Market Overview

31 July 2024

Local Market

July saw a continuation of positive election sentiment, with the All-Share Index rising by 3.9%, boosting the YTD return to 9.9%. In dollar terms, the All-Share Index (up 3.8%) outperformed both the MSCI All-Country World Index (1.6%) and the MSCI Emerging Markets Index (0.3%). Mid-cap stocks gained 5.1% in July 2024, while small-cap stocks posted an impressive 5.4% return for the month. The resource and financial sectors were key contributors, delivering returns of 5.5% and 5.4%, respectively.

The All Bond Index (ALBI) showed another strong monthly increase of 4.0%, while the Property sector generated a 4.5% return. Gold had a stellar performance, rising by 5.2% in July, pushing its YTD performance into the high teens at 18.6%. The widespread domestic outperformance led to the SA Fear & Greed Index remaining in the "GREED" classification throughout July shown in panel 1 of **chart 1** (below). Panel 2 shows, Investor confidence in the domestic market remains higher than average compared to its global counterpart.

Continuing with the election theme, the bond market appears to have reduced its election risk premium after two consecutive months of downward shifts in the yield curve. The combination of a reduced election risk premium, a relatively stable Rand, declining inflation, and an increased likelihood of a rate cut in September has led markets to price in an 80% chance of this cut. Supporting these expectations, the inflation-linked, bond yield curve bull flattened in July, indicating that long-term yields are falling more quickly than short-term yields.

South Africa's broad money supply growth showed a modest 4.2% year-on-year increase in July, down from May's 4.7%, marking the lowest annual growth rate since October 2021.

July also saw an improvement in South Africa's Electricity Availability Factor (EAF), which rose to 71.9%, up from 67.8% in June. Eskom exceeded expectations despite low investor confidence in mid-2023, and the increased electricity availability has evidently bolstered the overall economy in real terms

Global Market

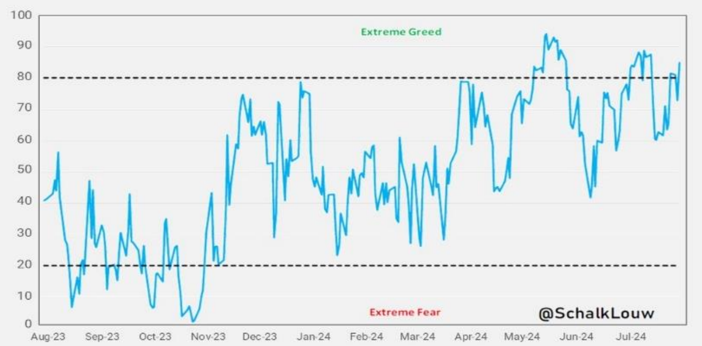
Global equities had a mixed performance in July. The MSCI World Index rose 1.8% for the month, pushing its YTD figure to 13.7%. However, tech stocks, often referred to as the "Magnificent 7," experienced their first stumble of the year as investors began questioning their high valuations. In Europe, equity markets closed in the green, led by France and Germany. The Japanese Nikkei fell 4.7%, while Chinese markets gained 1.0%. Disappointing economic data drove the CNN Fear & Greed Index deeper into "Extreme Fear."

Rate cut expectations, a slowing U.S. economy, and accelerating inflation have added to market turbulence. From an event-driven perspective, two notable incidents—the attempted assassination of Donald Trump and Joe Biden's unexpected campaign withdrawal—have further fueled market volatility. These events have increased uncertainty, particularly regarding Kamala Harris' ability to counter Donald Trump's momentum.

In the U.S., the unemployment rate rose to 4.3%, exceeding market expectations by 0.2 percentage points, as no change had been anticipated. Additionally, the U.S. government's 10-year borrowing rate fell to 3.8% per annum in July.

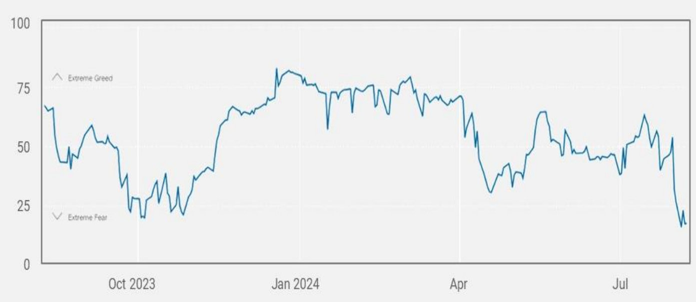
The U.S. Federal Reserve maintained its rate at 5.25%-5.5%, as expected. However, a dovish tone has emerged from various announcements and alterations to policy statements surrounding the September Federal Open Market Committee (FOMC) meeting hinting at a potential start to an interest rate cutting cycle. The Bank of England (BoE) reduced its interest rate to 5.0% from 5.25%, marking its first rate cut since the onset of the COVID-19 pandemic. Despite resistance from hawkish members, the rate cut was approved. The Bank of Japan (BoJ) increased its short-term interest rate to 0.25% from 0.1% and reduced open market operations. In contrast, the People's Bank of China (PBOC) cut short- and long-term interest rates for the first time since August 2023.

Chart 1 : Fear & Greed Index South Africa



Source: Refinitiv Eikon (2024)

Chart 2 : Fear & Greed Index



Source: CNN (2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	3.9%	9.9%	9.0%	10.9%	11.9%	8.5%
Local Property	4.5%	14.3%	28.5%	12.9%	2.0%	3.5%
Local Bonds	4.0%	9.7%	15.6%	8.7%	8.8%	8.5%
Local Cash	0.7%	4.7%	8.2%	6.3%	5.6%	6.1%
Global Equity	1.2%	12.5%	19.7%	13.7%	16.7%	14.6%
Global Property	5.7%	1.9%	10.2%	3.8%	6.7%	9.7%
Global Bonds	2.4%	-1.0%	5.4%	2.1%	3.6%	5.4%
Global Cash	0.1%	2.7%	8.1%	11.3%	7.6%	7.3%

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Local Review

Equity

Local equities had another promising month, bolstering the calendar returns deeper into positive territory. The JSE All Share Index delivered 3.9%, pushing the index's performance to 9.9% year-to-date and 9.0% over the last 12 months. The index was driven by Resources (5.5%), up from the sector's poor performance in June (3.6%), and Financials (5.4%). Industrials also closed in the green (2.0%). Reported earnings has decreased relative to prices, thus the valuation multiple has increased over the month of July. Our model still indicate reasonable value on offer in local equities relative to other asset classes. We therefore maintain our allocation levels in line with our benchmarks.

Property

Local property added to its promising track record for the year. The SA property Index was up 4.5% in July, the asset class maintains its market performance rank ahead of both equities and bonds on a year-to-date (14.3%), 1-year (28.5%) and 3-year (12.9%) basis. Over 5-years, the asset class continues to lag all 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 fundamental risks. We therefore maintain an underweight ranking on local property.

Bonds

The JSE Local Bond Index printed 4.0% for July, its second consecutive promising performance pushing the year-to-date (9.8%) figure deeper into the positive region. The SA 10-year government bond yield came down for a second consecutive month from 11.2% in June to 10.8% in July resulting in an even stronger return for the month. This downward shift occurred for all maturities. We maintain our allocation to bonds at overweight levels relative to the benchmark as local bonds continue to offer very attractive returns.

Cash

South Africa's annual inflation rate decreased slightly to 5.1% in June, with the monthly rate of 0.1% in line with expectations. A reduction in fuel price contributed the most to the monthly number for June. Consumers are expecting a further decline in the fuel price over July. Annual food inflation rose over July by 0.3%, and core inflation remains inside the target at a well managed 4.5%. Average inflation forecast for 20224 of 4.9%, revised lower from 5.2%. Cash currently delivers an attractive real yield of 3.2%, and our allocation to cash remains at an overweight levels relative to our benchmarks.

Global Review

Currency

The Rand has weakened against our trade weighted currency basket and the other major currencies during July. Starting the month at R18.19/$, the local currency remained constant against the greenback over the month. Over the last year, the rand has appreciated by 3.6% against the dollar, 2.3% against the pound and 4.5% against the euro. At month end, the ZAR was trading in line with the weighted basket if currencies on a purchasing power parity basis. Using the same methodology, the ZAR was 50% undervalued against the dollar.

Equity

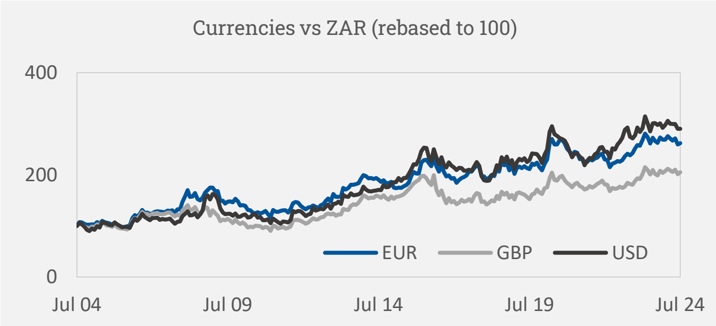
Global equities produced another good month with the UK market being a key contributor and China detracting. The MSCI All country world index delivered 1.6% for the month with the 1-year performance slipping to 17.0%. The S&P 500 closed in the green at July month end. Investor sentiment around the high valuations of the 'Magnificent 7' started to detract from performance. Emerging markets underperformed their developed market peers, with India and Brazil contributing whilst China struggles. The MSCI Emerging Markets Index was up 0.3% for the month, lagging its developed market peers and a one month and one year (7.8%) by -1.5% and 12.1%, respectively. We continue to favour allocation to high quality stocks and maintain our allocation to global equity at levels just below benchmark.

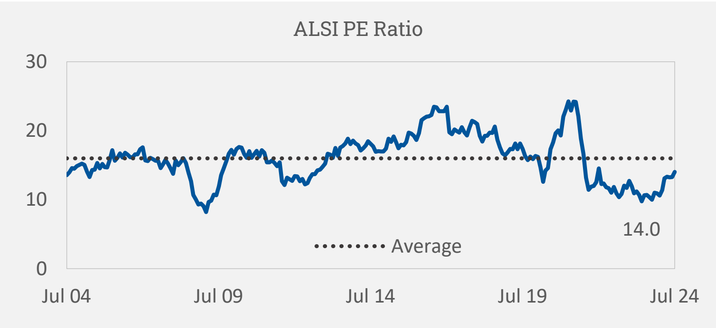
Fixed Income

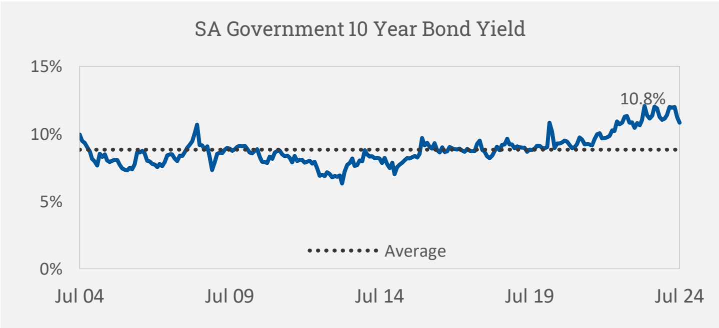
US government yields decreased for the third month in a row, contributing to the positive return of Global bond indices. The US 10 year government bond yield now sits at 4.1%, a 0.2% drop from June's 4.3%. Lower than expected inflation bolstered investor sentiment surrounding the US economy. Fed kept its interest rate unchanged whilst signalling a rate cut in the meeting in September. 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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