FOURword

Financial markets commentary

March 2024

Developed Markets

Emerging Markets ex SA

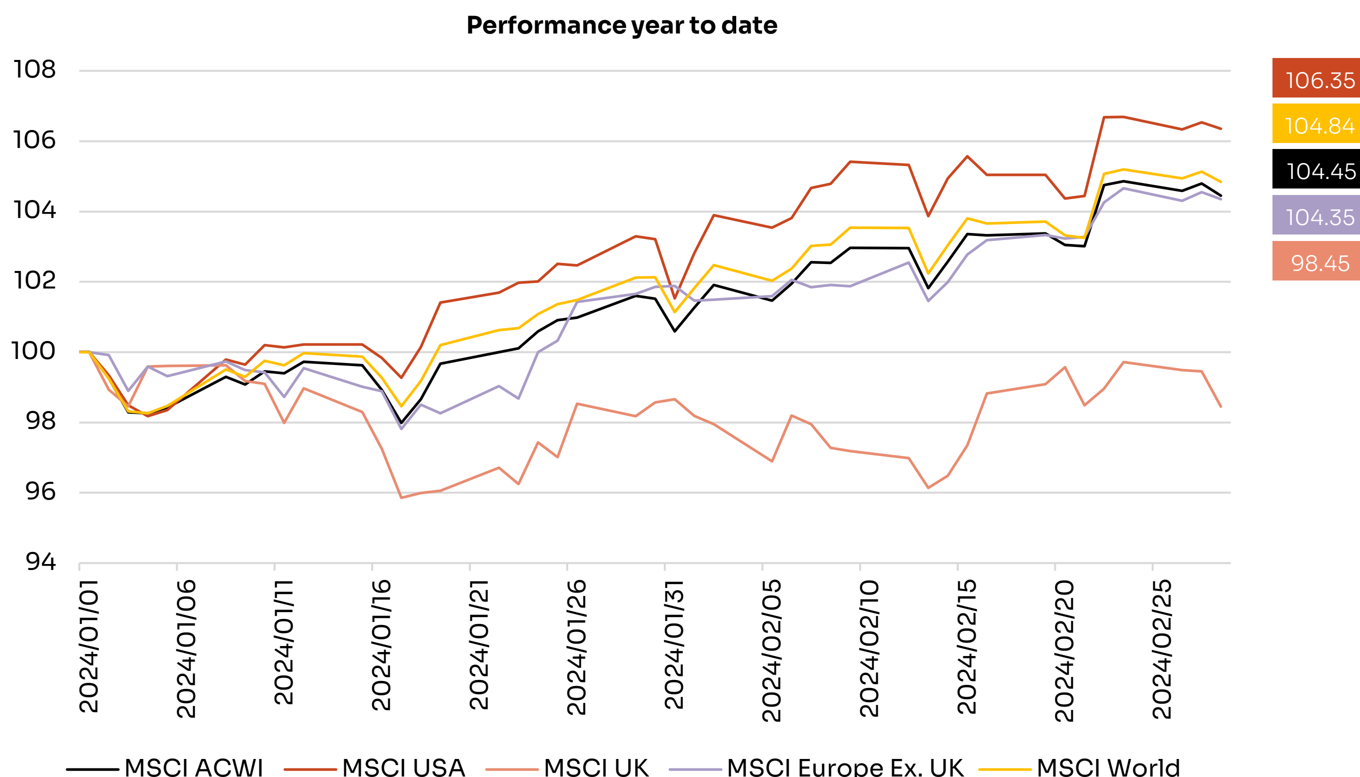
South Africa

Developed markets

Developed markets equities had a stellar month as bottom-up factors overpowered a mixed bag of macro data. The MSCI World gained 4.11%, with U.S. equities particularly standing out, rising 5.2% on the back of stellar results from the 'magnificent 7,' reinforcing the artificial intelligence (AI) narrative. Nvidia, a key player in AI, released fourth-quarter results that exceeded all expectations, with a revenue surge of 265.3% and a robust profit margin of 76.7%, surpassing consensus estimates by 128 basis points. Other members of the 'magnificent 7,' including Microsoft, Meta Platforms, and Amazon, also delivered impressive results in the last week of January.

European equities had a mixed month, with the MSCI Europe ex UK gaining 1.94%, whilst the MSCI UK lost 0.45%. In terms of investment styles, tech-heavy categories continued their market leadership, with growth (5.99%) and quality (5.77%) leading the way, while value (2.24%) lagged. At the sectoral level, consumer discretionary (7.46%), tech (6.07%), and Industrials (5.63%) outperformed, while only utilities (-1.33%) ended in the red.

Bonds came under pressure with the Bloomberg Global Aggregate Bond Index ending the month 1.26% lower. Bond yields ticked up to two-month highs in February as strong data in the US reinforced hawkish remarks from central bank officials. This overshadowed the positive impact of the last-minute PCE inflation report.



Source: Bloomberg

Challenges emerge in the final stretch of inflation battle

In the US, inflation came in hotter-than-expected in February. Despite a return to a disinflation trend, the sustainable trajectory envisioned by the Federal Reserve remained elusive. Headline year-on-year (y-o-y) CPI retreated to 3.1% in January 2024 after a brief spike to 3.4% in December but exceeded forecasts of 2.9%. Declines in energy costs were offset by modest price increases in transportation, food, shelter, medical care commodities, and new vehicles. The annual core inflation, excluding volatile items like food and energy, held steady at 3.9%, reaching a 2.5-year low, contrary to the expected slowdown to 3.7. Additionally, both the headline and Core PCE inflation, the Fed's preferred measures of inflation, were in line with expectations, declining to 2.4% and 2.8% y-o-y, respectively (compared to January's figures of 2.6% and 2.8%). Like in the US, Euro Area's inflation rate was confirmed at 2.8% in January 2024, little changed from December's 2.9%. But the core rate, cooled for the sixth consecutive month to 3.3%, marking its lowest point since March 2022. Inflation for food, alcohol, tobacco, and non-energy industrial goods decelerated, while that of services remained unchanged.

In the United Kingdom the inflation rate was flat at 4.0% y-o-y in January 2024, close to November's two-year low and falling below the market expectation of 4.2%. Similarly, its annual core inflation, remained unchanged at 5.1% y-o-y, slightly below the market consensus of 5.2%.

The slowdown in the pace of disinflation prompted upward revisions in year-ahead inflation expectations by 0.1 percentage point to 3% (USA) and 3.3% (Eurozone) measured by the United States Michigan inflation expectations and the ECB consumer expectations surveys. Additionally, expectations for potential interest rate cuts were further scaled back during the month. Nevertheless, projections for the three-year and five-year periods remained unchanged. Conversely, forecasts for the Eurozone were revised downward compared to autumn, with headline inflation projected to decline to 2.7% in 2024 from 3.2% in 2023.

US and EU monetary policy makers are not in a hurry to cut policy rates

Minutes from both the Federal Reserve and European Central Bank suggest that officials feel it is premature to engage in discussions about interest rate cuts, despite recent signs of diminishing inflationary pressures. The officials demonstrated a cautious approach, avoiding hasty decisions that could potentially impede or delay the timely return of inflation to target levels. The anticipation is that rate cuts will not be considered until there is clear evidence that the disinflation trajectory is sustainably moving toward the central banks' targets, and future decisions will be guided by data. Looking at recent data prints, we reiterate our view that we see no compelling reason for the Fed to rush into rate cuts. On a positive note, officials appeared confident about the risk of unintentionally tightening monetary policy, given that financial markets had already factored in several rate cuts in 2024, which has contributed to an easing of both financial and financing conditions. The minutes aligned with the unexpectedly high inflation data prints and a robust job report released after the central banks' January meeting.

Economic activity rebound muddies anticipated rate cuts

The preliminary data portrayed a challenging situation for the European economies towards the end of 2023, with the British economy slipping into a technical recession in 2023Q4, marking its initial contraction since 2021. Simultaneously, the Euro Area economy faced stagnation in 2023Q4, narrowly avoiding a technical recession in the latter half of 2023. Evidently, persistent high inflation, record borrowing costs, and weak external demand exerted downward pressure on growth. Throughout 2023, the Eurozone and UK GDP exhibited marginal year-on-year growth of 0.5% and 0.1%, respectively. Despite this, central banks maintained restrictive monetary policies.

Regardless of the slowdown in the fourth quarter, retail sales in the United Kingdom surpassed expectations, registering the most significant monthly increase since April 2021. Conversely, the Euro Area's outlook for the first quarter of 2024 remains restrained, leading to the European Commission lowering the 2024 growth projection by 0.4 percentage points to 0.8%. Nevertheless, February 2024 data prints indicate a sentiment upswing beyond expectations, with the ZEW Indicator of Economic Sentiment for the Euro Area reaching a one-year high. Additionally, the University of Michigan consumer sentiment for the US also rose to 79.6, achieving a new high since July 2021, as consumers continued to express confidence in the sustained slowdown in inflation and strength in labour markets.

High-frequency data reveals a positive momentum, aligning with a favourable shift in new business, indicating resilience against the backdrop of central banks' prolonged restrictive policies, which have tempered expectations of interest rate cuts.

Preliminary estimates indicated that the S&P Global US Composite PMI remained in expansion zone at 51.4 in February 2024 (January: 52). Manufacturing production increased due to improved supply chains, stronger client demand, and a sharper uptick in new orders (manufacturing PMI at 51.5, a seventeen-month high). However, overall demand conditions improved at a slower pace, with a less significant increase in service sector new business offsetting manufacturing gains (services PMI at 51.3).

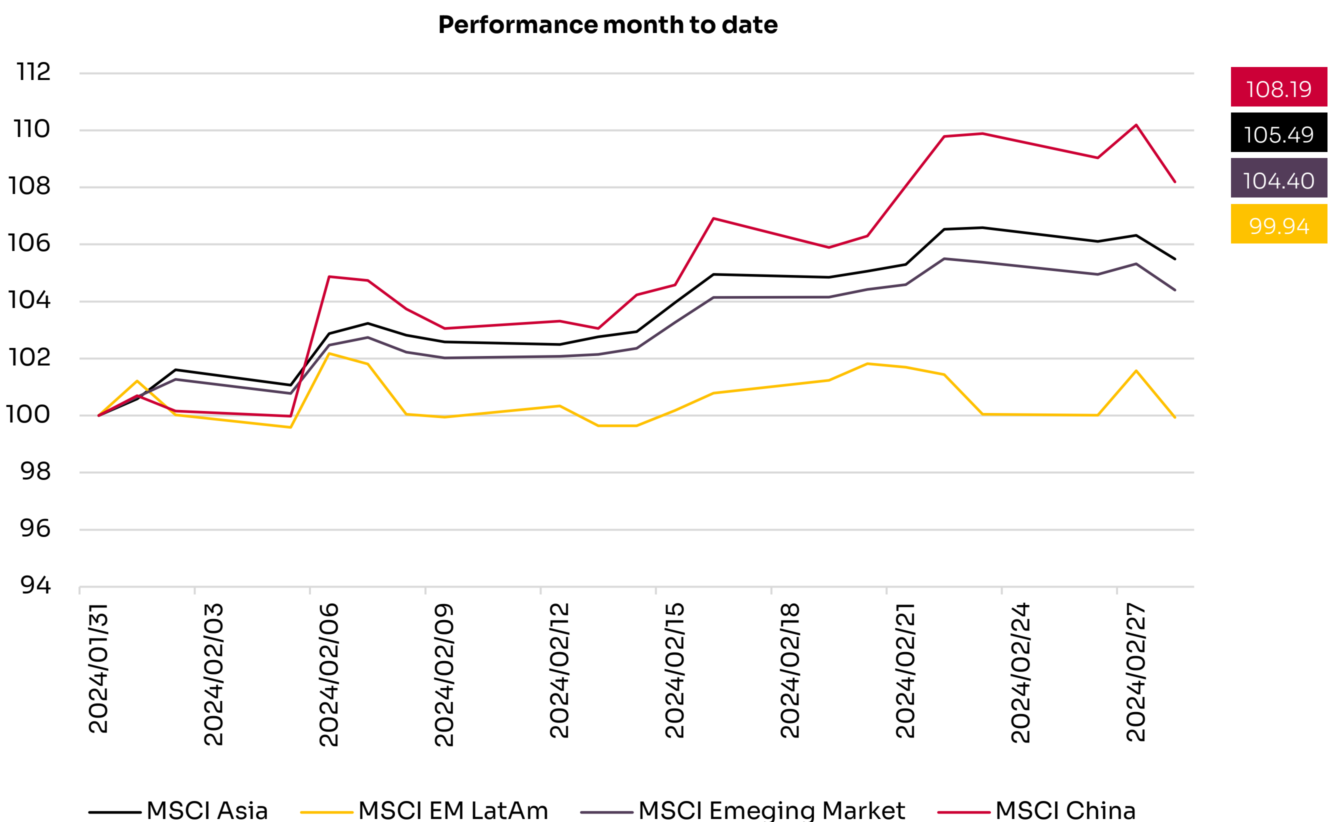
Similarly economic activities in the United Kingdom and the Euro Area showed some improvements. The S&P Global UK Composite PMI for February 2024 increased to 53.3 (January: 52.9). Business activity in the service industry stabilised at its highest level in eight months (services PMI at 54.3), while manufacturing production declined for the twelfth consecutive month (manufacturing PMI at 47.1). Similarly, the HCOB Eurozone Composite PMI rose to 48.9 in February 2024 (January: 47.9), signalling a stabilisation of output in the service sector (services PMI at 50, a seven-month high), which offset a further steep downturn in manufacturing (manufacturing PMI at 46.1).

Increases in new work boosted business and consumer spending in the UK and the US, despite lingering cost-of-living pressures. Improved financial conditions also provided a boost in these countries, while new orders and exports remained subdued in the Euro Area. Manufacturers recorded only a modest rise in their input prices, despite higher shipping costs and worsening supply chain disruptions following the Red Sea crisis. Optimism for the future business outlook reached the highest level on hopes of a sustained economic rebound.

Economic resilience was evident in the United Kingdom's unemployment rate, which declined to a one-year low of 3.8% in 2023Q4 (2023Q3: 4%), slightly below the market consensus of 4.0%. Year-on-year payrolled employment increased by 1.4% in January 2024, supported by growth in the health and social work sector.

Emerging Markets ex SA

A sharp rerating in China boosted the MSCI Emerging Markets Index to notching one of its best performances in a while. Emerging market equities rose 4.63% in dollars, supported by a Chinese stimulus plan that enhanced sentiment toward Chinese stocks. Furthermore, a spill-over effect from the U.S. technology rally boosted Asian tech companies. This widespread gain was evident in the MSCI Asia, which surged by 5.77%, while the MSCI EM LatAm returned a modest -0.52%. Emerging markets bonds were flat growing a marginal 0.38%.



At last, positive developments from China

February was a somewhat of a relief for long-suffering investors in Chinese stocks. Chinese stocks clawed back some of their recent losses as Beijing ramped up efforts to stabilise its economy, notably just ahead of the Lunar New Year holiday. The MSCI China index closed the month 8.39% higher.

The Chinese government implemented several measures to bolster confidence which has been in the doldrums for the past year or so. Perhaps the most notable move was the abrupt replacement of the nation's chief securities regulator aimed to instil confidence in financial markets. Wu Qing, formerly the chairman of the Shanghai Stock Exchange, took over from Yi Huiman as chairman and Communist Party chief of the China Securities Regulatory Commission. The reasons for Yi Huiman departure were not mentioned, except that Wu's reputation for strict enforcement of regulations earned him the nickname "Broker Butcher".

Furthermore, the People's Bank of China (PBOC) took a significant step by reducing the five-year loan prime rate by 25 basis points to 3.95%, marking a historic move. This decision reflects officials' efforts to navigate the delicate balance between stimulating economic growth and addressing concerns regarding the depreciation of the yuan, which has experienced a year-to-date loss of approximately 1%. This reduction however can be seen as being aimed to support the housing market, as most of the nation's outstanding mortgage loans use this rate as a pricing benchmark. Despite economic challenges, authorities maintained the key one-year policy rate at 2.5%, even as the 10-year government bond yield dropped to a two-decade low. Consumer price deflation persisted, with CPI falling by 0.8% y-o-y, the largest drop since 2009, while PPI declined by 2.5% y-o-y. Notably, China's home prices continued to decline in January, however at a slower pace for both new and lived-in units.

Source Bloomberg

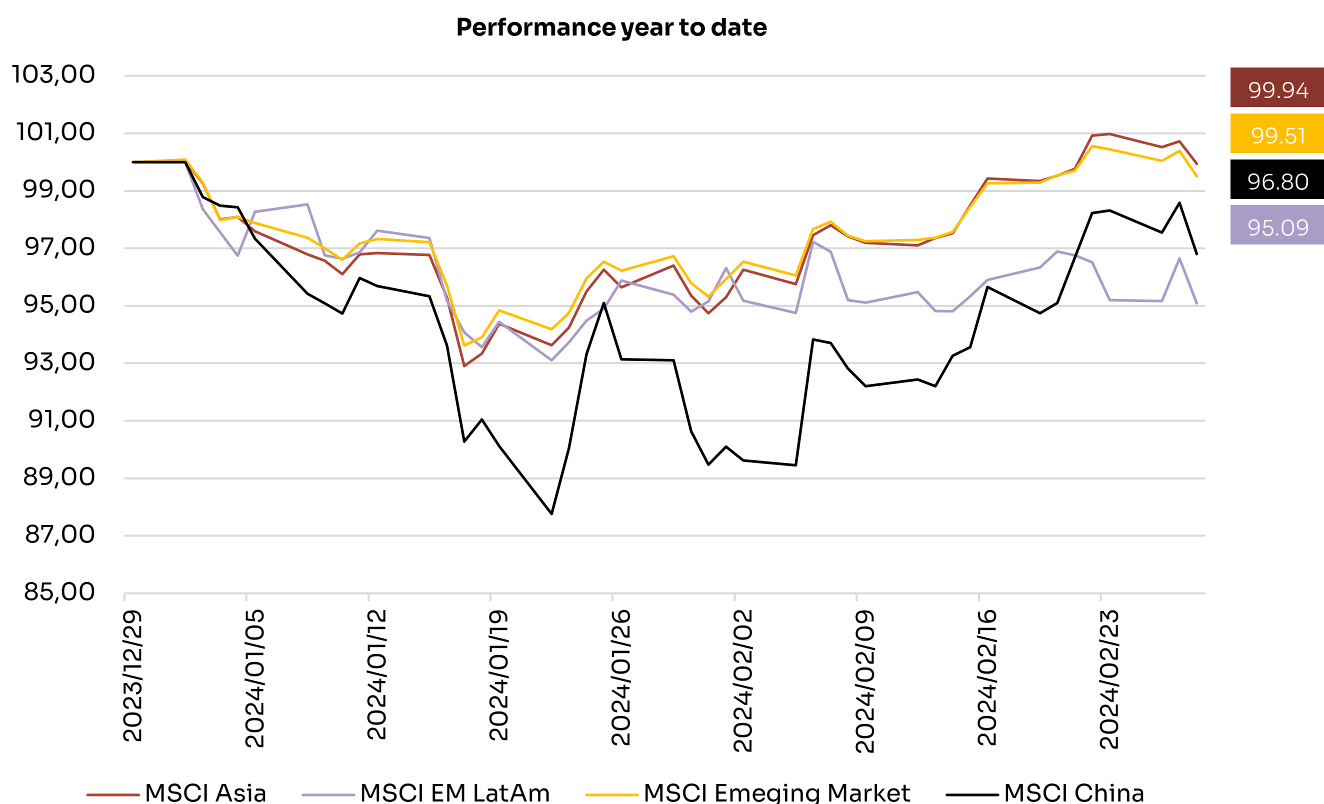
Concerns in the property sector remained evident, highlighted by a Hong Kong court's last month's decision to order the liquidation of China Evergrande Group. To aid and revive this sector Chinese banks approved property development loans totalling $17.20bn under the initiative known as "Project Whitelist," allowing city governments to recommend residential projects for financial support.

Additionally, during the Lunar New Year holiday, spanning from February 10th to 17th, there was a notable surge in Chinese travel and expenditure, surpassing levels seen before the pandemic. Domestic tourism spending increased by 7.7%, and domestic trips surged by 19% compared to figures from 2019. This boost in consumption served as a positive sign for the economy, which faces challenges such as a property slump, weak confidence, and persistent deflationary pressures. As a crucial barometer for consumption, the Lunar New Year holds significance in assessing China's economic trajectory.

South Africa

In February, South Africa grappled with a myriad of challenges, influenced by external factors like the US inflation miss and internal issues such as the escalation in load shedding from stage 2 to stage 6. Sentiment was also weighed by a lack of meaningful strategy from the president' state of the Nation Address as well as weak economic data, declining commodity prices, a volatile currency, and disappointing company earnings. Mining companies expressed concerns, warning of potential job cuts due to falling commodity prices and persistent power cuts, aggravated by existing infrastructure challenges.

These issues pressured the All-Share Index (ALSI), which shed 2.44%. Resources were the laggards with a 6.92% loss, while financials and industrials lost 0.94% and 0.74%, respectively. Mining companies such as Anglo Platinum, and Northam Platinum reported weak annual earnings which they blamed on a weak rand, declining commodity prices, ongoing energy crises, and subdued demand. The mining sector in South Africa continues to face challenges, with some companies signalling potential job cuts. The All-Bond Index fell 0.58%. Additionally, the Composite Inflation-Linked Bond Index declined 0.70%, driven by diminished inflation expectations. However, despite ongoing worries and uncertainties, inflation is anticipated to remain within the South African Reserve Bank's (SARB) target range of 3%-6%. The National Treasury's concession that there's a case to be made for the central bank's inflation target to be lowered to improve competitiveness may influence interest rate expectations. We understand that the SARB wants inflation target range to be lowered from the current 3% to 6% to 3% to 5%.



Mixed report cards for the Minister of Finance and the President

February commenced with a State of the Nation Address (SoNA) that, unfortunately, lacked inspiration. President Cyril Ramaphosa failed to provide a comprehensive account of his administration's failures over the past five years, opting instead to reiterate promises from previous SoNAs. This absence of accountability has left citizens disillusioned and frustrated, fostering scepticism about the government's ability to bring about meaningful change. There is now mounting pressure on President Ramaphosa to demonstrate tangible progress and concrete action in addressing the nation's challenges. On a positive note, the Minister of Finance appeared to compensate for the shortcomings of his boss with a well-balanced budget. The budget exhibited disciplined fiscal priorities, emphasising debt reduction while controlling spending, a commendable approach, especially with elections on the horizon. Despite revenue collections facing pressure, the budget-maintained control over expenditure. Coupled with a R150bn windfall from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) at the SARB, a disciplined approach towards state-owned enterprises, and growth-neutral tax increases, the overall debt metrics improved over the Medium-Term Expenditure Framework (MTEF).

For the first time since the global financial crisis, the budget projects a surplus before debt costs, and the critical debt-to-GDP ratio is now expected to peak at 75.3% in 2025/26, a positive shift from the previously projected 77.7% in the Medium-Term Budget Policy Statement. The budget highlighted the implementation of Operation Vulindlela, which holds the potential to jumpstart the economy, and prioritised capital investments, with capital assets expected to be the largest growing component of the MTEF. While this is a promising start, more efforts are needed to significantly boost gross fixed capital formation. South Africa's unemployment rate rose to 32.1% in December 2023, highlighting worsening economic conditions. The country faces a confluence of challenges, including high unemployment, sluggish growth, and a widening budget deficit. These issues, driven by factors like high interest rates, poor infrastructure, and energy crises, strain the nation's fiscal health. To address these issues, South Africa needs significant investment in growth-generating sectors like infrastructure, renewable energy, and education. Additionally, tackling corruption, improving governance, and attracting investment will be crucial for sustainable development. Collaboration between public and private sectors, along with support for innovation and entrepreneurship, can unlock new opportunities for growth and prosperity. By overcoming these challenges and implementing strategic initiatives, South Africa can create a more resilient and inclusive economy and achieve its development goals.

While we are definitely not fans of feeding the insatiable appetite of state-owned enterprises, we think a lack of meaningful funding package for Transnet apart from the R48bn debt guarantee facility was a miss from the National Treasury. We believe that a comprehensive recapitalisation, aligned with the Vulindlela framework, including liberalising the railway network and fostering partnerships with the private sector, is essential for Transnet's revival and to arrest the crippling logistical bottlenecks facing the country.

Economic activity remains at subdued levels, inflation falls short of expectations

February also saw the release of several key economic data points. Inflationary pressures picked up with headline inflation increasing to 5.3% from 5.1% in December 2023, further exceeding the South African Reserve Bank's target of 4.5%. Core inflation also edged up slightly, reaching 4.6% in January 2024 compared to 4.5% in the previous month. This rise was primarily driven by sectors like restaurants and hotels (8.0% y-o-y in January 2024 vs. 7.0% in December 2023). Both goods and services inflation climbed in January (5.4% vs. 5.1% in December), with transport inflation experiencing a significant jump (4.6% vs. 2.6% in December). This combined with the ongoing weakness of the South African Rand is expected to dampen expectations of an immediate pivot by the Monetary Policy Committee (MPC) in their interest rate stance. However, the Committee is also unlikely to implement further hikes, and a potential rate cut may be on the horizon soon.

On the business activity front, the Purchasing Managers Index (PMI) fell to contractionary territory, reaching 43.6 in January 2024 compared to the expansionary reading of 50.9 in December 2023. This decline was mainly attributed to a drop in sales orders. Meanwhile, the mining sector saw a modest increase of 0.6% in December 2023, driven by growth in specific areas like platinum group metals (PGMs), coal, chromium ore, and nickel. Despite this positive note, various sectors continue to face challenges due to ongoing economic uncertainties and market volatility.

Financial markets tables

As at 29 February 2024

SA indices (ZAR)	1 Month	3 Months	6 Months	YTD	1 Year	3 Years (Ann)	5 Years (Ann)
ALSI	-2,44%	-3,41%	-1,34%	-5,31%	-2,86%	7,53%	9,32%
SWIX All Share	-2,19%	-2,49%	-0,39%	-4,89%	-2,06%	5,41%	6,62%
Capped SWIX All Share	-2,27%	-2,30%	-0,31%	-5,05%	-1,97%	7,77%	7,00%
Mid Caps	-2,99%	1,75%	2,55%	-5,71%	-0,15%	8,58%	5,07%
Small Caps	-2,04%	5,65%	6,07%	-0,33%	7,46%	18,96%	12,80%
Large Caps	-2,48%	-4,55%	-2,77%	-5,86%	-4,20%	7,10%	9,79%
Resources	-6,92%	-12,82%	-9,09%	-12,79%	-17,31%	-1,97%	8,86%
Industrials	-0,74%	-1,25%	-0,47%	-1,95%	-0,18%	7,88%	10,21%
Financials	-0,94%	2,48%	4,67%	-3,18%	9,24%	16,48%	4,68%
SAPY	0,83%	15,31%	17,12%	4,92%	17,58%	14,80%	0,62%
ALBI	-0,58%	1,62%	5,71%	0,13%	7,64%	7,18%	7,75%
CILI	-0,70%	1,54%	4,27%	-0,64%	7,02%	7,23%	6,23%
STeFI	0,65%	2,06%	4,17%	1,36%	8,30%	5,95%	5,98%
CPI	0,09%	0,00%	1,81%	0,09%	5,32%	5,97%	5,11%
CPI +3	0,34%	0,75%	3,31%	0,59%	8,32%	8,97%	8,11%
CPI +5	0,51%	1,25%	4,31%	0,92%	10,32%	10,97%	10,11%
CPI +7	0,67%	1,75%	5,31%	1,26%	12,32%	12,97%	12,11%
Global indices (USD)							
MSCI World	4,11%	10,37%	11,76%	5,30%	22,94%	6,96%	9,86%
MSCI ACWI	4,17%	9,63%	10,95%	4,72%	21,03%	5,03%	8,62%
MSCI UK	-0,45%	2,48%	3,19%	-1,83%	1,18%	2,88%	0,39%
MSCI USA	5,20%	11,63%	13,30%	6,75%	28,66%	9,31%	12,84%
MSCI Europe ex-UK	1,94%	7,34%	8,86%	2,14%	12,20%	3,42%	6,01%
MSCI World Value	2,24%	7,77%	7,97%	2,40%	9,84%	5,43%	4,77%
MSCI World Growth	5,91%	12,89%	15,41%	8,14%	36,70%	7,78%	14,29%
MSCI Quality	5,77%	14,14%	16,24%	8,79%	39,21%	12,42%	15,81%
MSC EM	4,63%	3,43%	4,14%	-0,27%	5,91%	-8,65%	-0,58%
MSCI EM LatAm	-0,52%	1,99%	6,82%	-5,34%	15,31%	4,42%	-2,23%
MSCI EM Asia	5,77%	3,30%	3,71%	0,21%	4,64%	-10,17%	0,54%
Bloomberg Global Aggr Bond Index	-1,26%	1,43%	2,19%	3,10%	3,10%	-5,52%	-1,03%
Currencies and commodities (USD)							
GBPUSD	-0,49%	0,02%	-0,38%	-0,84%	5,01%	-3,21%	-0,98%
EURUSD	-0,11%	-0,75%	-0,35%	-2,10%	2,17%	-3,63%	-1,01%
USDZAR	2,54%	1,61%	1,52%	4,71%	4,36%	8,20%	6,35%
GBPZAR	2,17%	1,78%	1,27%	3,97%	9,74%	4,75%	5,33%
EURZAR	2,56%	1,00%	1,30%	2,65%	6,78%	4,33%	5,29%
Gold Spot	-0,09%	-0,20%	4,74%	-1,24%	12,49%	4,80%	9,01%
Brent Crude	1,69%	1,30%	-5,67%	6,32%	-1,85%	8,34%	4,28%
Goldman Sachs Commodity Index	0,52%	0,39%	-5,62%	4,16%	-4,11%	5,36%	5,53%

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