YOUR WEEKLY ECONOMIC UPDATE

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DO NOT PANIC, BUY THE DIP!

We ended April anticipating the announcement from the United States (US) Federal Reserve (Fed). Because of all of the uncertainty, the technology-heavy Nasdaq Composite contracted 13.3% in April, its worst monthly drop since the global financial crisis in 2008. Even the broader benchmark index, the S&P 500, had its worst month since the pandemic erupted in 2020. In general, global markets have been battered this year by a series of crises, including surging inflation, rising interest rates, the slowdown in China's economy, and the war in Ukraine. Then, as we entered the month of May, the US Fed announced their decision to increase interest rates by 0.50%. Although this was the largest incremental increase since 2000, the markets got what they hoped for. Further good news was that the feared 0.75% increases seemed to be off the table. Consequently, the markets had a nice relief rally and all seemed well.

However, the very next day, US traders ran for the hills and triggered a global sell off in the face of global recession fears. It appears that investors finally woke up and realised that a period of fierce monetary tightening is at hand. Even in South Africa (SA), the Johannesburg Stock Exchange (JSE) was down 6% for the week and almost 10% since the start of April. The broader MSCI Emerging Market Index came down 4% for the week. As investors ran to safety, the US dollar continued its rally. Supported by the expectation that the Fed will tighten monetary policy faster than their peers, the US dollar reached a 20-year high compared to an index of its peers. As a good measure of all of the volatility in the market, the rand depreciated abruptly from around R15.50 to R16.15. And this brings us to the important bit.

At the end of 2021, we started to warn our clients that uncertainty would increase and that the result would be increased volatility. We also warned that the US dollar would, at first, appreciate, exactly because the US Fed would increase interest rates faster than their peers. We, however, noted that this would not be a long-term shift in the trend, meaning that the US dollar will gradually depreciate. We have been spending a lot of time trying to help our clients to be more long-term minded so that they would be able to see through the current volatility and not get scared out of the markets. This is not the time to get out of the market, even if the volatility continues and even if we are heading towards a recession. Rather see market volatility and corrections as buying opportunities, similar to the advice that Warren Buffett gave: "Be greedy when others are fearful". Baron Rothschild, an 18th-century British nobleman and a member of the Rothschild banking family, said that: "The time to buy is when there's blood in the streets". This is similar to the pain that we are starting to feel in the markets now. The Rothschild family made a fortune when they accumulated assets during the panic that followed the Battle of Waterloo against Napoleon.

So, if you are still saving towards a specific goal, like retirement, do not stop; rather continue to add to your investment. Maybe also consider increasing your allocation. What happens then is that you reduce your average entry price, which increases your long-term potential returns. If you are retired, ensure that you have managed your risk appropriately, that is, that you have enough income to get you through this short-term volatility so that you do not have to sell out of your equity positions. In the odd case that you are overexposed and have not been managing your risk appropriately, speak to your financial advisor. But most of all, do not panic!