Market Overview

31 October 2024

Local Market

After a stellar seven-month streak, local equities finally hit a rough patch in October as global jitters echoed through the JSE. The All-Share Index dipped by 0.9% but continues to shine with a 14.8% year-to-date rise and a 27.2% surge over the past 12 months. It wasn't all gloom, though, resources stood out with a solid 3% gain, thanks to gold's defensive strength amid volatility—a theme highlighted in **Chart 1** (below), showing gold's growth over a decade of market swings. However, Financials and Industrials struggled, pulling down returns. Larger caps took the hardest hit (1.1%), while mid and small caps squeezed out gains of 0.5% and 0.1%, offering a glimmer of resilience in a cautious market.

In dollar terms, the FTSE/JSE All Share Index fell 3.4%, underperforming the MSCI ACWI (2.2%) and outpacing the MSCI Emerging Markets (4.4%).

Local bonds dipped 2.2% in October but remain strong year-to-date at 14.1%, with a solid 12-month gain of 21.3%. Bonds now trail equities in both year-to-date and 12-month performance.

Inflation in South Africa eased to 3.8% in September, down from 4.4% in August, while core inflation held steady at 4.1% year-on-year, keeping it within the target range for 41 consecutive months. This trend opens the door for further rate cuts through November and potentially into 2025. Fuel prices dropped by 3.8%, supporting the inflation slowdown, while food inflation remained stable. Rental inflation saw a modest increase of 0.9%, largely due to pressures in the Western Cape, and cash currently offers an attractive real yield of 4.2%.

The Rand strengthened against major currencies in October. It began the month at R17.27/$ but ended at R17.61/$. Over the past year, the Rand has gained 5.7% against the Dollar and 2.9% against the Euro, though it depreciated against the Pound.

Chart 2 (below, right) shows a shift in the South African 10-year government bond yield, rising from 10.0% to 10.5%, marking its first increase in five months, as investors responded to the Medium-Term Budget Speech (MTBS) in late October.

Global Market

Global markets experienced a mixed October, starting on a high note with optimism from late September's Chinese economic stimulus that initially boosted early October trading. However, momentum quickly faded, as a series of weak earnings announcements and growing caution around the upcoming U.S. presidential election halted the recent four-month rally.

Global equities (MSCI ACWI) dropped by 2.2%, with materials (5.9%) and industrials (3.0%) leading the declines, while financials edged up with a modest 0.1% gain. Losses were broad-based, with large caps down 2.1%, and both small and mid-caps retreating by 2.9%.

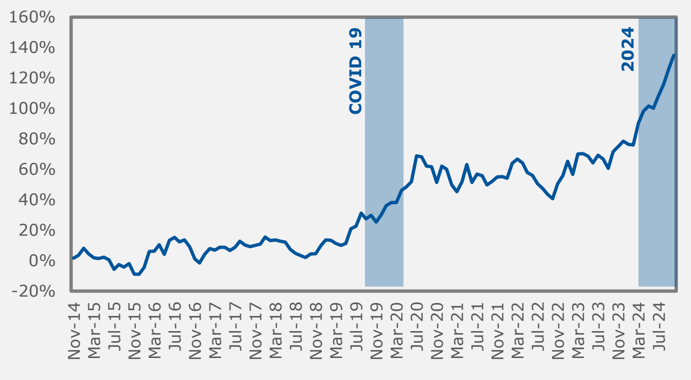
Developed markets (MSCI World) saw a 2% decline, primarily due to European markets' steep losses (7.1%). Emerging markets underperformed developed markets, with a 4.4% decline led by significant drops in India (8.3%) and China (5.9%).

Global property markets also took a hit, falling 4.9% in October. Despite this, the asset class still holds a solid 12-month return of 30.9%, though its year-to-date return (7.3%) now trails equities. Global bonds faced pressure as well, with a 3.4% decline following the first increase in U.S. government yields in six months.

US core PCE held steady at 2.7% year-on-year in September, slightly above expectations of 2.6%, driven primarily by non-housing services, fuelling investor concerns about the inflation trajectory and its impact on the likelihood of a sustained rate-cutting cycle.

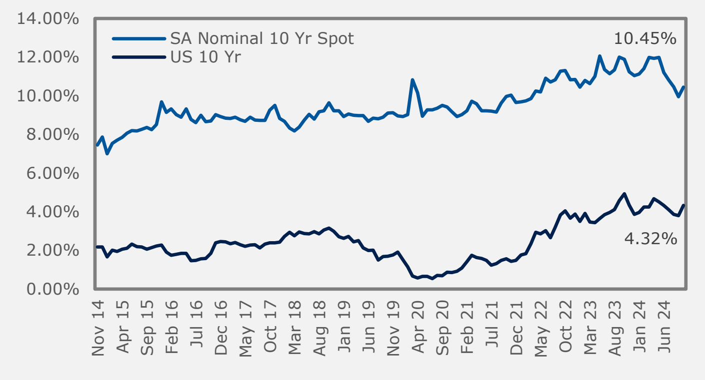
Chart 2 (below) highlights the US 10-year bond yields rise from 3.8% in September to 4.3% in October, triggered by underwhelming economic data and natural disaster costs. Investors reacted to Jerome Powell's remarks that inflation remains uncomfortably high, prompting concerns over prolonged inflationary pressures. This outlook has led to rising U.S. government yields as investors demand higher risk premiums for lending to the government, ultimately driving the 10-year yield upward in response.

Chart 1: Gold Cumulative Returns



Source/s: Seed Investments (31 October 2024)

Chart 2: Domestic and US 10 Yr Yields



Source/s: Seed Investments (31 October 2024)

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	-0.9%	14.8%	27.2%	12.5%	12.8%	9.2%
Local Property	-2.8%	26.4%	51.6%	15.5%	4.4%	3.3%
Local Bonds	-2.2%	14.1%	21.3%	10.5%	9.4%	8.4%
Local Cash	0.7%	6.8%	8.2%	6.7%	5.7%	6.1%
Global Equity	0.3%	12.1%	25.2%	11.0%	14.7%	14.3%
Global Property	-2.4%	3.7%	23.4%	2.6%	4.2%	9.2%
Global Bonds	-0.8%	-3.2%	3.3%	0.9%	1.6%	5.1%
Global Cash	3.0%	1.1%	-0.5%	9.3%	5.8%	6.7%

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seed investments

Local Review

Equity

Local equities saw their first monthly loss in seven months as global market selloffs trickled into domestic performance. The JSE All Share Index declined by 0.9% in October but remains robust with a year-to-date gain of 14.8%, and a 27.2% increase over a rolling 12-month period. Resources led with a positive 3.0% contribution, while Financials (0.7%) and Industrials (2.8%) detracted from overall performance. Large Caps underperformed, falling by 1.1% over the month, while both Small Caps (0.1%) and Mid-Caps (0.5%) posted modest gains. With earnings increasing and price decreasing, valuation multiples have decreased. Our model indicates lower value in local equities relative to other assets. Model rankings have maintained a 2 and IC rankings remain at a 3.

Fixed Income

Local bonds ended October 2024 in negative territory, down 2.8% for the month. Despite this dip, the ALBI maintains an impressive year-to-date return of 14.1% and a rolling 12-month gain of 21.3%. Although local bonds now lag local equities on both year-to-date and rolling 12-month metrics, they continue to offer strong returns with reduced risk. The yield on the South African 10-year government bond rose from 10.0% to 10.5%, marking its first increase in five months, as investors responded to the Medium-Term Budget Speech (MTBS) in late October. Model rankings have increased to a 3, with IC maintaining their ranking at a 3.

Cash

In September 2024, South Africa's headline inflation rose 0.1% month-on-month, bringing the annual rate down to 3.8% from 4.4% in August. Core inflation rose 0.3% month-on-month, holding steady at 4.1% annually, within target for 41 consecutive months. This easing trend supports potential rate cuts in November and into 2025. Fuel prices dropped 3.8% month-on-month, driven by petrol cuts, while food inflation remained stable. Rental inflation saw a modest 0.9% increase, primarily due to pressures in the Western Cape. Cash offers a 4.2% real yield, and we maintain an overweight cash allocation.

Currency

The Rand strengthened against both the trade-weighted currency basket and major currencies in October 2024. It began the month at R17.27/$ but ended at R17.61/$. Over the past year, the Rand has gained 5.7% against the Dollar and 2.9% against the Euro, though it depreciated against the Pound. By month-end, the ZAR was trading close to the trade-weighted currency basket on a purchasing power parity basis, though it remains 45% undervalued against the Dollar. Both model and IC rankings hold steady at a 3.

Global Review

Equity

Global markets stumbled in October after a four-month rally, pressured by weak earnings and cautious investor sentiment ahead of the U.S. presidential elections. Global equities (MSCI ACWI) declined 2.2%, with materials (5.9%) and industrials (3.0%) as the biggest detractors, while financials managed a modest 0.1% gain. Across market caps, large caps (2.1%), small caps (2.9%), and mid-caps (2.9%) all posted losses. Developed markets (MSCI World) slipped 2%, led by European markets (7.1%), while emerging markets (4.4%) underperformed, with India (8.3%), China (5.9%), and South Africa (3.4%) facing steep declines. We continue to focus on high-quality stocks and keep our global equity allocation slightly below benchmark.

Property

Global Property declined by 4.9% in October 2024, underperforming equities year-to-date (7.3%) but remaining ahead over the past 12 months with a 30.9% gain. Both model and IC rankings hold steady at 3.

Fixed Income

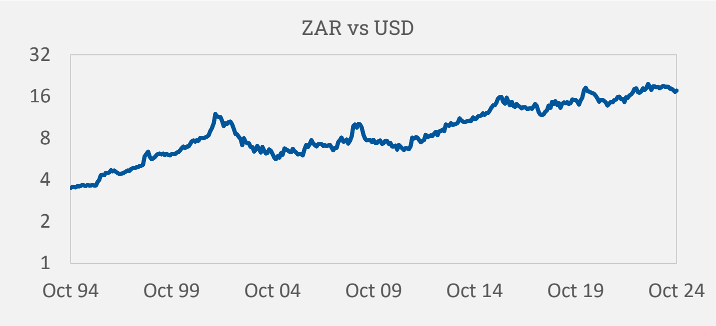
US government yields declined in October 2024 for the first time in six months, leading to a 3.4% drop in global bond indices. The US 10-year bond yield rose to 4.3% from 3.8% in September, impacted by disappointing economic data and natural disasters. BCA anticipates further declines in yields due to a potentially weakening labour market, recommending a risk-off portfolio with an overweight in government bonds. Both model and IC rankings remain at 4.

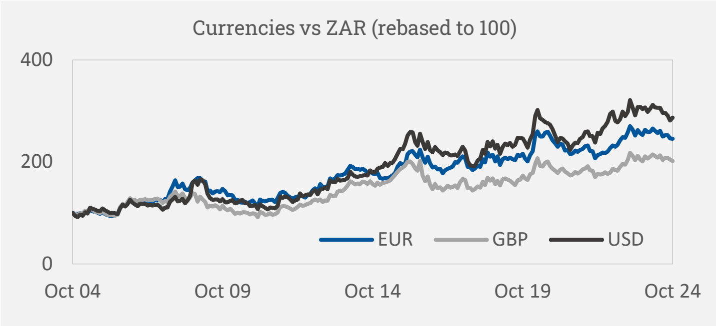
Cash

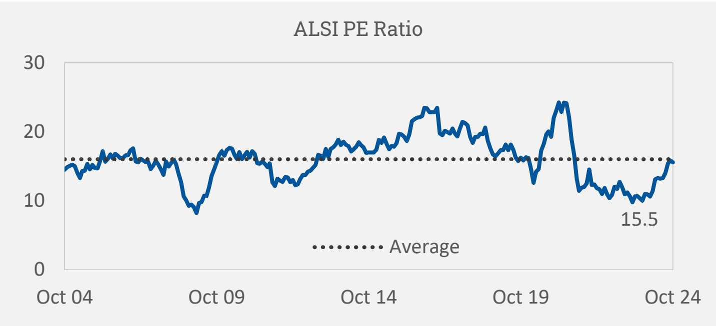
US core PCE held steady at 2.7% year-on-year in September, slightly above expectations of 2.6%. The index saw a 0.3% monthly increase, driven primarily by non-housing services, fuelling concerns that inflation isn't slowing enough to support a sustained rate-cutting cycle. Model and IC rankings remain at 3.

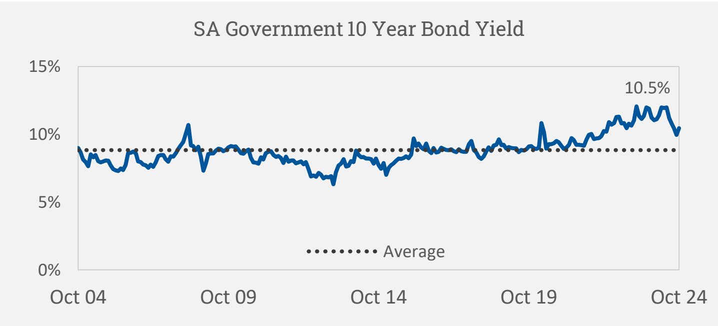
Alternative

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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