

Market Overview

31 January 2024



Local Market

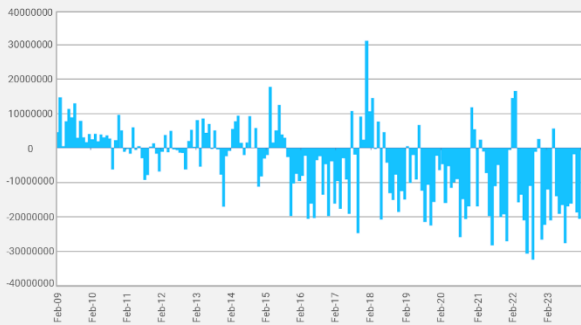
In January, the All-Share index declined by 2.93%, bringing the 12 month return to 2.61%. Large-cap stocks in SA decreased by 3.47%, with mid-cap stocks selling off by 2.8%. Mining shares sat at the bottom of the barrel, down 7%, with help from weak commodity prices. The Rand was down 1.7% month-on-month against the US Dollar, down 6.7% over the past 12 months.

The SARB held its benchmark interest rate at 8.25% for the fourth consecutive meeting, while signalling that its fight to quash inflation is not yet done. David Fowkes, an advisor to the governors, was named as a member of the MPC, with all five panel members voting to hold rates at the first meeting of the year. Kganyago (Governor of Reserve Bank) flagged that SA's ports and rails as being a "serious constraint" to the economy, while the bank's Quarterly Projection Model suggests an end-of-year repo rate that averages 7.54%. This implies 75bps of rate cuts for 2024. Core inflation remained at the mid-point of the target range, 4.5% year-on-year. The SA 10-year government bond rate was sitting at 11.1%.

Foreign investors were net sellers of SA Equities in January but were net buyers of South African Bonds (see chart 1). S&P Global says that with assets valued at around 110% of GDP on their balance sheet, SA banks have the capacity to absorb more of the country's ballooning debt. Reserve Bank data shows that growth in banks' holdings of government bonds has far outpaced growth in total assets. The SARB expressed concern last year about the capacity of SA investors to continue absorbing new issuances of government bonds in future.

The diplomatic tensions ran high on the back of the ICJ's (International Court of Justice) ruling, on the matter SA brought against Israel. Concerns have been raised on how this may affect SA's preferential trade access to the US market, through the African Growth and Opportunity Act (AGOA). This is due to Israel being an ally of the US. South African export markets have already been affected, with two Israeli supermarkets having stopped ordering SA grapes, out of concern that Israeli customers would boycott.

Chart 1: Foreigners Were Net Sellers of South African Equities in January



Source: Iress, PSG (2024)

Global Market

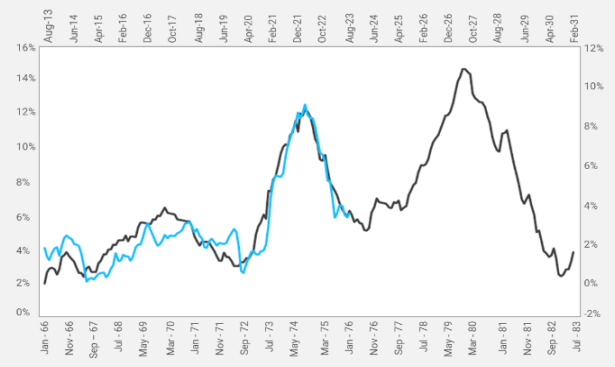
The US Fed kept the target interest rate unchanged at a range of 5.25% - 5.5%, in-line with market expectations. Since the start of 2022, the target interest rate has increased by 525bps. The Fed indicated that they don't expect to cut rates until they have gained greater confidence that inflation is moving sustainability toward 2%. The European Central Bank (ECB) also kept their rates unchanged in the January meetings, as expected. A comparison between US Inflation rates from 1966 to 1983, and rates since 2013 till present, shows an almost mirror image. This has raised questions about the possibility of history repeating itself (see Chart 2)

US unemployment rate remain unchanged at 3.7%, during January, with markets expecting it to have increased to 3.8%. The unemployment has remained between 3.4% - 3.9% for the past 21 months, with a rate of 3.7% being considered extremely low (essentially representing full employment). With rising interest rates since 2022, one would expect unemployment to increase. Therefore, the low unemployment is evidence of the ongoing strength in the US labour market (backed by the strength in the US services sector). US Home prices are forecasted to increase (by roughly 5% this year), as mortgage rates are expected to fall by 6.3%, before the end of the year.

China's GDP for the last three months of 2023 rose by 5.2%, missing analysts' estimates of 5.3%. GDP growth for the full year was also 5.2%, while retail sales grew by 7.4% in December from a year ago, also missing expectations for 8% growth. China resumed reporting on the unemployment rate for young people, previously above 20%. Chinese stocks rallied on official's comments about fiscal support made in January, which were later confirmed in early February. The Shanghai composite (Mainland China's benchmark index) ended up 3.2% for the day, on 6 Feb. This was the biggest daily increase since March 2022.

The Euro-area GDP recorded no growth in Q4 of 2023, compared to a 0.1% quarter-on-quarter growth in Q3 of 2023. However, we did see Euro-area inflation continue to slow, with headline inflation down at 2.8% in January 2024, from 2.9% in December 2023. Core inflation dropped from 3.4%, to 3.3% in January 2024.

Chart 2: US Inflation - Late 70's v Now



Source: Refinitiv Eikon, PSG (2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-2.9%	-2.9%	-2.6%	10.5%	10.6%	8.7%
Local Property	4.1%	4.1%	15.8%	17.7%	-0.7%	4.1%
Local Bonds	0.7%	0.7%	7.3%	7.4%	7.8%	8.4%
Local Cash	0.7%	0.7%	7.9%	5.5%	5.5%	5.9%
Global Equity	2.3%	2.3%	22.4%	13.9%	17.9%	14.1%
Global Property	-2.6%	-2.6%	3.7%	8.5%	8.2%	10.1%
Global Bonds	0.3%	0.3%	7.7%	1.2%	6.0%	5.4%
Global Cash	2.2%	2.2%	12.5%	10.1%	9.2%	6.8%

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31 January 2024



Local Review

Equity

Local equities started the year on the back foot as part of a broader Emerging Markets sell-off. The JSE All Share Index was down 2.9% during January, taking the index's performance into negative territory again (-2.6%) over the last 12 months. Resources (-6.3%) continued to take the most pain as commodity prices fell, while Financials (-3.2%) and especially Industrials (-1.2%) held up much better. Our models indicate that there is significant value on offer in local equities relative to other asset classes, we therefore maintain our allocation to local equity at levels moderately above benchmark.

Property

Local property continued its strong run from the last quarter of 2023, and added another good month to the previous two. The SA Property Index returned 4.1% in January, taking the 12-month performance to 15.8% and establishing it as the best local asset class over the last 1 and 3 years. The listed property sector remains a very volatile asset class and in our view the yields on offer do not fully reflect the underlying fundamental risks. We therefore maintain an underweight ranking on local property.

Bonds

Local bonds also had a positive start to 2024, and the JSE All Bond Index delivered 0.7% for the month of January. This asset class has now delivered 7.4% over the last year, well ahead of local equities but slightly behind local cash. The SA 10-year government bond yield increased slightly from 11.0% to 11.1% at month end, although yields at some other points on the curve has come down slightly. We maintain our allocation to bonds at overweight levels relative to the benchmark as local bonds continue to provide investors with very attractive forward returns.

Cash

South Africa's annual inflation rate dropped further from 5.5% to 5.1% in December, coming in slightly below market expectations of 5.2%. Both fuel and food inflation fell significantly, which contributed positively to the overall number. Subsequent decreases in fuel prices will also reduce pressure on this component going forward. Core inflation remained unchanged at 4.5%, right in the middle of the SARB's target range, and seems to be well contained. Cash currently delivers an attractive real yield of 3.3%, as such our allocation to cash is at overweight levels relative to the benchmark.

Global Review

Currency

The Rand had a tough month, and weakened against the major and emerging market currencies during January. Starting the month at R18.30/\$, the local currency weakened 2.1% against the greenback to end at R18.69/\$. Over the last year, the rand has depreciated 7.3% against the dollar, 10.5% against the pound and 6.9% against the euro. At month end, the ZAR was trading at 7% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 56% undervalued versus the USD.

Equity

Global developed market equities had another positive month, building on the last quarter of 2023's rebound after a tough period. In US dollar terms, the MSCI All Country World Index delivered 0.6% for the month, pushing the performance over the last 12 months up to an impressive 14.7%. US equity markets are still leading the charge, with the S&P 500 gaining 1.7%, for the month and up 20.8% over the last year. Emerging markets were under pressure, and underperformed their developed market peers. The MSCI Emerging Markets Index dropped 4.6% for the month and is down 2.9% over the last year, with the MSCI China Index (-10.6%) dragging down performance for the month. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

Fixed Income

US government bonds gave up a bit of ground in January, after two months of yields falling from a peak of 4.9%. The US 10-year government bond yield now sits at 4.0%, only 0.1% higher than December's 3.9% on the back of slightly 'higher-for-longer' rate expectations going forward as US rate cuts appear to be delayed. BCA Research opines that October's 5% yield on the 10-year US Treasury was probably the peak, and that bonds remain a good recession hedge.

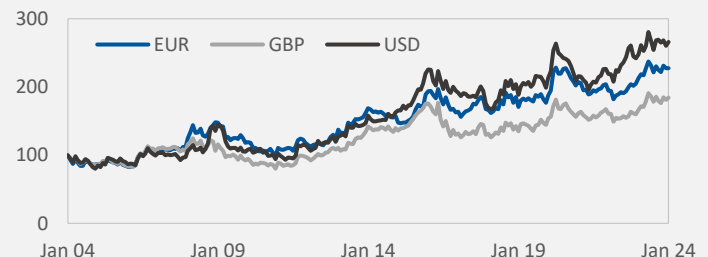
Alternative

Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities, and hedge funds and can provide investors with uncorrelated returns. These uncorrelated global assets are particularly attractive in low interest rate environments as they offer asymmetric return profiles. Alternative asset classes can thus perform a useful role in multi asset portfolios as they help provide more consistent returns.

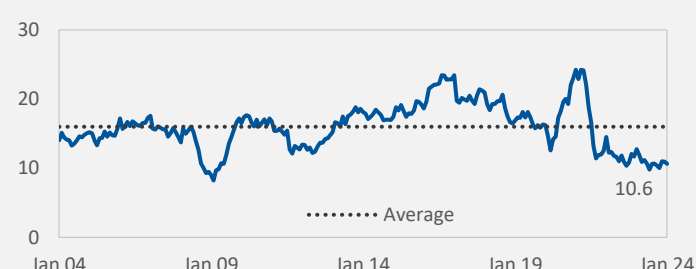
ZAR vs USD



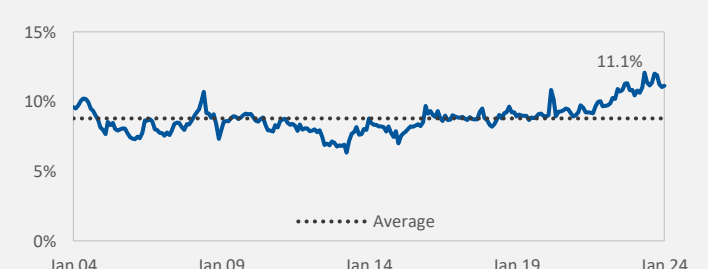
Currencies vs ZAR (rebased to 100)



ALSI PE Ratio



SA Government 10 Year Bond Yield



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