Market Overview

30 September 2024

Local Market

Local equities extended their winning streak in September 2024, marking seven consecutive months of growth. The JSE All Share Index posted a 4.0% return for the month, lifting its year-to-date performance to 15.9%. Mid-cap stocks led the surge with a 5.1% gain, followed closely by Large Caps (3.7%) and Small Caps (4.0%). Every major sector contributed to the rally, with Industrials standing out at 5.1%, Resources advancing 3.9%, and Financials rising 2.8%. China's late economic stimulus rippled through local markets, most notably via Tencent, although pharmaceutical giant Aspen underperformed after releasing weaker-than-expected earnings.

In dollar terms, the FTSE/JSE All Share Index surged 7.2%, outpacing both the MSCI ACWI (2.3%) and MSCI Emerging Markets (6.7%).

Local bonds also had a strong month, gaining 3.9% in September and bringing their year-to-date performance to an impressive 16.7%, continuing to outperform equities. Over a rolling 12-month period, bonds have consistently outperformed equities.

South Africa's inflation rate eased from 4.6% to 4.4% in August, with a monthly decline of 0.2%, in line with the MPC's target as shown in **chart 1** (below). Lower fuel prices drove the decrease, though food and water inflation edged higher. Following the mid-September rate cut, the SARB expects economic growth to accelerate in Q4 2024, with further cuts anticipated in November. Core inflation remains low, and the inflation forecast for 2024 was revised down from 4.7% to 4.0%. Cash continues to offer an attractive real yield of 3.7%.

The Rand strengthened against major currencies in August, appreciating from R17.83/$ to R17.27/$ by month-end, reaching its strongest level in two years. Over the past year, the Rand gained 8.8% against the US dollar, 3.9% against the Euro, and remained flat against the Pound.

In a notable policy move, the South African Reserve Bank (SARB) cut interest rates for the first time since the onset of Covid-19, following the lead of the US Federal Reserve. The 25-basis point cut (from 8.25% to 8.00%) met market expectations but was viewed as conservative. The SARB's cautious stance reflects its inflation mandate, with inflation hovering just below the midpoint of the target band, as illustrated in **chart 1** (below). **Chart 2** highlights the SARB repurchase rate from January 2000 to September 2024, alongside the US Federal Reserve rate.

Global Market

Global equities (MSCI ACWI) gained 2.3% in September, driven by broad market momentum, though energy stocks struggled, falling 3.1%. Developed markets saw a solid 1.8% rise, fuelled by investor optimism following the Federal Reserve's interest rate cuts. In China, aggressive monetary easing pushed the CSI 300 index up an impressive 22.4%, as fiscal support measures were well-received, with hopes of stabilising an economy facing property sector challenges and weak consumer demand. Japan, however, recorded a slight decline of 0.6%, reflecting mixed economic signals.

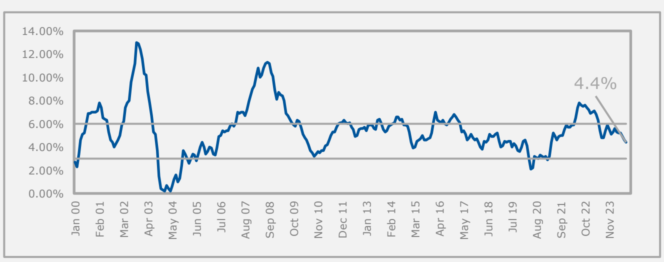
Emerging markets outperformed developed counterparts, posting a strong 6.7% gain for the month. South Africa led with a 7.2% rise, followed by India's 2.1% gain, and Brazil lagged, experiencing a 0.9% decline amidst political and inflation concerns.

Global property delivered a modest 3.2% return in September, underperforming broader equity markets. Year-to-date, the asset class has gained 12.8%, and over the last 12 months, it has returned 31.1%. In bond markets, U.S. government yields continued their six-month decline, which supported global bond indices. The 10-year Treasury yield fell to 3.8%, down from 3.9% in August, as investors responded positively to the Fed's recent rate cuts.

On the inflation front, U.S. core PCE inflation rose by 0.1% in August, in line with expectations. This uptick was driven primarily by higher costs in services like healthcare and housing. Although inflation remains above the Fed's 2% target, the modest rise suggests that price pressures may be beginning to ease, allowing hard currencies to offer attractive yields.

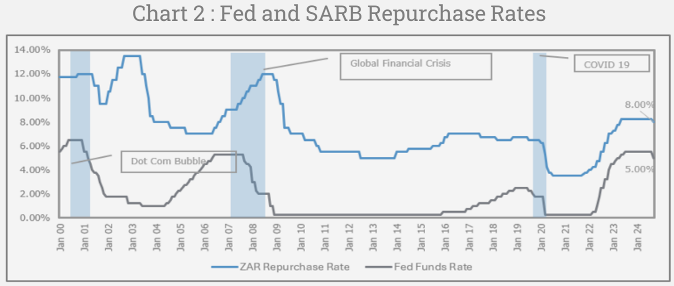
Monetary policy developments took center stage in September, with the Federal Reserve cutting the repurchase rate by 50 basis points to 5.0%, as shown in **chart 2** (below). This move signals the Fed's ongoing commitment to easing monetary conditions in response to a slowing economy and persistent inflation. Additional rate cuts are expected heading into Q4 2024, with the potential for a further 100 basis point reduction in 2025. Although the decision wasn't unanimous, it aligns with broader goals to control inflation while providing economic support.

Chart 1 : South African Inflation Rate



Source/s: IRESS Pro (30 September 2024)

Chart 2 : Fed and SARB Repurchase Rates



Source/s: IRESS Pro (30 September 2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	4.0%	15.9%	23.9%	14.7%	13.7%	9.4%
Local Property	5.0%	30.0%	51.3%	16.0%	5.4%	4.3%
Local Bonds	3.9%	16.7%	26.1%	11.1%	9.8%	9.1%
Local Cash	0.7%	6.1%	8.2%	6.6%	5.7%	6.1%
Global Equity	-0.7%	11.8%	20.5%	13.1%	15.1%	14.1%
Global Property	0.2%	6.3%	19.9%	6.0%	5.1%	10.0%
Global Bonds	-1.3%	-2.4%	2.4%	1.4%	1.7%	4.9%
Global Cash	-2.5%	-1.8%	-3.4%	8.6%	5.2%	6.2%

Market Overview

30 September 2024

Local Review

Equity

Local equities continued their upward trend in September 2024, marking the seventh consecutive month of gains. The JSE All Share Index posted a strong 4.0% return for the month, bringing its year-to-date performance to 15.9%. On a rolling 12-month basis, the index surged to 23.9%. All major sectors contributed positively, with Financials up 2.8%, Resources gaining 3.9%, and Industrials leading at 5.1%. Mid-cap stocks outperformed, rising by 5.1%, while Large Caps gained 3.7% and Small Caps delivered a solid 4.0%. With earnings increasing at a slower rate relative to price, valuation multiples have increased. Our model indicates a reduction in the value in local equities relative to other assets. Model rankings have been reduced to a 2 and IC rankings remain at a 3.

Fixed Income

Local bonds had another strong month in September 2024, finishing with a solid 3.9% gain. This brings the asset class's year-to-date performance to an impressive 16.7%, once again outperforming equities over the same period. On a rolling 12-month basis, bonds have continued to outperform equities, showcasing their resilience in the current market. The yield on South Africa's 10-year government bond declined for the fourth consecutive month, from 10.5% to 10.0%, contributing to enhanced returns across all bond maturities. Our model indicates a reduction in value and the IC rankings has been reduced to a 3.

Cash

South Africa's annual inflation fell from 4.6% to 4.4% in August 2024, with a monthly change of 0.2%, meeting the MPC's target. The decrease was driven by lower fuel prices, though food and water inflation rose. Following the mid-September rate cut, the SARB expects economic growth to improve in Q4 2024, with further cuts anticipated in November. Core inflation remains low, and the 2024 inflation forecast was revised to 4.0% from 4.7%. Cash offers a 3.7% real yield, and we maintain an overweight cash allocation.

Currency

The Rand strengthened against both our trade-weighted currency basket and major currencies during August. It started the month at R17.83/$ and appreciated to R17.27/$ by month-end. Over the past year, the Rand has gained 8.8% against the US dollar, 3.9% against the Euro, and remained flat against the Pound. At the end of the month, the ZAR was trading in line with the trade-weighted basket on a purchasing power parity basis, though it remains 43% undervalued against the dollar. Both model and IC maintain their rankings.

Global Review

Equity

Global equities (MSCI ACWI) gained 2.3% in September 2024, driven by the broader market, excluding energy stocks (3.1%). Developed markets rose 1.8%, supported by the Fed's rate cuts, which boosted investor sentiment despite concerns about the US economy. China's monetary easing pushed the CSI 300 up 22.4%, while Japan fell 0.6%. Emerging markets gained 6.7%, outperforming developed markets, with India (2.1%) and South Africa (7.2%) leading. Brazil lagged (0.9%). We remain focused on high-quality stocks and maintain a global equity allocation just below benchmark levels.

Property

Global Property delivered a modest 3.2% return over September 2024. The asset class lagged behind equities on a year-to-date basis (12.8%) and over the past 12 months (31.1%). Model and IC rankings have increased to a 3 ranking.

Fixed Income

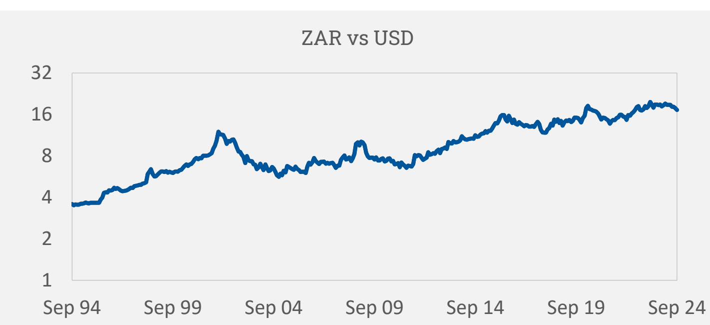
US government yields decreased for the sixth consecutive month, contributing to the positive performance of global bond indices. The US 10-year government bond yield now stands at 3.8%, down from 3.9% in August. The recent start of the Fed's rate cutting cycle appears to have aided in the reduction of US 10-year government bond yields. BCA Research anticipates a continued steepening of the 10-Year US Treasury yield and will revert to its purpose of a save haven asset. Model and IC Rankings remain at a 4.

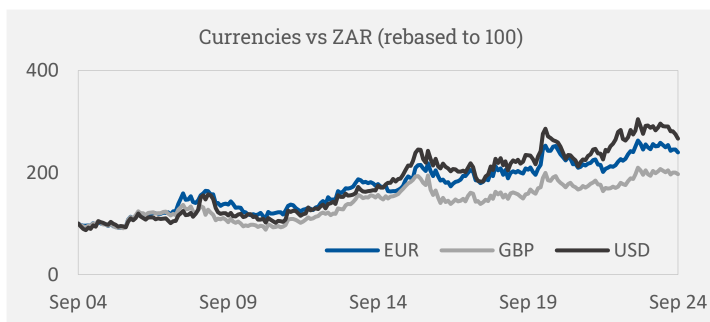
Cash

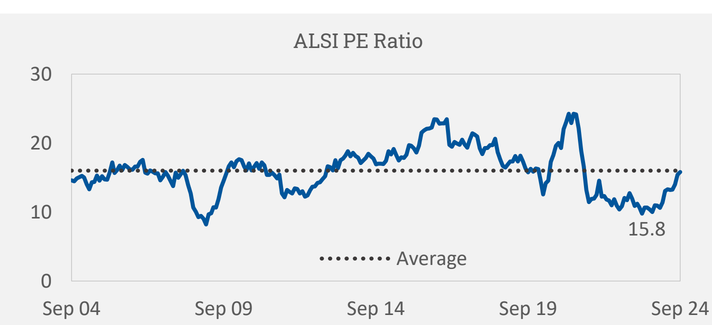
U.S. core PCE inflation increased by 0.1% in August 2024, aligning with expectations. This rise is primarily driven by services inflation. PCE inflation remains above the Federal Reserve's 2% target. Hard currencies are offering relatively attractive yields. IC and Model rankings remain at a 3.

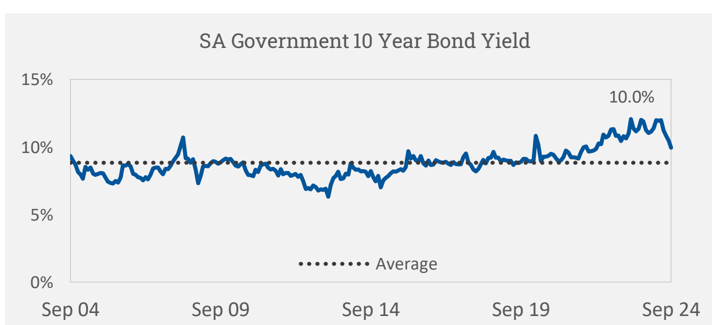
Alternative

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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