

# WE ARE IN A WINDOW WHERE BAD NEWS IS GOOD NEWS

By Andrew Whitewood | Managing Director | PWM Wealth Management

I am sure you are all well aware of the challenges that the world is currently facing when it comes to inflation. It is strange to think that current inflation in the United States of America (US) or the United Kingdom (UK) is higher than here in South Africa. It is also strange that the Federal Reserve Bank (Fed) in the US might well need to hike interest rates more and for longer than here in South Africa. So, with all this noise and all this information floating across your desk on a daily basis, what should you be looking for?

The Fed has been hiking interest rates aggressively this year in order to counter inflation. In the US, we have had supply issues and demand challenges. The US economy is in a strong position, but not as strong as it was previously. House prices in the US have skyrocketed and unemployment is at record lows – until very recently, job openings were sitting at 12 million, equating to 12 million vacancies that need to be filled.

The first thing we need to see regarding the US economy is the decrease in house prices, and this is happening already. As interest rates increase it is more difficult for first-time buyers to get into the market, which naturally starts forcing down the demand. Hand in hand with US house prices, we need to see rental inflation declining, but this is going to be a challenge.

Why? There is a lag in the data, of about one year or so. This means what is happening in the US economy today will probably only start reflecting come the middle of next year.

Together with house prices and rental inflation, we need to see pressure placed on the labour market in the US. We actually need to see unemployment in the US increasing. This is also starting to happen, as job openings have decreased of late from highs of 12 million to approximately 10 million. As pressure is placed on the labour market, this will filter into the rental market in the US. Why is rental inflation so important? It makes up a third of the inflation number in the US, and rental inflation is currently running at approximately 7% year on year.





The Fed is targeting an inflation figure of 2%. If rental inflation in the US is running at 7%, we are not getting to 2% anytime soon.

Taking the aforementioned into consideration, neither consumer confidence nor business confidence is good. People on the street are concerned but investment markets are forward looking. Investment markets will move in a positive direction well before the people on the street see things improving.

South African asset class returns are driven by what happens globally. The next four to six months are probably still going to be volatile. The Fed will hopefully pause its interest rate hiking cycle early in the new year, which will give us all some time to breathe. 2023 is not necessarily going to be a great year for equity returns but we do hope to see less volatility.

## IN CLOSING

There are definitely some bamboo shoots and opportunities available. The key thing for investors is to stay committed to their investment strategy and stay focused on the long term. The worst thing an investor can do now after a volatile period of investment returns is to miss the good days!

**Disclaimer:**

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