

March 2024

Line of THOUGHT

ECONOMIC AND MARKET OVERVIEW

FEBRUARY IN REVIEW

South Africa's President, Cyril Ramaphosa, and his Minister of Finance, Enoch Godongwana, delivered the State of the Nation address and budget speech respectively. Notable observations following the budget speech were:

- Bracket creep hits low- to middle-income earners - The 2024 Budget proposals indicated no increase in tax rates in any category other than excise duties. The revenue gap is being addressed with the finance minister choosing to raise additional personal income tax. This is achieved by not adjusting the personal income tax brackets (commonly referred to as bracket creep), rebates, and medical tax credits for inflation. Additionally, above-inflation adjustments are being made to excise duties for alcohol and tobacco.
- Two-pot retirement system set for 1 September 2024 - From the implementation of the two-pot system, all contributions to retirement funds will be split into two components. One-third of the contributions will be credited to a "savings component" and the remaining two-thirds to a "retirement component". The main idea is to promote the preservation of retirement fund savings until retirement, while also providing investors with access to savings in times of need. It is estimated that R5 billion will be raised in 2024/2025 due to tax collected as fund members access once-off withdrawals.
- Global minimum corporate tax to be implemented - South Africa will implement a global minimum corporate tax of 15% from 1 January 2024, in line with the Organisation for Economic Co-operation and Development's base erosion and profit-shifting framework. The introduction is expected to increase corporate tax collection by R8 billion in the 2026/2027 tax year.

Joe Biden and Donald Trump are leading their respective party nomination races and are likely to face each other in the US Presidential election in November this year.

Bloomberg reported that the United Kingdom and Japan both fell into a technical recession at the end of last year, marked by two consecutive quarters of contracting activity. While the euro area is expected to avoid a downturn, the European Commission still sees the bloc growing slower than initially forecast for this year. In Australia, the unemployment rate climbed to the highest level in two years, consistent with expectations for its economy to soften.

It's a matter of 'when', and not 'if' the US Federal Reserve will lower interest rates. That's according to its chairman Jerome Powell. He has however indicated that it's not likely to happen before spring in the northern hemisphere, while they closely watch the trajectory of inflation and other macro-economic indicators. After their December 2023 session, the Fed forecasted it would make three quarter-point cuts by the end of 2024 to lower the benchmark rate to 4.6%.

The number of political parties that have registered for the national and provincial elections in South Africa exceeds 350 for the May 2024 voting. This compares to 48 in 2019 and only 29 in 2014.

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Market Performance

Nvidia added USD 277 billion (about R5.2 trillion) to its market capitalisation in one day during February 2024 - the largest single-session increase in history. This move is equal to about one quarter of the total market capitalization of the JSE in South Africa. The S&P 500 ended the month 5.3% higher in US Dollar terms. In Japan the Nikkei 225 rose 8% to reach a record high - surpassing a level last seen 34 years ago. This is despite the Japanese economy showing no growth in the last two quarters of 2023.

Chinese equities had a strong rebound as it ended the month 9.4% higher, but over one year it is still down by more than 10%.

South African equities shed 2.4% in February, mainly due to poor performance among resource stocks (down 6.9%). MTN, Northam Platinum and Sibanye Stillwater all gave up more than 12% while Richemont rose nearly 9% during the month. South African bonds receded somewhat as South African-specific risks as well as concerns about a delay in global interest rate cuts, caused long term rates to rise.

Gold ended the month flat on nearly USD 2 050 per fine ounce, while the price of a barrel of Brent crude oil went up by 2.3%.

MARKET INDICES ¹ (All returns in Rand)	29 February 2024		
	3 months	12 months	5 years ²
SA equities (JSE All Share Index)	-3.4%	-2.9%	9.3%
SA property (S&P SA REIT Index)	13.9%	7.7%	-3.5%
SA bonds (SA All Bond Index)	1.6%	7.6%	7.8%
SA cash (STeFI)	2.1%	8.3%	6.0%
Global developed equities (MSCI World Index)	12.1%	31.2%	19.4%
Emerging market equities (MSCI Emerging Market Index)	5.1%	14.1%	8.8%
Global bonds (Barclays Global Aggregate)	2.7%	7.7%	5.3%
Rand/dollar ³	1.2%	4.5%	6.4%
Rand/sterling	1.2%	9.2%	5.3%
Rand/euro	0.4%	6.6%	5.3%
Gold Price (USD)	0.4%	11.9%	9.3%
Oil Price (Brent Crude, USD)	1.0%	-0.3%	4.8%

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

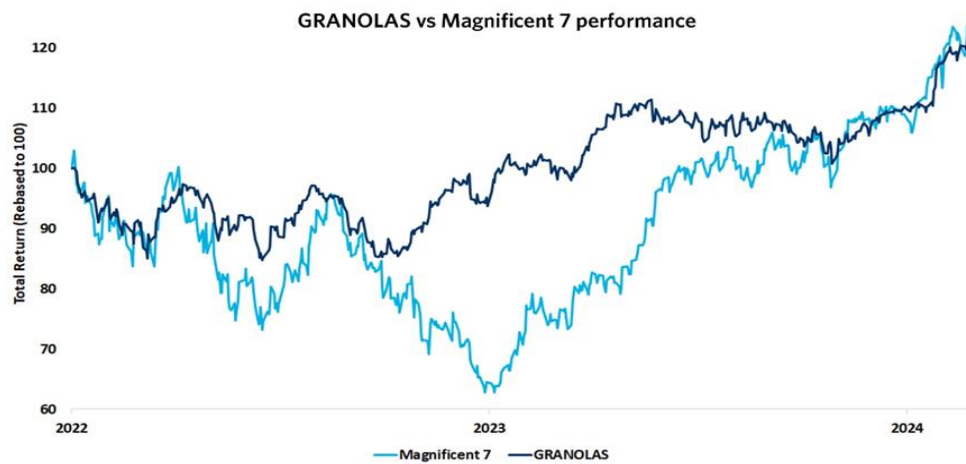
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Did you know?

Cowboys versus Cereal

"Acronyms, like numbers, sell..."



This chart shows the performance of two groups: the GRANOLAS, comprising 11 European large-cap stocks, and the Magnificent 7, the exclusive group of US mega-cap tech stocks. GRANOLAS, an acronym created in 2021 by Goldman Sachs, encompasses prominent companies including GSK, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP and Sanofi. Since 2021 these companies have managed to match the returns of the Magnificent 7 in local currency terms and played a pivotal role in propelling European equity indices to all-time highs. Although the group did not keep pace with the Magnificent 7's extraordinary returns in 2023, over the two-year period they avoided extreme drawdowns during a challenging macro environment, particularly in Europe.

While breakfast cereal may lack the thrill of wild west cowboys, the group has drawn comparisons to the Magnificent 7 due to their outsized performance and large weighting within the index. GRANOLAS are in contrast, a much more diversified group, instead of all being exposed to a singular theme, with companies ranging from pharmaceuticals and luxury brands to food and semi-conductor suppliers. The companies also exhibit quality attributes showcasing solid earnings growth, stable margins, and resilient balance sheets. Additionally, they offer an average dividend yield of 2.5%, Surpassing the Magnificent 7's which is minimal. Consequently, returns over the past few years have been much more stable with lower drawdowns and almost half the volatility. Valuations are also a lot more reasonable with the European group, which are currently trading on a 1-year forward Price/Earnings ratio of 20x, a 30% discount relative to the Magnificent 7. Although the ultimate outcome for both groups has been almost identical, the journey to get there has been a lot smoother holding the GRANOLAS. It is undeniable that 2023 was the year of the Magnificent 7, but over the long-term owning such stocks can be an emotional rollercoaster. On the other hand, there is no replacement for diversification and a good night's sleep!

Source: Momentum Global Investment Management, Bloomberg LP.

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