

MARKET OVERVIEW

SEPTEMBER 2024
IN REVIEW

ECONOMIC AND MARKET OVERVIEW

In line with expectations, several central banks lowered their official lending rates during September. This is likely to herald a clear change in interest rate directory around the globe, albeit for different reasons.

What was somewhat of a surprise though, was the US Federal Reserve cutting their rates by 0.5%, instead of 0.25% as was widely anticipated until shortly before the announcement. The reduction in interest rates was on the back of the Fed's progress on its dual goals of restoring price stability and achieving maximum employment. The official target range is now 4.75% to 5.0%.

JP Morgan reported that economic variables in the United States are trending in the right direction, which allowed for the Fed to begin easing monetary policy. Chair Jerome Powell emphasised that inflation is "much closer" to its 2% target and the labour market is "less tight" than pre-pandemic levels in 2019. He highlighted that the "primary focus" has shifted from "bringing down inflation" to supporting maximum employment.

The European Central Bank cut interest rates again and signalled a "declining path" for borrowing costs in the months ahead, as inflation slows and economic growth in the euro zone falters. The bank lowered its deposit rate by 25 basis points to 3.50%, following up on a similar cut in June as inflation is now within striking distance of its 2% target and the domestic economy is skirting a recession. Even though this rate cut preceded the Fed's announcement, it likely had very little influence in the Federal Open Market Committee's decision.

South Africa's central bank struck a measured tone after its first rate cut in more than four years on 19 September, saying although inflation had fallen faster than expected, there were still risks to the outlook. The South African Reserve Bank (SARB) lowered its main lending rate to 8.0% from 8.25%, as predicted by economists polled by Reuters, a day after data showed headline inflation fell just below 4.5%, the middle of the central bank's target range.

Reuters reported that China's central bank unveiled its biggest stimulus package since the pandemic to pull the economy out of its deflationary slump and back towards the government's growth target, but analysts warned more fiscal help was vital to reach these goals. The broader-than-expected package, offering more funding and interest rate cuts, marks the latest attempt by policymakers to restore confidence in the world's second-largest economy after a slew of disappointing data raised concerns of a prolonged structural slowdown.

Chinese stocks and bonds rallied and Asian stocks hit a two and a half year high as Governor Pan Gongsheng announced plans to lower borrowing costs and inject more funds into the economy, as well as to ease households' mortgage repayment burden. The yuan currency jumped to a 16-month high against the dollar. Pan told a news conference the central bank will, in the near future, cut the amount of cash that banks must hold as reserves - known as reserve requirement ratios (RRR) - by 0.5%, freeing up about 1 trillion yuan (\$142 billion) for new lending.

MARKET PERFORMANCE

The turn in the global interest rate cycle, coupled with a new stimulus package in China (the world's second largest economy) contributed to strong returns in both equity and bond markets around the world. After falling nearly 5% in the first three weeks of September, the benchmark Shanghai Shenzhen CSI 300 Index rallied to end the month 21% higher, recording its third-best month in twenty-nine years. The S&P 500 (+2.1%) and the NASDAQ 100 (+3.9%) also rallied and helped push global equities (MSCI World Index) 2.4% higher in US dollars. Emerging markets benefited from the strong performance in China and added 6.7% in September.

Visio Capital reports that the news of the Chinese stimulus package also supported metal prices, with iron ore rebounding by 24.4% in the last five days of the month. A combination of the SARB's rate cut, improved domestic sentiment, attractive relative valuations, and China's policy announcement supported SA equities (+4.0%) led by the Retail (8.6%) and Industrial (5.4%) sectors with heavyweights BHP Group (+14.5%), Prosus (+14.3%) and Naspers (+14.1%) showing the way. Sasol (-15.6%) and Aspen (-17.2%) were the noteworthy laggards in an otherwise sea of green.

The stronger rand and a third consecutive month of net foreign buying of South African bonds drove yields lower, with the asset class recording a sixth consecutive positive month, returning 3.9% in September and 10.6% for the quarter.

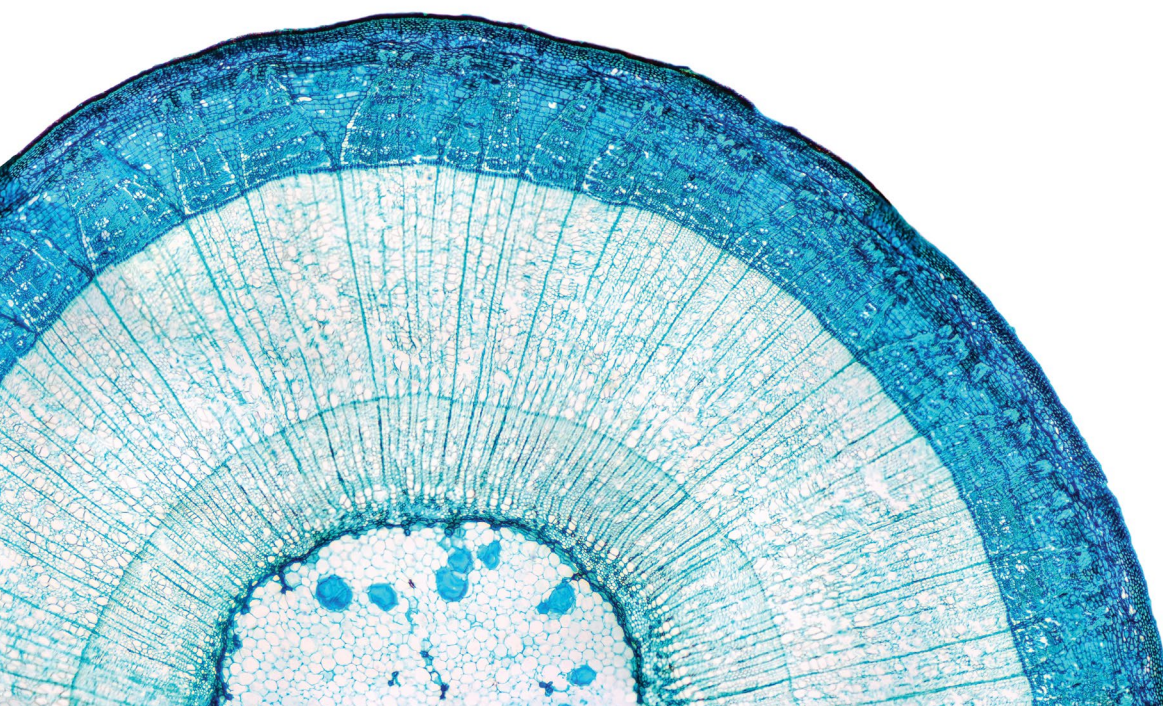
The rand continued to strengthen against most major currencies and is almost 6% stronger against the greenback and almost 5% against the euro since the start of the year. The gold price reached a new high intra month and ended the month almost 28% higher than in January 2024. Lastly, the oil price fell 8.9% in September.

MARKET INDICES ¹	30 SEPTEMBER 2024		
	3 months	12 months	5 years ²
(All returns in Rand except where otherwise indicated)			
SA equities (JSE All Share Index)	9.6%	23.9%	13.7%
SA property (S&P SA REIT Index)	21.7%	52.8%	2.8%
SA bonds (SA All Bond Index)	10.6%	26.2%	9.8%
SA cash (STeFI)	2.1%	8.5%	6.1%
Global developed equities (MSCI World Index)	0.5%	21.7%	16.5%
Emerging market equities (MSCI Emerging Markets Index)	2.8%	15.7%	8.9%
Global bonds (Bloomberg Barclays Global Aggregate)	1.0%	2.4%	1.7%
Rand/dollar ³	-5.6%	-8.5%	2.6%
Rand/sterling	0.1%	0.5%	4.3%
Rand/euro	-1.7%	-3.6%	3.1%
Gold Price (USD)	13.2%	42.6%	12.5%
Oil Price (Brent Crude, USD)	-16.9%	-24.7%	3.4%

1. Source: Factset

2. All performance numbers in excess of 12 months are annualised.

3. A negative number means fewer rands are being paid per US dollar, so it implies a strengthening of the rand.



DID YOU KNOW?

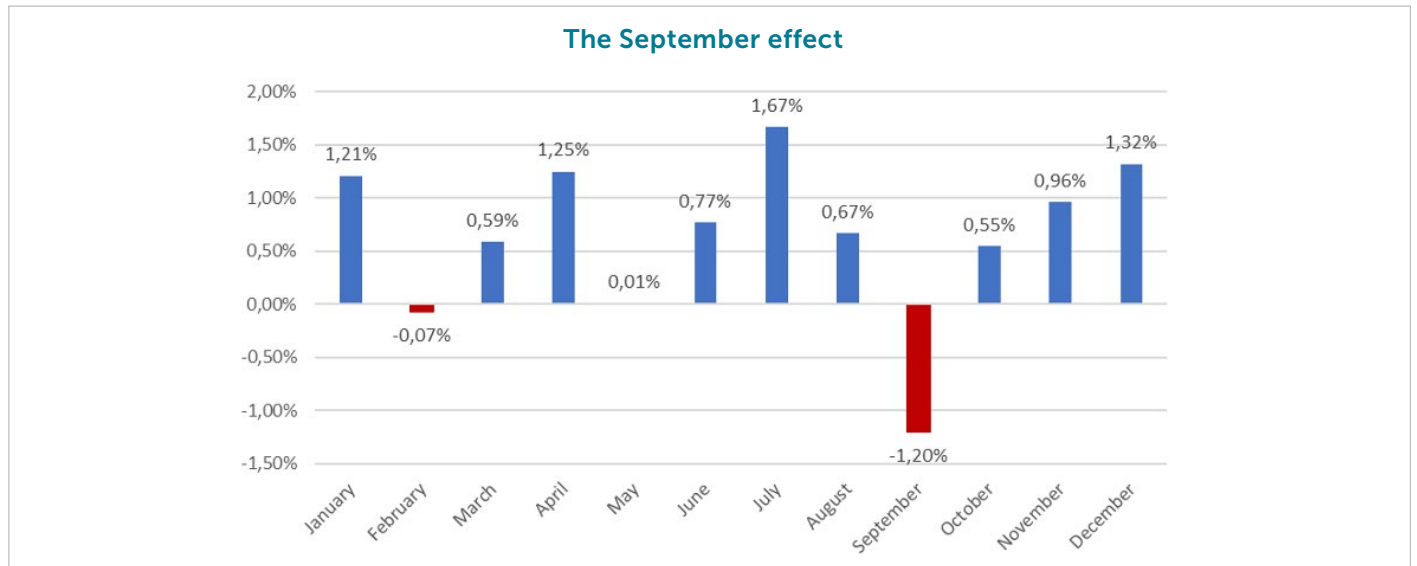
DO YOU REMEMBER... THE STOCK MARKET FALLS IN SEPTEMBER?

“Prediction is very difficult, especially if it’s about the future.”
Niels Bohr, and others¹

The September effect

In this era of algorithms and pattern recognition it’s so easy to rely on a mathematically elegant formula to try and gain an advantage over the market. Many numerical techniques (which have cost investors dearly) can be described by this: pick the stock/fund/asset class which has performed the best/worst over the last day/week/month/year/decade/century and hold it for a day/week/month/year (or until you’ve realised it was a mistake).

The chart below shows the average monthly returns, in US dollars, for the S&P 500 stock market index since 1928:



Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data to 30 August 2024

September has been the perennial underperformer, with the index declining an average of 1.2% in the month. This has led to it gaining quite the reputation, with the market anomaly known as the “September Effect”. September’s underperformance seems to violate the tenet of market efficiency, explaining why it is classified as an anomaly. Theories for why this is the case include portfolio managers returning from summer holidays and adjusting their portfolios, or individual investors liquidating stocks to offset schooling costs for children. This year September seemed to be living up to its name, with equities trading in the red at the start of the month. As we now know, however, the S&P 500 gained 2.1% by the end of the month.

While history has shown an anomaly in September’s performance, this does not mean it should impact one’s investment approach. If markets are underperforming, it is important to understand the underlying causes of volatility and not act hastily. Recent downward movements may be attributed to concerns over the health of the US economy following weaker manufacturing data, as well as a decline in mega cap stocks like Nvidia after significant gains earlier this year. Volatility is further heightened by key market events in September, most notably the Federal Reserve’s policy meeting where rates were cut in the end.

In times like these, it is useful to remember the adage, “it’s about time in the market, not timing the market.”

Being invested is often better than sitting on the sidelines, as the biggest returns typically come in the days following a large market drop. Investors should avoid making drastic changes to their portfolios in September – or any month – based solely on the elegance of mathematics or the persuasive power of statistics. It may be far more prudent and ultimately profitable, the base strategy deviations on changes in the long-term investment and market outlook.

Source: Momentum Global Investment Management

¹ This quote is often attributed to Niels Bohr, a renowned physicist. However, it has also been linked to other figures, including Danish politician Karl Kristian Steincke and Yogi Berra, an American professional baseball catcher who later took on the roles of manager and coach.

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