

## Local Market

August marked the sixth consecutive month of positive performance in domestic equity markets, with a 1.4% gain pushing year-to-date growth to 11.4%. In dollar terms, the FTSE/JSE All-Share Index (ALSI) rose by 4.1%, outperforming the MSCI All Country World Index (2.5%) and MSCI Emerging Markets (1.6%). Small caps led the way, increasing by 5.4% over the month, in Rands, while large caps gained 1.0%. Financials drove local market returns, with industrials also contributing, while resources lagged. South African banks and Naspers were the key contributors over the month.

**Chart 1** (below) depicts the cumulative return of the ALSI from 1 January 2024 to 31 August 2024. The chart uses daily data and highlights the market volatility over the period. Focusing on the shaded area, the FTSE/JSE All Share index saw a 4.0% drop in 6 days, driven by global factors, recovering fully over the next 10 days. Developments in Japan had spooked investors leading to the unwinding of the yen carry trade and hence elevated volatility.

The chart reveals two important investment principles. First, investors often overreact to events, leading to short-term volatility, and adjustments based on a rational assessment tend to follow. Second, the chart reflects the well tested investing rule: time diversifies risk.

Local bonds also delivered strong results, gaining 2.4% for the month and 12.3% year-to-date, with a 12-month return of 18.6%, outperforming equities over both periods. Listed property maintained its positive momentum, rising 8.3% in August and bringing its year-to-date return to 23.8%, though risks in this asset class remain elevated.

July inflation came in at 0.4% month-on-month and 4.6% year-on-year, down from prior month readings. This marks the lowest inflation in three years and the decline was driven by lower annual rates across several product groups. Core inflation remains within the target range, and the 2024 inflation forecast has been revised down to 4.7%. Cash continues to offer an attractive real yield of 3.6%, keeping it appealing in the current environment. However, interest rate cuts are on the horizon which will impact the attractiveness of the asset class.

Chart 1: ALSI Cumulative Returns



Source/s: Morningstar Direct (31 August 2024)

## Global Market

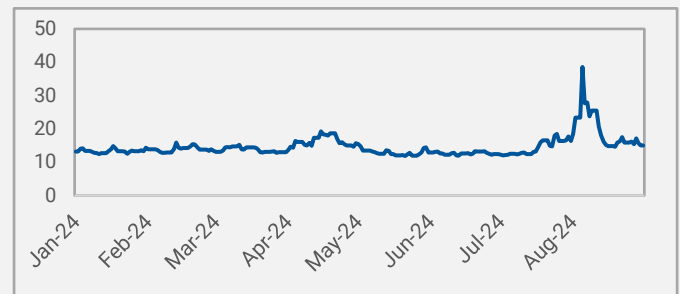
Global equities stumbled at the start of August 2024. The S&P 500 fell 6.1% in the first 5 days due to US recession fears and the Bank of Japan hiking rates hence the unwinding of the yen carry trade. **Chart 2** (below) displays the implied volatility of the US equity market, measured by the CBOE Volatility Index (VIX) Index. Volatility spiked in early August 2024 and then rapidly adjusted. By month-end, global equity markets had recovered; the S&P 500 posted a 2.4% return over the month and the MSCI World Index gained 2.6%, marking its 4th consecutive positive month (16.7% year-to-date). The retail and energy sectors detracted slightly. Asian markets, ex Japan and China, boosted performance, and European markets continued to rise, though French markets cooled post-Olympics. The MSCI Emerging Markets Index gained 1.6% but still trails developed markets. The MSCI Emerging Markets is up 9.6% year-to-date and 15.1% over 12 months.

US GDP growth was up for the Second Quarter. Initial estimates of 2.8% were revised up to 3.0% in August. Underlying drivers include an increase in spending. The expected slowdown of the US economy in early 2025 is under moderation as the Fed interest rate cutting cycle is anticipated to begin in September 2024. Rate cuts could reaccelerate the economy and fundamentally stimulate consumer and corporate spending for another fiscal year.

Rate cut expectations for the Fed's MPC meeting on September 18 are even more prominent after another month of a dovish tone. U.S. Core Personal Consumption Expenditure (PCE) inflation increased by 0.2% in July 2024, aligning with expectations. This rise is primarily driven by services inflation. PCE inflation remains above the Federal Reserve's 2% target.

Euro area inflation decelerated to 2.2% in July 2024, the lowest level since 2021 and pulling closer to the European Central Bank's 2% target. The Bank of Japan displayed a more confident tone after printing the highest inflation level since March this year. Japan is slowly closing in on its 2% inflation target. Chinese economists drew down their growth forecasts for the year. The ongoing weak demand in the property sector is prompting negative sentiment. Chinese economists revised their inflation forecast to 0.5% from 0.6% and there is a risk economic growth could miss its growth target of 5%.

Chart 2: Volatility of the US Equity Market



Source/s: Morningstar Direct (31 August 2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	1.4%	11.4%	16.1%	12.0%	12.8%	8.7%
Local Property	8.3%	23.8%	38.2%	13.8%	4.4%	4.0%
Local Bonds	2.4%	12.3%	18.6%	9.0%	9.1%	8.5%
Local Cash	0.7%	5.4%	8.2%	6.4%	5.7%	6.1%
Global Equity	0.1%	12.6%	15.7%	13.2%	15.7%	14.5%
Global Property	4.1%	6.1%	11.5%	5.1%	5.6%	9.9%
Global Bonds	-0.1%	-1.1%	0.2%	2.6%	1.8%	5.4%
Global Cash	-1.9%	0.7%	-0.9%	11.0%	5.7%	7.1%

# Market Overview

31 August 2024



## Local Review

### Equity

Local equities closed in the green for the sixth consecutive month. The JSE All Share index posted a 1.4% return for August 2024, pushing its year-to-date performance into double digits at 11.4%. On a rolling 12-month basis, the index stands at 16.1%. This positive momentum was mainly driven by Financials (5.3%) and Industrials (4.0%). However, Resources detracted significantly, falling by 10.1% in August after a positive performance in July. With earnings decreasing relative to price, valuation multiples have increased. Despite this, our model continues to indicate value in local equities relative to other assets, so we are maintaining our allocation levels in line with our benchmark.

### Property

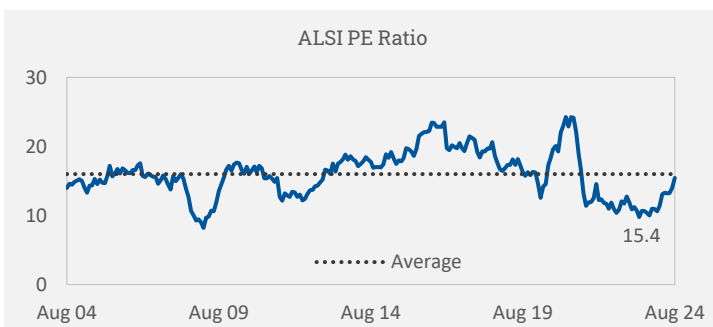
Local property delivered another strong performance, with an 8.3% return in August 2024. The asset class continues to outperform equities and bonds on a year-to-date basis (23.8%), over 12 months (38.2%), and on a 3-year basis (13.8%). However, over 5 years, it lags all major local and global asset classes in ZAR terms. Given the volatility of the listed property sector, we have decided to pause reporting on this asset class for the foreseeable future, although our property models will remain in operation and will be monitored.

### Bonds

Local bonds also had a stellar month, closing with a 2.4% return. Year-to-date, bonds have delivered an impressive 12.3%, with a 12-month return of 18.6%, outperforming equities over both periods. The SA 10-year government bond yield decreased for the third consecutive month, from 10.8% to 10.5%, boosting returns across all maturities. We are maintaining our allocation to domestic bonds, as they continue to offer attractive returns.

### Cash

South Africa's annual inflation decreased from 5.1% to 4.6% in August 2024, with a monthly change of 0.5%, well below the consensus of 0.4%. The slowing inflation is mainly due to reductions in fuel and food prices, with further reductions in fuel prices expected in early September. However, the increase in electricity prices has tempered the overall rate of inflation decline. Core inflation remains comfortably within the target range, and the average inflation forecast for 2024 has been revised down to 4.7% from 4.9%. Cash currently offers an attractive real yield of 3.6%, and we are maintaining our overweight allocation to cash relative to benchmarks.



## Global Review

### Currency

The Rand strengthened against our trade-weighted currency basket and other major currencies during August. Starting the month at R18.19/\$, the local currency appreciated to R17.83/\$ by month-end. Over the past year, the Rand has gained 5.5% against the dollar, 2.2% against the Pound, and 3.8% against the Euro. At month-end, the ZAR was trading in line with the trade-weighted basket of currencies on a purchasing power parity basis, and it remains 48% undervalued against the dollar.

### Equity

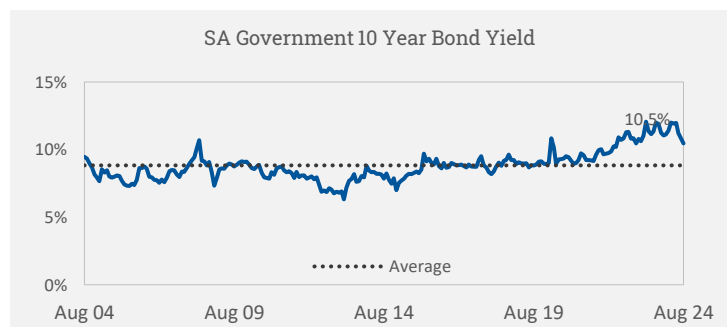
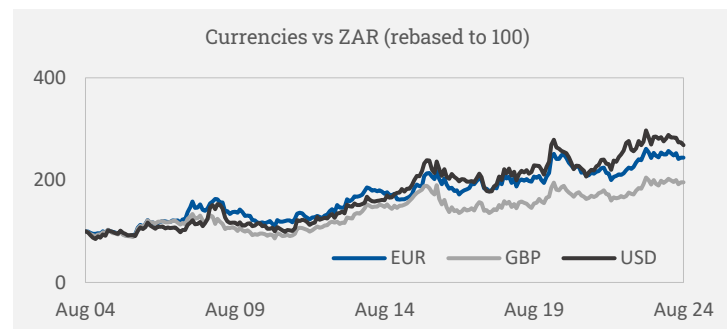
Global equities closed August in the green, with the broader US market, excluding tech stocks, leading the gains. Asian markets, excluding Japan, also contributed to the positive performance, while European markets continued their upward trend, albeit at a slower pace, as French markets cooled post-Olympics. The MSCI All Country World Index returned 2.5% for August, with the 1-year figure retreating slightly to 16.0% from 17.0% in July. The early sell-off in global markets recovered quickly, despite comparisons to the notorious drop on Black Monday in 1987. The MSCI Emerging Markets Index was up 1.6% for the month but continues to lag developed markets on a year-to-date (9.6%) and 12-month (15.1%) basis. Within emerging markets, Brazil and India performed well, while China's CSI 300 continued to decline, posting a 3.3% loss. We remain focused on high-quality stocks and are maintaining our allocation to global equity just below benchmark levels.

### Fixed Income

US government yields decreased for the fourth consecutive month, contributing to the positive performance of global bond indices. The US 10-year government bond yield now stands at 3.9%, down from 4.1% in June. This decrease is aligned with inflation expectations and anticipation of a Fed rate cut. BCA Research suggests that the 10-Year US Treasury yield should not rise above 5.0% or fall below 2-2.5%, with a significant drop expected during a recession, providing 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.



# Market Overview

31 August 2024



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