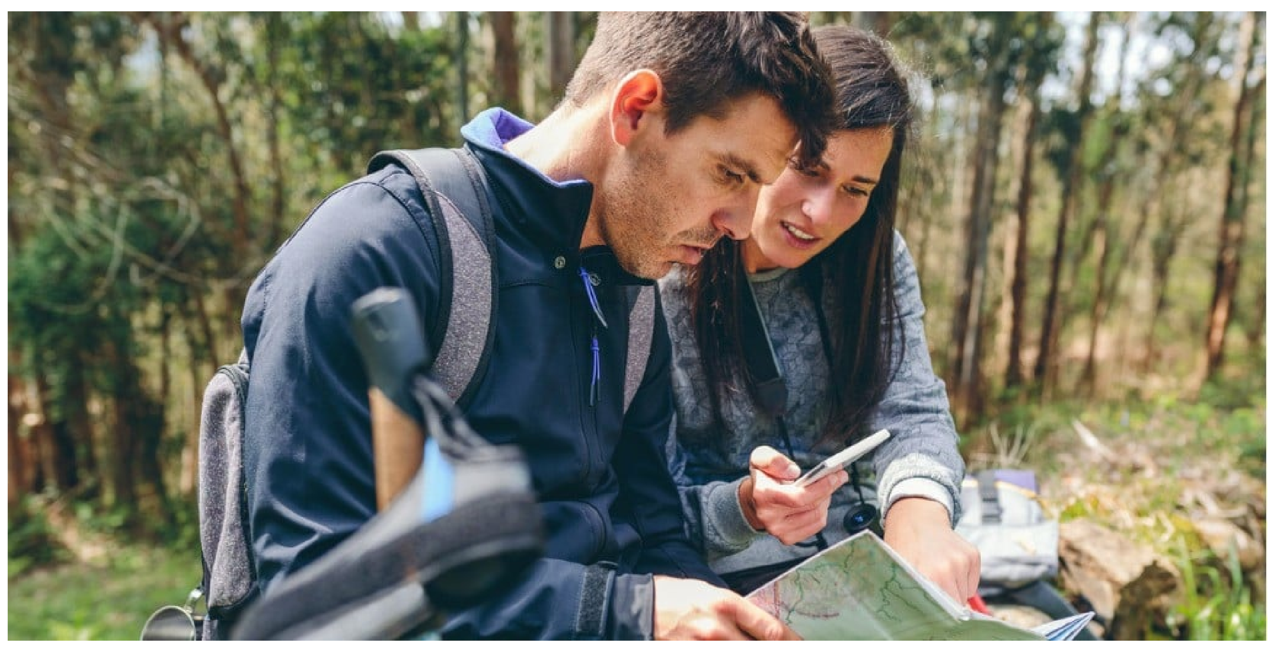

A Tale of Two Markets: Comparing United-State and South African Market Performance

As we approach the end of another year, it's incredible to realise that we are nearing the end of the first quarter of the 21st century. Reflecting on the past 25 years, the United States (US) equity market, led by the S&P 500, has posted extraordinary returns, particularly in the last five to ten years, but how does this compare to the performance of an emerging market like South Africa (SA) over the same period?

Shorter-Term Comparison

The last five years have seen exceptional growth in the S&P 500, with an **annualised return of 15.3% and an impressive 13%** over the past decade. By any measure, these are impressive returns. The general mood appears upbeat following the US election, and many investors may feel confident that these recent gains will continue.

In contrast, the **JSE All Share Index (JSE ALSI) has shown more modest returns in US Dollar terms**, delivering 9.2% over the past five years and just 4.2% per year over the last decade. However, investor sentiment in SA has improved in 2024, which could indicate a turnaround.

Longer Term Performance

When we zoom out to the **full 25-year period**, the relative performance of these markets flips:

S&P500	7.9% Annualised Return
JSE All Share	9.4% Annualised Return

In Dollar terms, an initial $100,000 investment would have grown to around $670,000 in the S&P 500, but to $945,000 in the JSE ALSI.

Why the Disparity in Short and Long Term Returns?

The difference in shorter and longer-term returns can be attributed to a range of factors, including growth cycles, economic momentum and global trends. One other factor stands out: **the importance of starting valuations**.

In the late 1990s and into 2000, at the height of the dot-com bubble, US equities were significantly overvalued. Meanwhile, emerging markets like SA had experienced significant challenges, particularly due to the Asian financial crisis of 1997-1998. This divergence in starting valuations had lasting effects. In the decade that followed, US markets had to adjust from inflated valuations, while emerging markets experienced relatively strong growth, supported in part by China's rapid economic rise and demand for commodities leading up to the Global Financial Crisis.

Conclusion

Markets are dynamic, and past performance offers no guarantee of future returns – the upward trend in US markets can continue. But the past 25 years do teach us valuable lessons in patience, valuation discipline and the benefits of a global perspective.

As the S&P 500 trades at historical high valuations, while the JSE All Share shows potential from relatively cheaper levels, today's environment might just hold a fresh round of surprises for those with a long term view.

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