

Macro Outlook Summary

July 2023

The global equity market rally in June was significant in scale and confirmed the bull market of 2023. July has witnessed consolidation, small corrections in some markets and sideways moves as investors have waited for confirmation of rates decisions from the US, EU, UK and Japan. At this juncture it looks as if the upward trend in equities will resume in August once central bank actions are finished and as inflation data hopefully continues to subside. Further reductions in inflation are by no means certain but our thinking is that for the next few months this will be the case albeit the 'last mile' is always the hardest. Chair Powell in his news conference on 26th Jul expressed his personal opinion that inflation was unlikely to reach the Fed target of 2% until sometime in 2025. This pessimism was surprising but sends an appropriate and sensible note of caution.

Some bear camp commentators making reference to history talk about a second and third wave of inflation in the pipeline and frame this as being the trigger for looming bond and equity bear markets. While definitely on our list of things to watch this does not form part of our central view at present.

The path of the USD is interesting and important. A weaker dollar is deflationary and injects liquidity into the global financial system partly from its use as the dominant trade financing currency and also due to its global use in sovereign debt markets. Over the years sovereign nations have become increasingly uncomfortable with the dollar centric world of international finance and the authority of the USD payment system. America's decision to play global policeman and weaponize the USD and its payment system with attacks on European banks and rogue states accelerated the process of de-dollarisation and the BRICS+ summit on 22-24th August in Johannesburg will probably take this further. Not through creating a new gold backed currency as some hope but through more trade being denominated in Renminbi and other major global currencies.

The incentives for creating new economic blocs to challenge G7 dominance and the established world order are strong for economies like Brazil, India and China. The dollar index attempted to rally in May but failed and now rests near its lows for the year. Renewed weakness taking the index convincingly below 100 seems likely in the coming months and would fit well with the continued 'risk-on' playbook where EM bonds, equities and currencies outperform DM markets.