

MARKET OVERVIEW

JAN 2024

ECONOMIC AND MARKET OVERVIEW

In a unanimous decision, the South African Reserve Bank's monetary policy committee (MPC) left the repo rate unchanged at 8.25%, as expected by the market. The committee once again consists of five members with the appointment of Dr David Fokes in January.

The MPC expects real economic growth in South Africa of 1.2% in 2024 and 1.3% in 2025. This lags the Reserve Bank's expectation of global growth in 2024 of 2.6%. They, however, expect local inflation to hover around 4.5% in the next two years which is at the mid-range of their target band of 3% to 6%.

The International Monetary Fund (IMF) announced the update to their World Economic Outlook from Johannesburg on 30 January 2024. Their estimate of global growth, at 3.1% for 2024, is slightly higher than the South African Reserve Bank's forecast. In their statement they pointed out that elevated central bank rates to fight inflation, and a withdrawal of fiscal support amid high debt, continue to weigh on economic activity. Inflation is falling faster than expected in most regions. Global headline inflation is expected to fall to 5.8 percent in 2024 and 4.4 percent in 2025.

The US economy performed better than expected in the final quarter of 2023, growing by 3.3%, despite a slowdown from the previous quarter's 4.9%. Consumer spending remained strong, rising by 2.8%. Inflation eased, with the core personal consumption price index (PCE) slowing to 2%, mainly due to lower energy prices. The US economy achieved a rare feat of high growth and low inflation in 2023, with real GDP rising by 2.5% and the Federal Reserve's preferred measure of inflation, the PCE index moderating to 3.7% from 6.5% in 2022.

At the end of the month the US Federal Reserve's funds target range was kept on hold at 5.25% to 5.50% for the fourth consecutive meeting, as was widely expected by economists and financial markets. The Federal Open Market Committee (FOMC) is clearly preparing for lower rates soon though, with easier policy being a question of when, not if. FOMC Chairman Jerome Powell tried to guide expectations on such timing, pushing back on a March interest rate reduction, without ruling it out in its entirety.

As universally expected by all 52 economists polled by Bloomberg, the European Central Bank (ECB) kept its policy rates on hold at the Governing Council meeting in January: the key deposit rate stayed at 4.00%, the main refinancing rate at 4.50% and the marginal lending rate at 4.75%. The ECB reiterated its anti-inflation stance, despite the looming need to lower borrowing costs. They raised rates rapidly until September last year and said it was too early to consider a reversal, as inflation pressures remained high and wage settlements were pending. Some policymakers hinted at a possible shift in language at the next meeting, opening the door for a rate cut in June, if inflation data improves.

Eskom will use a portion of US \$12.5 billion (about R230 billion) in multilateral loans to deliver power to areas where the grid is overloaded and hindering the transition to renewable sources, according to electricity minister Kgosientsho Ramokgopa. Expanding the nation's transmission grid will significantly contribute to stopping power cuts and is crucial to bringing renewable projects online, Ramokgopa said in a statement earlier in January. South Africa needs an estimated R390-billion to strengthen its transmission capacity and connect renewable energy projects in parts of the Northern, Eastern and Western Cape to the national grid, the minister said.

MARKET PERFORMANCE

Richemont, Mr Price and several property counters saw strong performances during January, but this could not stop local equities from dipping into negative territory. The FTSE/JSE All Share index ended the month nearly 3% lower with resource companies (-6.3%) leading the pullback. Vodacom, MTN and most of the platinum miners all gave up more than 10% during the month.

Local bonds (+0.7%) and cash (+0.7%) both printed small positive returns while the property sector continued its recovery by adding 5.2% for the month.

Global equity markets were mixed, with the Nikkei225 in Japan gaining more than 8% and the Eurostoxx50 up 2.8% (all in local currency). The FTSE 100 in London shed 1.3% and on Wall Street the S&P500 gained 1.7%.

Emerging market government bonds ended the month slightly higher (+0.7% in US dollars) while their developed market counterparts retreated by 0.4%.

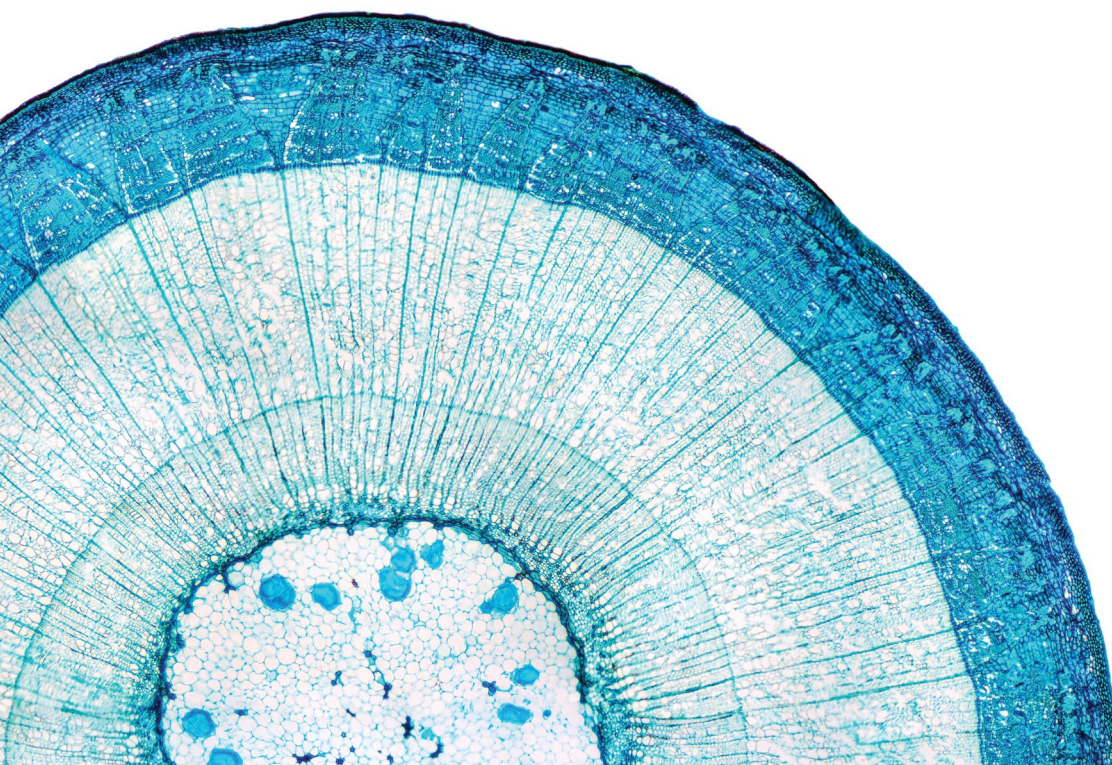
The rand gave up some of its ground against the US dollar and Pound Sterling but held firm against the euro in January. Gold gave up some of its gains over the last year as it ended 0.7% lower while Brent Crude Oil firmed by a little over 6%.

MARKET INDICES ¹	31 JANUARY 2023			
	(All returns in Rand except where otherwise indicated)	3 months	12 months	5 years ²
SA equities (JSE All Share Index)		7.5%	-2.6%	10.6%
SA property (S&P SA Reit Index)		25.0%	9.3%	-4.2%
SA bonds (SA All Bond Index)		7.1%	7.3%	7.8%
SA cash (STeFI)		2.1%	8.1%	6.0%
Global developed equities (MSCI World Index)		15.3%	25.5%	19.8%
Emerging market equities (MSCI Emerging Markets Index)		6.2%	4.0%	8.5%
Global bonds (Bloomberg Barclays Global Aggregate)		7.0%	7.7%	6.0%
Rand/dollar ³		-0.8%	6.7%	7.0%
Rand/sterling		4.1%	10.4%	6.3%
Rand/euro		2.0%	6.7%	5.8%
Gold Price (USD)		3.2%	6.2%	9.2%
Oil Price (Brent Crude, USD)		-6.5%	-3.3%	5.7%

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?

THE BEST STORY WINS

“Not the best idea, or the right idea, or the most rational idea. Just whoever tells a story that catches people’s attention and gets them to nod their heads is the one who tends to be rewarded.

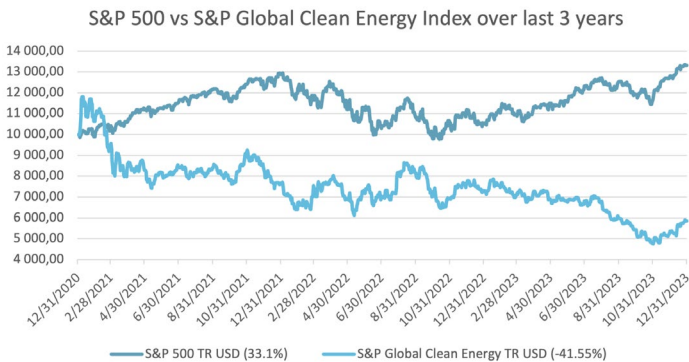
Great ideas explained poorly can go nowhere, while old or wrong ideas told compellingly can ignite a revolution. Morgan Freeman can narrate a grocery list and bring people to tears, while an inarticulate scientist might cure a disease and go unnoticed.”

Morgan Housel – “Same as Ever”

At the start of this decade one of the most popular investment themes formed around ESG (environmental, social and governance) investments and in particular the transition to green energy. Institutional investors, particularly those in Europe, could not pour enough money into any fund or instrument that had “ESG” stamped on it. It’s a whole other debate whether an investment strategy could ever be labelled “ESG”, but we’ll leave that for another time.

During 2021 nearly USD 700 billion flowed into ESG strategies as it was heralded as the next best thing in investments under the broad theme of “Investments that do good will do well”.

It was a compelling argument that held for a while and in some instances outperformed the broad market. For a number of reasons, including margin compression, stiff competition in a popular market and general hubris followed by the harsh reality that nothing is ever as good (or as bad) as one may think, the performance of green energy investments disappointed in the years following these outsized flows. An investment of USD 10 000 in each of the broad US market (represented by the S&P 500) and the S&P Global Clean Energy Index would have resulted in vastly different outcomes.

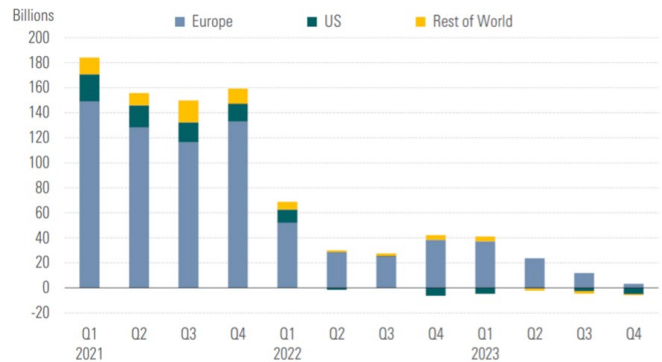


After a whirlwind start green energy as a theme would have reduced your investment by more than 40% (in US dollar) after three years, while the diversified exposure to the S&P 500 added over 33% during the same period.

Source: Morningstar Direct, Daily Maverick, Netflix, Edelman Trust Institute.

A rational investor would argue that, if a valid investment strategy existed which supports green energy blindly, the market would have woken up to it and would have kept on investing. This was however not the case. The moment that the theme underperformed flows just about dried up:

Exhibit 2 Quarterly Global Sustainable Fund Flows



In this instance, and over this specific three-year period, the boring strategy of owning a well-diversified stock portfolio outsmarted an exciting thematic approach which was underpinned by a compelling argument, but by the looks of it not much more.

In the latest Global Report of the Edelman Trust Barometer, it transpires that we are as likely to trust a scientist as we are our neighbour (“someone like me”) to tell us the truth about new technologies and innovations. So, it’s not only about the story but also who tells it.

Many good stories (with even more famous storytellers) unsupported by any investment substance can be found in the world of cryptocurrency. One example (as seen in the Netflix documentary “Bitconned”) had Floyd Mayweather Jnr and DJ Khaled claiming that “Centra Tech became one of the first cryptocurrency card makers to successfully distribute a VISA co-branded debit card in the US, making it one of the few token sale crowdfunding projects to have a working product before the end of the ICO”. In case you’ve not seen the movie – not one claim in the previous sentence was true. Hundreds of investors believed this “too good to be true” story. Which, as it turns out, it was.

With this evidence (anecdotal as it may be) the importance of professional advice cannot be overstated. When spurred into action by an exciting story (especially when narrated by Morgan Freeman) don’t forget to check the foundation on which it’s based.

Caveat emptor – buyer, beware.

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