Market Overview

30 June 2024

Local Market

June was a key month for the political landscape of South Africa, with the formation of the GNU and appointment of cabinet. The ZAR reacted strongly, up 3.3% MoM against the USD. Interestingly, this served as a headwind for many JSE listed companies who make up their earnings predominantly from foreign sources.

June saw the JSE All Share increase by around 4.1%, with SA Banks (14.5%) and Small Caps (6.4%) at the forefront. In USD terms, the All Share achieved 7.6% for the month, outperforming both the MSCI All Country World Index by 2.2%, and other emerging markets by 3.9%. The local property market had a good month, returning just short of 6% - with the 12-month return sitting at 26.3%. Based on target prices by Refinitiv Eikon, The JSE is set to grow by 17% from current levels.

Inflation lined up with market expectations, with core inflation sitting at 4.6% YoY, maintaining the mid-point (4.5%) of the SARB target range for the second month in a row. Inflation is forecast to average 5% during 2024. There is a risk that this might be higher, but with food inflation below the mid-point target (despite El Nino fears) and recent ZAR strength, we could see the Reserve Bank easing monetary policy sometime during the second half of 2024.

June saw the SA 10 year borrowing rate drop by around 0.8% to 11.4% per annum. This decreased the perceived credit risk of the country, adding to the MoM performance of the FTSE/JSE All Bond Index (5.2%).

South Africa's electricity production rose by 5.6% YoY in May. The first 5 months of this year saw electricity production increase by 3.3% on average YoY. **Chart 1** (below) shows SA's electricity production increasing over the past two months, relative to this time last year.

Global Market

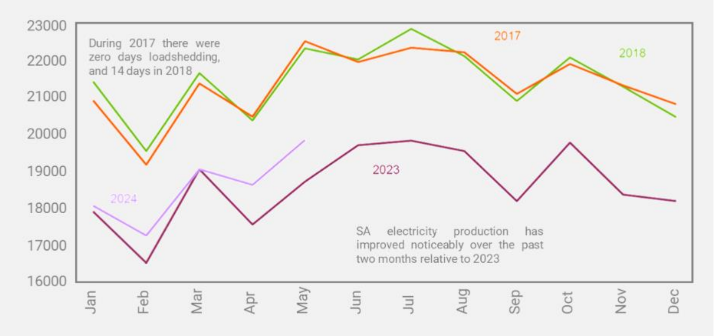
Global Equities continued to rally with the MSCI World Index (2%) during June, currently at 12% for the year. We are still seeing the significant impact of the tech sector on these returns, specifically the Magnificent 7, which has contributed to around half of the MSCI World Index performance this year (and over 90% of June's return). Nvidia led this surge, up 13% in June and a whopping 150% return YTD. Europe's equity market had a disappointing month, with French equities down 6.6% in June. US employment data was stronger than expected and US inflation data is decreasing slightly faster than anticipated - meaning slightly lower yields for the US government 10-year bonds.

The Fed kept rates unchanged, whilst The European Central Bank (ECB) cut rates, for the first time in almost five years, by 25bps to 4.25%. The current consensus is that The FOMC in the US will leave rates unchanged when they meet again at the end of July, with a 72% probability priced in by the market that rates will be cut when the meet on 18 September this year.

US new housing fell sharply in May to an annualised figure of 1.28 million, marking the slowest pace of home construction since June 2020. This, coupled with a sharp decline in building permits, means that the sector will be under pressure over the next few months.

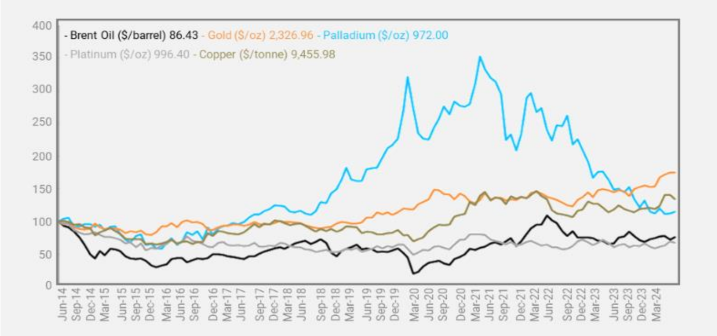
The value of new home sales in China dropped by 17% YoY in June. This may seem grim, but it was a welcome improvement after a 24% decline during the month of May. However, the Chinese housing market remains in its fourth consecutive year of contraction. As seen is **Chart 2** (below), June was a mixed bag in the commodity and resource sector. Brent Crude oil (5.6%) and Palladium (2.4%) were up for the month, while Copper dropped by 4.6%.

Chart 1 : South Africa Electricity Production: 2017/2018 vs 2023



Source: Kevin Lings (2024)

Chart 2 : Commodity Prices



Source: Schalk Louw (2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	4.1%	5.8%	9.1%	11.0%	10.6%	8.2%
Local Property	6.0%	9.6%	26.3%	11.6%	0.9%	3.2%
Local Bonds	5.2%	5.6%	13.7%	7.6%	7.8%	8.2%
Local Cash	0.6%	4.0%	8.2%	6.2%	5.6%	6.0%
Global Equity	-0.9%	11.1%	15.4%	14.4%	16.6%	14.5%
Global Property	-2.3%	-3.6%	1.8%	4.3%	5.8%	9.1%
Global Bonds	-2.9%	-3.3%	-2.4%	2.6%	3.2%	5.1%
Global Cash	-2.6%	2.6%	2.2%	12.2%	7.8%	7.3%

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seed investments

Local Review

Equity

Local equities had a great June, resulting in a strong pickup in the calendar year return. The JSE All Share Index delivered 4.1%, taking the index's performance up to 5.8% for the year-to-date and 9.1% over the last 12 months. The index was driven by Financials (14.5%), which had their best month since November 2020, while Industrials (1.9%) also closed in the green. Resources (3.6%) lagged for the month but, remains on top over 5 years. Reported earnings have increased in line with prices, thus 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

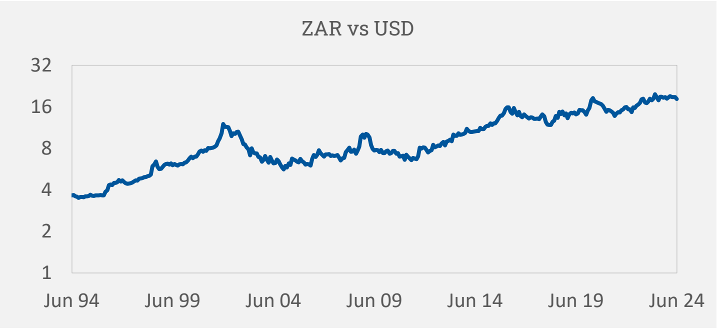
Local property rallied in line with other local growth assets and had an exceptional month. The SA Property Index was up 6.0% in June and remains ahead of both equities and bonds on a year-to-date (9.6%), 1-year (26.3%) and 3-year (11.7%) basis. However, over 5 years local property has lagged all other major local and global asset classes in ZAR terms. 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.

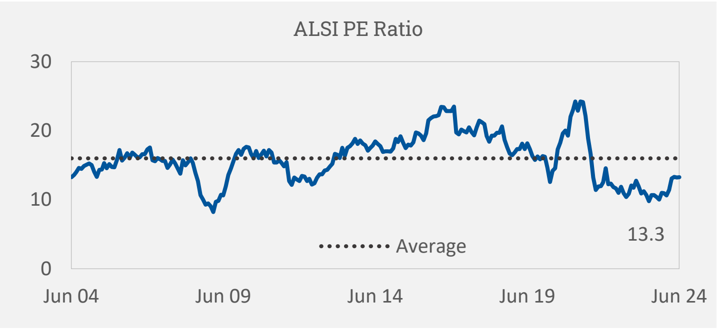
Bonds

The JSE All Bond Index returned 5.2% in June, building on a decent May (0.8%) and taking the year-to-date return further into positive territory at 5.6%. The SA 10-year government bond yield came down to 11.2%, after sitting at 12.0% for 3 months, resulting in the strong return for the month. The downward shift in yields this month has been across all maturities from 3 years out. 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 remained steady at 5.2% in May, with the monthly rate of 0.2% in line with expectations. Rising fuel prices once again contributed most to the monthly number for May, but consumers had some relief already with the petrol price dropping by R1.24/l in June. Annual food price inflation (4.3%) keeps declining, and core inflation remains at a well-managed 4.6%. Average inflation of 5.0% is forecast for 2024, revised lower from 5.2%, with medium term inflation still anchored at 4.5%. Cash currently delivers an attractive real yield of 3.2%, and our allocation to cash remains at overweight levels relative to our benchmarks.





Global Review

Currency

The Rand strengthened significantly against our trade weighted currency basket and the other major currencies during June. Starting the month at R18.79/$, the local currency strengthened 3.2% against the greenback to end at R18.19/$. Over the last year, the rand has appreciated 3.5% against the dollar, 3.9% against the pound and a full 5.2% against the euro. At month end, the ZAR was trading in line with the weighted basket of currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 52% undervalued versus the USD.

Equity

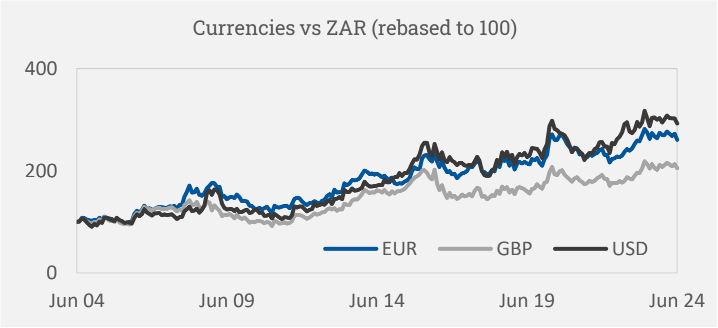
Global equities produced another good month, driven by the US and Emerging Markets while Europe disappointed. In US Dollar terms, the MSCI All Country World Index was up 2.2% for the month, with performance over the last 12 months still very strong at 19.4%. The S&P 500 (5.6%) was carried once again by the 'Magnificent 7' tech shares. Emerging markets outperformed their developed market peers, with India and Brazil in the green but China struggling. The MSCI Emerging Markets Index was up 3.9% for the month but, is still some way behind developed market peers with a 7.5% return 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.

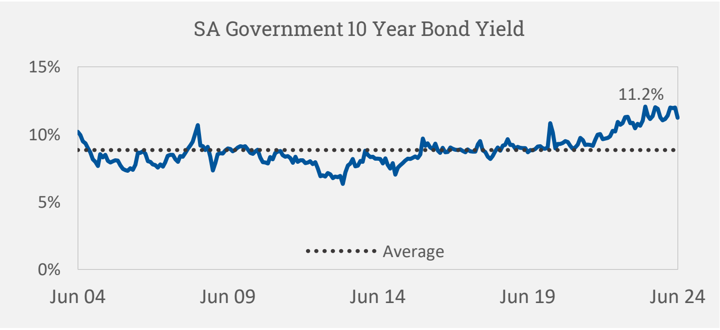
Fixed Income

US government bond yields decreased for the second month in a row, contributing to a positive return of 0.3% for the Bloomberg Global Aggregate bond index. The US 10-year government bond yield now sits at 4.3%, a 0.2% drop from May's 4.5%. Lower than expected inflation numbers painted a positive picture of the US economy, and the Fed kept rates unchanged while signalling 1 or 2 possible rate cuts in the next year. 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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