

May 2024

Line of THOUGHT

ECONOMIC AND MARKET OVERVIEW

APRIL IN REVIEW

Inflation and interest rates remained in the news, as various central banks had their meetings on monetary policy. At the end of the month the Federal Open Market Committee (FOMC) of the US Federal Reserve decided not to change policy rates. This was widely expected, with the Federal funds target rate range maintained at 5.25% - 5.50%. However, with recent inflation data disappointing and the economy still strong, the focus shifted to any change in tone in the FOMC statement and Chair Jerome Powell's press conference. The overarching message was that the Fed was not prepared to cut interest rates anytime soon, with any easing only considered appropriate once the committee had greater confidence that inflation was returning sustainably to the 2% target. The Fed's renewed caution over inflation was evident in the policy statement, reflecting the Fed's assessment of a 'lack of further progress' towards the target.

In South Africa, inflation still hovers a little above 5%. Coupled with the "higher for longer" interest rate message from the FOMC, it makes it unlikely that local consumers will benefit from a rate cut soon.

With no Monetary Policy Committee (MPC) meeting at the South African Reserve Bank in April, the focus has shifted from policy rates to politics as the general election on 29 May looms. Markets have not shown significant additional volatility in the run-up to this watershed election, which will likely see the formation of a coalition government with the ANC still, by some margin, the senior partner. International investors are likely to remain on the sidelines until after elections before committing funds to either local bonds or equities. Both of which look appealing from a valuation point of view.

The South African Revenue Service reported that South Africa recorded a trade surplus of R7.3 billion in March 2024, on the back of imports of R156.8 billion and exports of R164.1 billion. The biggest contributor to the trade surplus comes from trade with Africa, where exports exceeded imports by over R25 billion for the month. However, this was just about offset by trade with Asia, where imports exceeded exports by a similar margin.

Efforts have intensified to secure a deal for a ceasefire in Gaza and the release of hostages, with talks resuming in Cairo early in May. Estimates are that more than 35 000 Palestinians and Israelis have died as a result of the armed conflict that started in October last year.

US Stocks have remained largely resilient in recent weeks, despite reports of sticky inflation and risk that the Federal Reserve holds interest rates higher for longer. Wall Street strategists believe this is likely due to a better-than-expected set of first-quarter earnings. With 80% of the companies in the S&P 500 done reporting by the time of writing, the benchmark index is pacing for 5% growth in first-quarter earnings per share, (according to FactSet). This is the biggest year-over-year increase since the second quarter of 2022 and higher than the 3.2% growth analysts had expected prior to the start of the season.

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Market Performance

Global equity markets ended a five-month run of strong returns as the S&P500, Nasdaq100, Nikkei225 and Eurostoxx all ended in the red. The MSCI World Index gave up 3.6% in April while emerging markets gained 0.7% in US dollar terms.

Local equities fared better, and the JSE All Share index gained 3.0% for the month. This rise was driven by a surge in resource stocks, particularly Anglo American. This stalwart on the local exchange is the target of a \$39 billion takeover bid by BHP Group of Australia, causing the Anglo share price to soar by almost one-third in April. Barloworld and African Rainbow Minerals also showed strong upward price movement during the month, while Sasol and Richemont shed nearly ten percent each.

South African bonds showed their resilience amid all the talk of a delay in interest rate cuts and gained 1.5% in April. Much of this support comes from an expectation that the election results won't be disastrous for capital markets and the South African government's ability to borrow money in future.

The rand strengthened against most major currencies during the month, while the Japanese Yen briefly hit its worst level against the US Dollar (¥160 per dollar) since April 1990.

MARKET INDICES ¹ (All returns in Rand)	30 April 2024		
	3 months	12 months	5 years ²
SA equities (JSE All Share Index)	3.7%	1.1%	9.4%
SA property (S&P SA REIT Index)	-4.0%	7.5%	-3.9%
SA bonds (SA All Bond Index)	-1.2%	6.9%	7.2%
SA cash (STeFI)	2.0%	8.4%	6.0%
Global developed equities (MSCI World Index)	5.1%	22.5%	17.2%
Emerging market equities (MSCI Emerging Market Index)	9.3%	13.7%	8.0%
Global bonds (Barclays Global Aggregate)	-2.0%	0.5%	3.9%
Rand/dollar ³	1.3%	3.0%	5.6%
Rand/sterling	-0.4%	2.6%	4.8%
Rand/euro	-0.3%	-0.2%	4.6%
Gold Price (USD)	11.9%	15.1%	12.3%
Oil Price (Brent Crude, USD)	7.5%	10.5%	3.8%

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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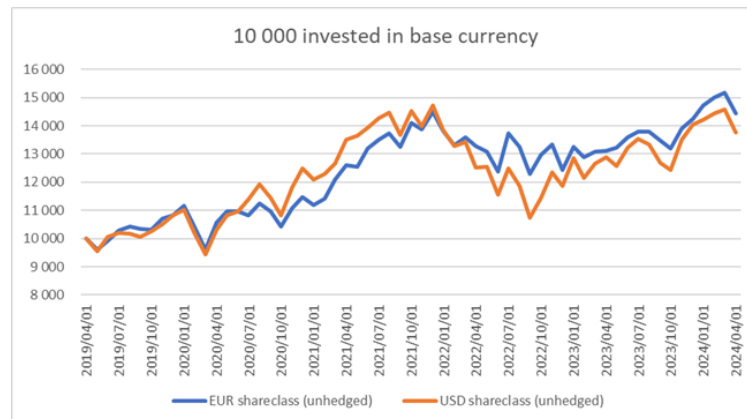
Did you know?

To hedge or not to hedge

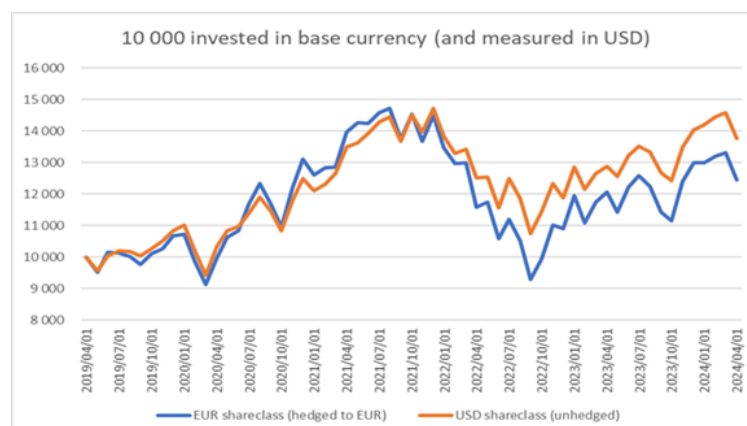
For South African investors externalizing assets, the choice of currency is critical as it can significantly impact investment outcomes. Considerations include the reporting currency on the investment platform, income treatment options, currency of underlying funds, and whether these are hedged or not.

The reporting currency on the investment platform is essential for reporting purposes but doesn't affect the investment outcome. Income treatment options vary based on investor needs and tax considerations, guided by the adviser.

Choosing currencies for underlying instruments aims to minimize foreign exchange transactions, ensuring cost-efficiency. Hedged or unhedged versions of funds impact exposure to underlying holdings and currencies. An experienced adviser helps navigate these choices to optimize investment outcomes and minimize unnecessary costs.



It's important to compare investments in the same currency for accurate performance assessment. The graph below demonstrates how EUR and USD share classes performed when measured in USD

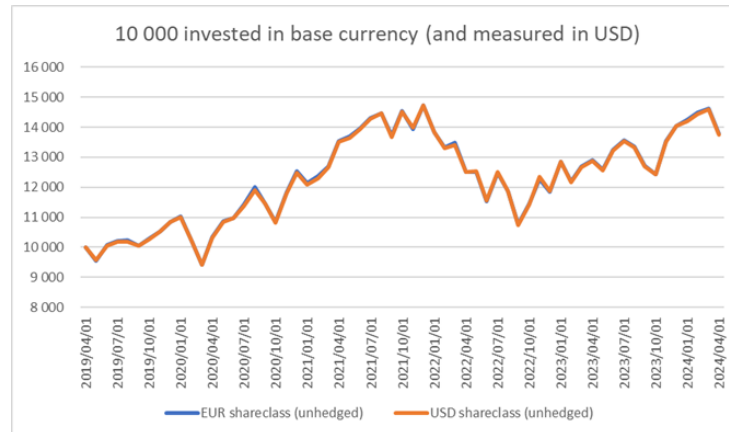


The pricing currency of a fund becomes irrelevant if the portfolio manager doesn't hedge currency risk. This is evident in a fund with one hedged share class and another exposed to underlying currencies.

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Did you know?



Investing in the euro hedged share class of this fund would have been disadvantageous compared to the unhedged USD version. Although the underlying shares had the same return, hedging non-euro exposure back to euros resulted in a loss of over 2% annually, matching the euro's depreciation against the dollar. Whether to hedge or not is a critical decision, highlighting the expertise of your adviser.

Source: Morningstar Direct

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