Market Overview

31 March 2024

seed investments

Local Market

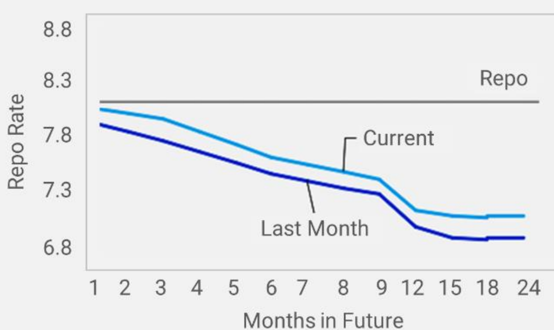
In South Africa, economic indicators presented a mixed bag of challenges and opportunities. The annual core inflation surged to 5% in February, driven notably by a sharp increase in medical health insurance costs, which saw an annualised increase of 12.9%. This underscores a global trend where services, rather than goods, are becoming a significant source of inflation. However, amidst these inflationary pressures, South Africa recorded a trade surplus of R14 billion in February, surpassing market expectations. This was bolstered by a decline in imports (3.8% MoM) and a notable increase in exports, particularly vehicle exports. On average, over the past 12 months, SA's trade balance has produced a surplus of R6.7 billion.

While the economy grew by 1.2% YoY in Q4 2023 (above expectations of 0.9%) SA narrowly avoided a technical recession (up 0.1% for the quarter) and the SARB maintained the repo rate at 8.25%. This decision was influenced by the presence of higher food and fuel prices, delaying a return to the mid-point of the inflation target. **Chart 1** (below), depicts the markets expectation around the path of the repo rate over the next 12 months. The market now expects the first cut to occur in November, but if we see lower inflation in the next few months, the first cure could occur in September.

The SA market outperformed major emerging market peers in March, with resource sectors driving gains while financial companies faced challenges. The Capped SWIX was up 2.9%, with the All Share Index up 3.2%. This was largely driven by the resource sector (up 12.8%) which was largely helped by gold miners, up 24% for the month. Platinum Group Metals (PGM) and gold miners contributed more than 2% to the Capped SWIX performance in March. Financial companies brought disappointment in March, down -3.4% for the month. Discovery (11% MoM) and Standard Bank (8% MoM) were big contributors to the poor performance. The Rand showed marginal strength in March, but YTD as of 29 March, the Rand is down 3.2% to the US Dollar. A large part of this is due to US Dollar Strength gaining 2.4% to the Euro in the first quarter of 2024.

Bonds struggled in March, down 1.9%, with yields reaching a five-month high (inverse relationship between bond yields and prices) highlighting investor concerns. The current 10-year government bond yield stood at 12% as of end-March, indicating market apprehension amid economic uncertainties.

Chart 1
Market Expectations of Path of Repo Rate



Source: Visio (2024)

Global Market

March was a great month for gold with the spot price reaching an all-time high of $2,225, reflecting investor appetite for safe-haven assets amidst global uncertainties. Globally, we continued to see positive momentum persisting in equity markets, marking this the fifth consecutive month of gains. The MSCI World Index was up 3.3% MoM, rallying over 20% in the past 5 months.

In the US, concerns emerged following the collapse of the Francis Scott Key Bridge in Baltimore, raising fears of supply disruptions in the US. The bridge collapse cut off shipping access to the Port of Baltimore, one of the largest ports in the US, which is a primary port for car and truck shipments.

The US March Labour report portrayed a robust picture, with strong job gains and moderated wage growth at 4.1% YoY (0.5% above what the Fed wants to achieve). This poses a dilemma for the US Federal Reserve regarding interest rate outlook. While the labour market remains resilient, higher wage growth may hinder efforts to curb inflation and potentially delaying rate cuts.

March saw a mixed bag of rate changes globally. Notably, the Bank of Japan increased interest rates for the first time in 17 years, ending its negative interest-rate regime, while the Bank of Mexico initiated its first rate cut since 2021. The US Federal Reserve maintained its interest rates, while the Swiss National Bank unexpectedly cut rates for the first time in nine years. **Chart 2** (below) outlines a summary of rate changes for a few key nations.

In China, property investment fell 9% YoY in January & February. This was not as weak as the 24% YoY decline in December 2023, potentially showing small signs of improvement. Most analysts remain cautious, as Chinese property developers grapple high debt levels and weak homebuyer demands. Industrial production rose 7% YoY (above expectations of 5.2%). Retail sales exceeded market expectations, up 5.6% YoY for the first 2 months of 2024, reflecting resilience in consumption and manufacturing activity.

The UK entered a technical recession in Q4 2023, with the GDP contracting by 0.3% in Q4 2023 (after 0.1% growth in Q3 of 2023). This prompted expectations for interest rate cuts by the Bank of England around mid-2024.

Chart 2
Key Nations' Rate of Changes

Country	Rate Movement	Rate/ Range
South Africa	Unchanged	8.25%
Japan	Hiked Rates	0%-0.1%
England	Unchanged	5.25%
US	Unchanged	5.25% to 5.5%
Switzerland	Cut Rates	1.5%
Norway	Unchanged	4.5%
Brazil	Cut Rates	10.75%
Mexico	Cut Rates	11%

Source: Kevin Lings (2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3Years	5 Years	10 Years
Local Equity	3.2%	-2.2%	1.5%	8.1%	9.7%	8.1%
Local Property	-1.0%	3.8%	20.5%	13.9%	0.7%	3.1%
Local Bonds	-1.9%	-1.8%	4.2%	7.4%	7.0%	7.7%
Local Cash	0.7%	2.0%	8.1%	5.8%	5.5%	6.0%
Global Equity	1.8%	12.0%	31.5%	16.2%	17.1%	15.2%
Global Property	1.6%	1.4%	14.8%	8.3%	6.6%	10.6%
Global Bonds	-0.7%	1.4%	7.3%	3.5%	4.4%	6.0%
Global Cash	-0.8%	5.0%	12.7%	11.8%	7.9%	7.7%

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Local Review

Equity

After a tough start to the year, local equities made a comeback during March. The JSE All Share Index was up 3.2%, taking the index's performance to -2.2% for the YTD and back into positive territory at 1.5% over the last 12 months. Resources (12.8%) had a very strong month, while Industrials (2.6%) also closed in the green. Financials (-3.4%) continued to slide and is the worst sector YTD (but remains the best over 12 months). With a drop in reported earnings this month, our models indicate slightly less value on offer in local equities relative to other asset classes, and we therefore shift our allocation to levels in line with our benchmarks.

Property

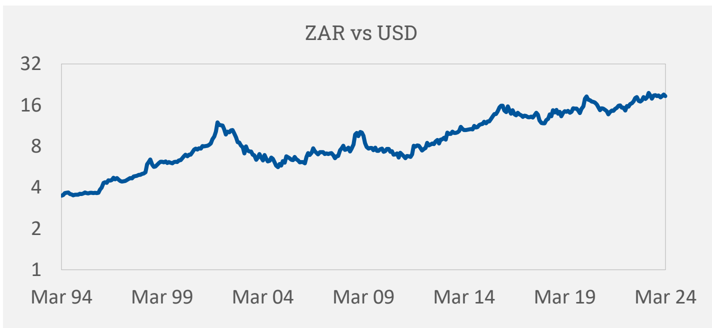
Local property retreated slightly this month after four strong positive months that delivered 24.8%. The SA Property Index was down 1.0% in March, thus lagging local equities but outperforming local bonds. The 12-month performance has increased to 20.5% and local property remains the best local asset class by far 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.

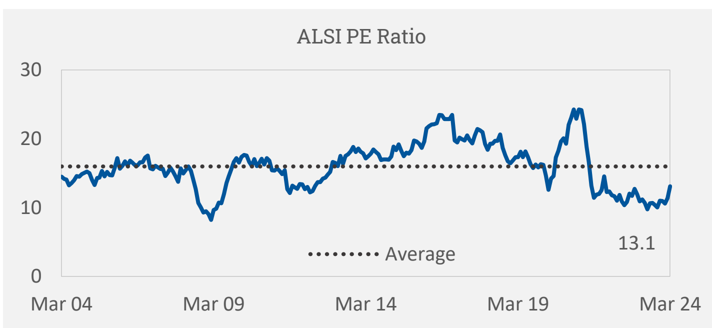
Bonds

Local bonds fell back further this month as yields continued their rise since the start of the year. The JSE All Bond Index returned 1.9% for the month of March and is down 1.8% on a YTD basis. Performance remains ahead of local equities, but behind local cash, over the last year (4.2%). The SA 10-year government bond yield increased from 11.4% to 12.0% at month end, with the belly of the yield curve shifting most. 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 from 5.3% to 5.6% in February (0.3% increase following January's 0.2% rise). The final number came in slightly higher than expected, with higher fuel prices and medical inflation mostly to blame. On the other hand, food inflation came down to 6.0% from a peak of 14.4% in March last year. Although core inflation increased to 5.0%, it remains in the target band and seems to be under control. Average inflation of 5.2% is expected for 2024, with medium term inflation anchored at 4.5%, right in the middle of the SARB's target range. Cash currently delivers an attractive real yield of 2.8% and as such, our allocation to cash is at overweight levels relative to the benchmark.





Global Review

Currency

The Rand had a better month than the previous two months and strengthened against the major currencies and our trade weighted currency basket during March. Starting the month at R19.16/$, the local currency strengthened 2.6% against the greenback to end at R18.67/$. Over the last year, the rand has depreciated 4.9% against the dollar, 8.7% against the pound and 5.7% 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 54% undervalued versus the USD.

Equity

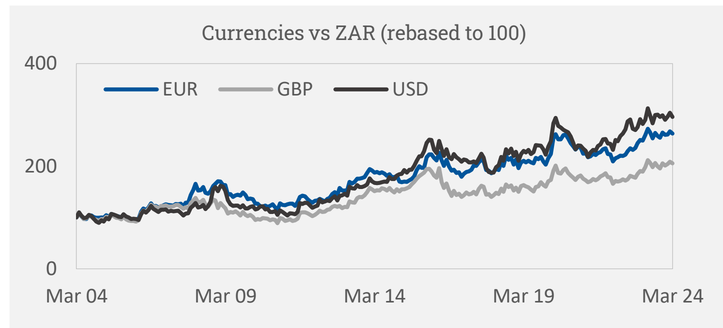
Despite ever rising valuations, global developed markets continued to perform very well into March. In US dollar terms, the MSCI All Country World Index was up 3.1% for the month, pushing the performance over the last 12 months up to 23.2%. The S&P 500 performed roughly in line (3.2%) for the month but is up a spectacular 29.3% over the last year, driven by mega-cap tech stocks but recently extending to financials and energy. Emerging markets lagged their developed market peers, with the MSCI Emerging Markets Index up 2.5% for the month but still some way behind at 8.2% over the last year. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

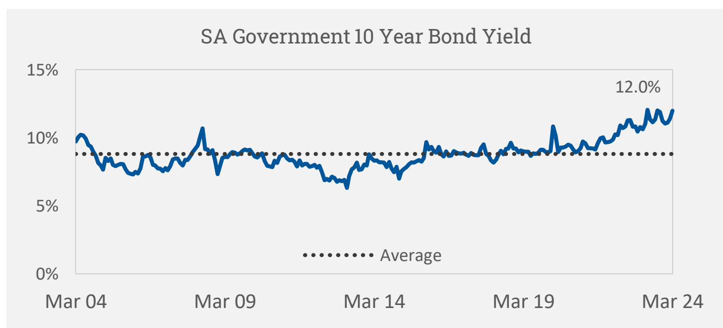
Fixed Income

US government bond yields decreased slightly this month, and the US 10-year government bond yield now sits at 4.2% compared to February's 4.3%. The Fed continues to signal concerns around cutting rates too soon, noting that US inflation has largely moved sideways but is still above target. BCA Research opines that global bond yields might rise a bit further in the short term but will fall significantly during a recession to act as a valuable hedge for multi-asset portfolios.

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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