ATOM CAPITAL

MARKET OVERVIEW

MARCH 2024 IN REVIEW

ECONOMIC AND MARKET OVERVIEW

In the United States, the Federal Open Market Committee (FOMC) of the Federal Reserve decided to keep rates on hold for the fifth consecutive meeting. A few weeks later Jerome Powell, chairman of the FOMC, insisted that they are still on track to lower the official lending rate three times in 2024, each time with 0.25% increments. He argued that recent data had not materially changed the overall picture, which he characterised as one of solid growth, a strong but rebalancing labour market and inflation moving down to 2% on a sometimes bumpy path.

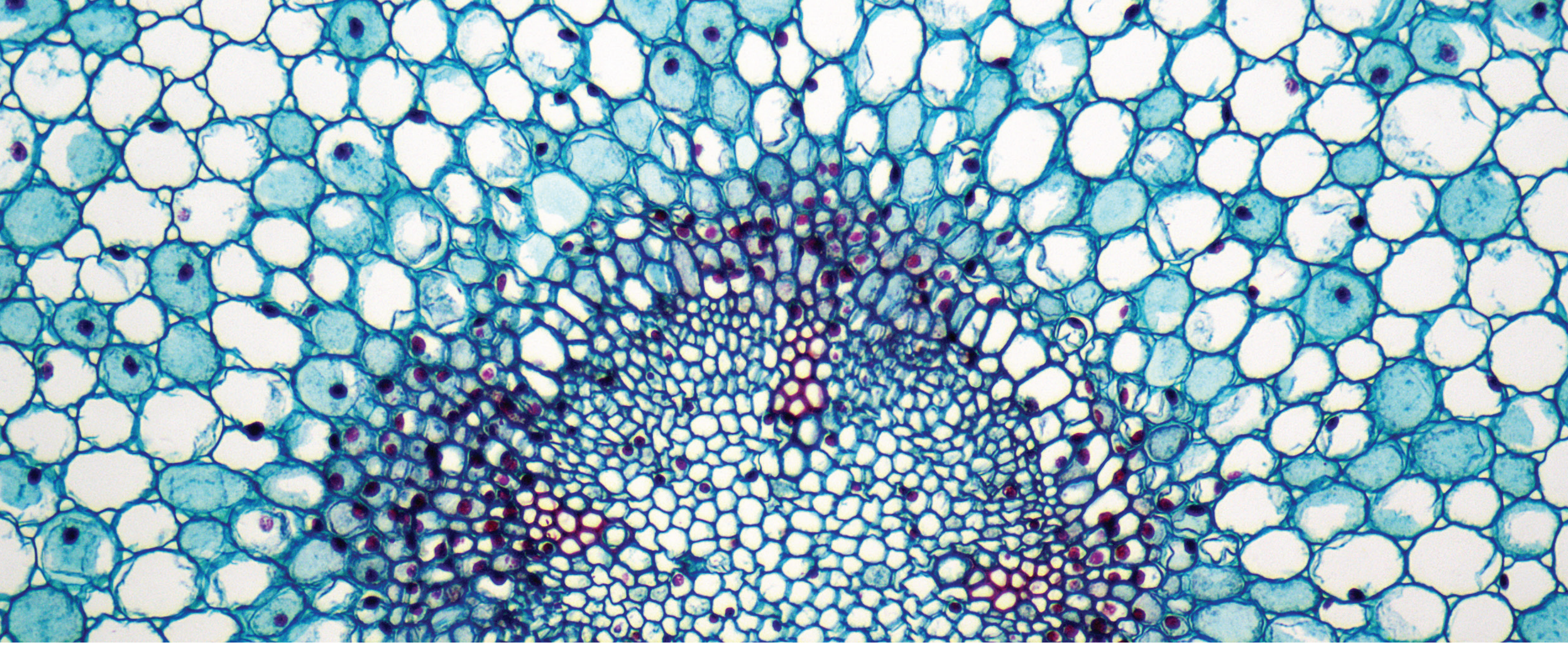
The Monetary Policy Committee (MPC) of the South African Reserve Bank also decided to keep rates on hold. This was a unanimous decision, as the reasons for an interest rate cut are currently balanced by factors that call for an increase. In his speech the governor said that in 2023 food inflation hit its highest level since 2008. It has now slowed, but due to a hot and dry growing season, lower supply may cause a rise in food prices again.

With reference to the exchange rate of the rand against major currencies, the MPC statement said the rand has been trading somewhat weaker than expected since the previous meeting in January. This is partly due to interest rates in the major advanced economies staying high for longer. The currency is also under pressure from weakening terms of trade. Furthermore, investors see significant near-term domestic uncertainty. The Reserve Bank views the exchange rate as undervalued.

Euro area economic activity at the start of 2024 has remained subdued. Indicators are however showing some improvement, which should see quarterly economic activity returning to growth in the first quarter of this year. Investec Economics' view for ECB policy expects a first cut of 0.25% in the official bank rates in June. They expect two further rate reductions across the rest of the year, which would leave the Deposit rate in Euroland at 3.25% by the end of the year.

Early in April South Africa's National Assembly speaker Nosiviwe Mapisa-Nqakula resigned from her position amid an investigation into alleged corruption during her tenure as defence minister. Mapisa-Nqakula's home was raided in March by investigators as part of the corruption inquiry. She faces 12 charges of corruption and one of money-laundering, after allegedly benefiting from more than R4 million in payments from a contractor providing services to the department of defence and military veterans while she was its minister.

Markus Jooste, erstwhile (and embattled) CEO of Steinhoff, fatally shot himself. This follows the announcement of the Financial Sector Conduct Authority (FSCA) that they are imposing a R475 million penalty on Jooste and Dirk Schreiber (his former European finance chief). This was for the duo having made or published false, misleading, or deceptive statements about Steinhoff International Holdings Limited and Steinhoff International Holdings NV between 2014 and 2017. This eventually led to the collapse of Steinhoff, taking it from a market capitalisation high of R372 billion in April 2016 to less than R100 million when it delisted from the JSE in October 2023.



MARKET PERFORMANCE

Global equity markets continued their strong start to 2024 ending the month a little over 3.1% higher in US dollars. Local equities followed suit, as the strong performance of resource shares led the South African equity market higher by 3.2%.

South African government bonds, however, sold off to their highest yield in over 5 months. Visio Capital reported that this was due to mounting concerns over South Africa's fiscal outlook, and uncertainty around the election outcome. The pending election result has seen foreign investors shy away from the local market, despite what now appears to be an attractive entry point for buyers.

In the local stock market gold mining companies did well, as the gold price hit record highs during the month. Harmony Gold (up 40%), Gold Fields (23%) and Anglogold (18%) all rallied while the big laggards were among the financial stocks. Discovery, ABSA and Standard Bank were among the biggest detractors from overall market performance in March.

The gold price ended the quarter to nearly USD 2 250, after another strong performance during March. It has now increased by nearly 20% in the last six months, and early in April showed no signs of stopping. Oil edged up by nearly 5% last month taking the year-to-date increase to almost 14%. This continues to put upward pressure in inflation around the globe.

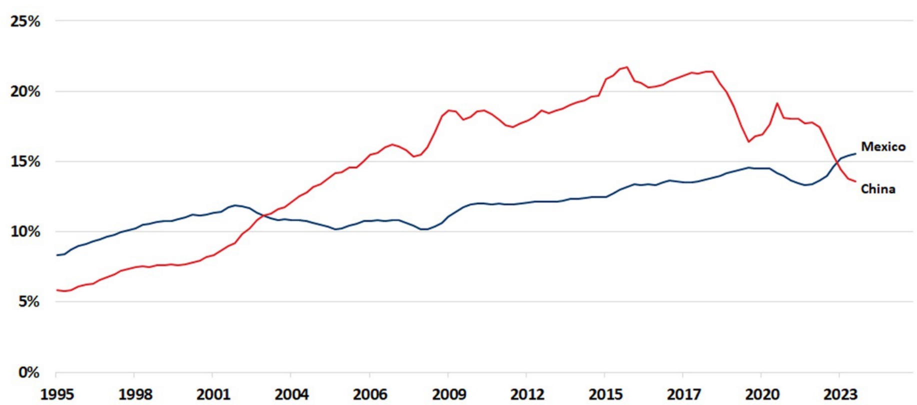
MARKET INDICES[1]	31 MARCH 2024		
(All returns in Rand except where otherwise indicated)	3 months	12 months	5 years[2]
SA equities (JSE All Share Index)	-2.2%	1.5%	9.7%
SA property (S&P SA REIT Index)	0.7%	10.7%	-3.3%
SA bonds (SA All Bond Index)	-1.8%	4.1%	7.0%
SA cash (STeFI)	2.1%	8.3%	6.0%
Global developed equities (MSCI World Index)	12.8%	34.1%	18.9%
Emerging market equities (MSCI Emerging Markets Index)	5.8%	15.6%	8.3%
Global bonds (Bloomberg Barclays Global Aggregate)	1.4%	7.3%	4.4%
Rand/dollar [3]	3.5%	6.7%	5.6%
Rand/sterling	2.6%	9.0%	4.9%
Rand/euro	1.2%	6.1%	4.8%
Gold Price (USD)	7.5%	12.6%	11.4%
Oil Price (Brent Crude, USD)	13.6%	9.7%	5.0%

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?

MADE IN MEXICO

Percentage of Total US Imports



This chart shows the percentage of total imports to the US coming from China and Mexico. For two decades China has been the number one exporter of goods into the US, however no longer. In 2023 Mexico exported a total $475.6 billion to the US beating China's total of $427.2 billion according to the US Census Bureau. Mexico's year-on-year figure grew 5%, on the other hand, China's exports fell almost 20% demonstrating the ongoing shift in global trading patterns. This changing of the guard has arisen as trade tensions have heightened between the world's two largest economies. Biden has continued to try reduce the US's dependency on China, continuing the tariffs imposed by the Trump administration in 2018 and introducing further restrictions on access to semiconductors. Alongside the so called 'reshoring' process, the US has also been 'friendshoring' – the process of shifting trade flows to nearby, like-minded countries which offer a more stable relationship on top of low production costs.

Trade policy is a topic which will be high on the agenda in the upcoming presidential election debates. While Biden is unlikely to ease the incumbent restrictions on Chinese trade, Trump has already announced he would consider an exclusive 60% tariff on Chinese imports. Such draconian protectionist measures would only extend this trend, risking global inflationary pressure and likely retaliation. The World Bank also last year issued a warning over the potential long-term impacts to growth, particularly in Asian emerging markets, stemming from a lack of cross-border diffusion of technology, which would damage innovation. In any case Mexico have reaped the rewards of China's misfortune. Foreign direct investment into the country has greatly increased and the stock market has achieved an annualised return of 18.5% over the last three years, significantly outperforming developed equities, including the US. With no immediate signs of relations with China improving, this structural tailwind for the US's southern neighbour shows no sign of waning.

Source:
Momentum Global Investment Management, Bloomberg Finance L.P., US Census Bureau, Data to 29 December 2023

Atom Capital is an Authorised Financial Services Provider, FSP: 52704.
www.atomcapital.co.za | T: +27 72 926 3074