MARKET OVERVIEW

DECEMBER 2023

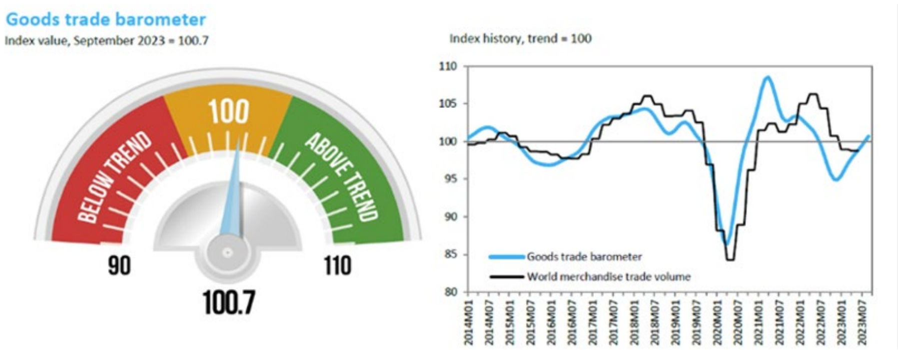
ECONOMIC AND MARKET OVERVIEW

The consensus view of a year ago was that the world will fall into recession due to a synchronized increase in global interest rates. That view, we now know, was wrong. Global economic activity, as measured by Gross Domestic Product (GDP) is estimated to have been 3% in 2023, according to the IMF. Employment has held up in most regions while inflation seems to be on the way down. Globally, stock markets have risen by more than 20%. While this average performance conceals wide variation, it is fair to say that 2023 turned out to be a decent year for investors.

The armed conflicts in the Middle East and Ukraine continued to dominate headlines. In addition, there are ongoing civil wars in Afghanistan, Ethiopia, Iraq, Yemen, Syria, Somalia, Libya, the Central African Republic, the Democratic Republic of Congo, Myanmar, Colombia, and Mali, while Mexico is at war with their drug cartels. These and other geo-political events are likely to provide their fair share of surprises that will keep investors on their toes, going into 2024.

Reuters reported that 2023 was the warmest year on record. One after another, records have fallen in the last year alongside skyrocketing temperatures. Deadly floods, heatwaves and storms have unfolded against the backdrop of what climate scientists say is set to be the world's hottest year on record, with observations stretching back to the 1800s. The world on average, has seen about 1.5 degrees Celsius of warming above pre-industrial temperatures in 2023, with global greenhouse gas emissions hitting new highs. Whether this has been caused by human actions or is part of the earth's long term climate pattern remains a debate – albeit skewed to humankind's influence. Setting that aside, an increasingly warmer planet has dire consequences for all of us and if we could do something about it, we should.

Port activity around the world has been under pressure due to a drought in Panama (affecting the capacity of the Panama Canal), attacks on ships in the Red Sea by Houthi rebels (which has impacted traffic through the Suez Canal) and various other logistical and weather challenges. Despite this, a recovery is under way in global merchandise trade volumes following a recent slump, according to the World Trade Organisation's (WTO's) Goods Trade Barometer. The bounce back is largely driven by automobile sales and production, as well as trade in electronic components. However, mixed economic figures and rising geopolitical tensions mean a high degree of uncertainty remains about the near-term outlook, the WTO says.



The United States' Federal Reserve announced in December that it will hold its key interest rate steady for the third consecutive time. Along with the decision to stay on hold, committee members penciled in at least three rate cuts in 2024, assuming quarter percentage point increments. That is less than what the market has been pricing, but more aggressive than what officials had previously indicated. Central banks around the world, including South Africa's Reserve Bank, will keep a close eye on monetary developments in the world's largest economy.

MARKET PERFORMANCE

December saw markets end the year with a strong rally across most regions and asset classes. Global developed equities ended the month almost 5% higher in US dollars, while declining yields saw global bonds gain a little over 4%. For the year, global equities ended a little over 26% higher, underpinned by a strong rally in the S&P 500 (up 24%) and the NASDAQ 100 delivering its best annual performance (up 55%) since 1999. Mid- and Small cap shares did not fare quite as well as their mega-cap counterparts but the Russell 2000 still advanced by nearly 17% last year.

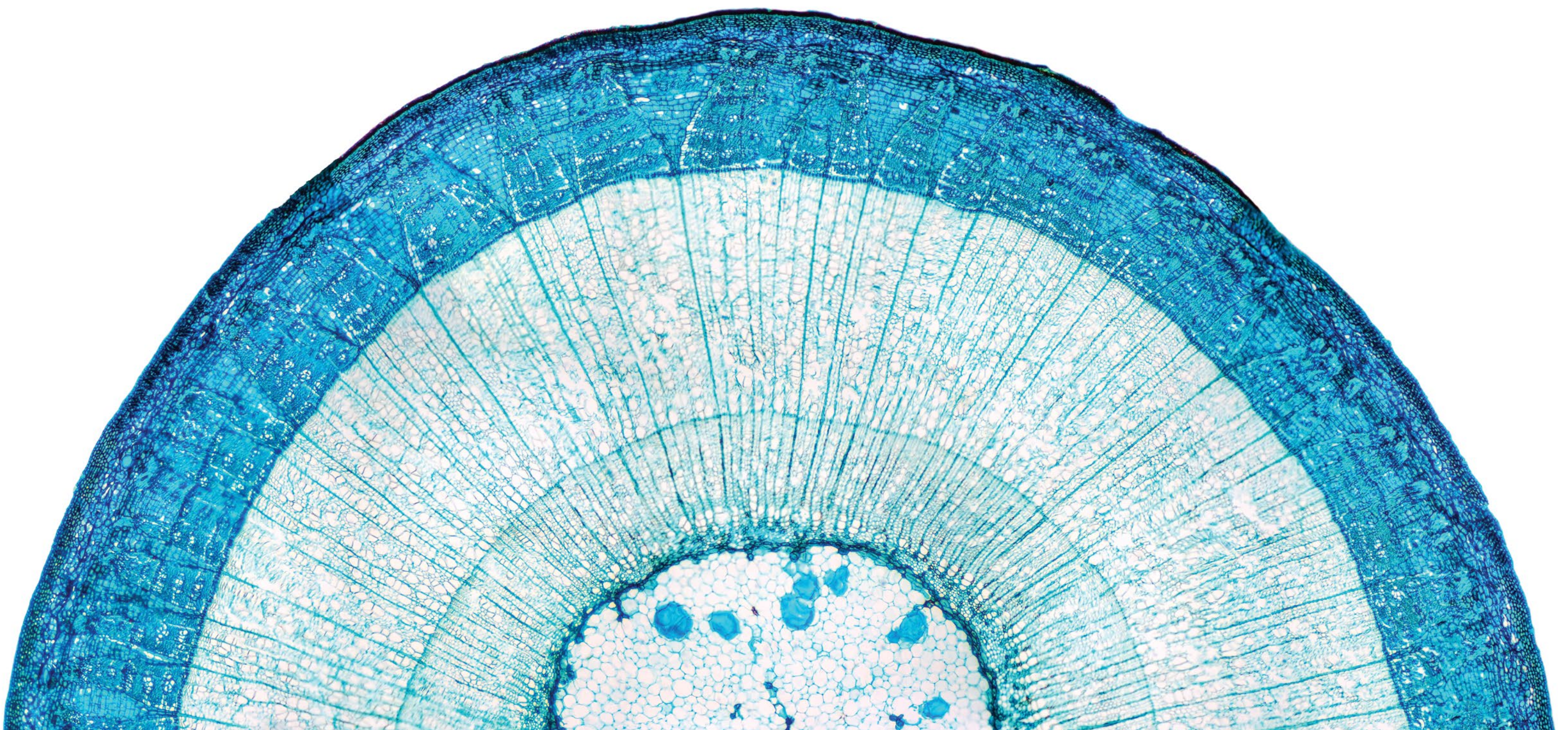
Local markets ended the month and year higher but not to the same extent as the rest of the world. South African shares (JSE All Share Index) added 2% in December taking the total return for the year to a little over 9%. Financials had a very strong 12 months (up 21.5%) and Industrials also performed well (up 16.6%). Resources shares provided a drag on the total market as they shed almost 12% in 2023.

Listed property shares (as measured by the S&P South Africa REIT total return index) ended the year with a flurry to just about break even while local bonds benefited from decreasing rates adding 1.4% in December and 9.7% for the year.

The rand strengthened against the major currencies in December but still gave up between 7% and 14% against the US dollar, Euro and Pound Sterling during the last twelve months.

MARKET INDICES[1]	31 DECEMBER 2023		
(All returns in Rand except where otherwise indicated)	3 months	12 months	5 years[2]
SA equities (JSE All Share Index)	6.9%	9.3%	11.9%
SA property (S&P SA Reit Index)	15.0%	0.4%	-3.5%
SA bonds (SA All Bond Index)	8.1%	9.7%	8.2%
SA cash (STeFI)	2.0%	8.0%	5.9%
Global developed equities MSCI World Index)	8.3%	33.7%	19.0%
Emerging market equities (MSCI Emerging Markets Index)	4.8%	18.5%	9.2%
Global bonds (Bloomberg Barclays Global Aggregate)	4.9%	13.6%	4.6%
Rand/dollar[3]	-2.9%	7.5%	4.9%
Rand/sterling	1.4%	13.9%	4.9%
Rand/euro	1.3%	11.2%	4.2%
Gold Price (USD)	11.6%	13.3%	10.0%
Oil Price (Brent Crude, USD)	-19.2%	-10.3%	7.4%

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?

AN ELECTION YEAR LIKE NO OTHER

In 2024 more than half the world's population will send their citizens to the polls. More people will have the opportunity to vote in 2024 than in any previous year but this will not necessarily lead to an explosion of democracy. In Britain elections will decide the next government and is likely to lead to a substantial change in policy. In Russia, on the other hand, the outcome is unlikely to change the status quo or weaken Vladimir Putin's grip on power. Eight of the ten most populous countries in the world – Bangladesh, Brazil, India, Indonesia, Mexico, Pakistan, Russia and the United States – will hold elections in 2024. In half of these, elections are neither free nor fair and many other prerequisites of democracy, such as freedom of speech and association, are absent. Elections in Bangladesh, Mexico, Pakistan (all hybrid regimes, which combine elements of democracy and authoritarianism), and Russia (an authoritarian one) are almost certain not to bring regime change. The twenty-seven member states of the European Union will elect their bloc's next parliament which is more likely to influence future policy – albeit at a snail's pace.

The likely showdown between Joe Biden and Donald Trump will vary from the sublime to the ridiculous but it is not only the biggest elections that will capture the world's imagination: Taiwan's vote in January will influence the island's relations with mainland China at a critical juncture for the would-be independent republic.

Against the background of Brexit and the election of Trump in 2016 and various subsequent political shifts to the right, it is very difficult to predict the outcome of any of these elections. What is nearly impossible is to guess the impact of each potential outcome on markets so investors will do well to remain diversified in their regional and asset allocation.

This year will also see the seventh democratic election in South Africa since 1994. The date has yet to be announced, but so far indications are that the ruling ANC is likely to lose support when compared to previous elections. The various parties' campaigns will no doubt enjoy a lot of airtime and potential coalitions will be considered from all angles.

The Daily Maverick reports that the ANC will likely need a coalition partner with which to govern in 2024. If the ANC obtains 48% at the poll, they will only need the support of a small party to form a government. This is currently the most likely outcome of a median voter turnout. But if its support flatlines more than this, then it could create a government with a surging EFF. An ANC-EFF government will be more populist and radical than a left-of-centre ANC with a more minor partner.

Though some coalitions work well, the Gauteng and Nelson Mandela Bay metros show that new principles are needed to guide them. Johannesburg, Pretoria, Durban and Gqeberha are all coalition-led and have been in severe service decline since the local government election in 2021.

Another topic that is likely to become a political playball in the run-up to the elections is the state of many of South Africa's state-owned enterprises. Eskom has just released its system status outlook for 2024 which shows that there will be a likely shortfall of 2 000 MW or more (stage 2 load shedding) every week of the year. Transnet announced a R1.6 billion loss for the six months ending September 2023 (following a R5.7 billion loss in the previous financial year) while Denel, the Land Bank and Sanral are all struggling with meeting their debt obligations.

Lastly, apathy may play a significant role in the election outcome. As service levels decline, South Africans show less and less interest in the ballot box. There are 42.6 million eligible voters and only 26.8 million registered voters. Most eligible voters who have yet to register are young, revealing that unemployment and a motley political class are not inspiring our next generation to vote.

How should investors navigate these uncertain waters? Be skeptical about "definite" outcomes and even more wary of the investment strategies that will have "certain gains" following these "watertight" predictions. Diversification will remain key and an approach that looks to 2025 and beyond may just be a saving grace. In the final instance the guidance of a professional adviser that will help you stick to your strategy will be worth far more than a Russian ballot paper...

Source: The Economist, Daily Maverick, Business Day

Financial Services Providers: Portfolio Analytics Consulting (Pty) Ltd; FSP No 18490 and
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