FOURword

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April 2024

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Financial markets summary

Global equities march on as domestic assets and global bonds stutter

Financial assets had mixed fortunes during the first quarter. Global equities thrived, fuelled by a confluence of positive macroeconomic data and company-specific factors. Global bonds and domestic equities on the other hand had a tough quarter. Encouragingly, the macroeconomic landscape continued to improve, with resilient economic activity persisting and fundamental drivers of inflation weakening further. Central banks expressed satisfaction with progress made against inflation and signalled a willingness to shift towards a more accommodative monetary policy stance. We will explore these macroeconomic trends in greater detail later in this issue.

DM equities: developed equities had a robust quarter, with the MSCI World Index notching an impressive 8.45% gain. Japan outperformed, rising 11.45%, as the Bank of Japan moved its policy rates into positive territory for the first time in 17 years, expressing confidence in progress made against deflation and wage stagnation. The US also performed strongly, rising 9.91%, buoyed by the artificial intelligence narrative. Sentiment on US equities was further boosted by a largely better-than-expected earnings season, with S&P 500 companies growing earnings by 4.1% year-on-year (y-o-y) against an expectation of less than 2%. More than half of the S&P 500 companies delivered beats on sales, while 76% exceeded earnings expectations, reflecting the positive benefits of operating leverage. Meanwhile, the MSCI Europe ex-UK also performed well, gaining 5.52%, while the UK lagged with 1.67% growth. In terms of investment styles, quality and growth maintained their dominance from the previous quarter, gaining 11.54% and 10.46%, respectively, while value (6.56%) lagged. All sectors recorded positive returns but communication services (13.08%) and information technology (12.35%) outperformed.

EM equities: emerging market equities also showed resilience, largely driven by the recovery in Chinese stocks during February and March following a raft of stimulus measures. The MSCI Emerging Markets Index gained 1.27%. MSCI Asia capitalised on the AI excitement, returning 2.28%, while MSCI Emerging Markets Latin America shed 4.61%.

Local equities: on the domestic side, the All-Share Index (ALSI) shed 3.07%, primarily driven by declines in resources (-4.18%) and financials (-6.01%), while industrials were flat with a 0.05% gain. Resources sector surged in March, buoyed by strong global gold prices and optimistic expectations of impending rate cuts. However, this momentum came after a challenging start to the quarter, during which resource stocks plummeted due to reports of weak earnings and subdued demand from China.

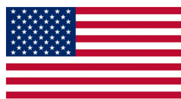
Fixed income: global bonds ended the quarter on a negative note, with the Bloomberg Global Aggregate Bond Index loosing 2.07%, as yields ticked up in February on the back of resilient economic growth in the US and stubborn inflation, which dashed hopes for rate cuts in March. While yields moderated towards the quarter's end, they remained elevated, with the US 10-year bond, the UK's 10-year Gilt, and the German 10-year Bund closing around 4.27%, 4%, and 2.3%, respectively. The All-Bond Index (ALBI) declined -1.79%, with the 10-year government bond yield settling at 10.82%. Additionally, the Consumer Inflation-Linked Bond Index (CILI) also dipped 0.35% in the first quarter.

Commodities and forex: the Goldman Sachs Commodity Index recovered from the previous year lull to record a gain of 7.14% in the first quarter. This was primarily propelled by the strong performance of brent crude (11.75%), driven by increased prices resulting from extended OPEC+ production cuts, ongoing tensions in the Middle East, and recent Ukrainian attacks on Russia's refinery capacity. Additionally, gold (5.72%), which gained favour in the market amidst prevailing headwinds and surpassed the $2000/ounce mark boosted commodities. The US Dollar index (2.97%) also strengthened against other major currencies.

Macroeconomic commentary

Global economy starts the year on solid ground

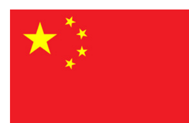
At the outset of 2023, economists widely anticipated most developed economies to stagnate, particularly the US, as the lagged effects of the previous hiking cycle began to impact the broader economy. However, contrary to these expectations, economic activity across most of major economies has so far been defiantly resilient.



In the US, the Composite Purchasing Managers Index maintained an upward trend during the quarter, bolstered by a robust recovery in the manufacturing sector. The S&P Global Manufacturing PMI surged from below 50 points in December of the previous year to a one-year high of 52.5 in March. These figures indicated a solid improvement in manufacturing health, driven by substantial expansions in output and employment. Moreover, the services sector continued its expansion, with the S&P Global US Services PMI remaining above 50 points throughout the quarter. Beyond PMI data, a diverse set of other coincidental indicators suggested not a decelerating, but rather a reaccelerating economy. However, there were signs of consumer strain, reflected in reduced

consumption leading to pressure on overall spending and retail sales. Retail sales grew by a mere 0.6% month-over-month in February, following a revised 1.1% decline in January, falling below market forecasts of a 0.8% gain. Additionally, consumer stress manifested in the housing market, where sales trended downward. High mortgage rates and home prices, coupled with historically low housing stock, continued to hinder homeownership, particularly for first-time buyers. Despite these challenges, the Atlanta Fed GDPNow estimate for real GDP growth in the first quarter of 2024 stands at 2.1%, significantly surpassing expectations.

In Europe, data mirrored a similar trend of strengthening, albeit not as robust. In the United Kingdom, the Composite PMI remained in expansionary territory throughout the quarter, reaching 52.2 in March (52.1 in December). Both manufacturing and service sectors witnessed recovery, with manufacturing experiencing the most significant expansion, rising from a previous contraction of 46.7 in the preceding quarter to 52.5. This recovery was fuelled by improvements in supply chains, heightened client demand, and increased new orders. Despite rising input and output costs, consumer sentiment and business confidence for the upcoming 12 months improved. Similarly, in the Euro area, business activities nearly exited the contraction zone, with the HCOB Eurozone Composite PMI rising to 49.9 in March, up from 47.6 in December. Like in the US, new orders and employment also increased during the quarter. These dynamics have contributed to tight labour markets, with unemployment rates in the US and Europe remaining close to their natural rates, heightening inflation risks.



China, which dominated discussions the previous year, also began the year on a relatively strong note. Economic data for the first two months exceeded analysts' expectations across the board. Retail sales rose 5.5%, surpassing the forecasted 5.2% increase, while industrial production climbed 7%, compared to estimates of 5% growth. Fixed asset investment increased 4.2%, exceeding the estimated 3.2% rise. The unemployment rate for cities in February stood at 5.3%, while online retail sales of physical goods surged 14.4% compared to the previous year. However, investment in real estate fell by 9% during the first two months of the year compared to the previous year. Conversely, investment in infrastructure rose by 6.3%, and in manufacturing by 9.4% during the same period.

Stimulus discussions continued into the first quarter of 2023, with soft inflation in February and persistent deflation in producer prices prompting consideration for further economic support. Despite a slight rise in consumer prices in February, largely attributed to spending during the Lunar New Year, concerns persist about sustainable recovery, especially given rising unemployment rates, which reached 5.3% in February.

Housing remains a concern for financial stability, with indicators reflecting continued weakness in the property sector. Investment fell by 9%, and housing sales dropped by 33% in the January-February period compared to the previous year. Credit conditions also show weakness, with social financing and new yuan loans down year-on-year indicating that weakness in borrowing demand. Consumer and business are still depressed with low confidence indicators due to uncertainty surrounding employment (income) and the ongoing property market downturn. China's Manufacturing PMI declined to 49.1 in February from 49.2 in the previous month, marking the fifth consecutive month of contraction.

Industrial output and fixed-asset investment are some parts of the economy that gained traction after policymakers ramped up stimulus late last year. It is clear though that the policymakers are cautious about stimulating household demand. The central bank has implemented measures to boost demand, including the February 25bps record cut in key reference rates and a reduction in required bank reserves.

Domestic data was mixed. On a positive note, the S&P South Africa PMI rose to 50.8 in February after two months of negative readings, indicating some stabilisation in activity in the sector. This trend aligns with manufacturing production, which grew by 2.6% y-o-y in January. However, the mining sector experienced a decline of 3.3% y-o-y in January due to weak global demand for resources and falling resource prices worldwide. Additionally, retail sales fell by 3.20% in January compared to the previous month.

Confidence among various economic stakeholders remained subdued. The RMB/BER business confidence index dropped for the second consecutive quarter to 30 in 2024Q1, down from 31 in 2023Q3, indicating growing pessimism among businesses. The FNB/BER Consumer Confidence Index inched up to -15 in the first quarter, the highest level in five quarters, from -17 in the last three months of 2023. Significantly lower levels of load-shedding and a deceleration in inflation, particularly on the food price front, likely supported consumer confidence during the first quarter. The quarter also witnessed the delivery of the medium-term budget policy statement, which received a positive reception from the market. However, the overall outlook for South Africa remains uninspiring, with the economy projected to achieve sub 1% growth over the medium term.

The disinflation trend encounters some hurdles

Inflation prints varied across economies, with the US and the Euro area contending with persistent inflation, while the United Kingdom (UK) reported encouraging inflation figures. In the US, the annual inflation came in at 3.2% in February just 20 basis points below the previous quarter's figures and above the market's expectation of 3.1%, a disappointing

trend to the pivot narrative. At the pinnacle of the increase was the uptick in shelter and gasoline prices, which collectively accounted for over 60% of the index in February. The core rate slightly decreased to 3.8% (December: 3.9%), remaining above the consensus forecast of 3.7%. All attention now shifts to the Personal Consumption Expenditures (PCE) numbers, the Fed's preferred measure of inflation, which were pending at the time of writing. However, during the Federal Open Market Committee meeting in March, PCE inflation forecasts remained unchanged for 2024 at 2.4%, but were revised upwards for 2025 to 2.2% from 2.1%, signalling the Fed's anticipation of higher inflation than previously expected—an acknowledgement welcomed by the market. Additionally, the core rate for 2024 was projected higher at 2.6%, up from the previous forecast of 2.4%, while forecasts for 2025 remained unchanged at 2.2%.

Meanwhile, annual headline and core inflation for the Euro area dipped to 2.6% (December: 2.9%) and 3.1% (December: 4.3%) respectively, but remained above expectations, with price pressures remaining a concern as wages are projected to grow by more than 4.5% in 2024. The ECB has long held that any level above 3% is inconsistent with its own inflation target.

Conversely, inflation prints in the UK were encouraging, with the annual CPI inflation rate declining to 3.4% in February (December: 4%), marking a 2.5-year low and surpassing expectations. Downward pressure primarily came from food and prices at eateries. The annual core inflation rate also decreased to 4.5%, the lowest since January 2022, surpassing the market consensus of 4.6%.

On the domestic front, headline inflation jumped to 5.6% y-o-y, slightly above market consensus of 5.5%, in February. While the print is still within the South African Reserve Bank (SARB) target range of 3% to 6%, it has moved further away from the midpoint of 4.5%. Transport inflation accelerated significantly to 5.4% in February (January: 3.6%), while housing and utilities saw a slight increase of 0.1% to 5.8% in February (January: 5.7%). Miscellaneous goods and services saw a substantial increase to 8.4% in February from 5.4% in January. These factors were the primary contributors to increased headline inflation. Core inflation increased significantly to 5% y-o-y in February (January: 4.6%).

Central banks delay rate cuts amid rising upside risks to inflation

In the initial stages of 2024Q1, there was strong market sentiment favouring rate cuts, with widespread anticipation that central banks would implement them in their March meetings. However, as the quarter progressed, inflation proved to be persistent, minutes and speeches from major central banks pushed back against these expectations. Nonetheless, the market responded positively to the central banks' meetings in March. As anticipated, the Fed, ECB, and BoE kept interest rates unchanged, awaiting a sustained disinflationary trend toward their targets.

In terms of rate cuts, the Fed confirmed that it is still in track for three rate cuts in 2024, signalling confidence in its policy, which was well-received by the market. Meanwhile, BoE members leaned towards a more dovish stance, with eight members voting to maintain rates and one member advocating for rate cuts. This was a shift from the prior meeting, where two members had voted for rate hikes. Like the Fed, the BoE anticipates the first-rate cuts to occur in June. In contrast to the Fed and BoE, ECB members indicated that discussions on rate cuts could only be considered in June. The SARB maintained the current interest rates unchanged at 8.25%. In summary, there is still no definitive decision on rate cuts, as decisions will be contingent on incoming data, hence it remains a wait and see approach.

Elections watch

We had identified political risk as one of the primary concerns for 2024, largely due to the multitude of countries holding elections this year. At least 64 countries, representing approximately 49% of the world's population, are slated to hold national elections. While the outcomes of many of these elections will undoubtedly be significant, the ones of particular importance to us include our own election in May, the US presidential election, and Taiwan's. The upcoming South African election is widely regarded by analysts as perhaps the second most crucial election since 1994. This is primarily because there is a realistic chance that the ANC may, for the first time, fail to secure a majority vote, potentially leading to the country's first coalition government at the national level. The composition of such a government will undoubtedly have a significant impact on domestic assets.

In Taiwan, the election produced intriguing results. Although the anti-China Democratic Progressive Party's presidential candidate emerged victorious, the party lost its majority in the legislature. Conversely, the pro-China Kuomintang's (KMT) presidential candidate was defeated, but the party secured the most seats in the legislature. Fortunately, another smaller anti-China party, the upstart Taiwan People's Party (TPP), won enough seats in the legislature to necessitate its support for the passage of any legislation in cases where the two main political parties are deadlocked. The significance of this election lies in its expected influence on Beijing's approach to the self-governed island, which China has repeatedly threatened with invasion.

However, the elephant in the room is the US presidential elections which may see the former President Donald Trump securing a second term.

Apart from elections, we are also closely monitoring geopolitical tensions worldwide. The first quarter was largely dominated by the Israel/Gaza conflict, which persisted without signs of abating. The risk of escalation remained high, as Israel resisted any proposals for a ceasefire. Furthermore, the conflict expanded, with skirmishes in the Red Sea region impacting global supply chains.

Financial markets tables

As at 27 March 2024

SA indices (ZAR)	March	3 Months	6 Months	YTD	1 Year	3 Years (Ann)	5 Years (Ann)
ALSI	2,36%	-3,07%	3,63%	-3,07%	0,70%	7,80%	9,49%
SWIX All Share	2,00%	-2,99%	4,81%	-2,99%	1,83%	5,02%	6,78%
Capped SWIX All Share	2,04%	-3,11%	4,84%	-3,11%	2,01%	7,18%	7,47%
Mid Caps	1,95%	-3,87%	5,73%	-3,87%	6,46%	8,08%	5,87%
Small Caps	-0,79%	-1,12%	7,34%	-1,12%	9,06%	15,77%	13,24%
Large Caps	2,80%	-3,22%	3,12%	-3,22%	-0,71%	7,63%	9,97%
Resources	9,88%	-4,18%	-1,30%	-4,18%	-11,34%	0,75%	9,92%
Industrials	2,04%	0,05%	5,93%	0,05%	2,70%	7,95%	10,04%
Financials	-2,92%	-6,01%	5,60%	-6,01%	13,10%	15,39%	4,92%
SAPY	-0,44%	4,46%	21,56%	4,46%	21,17%	14,16%	0,83%
ALBI	-1,92%	-1,79%	6,17%	-1,79%	4,20%	7,41%	7,05%
CILI	0,29%	-0,35%	5,70%	-0,35%	5,76%	7,11%	6,45%
STeFI	0,61%	1,97%	4,10%	1,97%	8,29%	6,05%	5,98%
Global indices (USD)							
MSCI World	2,99%	8,45%	20,46%	8,45%	23,13%	6,92%	10,27%
MSCI ACWI	2,84%	7,70%	19,20%	7,70%	21,06%	5,16%	9,01%
MSCI UK	3,57%	1,67%	7,90%	1,67%	6,14%	3,38%	0,99%
MSCI USA	2,96%	9,91%	22,53%	9,91%	28,13%	9,08%	13,12%
MSCI Europe ex-UK	3,31%	5,52%	18,31%	5,52%	12,61%	3,55%	6,68%
MSCI World Value	4,06%	6,56%	15,88%	6,56%	15,52%	4,99%	5,64%
MSCI World Growth	2,00%	10,30%	24,86%	10,30%	30,55%	8,23%	14,23%
MSCI Quality	2,53%	11,54%	25,44%	11,54%	33,59%	11,96%	15,72%
MSCI Emerging Markets	1,55%	1,27%	8,81%	1,27%	4,69%	-7,65%	-0,41%
MSCI EM LatAm	0,77%	-4,61%	10,37%	-4,61%	15,78%	3,33%	-1,55%
MSCI EM Asia	2,07%	2,28%	8,87%	2,28%	3,27%	-8,61%	0,61%
Bloomberg Global Aggr Bond Index	0,57%	-2,07%	5,86%	-2,07%	0,51%	-4,73%	-1,16%
Currencies and commodities (USD)							
GBPUSD	0,12%	-0,72%	3,61%	-0,72%	2,48%	-2,84%	-0,61%
EURUSD	0,20%	-1,90%	2,41%	-1,90%	-0,14%	-2,63%	-0,71%
USDZAR	-1,32%	3,32%	-0,09%	3,32%	6,27%	8,56%	5,46%
GBPZAR	-1,32%	2,60%	3,53%	2,60%	8,94%	5,48%	4,81%
EURZAR	-1,24%	1,38%	2,32%	1,38%	6,13%	5,71%	4,72%
Gold Spot	7,05%	5,72%	17,97%	5,72%	10,73%	8,98%	11,04%
Brent Crude	5,10%	11,75%	-6,63%	11,75%	7,76%	11,12%	4,96%
Goldman Sachs Commodity Index	2,86%	7,14%	-5,87%	7,14%	-0,02%	7,08%	5,74%

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