	34.92%	8.20%	19.23%	18.34%	14.72%	10.30%	10.34%
Gold price (in rands)	6.56%	15.92%	34.88%	8.50%	19.61%	18.53%	15.14%	10.65%	10.59%
Platinum Exchange-Traded Fund	0.80%	13.62%	32.10%	10.08%	13.97%	11.13%	7.68%	3.40%	4.00%
Platinum price (in rands)	-0.13%	12.04%	25.86%	9.25%	13.30%	10.42%	7.39%	3.10%	3.48%
<b>Currency movements</b>									
Rand/euro movements	4.74%	8.21%	26.58%	2.54%	6.83%	7.40%	6.08%	2.71%	4.95%
Rand/dollar movements	8.44%	8.02%	27.19%	3.98%	8.02%	9.37%	7.03%	3.35%	7.02%
<b>Inflation index</b>									
Consumer Price Index (CPI)			6.84%	5.71%	5.01%	4.89%	4.82%	4.90%	5.11%

## Important notes

1. Sources: Momentum Investments, IRESS, [www.msci.com](http://www.msci.com), [www.yieldbook.com](http://www.yieldbook.com), [www.ft.com](http://www.ft.com).
2. Returns for periods exceeding one year are annualised.
3. 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).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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