Market Overview

29 February 2024

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Local Market

The JSE continued its losing streak this year, down 5.31% as of end February 2024 (down almost 10% when measured in US Dollars). The decline in our local market was led by the Resource sector, which declined 6.92%. The Telecommunications sector also contributed to the poor JSE returns. Mid-cap stocks saw the biggest sell-off, down 2.99%, with large-caps down 2.48% for the month. Relative to the MSCI Emerging Markets (EM) Index, SA is lagging, with the EM Index up 4.79% this year.

Bond Yields increased in February, contributing to a 0.6% loss (inverse relationship between bond prices and yields) in the All Bond Index. Local Property brought a silver lining, up 0.82% for the month, with a 12-month return of 17.58%.

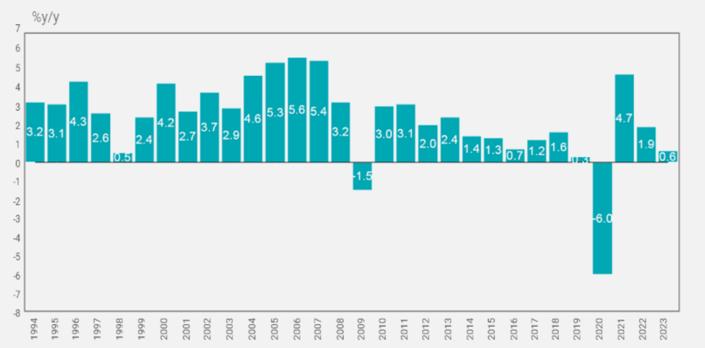
SA GDP grew by 0.1% during Q4 of 2023. The market expected growth of 0.2%, however relative to negative 0.2% growth in Q3 of 2023, any growth was welcomed to avoid a technical recession (2 consecutive quarters of negative growth). Q4 growth was helped by an increase in mining, financial and transport activity, which collectively contributed 0.4% to the growth rate. Retail and agricultural production offset most of this growth. The economy has grown 1.2% in the past year, with growth of around 0.6% in 2023 as illustrated in **Chart 1** (below), delivering the worst economic performance since the Covid decline of 2020.

The Rand weakened by over 3% against the Dollar in February, bringing it second-place (dis)honours for the worst performing EM currencies during February, just behind the Chilean Peso. As of the end of February 2024, the Rand is down 4.9% to the Dollar.

SA's trade balance weakened more than expected in January 2024, with a deficit of R9 billion (market expected R5.5 billion). This came off the back of a R16 billion surplus in December 2023. The deteriorated trade balance is partly seasonal, but it is expected that SA's trade balance will weaken in 2024, due to weak growth in China and low inventory levels.

SA's manufacturing PMI index surprised substantially on the upside, during February 2024, rising from a 43.6 in January 2024 to 51.7 in February. Transnet also announced Board approval for their partnership with the Philippines port operator, to manage Pier 2 with the Durban harbour. The contract has initially been set for 25 years. Once, and only if the contract is signed, it could lead to efficiency improvements of the harbour.

Chart 1:
SA GDP Annual Growth Rate



Source: Kevin Lings (2024)

Global Market

The US S&P500 Index was up a fantastic 5.3% in February 2024, passing the 5,000 level, for the first time, illustrated in **Chart 2** (below). The Nasdaq and Dow-Jones also achieved all-time highs. US Bonds fell slightly, partially to an uptick in US inflation, which resulted in expected rate cuts being pushed out further. Lots of love was shown to Nvidia, which was up a whopping 30% in February. The current Price-to-Earnings ratio is over 70 times.

The US saw a gain of 275,000 jobs in February, once again reflecting a strong US labour market. Moderation may be on the horizon, with substantial downward revisions in December & January, the unexpected increase in the unemployment rate, a decline in job openings and the softening of wage growth.

The Bank of Canada kept interest rates unchanged at 5%, expressing their need for more evidence that inflation is returning to target, before dropping rates. Improvement in Canada's GDP performance helped keep rates unchanged, with rate cuts expected by June this year.

Both headline and core inflation in the Euro-area slowed less than expected in February. Consumer inflation eased to 2.6% y/y, down from 2.8% in January. Markets expected inflation to drop to 2.56%. Core inflation dropped from 3.3% in January to 3.1% y/y in February (markets expected a drop to 2.9%). The European Central Bank (ECB) is expecting consumer inflation to fall to 2% in 2025, rather than 2026. Core inflation is expected to reach 2% in 2026. The ECB's latest economic growth projection for 2024 sits at 0.6%, with growth accelerating to 1.5% in 2025.

Germany leapfrogged Japan to become the world's third largest economy, after Japan slipped into recession. Germany is also on the brink of a recession, with the UK entering a technical recession (two successive quarters of negative growth).

China exports grew 7.1% y/y in the first two months of the year. Imports also increased, gaining 3.5% y/y in the first two months of the year. The value of new home sales in China, by the country's top 100 developers, declined by a huge 60% y/y in February 2024. In January, the decline was 34.2%. This sales data further supports the notion that there has been no reprieve in China's property crisis, despite Beijing's efforts to support the sector.

Chart 2:
S&P 500 Index

Source: TradingView (2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3Years	5 Years	10 Years
Local Equity	-2.4%	-5.3%	-2.9%	7.5%	9.3%	7.9%
Local Property	0.8%	4.9%	17.6%	14.8%	0.6%	3.7%
Local Bonds	-0.6%	0.1%	7.6%	7.2%	7.7%	8.1%
Local Cash	0.6%	1.3%	8.0%	5.7%	5.5%	5.9%
Global Equity	7.6%	10.0%	28.7%	15.5%	17.6%	14.8%
Global Property	2.5%	-0.2%	5.6%	7.9%	7.5%	10.3%
Global Bonds	1.8%	2.2%	7.7%	2.2%	5.3%	5.8%
Global Cash	3.6%	5.9%	10.3%	11.2%	8.7%	7.6%

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Local Review

Equity

Local equities continued January's decline, with the JSE All Share Index down 2.4% in February. This takes the index's performance further into negative territory at -5.3% for the year-to-date and -2.9% over the last 12 months. Resources (-6.9%) again had a very tough month, with platinum and iron ore prices down significantly. Financials (-1.2%) and Industrials (-0.7%) also closed in the red but have both outperformed the ALSI on a year-to-date basis. 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 added another positive month to its performance this year-to-date (4.9%). The SA Property Index returned 0.8% in February, the only other positive local asset class in addition to cash. The 12-month performance now sits at 17.6%, cementing its place 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 gave up some of January's performance this month, but remains in positive territory (0.1%) year-to-date. The JSE All Bond Index fell back 0.6% for the month of February, and remains well ahead of local equities - but slightly behind local cash - over the last year (7.6%). The SA 10-year government bond yield increased from 11.1% to 11.4% at month end, with similar increases seen across the entire yield curve. 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 increased again from 5.1% to 5.3% in January, after a welcome 0.4% drop in December. The final number came in slightly lower than market expectations of 5.4%, but core inflation - although up slightly to 4.6% - seems to be well contained. Food inflation has come down significantly from 14.0% to 7.2% over the last year, but still contributed most to the monthly change in inflation. Inflation is still expected to slow to 4.5%, right in the middle of the SARB's target range, over the medium term. Cash currently delivers an attractive real yield of 3.1%, as such our allocation to cash is at overweight levels relative to the benchmark.

Global Review

Currency

The Rand had another tough month, and again lost ground against both the major and primary emerging market currencies during February. Starting the month at R18.69/$, the local currency weakened 3.2% against the greenback to end at R19.16/$. Over the last year, the rand has depreciated 4.4% against the dollar, 9.7% against the pound and 6.8% against the Euro. At month end, the ZAR was trading at 10% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 60% undervalued versus the USD.

Equity

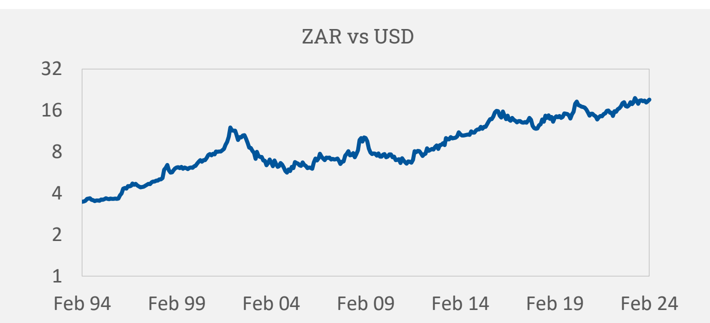
Global developed market equities maintained positive momentum into February. In US dollar terms, the MSCI All Country World Index delivered a strong 4.3% for the month, pushing the performance over the last 12 months up to 23.1%. US equity markets remain at the top, with the S&P 500 up 5.3% for the month and up a phenomenal 30.5% over the last year. Contrary to last month, emerging markets outperformed their developed market peers. The MSCI Emerging Markets Index was up 4.8% for the month, is slightly negative year-to-date and up 8.7% over the last year. The MSCI China Index (8.4%) made up some of January's losses and contributed nicely to index 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.

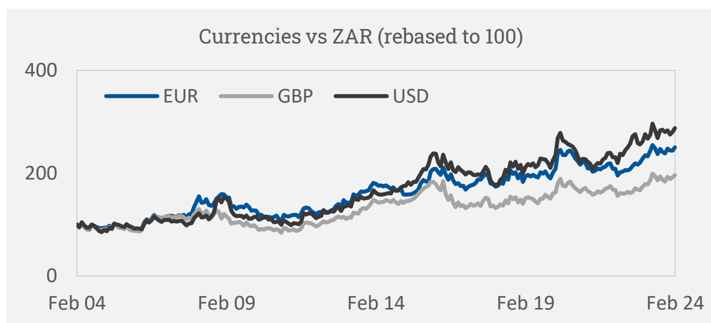
Fixed Income

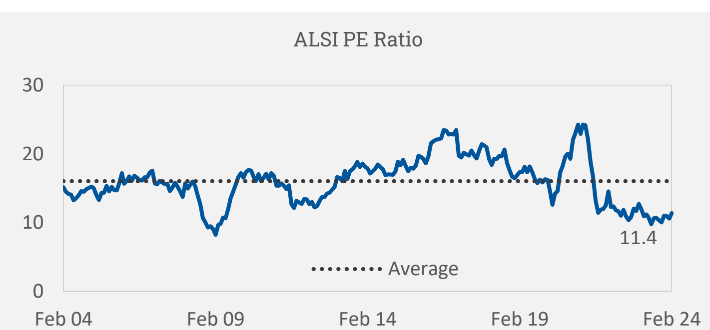
US government bonds fell back further during February, after two months of yields falling from a peak of 4.9% and then rising slightly last month. The US 10-year government bond yield now sits at 4.3%, a rise of 0.3% from January's 4.0% as then Fed continues to signal concerns around cutting rates too soon. 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.

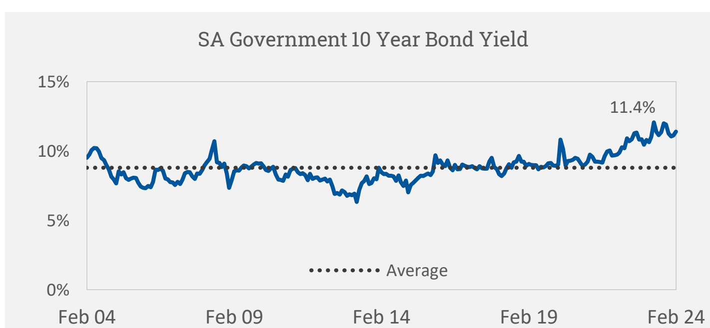
Alternative

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.









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