MARKET OVERVIEW

NOVEMBER 2023

The continued conflict in Israel and the Gaza strip continued to dominate global news headlines during November. Seven weeks into the conflict a truce was negotiated between the two factions which allowed for the exchange of dozens of prisoners and hostages on either side. The human tragedy has not stopped though – fighting has since resumed with dire consequences for civilians caught in the crossfire. This war may not have moved markets much, or yet, but it will have horrible consequences that will remain with this generation and those to come.

The 28th edition of the Conference of the Parties (COP28) started in Dubai on 30 November. It's the United Nations' annual climate meeting where governments, over the two weeks of the gathering, will discuss how to limit and prepare for future climate change. The "parties" are the countries that signed up to the original UN climate agreement in 1992. Dubai is however a controversial venue given its immense dependence on fossil fuels. These are generally accepted as one of the main causes of climate change because they release planet-warming greenhouse gases like carbon dioxide when burned for energy. Sultan al-Jaber's oil company plans to expand production capacity. He has previously argued that he is uniquely well-placed to push for action from the oil and gas industry, and that as chairman of renewable energy firm Masdar, he has also overseen the expansion of clean technologies like wind and solar power. Bill Gates has stated that it's very unlikely that the current actions by the parties will limit global temperature rising by less than 1.5 degrees (the current target) and that discussions will be around the impact of temperature rises of between 2 and 3 degrees Celsius. Such an increase may radically affect the lives of at least 500 million people around the world.

American politics continue to have a global impact. A question that's been asked is just how long will America stand by as the most powerful supplier of arms and other aid to Ukraine? The conventional wisdom is to say that, as long as Joe Biden can keep Donald Trump out of the White House, then Ukraine should be okay. In fact, the situation is much more delicate than that. As many in the Republican Party appear ready to cut support for Ukraine, it's proving ever harder to get Congress to agree to keep supplies to their ally flowing. A vote in the Democrat-controlled Senate in the coming days to approve aid to Ukraine will further highlight the problem – even if the package passes, it may not clear the Republican-led House of Representatives. All of this plays into the hands of Vladimir Putin who is much closer aligned to Trump than to Biden.

In South Africa Eskom officials have forecast that there will be rolling blackouts (between stages 1 and 3) every day during December and January — except for six days. And that is the best-case scenario. The electricity situation looks dire for most of 2024 and early 2025, with demand on the rise and uncomfortable levels of unplanned blackouts. This contradicts statements by the minister of electricity who painted a much brighter picture. Either way load shedding continues to hit small to medium enterprises very hard – the area of the economy which should act as the training ground for entrepreneurs and driver of long-term economic growth.

The governor of the South African Reserve Bank, Lesetja Kganyago, has announced that the official interest rate will remain unchanged. This follows a unanimous decision by the members of the Bank's Monetary Policy Committee (MPC) to leave the repo rate at 8.25% per annum. The MPC's economic growth forecast for 2024 and 2025 is now 1.2% and 1.3%, respectively. It's in stark contrast with the International Monetary Fund's expectation for growth in other sub-Saharan countries of closer to 4% for next year.

MARKET PERFORMANCE

November brought welcome respite after October's riot in markets. Visio Capital reports that Global markets rallied on the back of "Goldilocks economic signals", with US GDP growth revised higher, consumer spending moderating slightly, and core personal consumption expenditures price index coming in lower than expected.

US Treasuries rallied hard as, after 6 consecutive months of rising ten year bond yields, November saw the largest one month decline since the end of 2008. Receding bond yields leads to an increase of the capital value of the bond so global bonds ended the month about 3% higher. In South Africa the bond market followed suit as foreign buyers returned to our market and ended the month 4.7% in the green.

Equities around the globe and in South Africa lead the charge though as the conditions described above lured investors back into riskier parts of capital markets. Developed market equities added 9.4% (in USD) for the month and the JSE's All Share Index ended 8.6% higher. Prosus and Naspers both increased by about 20% during the month with gold stocks also enjoying a purple patch. Notable laggards who ended the month in the red were Woolworths, Momentum/Metropolitan and Sasol.

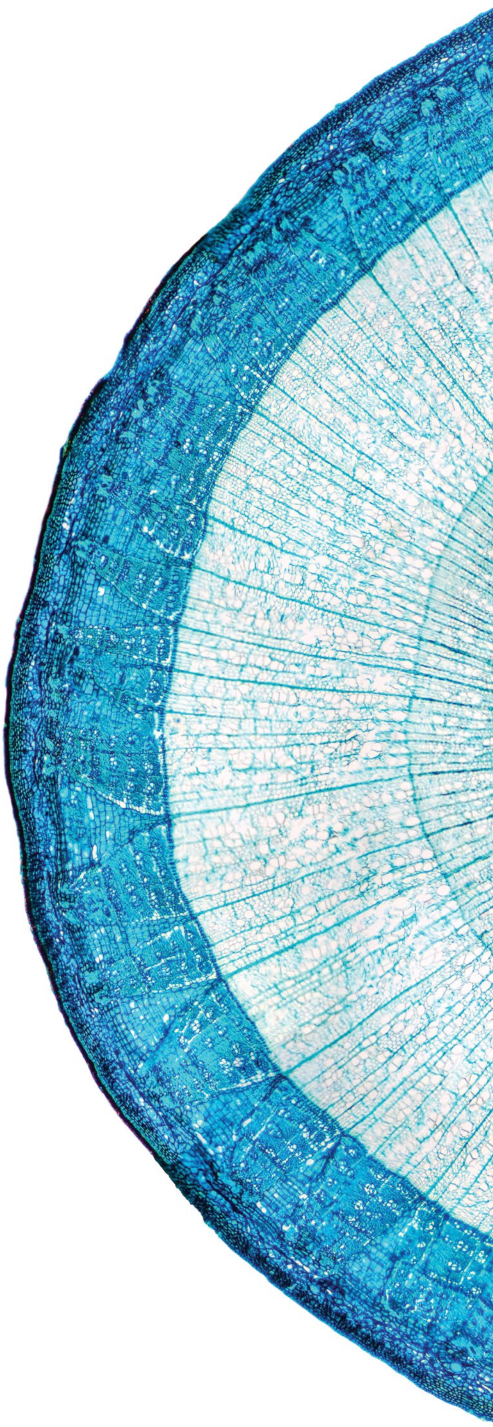
The rand remained stable against the greenback in November. Gold rallied nearly 3% in US Dollar terms while the Brent Crude oil price gave up a little over 5%.

MARKET INDICES[1]	30 NOVEMBER 2023		
(All returns in Rand except where otherwise indicated)	3 months	12 months	5 years[2]
SA equities (JSE All Share Index)	2.2%	4.7%	12.4%
SA property (S&P SA Reit Index)	-0.3%	-8.5%	-5.8%
SA bonds (SA All Bond Index)	4.0%	8.8%	8.1%
SA cash (STeFI)	2.1%	7.8%	5.9%
Global developed equities MSCI World Index)	1.8%	26.6%	17.7%
Emerging market equities (MSCI Emerging Markets Index)	1.2%	16.7%	9.4%
Global bonds (Bloomberg Barclays Global Aggregate)	0.8%	13.8%	5.7%
Rand/dollar[3]	0.1%	11.5%	6.4%
Rand/sterling	0.0%	18.5%	6.3%
Rand/euro	0.6%	18.1%	5.7%
Gold Price (USD)	5.2%	16.7%	10.8%
Oil Price (Brent Crude, USD)	-4.6%	-3.0%	7.1%

1. Source: Factset
2. All performance numbers in excess of 12 months are annualized
3. A negative number means fewer rands are being paid per US dollar, so it implies a strengthening of the rand.

DID YOU KNOW?

Carbon Credits – another investment fad or #forreal?



During November the JSE opened trading on its new voluntary carbon market. This initiative, run by JSE Ventures (a separate legal entity of the JSE) together with US-based Xpansiv, which runs one of the largest spot exchanges for environmental commodities globally, will allow local participants to buy or sell carbon credits and renewable energy certificates that are held locally or abroad. As is the case with crypto currencies it is likely that many speculators will trade in this market without ever fully comprehending what a carbon credit is. Whether it's an instrument that will reward its holders with long term capital appreciation remains to be seen, but in the meantime carbon credit speculation is likely to take place.

When National Treasury introduced carbon taxes in 2019 it effectively created a market for carbon credits by attaching a price to emissions (the tax rate on CO2 by volume) and by allowing companies liable to pay carbon taxes to offset a portion of this through the purchase of credits. It's almost a "pay as you emit" scheme. It therefore follows that carbon tax rates should provide an upper limit to the price of carbon credits – a company would not rather pay the tax than buy a carbon credit that's more expensive. It's clear that regulators will, for the foreseeable future, have significant influence over the upper bound of carbon credits. And lawmakers, as we know, can change their minds. Trading in carbon credits therefore carry significant policy risk.

A comparison with other countries shows that carbon taxes in South Africa are still quite low. It's set at R159 per ton which is a long way off the typical price of a carbon credit in the European Union which has traded between EUR 80 and EUR 90 for most of the year, the equivalent of between R1 600 and R1800 per ton. As it stands carbon credits cannot be applied across tax jurisdictions so no arbitrage can take place now. It may however lead to a steady increase in the price of carbon credits as local taxes approach global trends over the next few decades. But then again the share price of a well-run company may do far better over the same period.

Governments also limit the number of carbon credits issued every year and in developed countries this cap decreases every year. Over time it makes the creation of credits more difficult and may push its value up – just like the continued limited creation of Bitcoin leads to a natural increase in value of the next marginal coin.

In the voluntary market (as opposed to government's regulated markets) the verification of carbon credits will also play a role. An entity would have to verify that a landowner who has planted a thousand trees (for instance) has created one carbon credit and unless this is a trusted verification that carbon credit would have no value in a market. This area of the market needs much more development before it becomes mainstream and for any investor or speculator caveat emptor holds – the buyer must be aware.

Carbon credits as a means to lower carbon emissions (or at least raising the taxes to fight it) has a major role to play in the global environment. Whether it will evolve to form an important driver of long term capital growth in investment portfolios remains to be seen.

In the meantime it may be a good idea to put up your feet for the holiday season, trust your investment adviser and watch leave your properly diversified portfolio to do its thing why you do a G&T at sunset.

Source: BBusiness Day, CarbonCredits.com

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