Market Overview

30 April 2024

Local Market

April saw a continuation of positive performance from South African stocks, with the All Share up 2.95% and the Capped Swix up 2.9% for the month. This pushed the Year To Date (YTD) figures into positive territory, with the All Share and Capped Swix up around 0.6% YTD. Large-cap stocks were a big contributor, up 3.18%, with small-caps up 2.02% for the month. The resource sector rung the winners bell (up 7.1%), with Anglo American being the front-runner.

Despite good performance in the resource sector, financials lead the way for top performance over the past 12 months. Local bonds were up 1.47%, with property down 0.59% for the month.

We Buy Cars made their JSE entry, and by the end of the month combined shares for We Buy Cars and Transaction Capital were up around 6% from their March numbers.

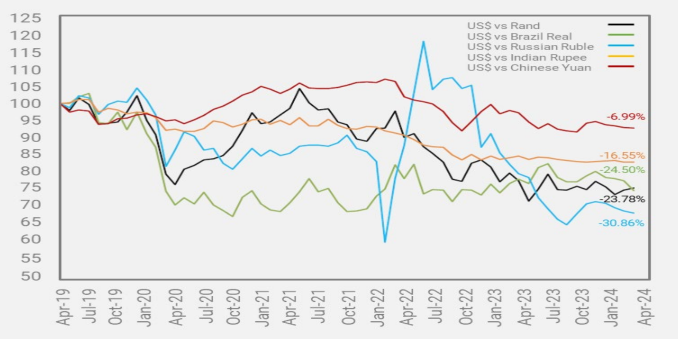
April provided relief for the Rand, strengthening around 0.6% against the Dollar. The Rand, alongside the Chilean Peso, was one of the two major currencies to strengthen against the Dollar. **Chart 1** (below) shows that over 5 years, compared to other BRICS countries, the Rand performed better than The Brazilian Real & Russian Ruble.

2023 SA inflation numbers averaged 5.9%, a full 1% lower than the 2022 average of 6.9% - but still higher than 4.5% in 2021. The 2024 inflation forecast currently sits at 5.3%, up from original 4.9% expectation set in December 2023. YoY, end of April showed core inflation at 4.9%, edging closer to the SARB's 4.5% mid-range target.

In less positive news, the latest 12-month average electricity available for distribution in SA had declined further, to levels last seen during Q1 of 2004.

Polling for May 2024 elections shows ANC support falling to 40.2% from 40.5% in a previous poll. The survey polled more than 2,500 South Africans with diverse backgrounds. The data showed that the EFF had the biggest drop, with support figures from 19.6% in February 2024, to 11.5% in April 2024. The consensus shows that these supporters are moving to the newly minted MK party, which shows support around the 11.5% level. Full steam ahead towards upcoming elections.

Chart 1
SA Rand Against BRICS Countries



Source : Schalk Louw, PSG (2024)

Global Market

The United States unemployment went against market expectations by increasing to 3.9%, up from 3.8% in the previous month (where markets expected it to remain). Over the past two years, the unemployment rate has ranged between 3.4% - 3.9%. This essentially represents full employment. It is unlikely that the Fed will start cutting rates if the labour market remains robust and wage growth remains high.

Global equity struggled in April, with the MSCI world index down 3.7% MoM. This is the first negative return from global equities in the last 6 months, which was likely spurred by US economic data suggesting rates would need to stay higher for longer.

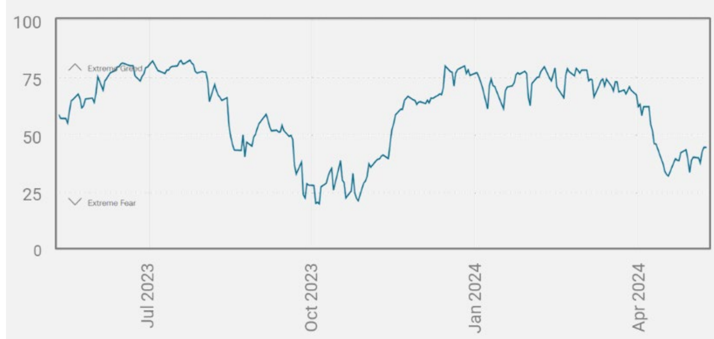
The CNN fear and greed index gauges stock market movements and whether stocks are priced fairly. The theory is based on the logic that excessive fear tends to drive down share prices, while too much greed tends to have the opposite effect. Looking at **Chart 2** (below) we can see a downward movement from a level of greed at the end of March 2024, to fear by mid-April 2024. This correlated with the sharp decline in the S&P 500 of 4.41% during April.

US core inflation data continues to remain ahead of expectation for the fourth month in a row. The March number showed core inflation at 3.8% YoY, which was still firmly above the Fed's 2% target. The year started with the belief that we would see the Fed cut rates six times in 2024. During Q1 of 2024, expectations dropped to three rate cuts and based on the latest economic data, only one cut seems likely. This rate shift expectation contributed to the US government's 10-year borrowing rate ending 0.5% higher for the month (4.7%).

Emerging market stocks achieved 0.4% MoM, with the Hang Seng China enterprises index up 8% during April. This comes after three years of poor price performance. Over the last year, China has been stocking up on its gold reserves, having purchased an additional 181 tonnes and making them the sixth largest holder of gold reserves.

European Central Bank (ECB) policymakers renewed their views that June was when they would likely look to start lowering interest rates, assuming no unexpected economic events. Oil prices and Middle East conflict could play a role in rate cut decisions, however, the ECB seem to be on the same page as the market, with the expectations of 3-4 rate cuts in 2024.

Chart 2
Fear and Greed Index



Source : CNN (2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	3.0%	0.6%	1.1%	8.8%	9.4%	8.1%
Local Property	-0.6%	3.2%	13.7%	9.6%	0.0%	2.8%
Local Bonds	1.4%	-0.4%	6.8%	7.2%	7.2%	7.8%
Local Cash	0.6%	2.6%	8.2%	5.9%	5.6%	6.0%
Global Equity	-3.8%	7.8%	21.0%	13.7%	15.6%	14.7%
Global Property	-6.6%	-5.3%	2.3%	4.1%	5.4%	9.5%
Global Bonds	-3.0%	-1.7%	0.5%	2.6%	3.9%	5.5%
Global Cash	-0.1%	4.9%	8.8%	12.4%	8.0%	7.7%

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Local Review

Equity

Local equities continued their momentum into April, with all areas of the market up materially. The JSE All Share Index delivered 3.0%, taking the index's performance into a positive 0.6% for the year-to-date and 1.1% over the last 12 months. Resources (6.4%) had another strong month, while Financials (3.0%) and Industrials (1.6%) also performed well, outperforming Resources over the last 1 and 3 years. Reported earnings and the valuation multiple has remained stable this month, and our models indicate reasonable value on offer in local equities relative to other asset classes. We therefore maintain our allocation to levels in line with our benchmarks.

Property

Local property had a second slightly negative month in a row. The SA Property Index was down 0.6% in April, lagging both local equities and local bonds for the month, but still ahead on a year-to-date basis. The 12-month performance sits at 13.2%, 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

The JSE All Bond Index had a great April and delivered 1.5% for the month to bring the year-to-date return to -0.4%. Local bonds have done very well over the last year (6.9%) compared to local equities, but lagged cash by around 1.6%. The SA 10-year government bond yield remains very attractive at 11.9%, but the longer end of the curve has shifted down this month. 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 moderated again from 5.6% to 5.3% in March, with the monthly rate of 0.8% coming in slightly lower than expected. Higher fuel prices, increases in the cost of education and higher rents all contributed to the increase, while lower food price inflation contributed positively. Core inflation came down slightly from 5.0% to 4.9% and remains in the target band and seemingly under control. Average inflation of 5.3% 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 3.1%, and as such our allocation to cash is at overweight levels relative to the benchmark.

Global Review

Currency

The Rand had another decent month against the USD but weakened vs. the other majors and our trade weighted currency basket during April. Starting the month at R18.67/$, the local currency strengthened 0.6% against the greenback to end at R18.79/$. Over the last year, the rand has depreciated 2.7% against the dollar and 2.1% against the pound but strengthened 0.5% against the euro. At month end, the ZAR was trading at 4% 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

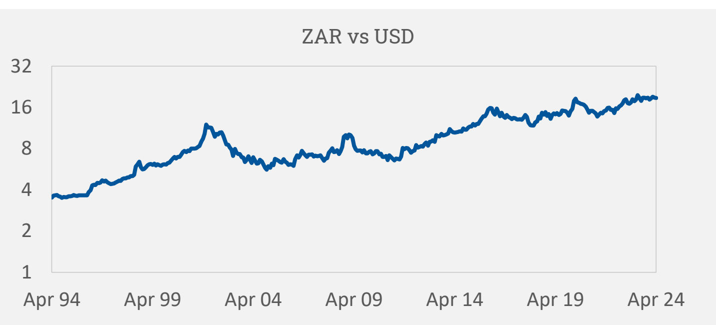
Global developed markets fell back during April, as fears of higher rates for longer set in once again. In US dollar terms, the MSCI All Country World Index declined 3.3% for the month, but performance over the last 12 months is still very strong at 17.5%. The S&P 500 (4.4%) had an even tougher month but outperformed significantly over the last year (22.2%) as mega-cap tech stocks soared. Emerging markets, led by Russia, China and India, outperformed their developed market peers, with the MSCI Emerging Markets Index up 0.7% for the month but still some way behind at 9.9% 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.

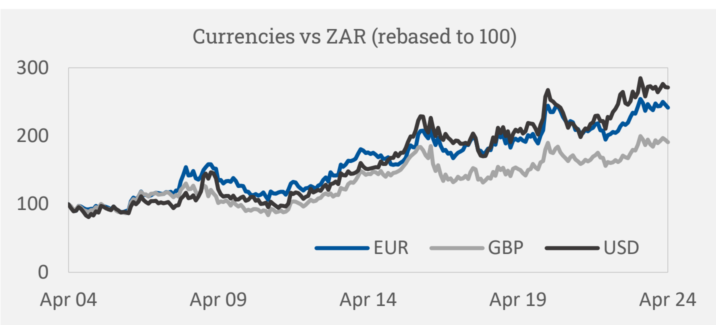
Fixed Income

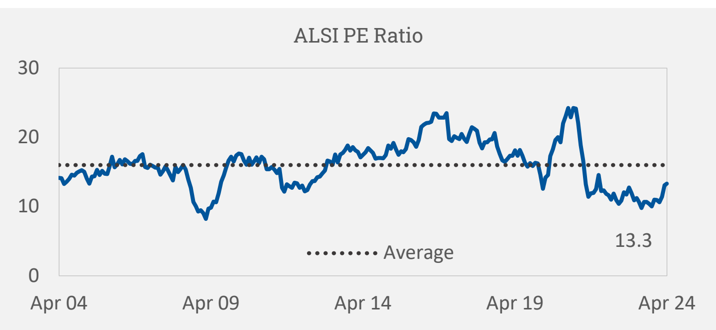
US government bond yields increased considerably this month, resulting in negative returns for global bond indices. The US 10-year government bond yield now sits at 4.7%, a 0.4% increase from March's 4.3%. With US inflation surprising on the upside, the Fed continues to signal concerns around cutting rates too soon. 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.

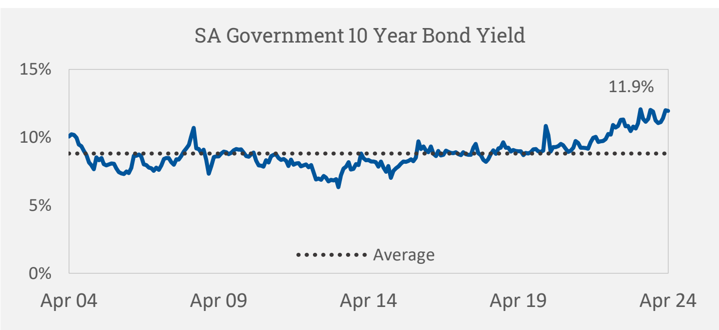
Alternative

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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