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STAGFLATION AND THE SOUTH AFRICAN EQUITY MARKET

Abstract:

By empirically examining South African equity prices between 1969 and 2013, this study attempts to determine whether or not stagflationary conditions warrant a change in perspective by South African investors. This study considers whether macro conditions really are compromised and explores whether the behaviour of market returns and equity valuations change during periods of stagflation. It is found that the relationship between economic growth and inflation changes during periods of stagflation and that earnings yield models and equity returns models exhibit different behaviour between periods of stagflation and no-stagflation. This study therefore confirms that the South African stock market needs to be approached differently during periods of stagflation.

Keywords:

Stagflation, Equity Markets, South Africa, Valuation, Growth, Inflation

JEL Classification: E31