Market Overview

31 May 2024

seed investments

Local Market

May looked favourably on local markets, with the All-Share index up 0.96% for the month, bringing year-to- returns to 1.6%. Small-cap stocks also saw an impressive 1.9% improvement, with mid-cap stocks up 1.44%. The industrial sector saw a 1.69% improvement, with Naspers and Richemont the top performers. In USD terms, the local market has underperformed other emerging markets over the past 12 months - with outperformance over 5 years.

Local bonds were up 0.75% for the month, with SA Listed Property up 0.16% and remaining stable. The SA Fear & Greed Index stayed in extreme greed during May, but saw a major drop-off in the latter part of the month. The ZAR lost ground against most major currencies during May, though interestingly, the ZAR has appreciated against the USD, EURO and GBP over the past 12 months, shown in **Chart 1** (below).

In more electrifying news, the latest 12-month average electricity available for distribution in SA improved slightly during March but still at levels last seen in the first quarter of 2004. It will be interesting to see how this pans out post elections.

The SARB (South African Reserve Bank) decided to keep the repo rate unchanged at 8.25%, which was in line with market expectations. Inflation expectations remain elevated relative to the mid-point of the inflation target. The repo rate has increased by a total of 475 bps since November 2021, which is effectively the highest interest rates in over 14 years. The expectation remains that the Monetary Policy Committee (MPC) will start cutting rates on either 19 September or 21 November. The start of SA's cutting cycle could be boosted by the expectation that the European Central Bank (ECB) will start cutting rates in June.

SA's unemployment rate remains high at 32.9% by the end of Q1 2024. Although dismal, the level of employment has recovered from the impact of Covid. The unemployment rate ranges from a low 21.4% in the Western Cape, to a high of 42.4% in Eastern Cape.

In Q1 2024, SA's GDP declined by 0.1% quarter-on-quarter. This compares with a revised increase of 0.3% in Q4 2023, and market expectations for growth of 0.1%. Standard and Poor's Ratings Services kept SA's international credit rating unchanged at Bulge Bracket (BB-). BB- is three notches below investment grade. The rating outlook remains unchanged at "stable". This decision was in line with market expectation.

Global Market

Global equity markets bounced back strongly in May after a tough April, with the MSCI World index up 4.4%. This growth was skewed by a few mega-cap stocks, with Nvidia up 27% for the month. This contributed one-fifth of the total MSCI Index performance during May.

Energy shares were the only S&P500 shares to dip in May, with 0.4% growth. This was largely due to the Brent crude oil price, which dropped 7.1% for the month. This can be attributed to the rising US inventories and reduced concern over the Middle East conflict.

The US Government 10-year borrowing rate fell to 4.5% per annum in May, resulting in a weakening of the USD and further resulting in the USD Index falling, for the first time in 2024, by 1.5% month-on-month.

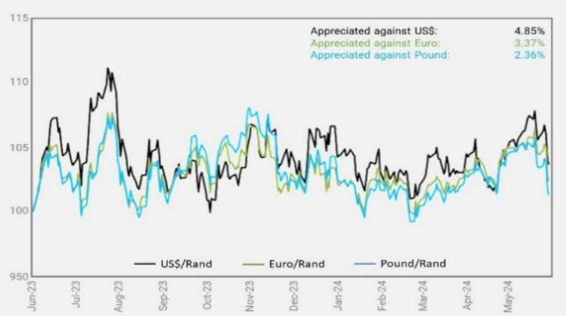
During the US Federal Open Market Committee (FOMC) meeting, there was some indication that inflation had eased over the past year, however, there was a lack of further progress towards the 2% target. UK Consumer inflation slowed to 2.3% in April from 3.2% in March, the lowest seen in about three years. The market expected headline inflation to decrease to 2.1%.

Core inflation slowed to 3.9% from 4.2%, with markets still pricing in at least one rate cut of 25 bps this year. The European Central Bank (ECB) president indicated a strong likelihood of reduced rates in June, with the expectation that inflation would be around 2% over the medium term. **Chart 2** (below) shows the number of banks cutting rates since 2020.

Japan's GDP declined by 2% in Q1 2024, with the market only expecting a decline of 1.2%. The earthquake that hit in January, the suspension of some automobile production activity and weak external demand would have played a part in the lower-than-expected growth. The People's Bank of China (PBOC) lowered the minimum required down payment ratio for first-time home buyers of residential property.

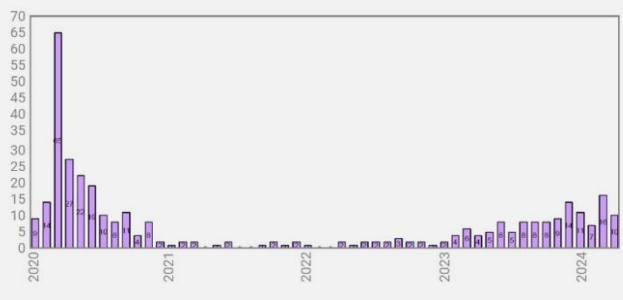
The ratio was decreased by 5% to a ratio of 15%, and a ratio of 25% for second time buyers. This aided China's goal of trying to boost demand. The PBOC indicated they would be scrapping the national floor level of mortgage rates and leave this decision to the individual cities (on what rates to charge).

Chart 1 : ZAR Against Developed Countries



Source: Refinitiv Eikon (2024)

Chart 2 : Number of Central Banks Cutting Interest Rates Monthly



Source: Kevin Lings (2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	1.0%	1.6%	6.3%	8.6%	10.7%	8.0%
Local Property	0.2%	3.4%	20.3%	10.7%	0.2%	3.0%
Local Bonds	0.8%	0.3%	13.0%	6.2%	7.2%	7.8%
Local Cash	0.7%	3.3%	8.2%	6.1%	5.6%	6.0%
Global Equity	4.0%	12.1%	17.4%	16.8%	17.6%	14.8%
Global Property	4.1%	-1.4%	2.7%	6.8%	5.9%	9.6%
Global Bonds	1.3%	-0.4%	-4.3%	4.7%	3.6%	5.5%
Global Cash	0.4%	5.3%	0.4%	14.7%	7.7%	7.7%

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Local Review

Equity

Local equities closed in the green for May, building on strong momentum from the previous two months. The JSE All Share Index delivered 1.0%, taking the index's performance up to 1.6% for the year-to-date and a more acceptable 6.3% over the last 12 months. Industrials (1.7%) gave the best performance, while resources (1.0%) performed in line with the broader index and financials (0.1%) lagged. Reported earnings have increased slightly this month, but the valuation multiple has remained unchanged. Our models still 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 much better month than the previous two. The SA Property Index was up 0.2% in May and remains ahead of both equities and bonds on a year-to-date basis. The 12-month performance sits at a strong 20.3% 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 returned 0.8% for the month of May, taking the year-to-date return into positive territory at 0.3%. Local bonds have done very well over the last year (13.0%) compared to both local equities (6.3%) and local cash (8.5%). The SA 10-year government bond yield remains very attractive at 12.0% and has been at this level for the last three months. The longer end of the curve has shifted up by around 5 bps on average 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

SA's annual inflation rate moderated further from 5.3% to 5.2% in April, with the monthly rate of only 0.3% coming in slightly lower than the 0.4% consensus expectation. Rising fuel prices again contributed most to the monthly change, while significantly lower food price inflation (4.4%) contributed positively. Core inflation came down once again (from 4.9% to 4.6%) and has not moved much despite interest rates remaining high. Average inflation of 5.2% is forecast 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 3.1% yield and as such, our allocation to cash is at overweight levels relative to the benchmark.

Global Review

Currency

The ZAR weakened slightly versus the EUR, GBP and our trade weighted currency basket during May, but remained unchanged against the USD. The local currency started and ended the month at R18.79/$. Over the last year, the ZAR has strengthened 4.8% against the USD, and 6.5% against the trade weighted basket. At month end, the ZAR was trading at 5% undervalued relative to the trade weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 57% undervalued versus the USD.

Equity

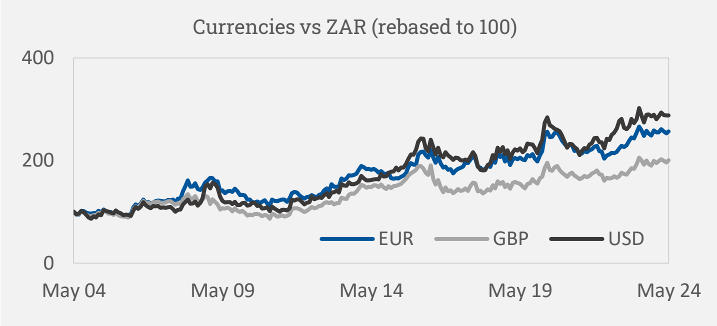
Global developed markets had a very strong month, as US mega-cap stocks rallied hard once again. In USD terms, the MSCI All Country World Index was up 4.1% for the month, with performance over the last 12 months now at 23.6%. The S&P 500 (5.3%) was boosted by the likes of Nvidia, Apple and Microsoft. Emerging markets underperformed their developed market peers, with Brazil and Russia in the red, but India and China holding up much better. The MSCI Emerging Markets Index was up only 0.6% for the month and is still some way behind at 12.4% 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.

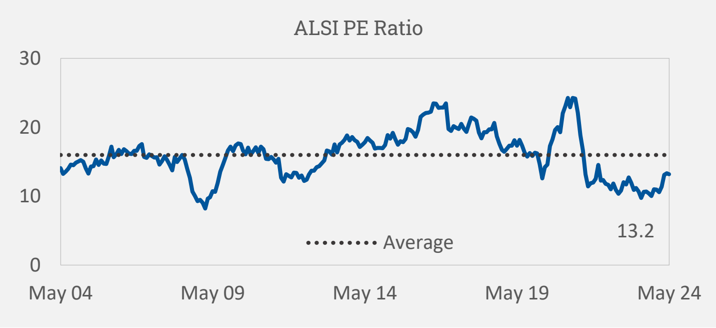
Fixed Income

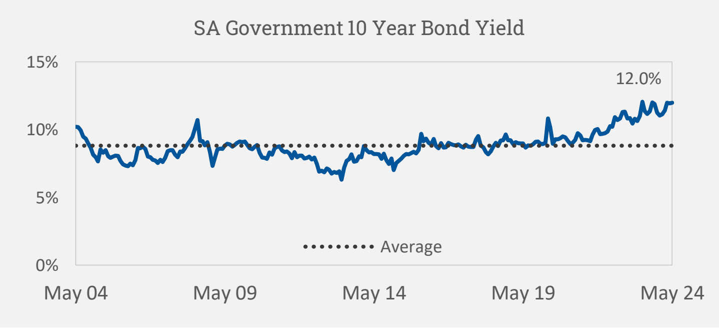
After a rise in April, US government bond yields decreased again this month, resulting in positive returns for global bond indices. The US 10-year government bond yield now sits at 4.5%, a 0.2% drop from April's 4.7%. US inflation printed a bit lower than expected in April, after surprising on the upside for three months. The Fed continues to signal concerns around cutting rates too soon. BCA Research opines that the 10-year US Treasury yield should not rise above 5.0% and 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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