

# Market Overview

## December 2023

**Morningstar Investment Management**  
January 2024

**For Financial Advisers & Their Clients**

### Market and Economic Summary

Global markets finished the year with a robust December performance, fuelled by a dovish stance from central banks, signalling a potential halt to interest rate hikes and the prospect of rate cuts in 2024. The shift in central banks' tone towards more accommodative rates has set the stage for expectations of rate cuts in the upcoming year. The prevailing risk-on sentiment as a result of the more dovish stance, led to strong performance across most risk assets this month. Longer-dated US treasuries delivered their strongest fourth quarter return in four decades as yields declined (and bond prices rose) across the curve, particularly at the longer end. Developed markets equities outpaced emerging markets, with the latter being weighed down by China's lacklustre performance. Beijing's gaming regulator published draft rules which aimed to clamp down on gaming practices that encourage more time and spending on online games, which led some of the larger listed gaming shares such as Tencent lower.

Most developed market central banks kept interest rates unchanged in December, leading market participants to believe that they were nearing or at the peak of the tightening cycle. The US Federal Reserve kept the fed funds rate steady at 5.25%-5.5% for a third consecutive meeting in December 2023, in line with expectations, but estimated 0.75% of cuts in 2024. The Bank of England followed the US and held its benchmark interest rate at a 15-year high of 5.25% for the third consecutive time during its December meeting. The European Central Bank maintained interest rates at a multi-year high for the second consecutive meeting. The main refinancing operations rate remained at a 22-year high of 4.5%, while the deposit facility rate was held steady at an all-time record of 4%.

Developed market inflation numbers continued their downward trend this month, as continued downward pressure on energy prices pushed inflation numbers lower. The annual CPI inflation rate in the US slowed to 3.1% (year-on-year to the end of November), the lowest reading in five months and in line with market forecasts. Energy costs, gasoline and utility (piped) gas service were the biggest decliners. On the other hand, core CPI inflation remained at 4% (year-on-year to the end of November), in line with forecasts. The annual CPI inflation rate in the Euro Area decreased to 2.4% (year-on-year to the end of November), the lowest reading since July 2021 and in line with forecasts. Energy prices were the biggest contributor to the decline, falling slightly more than expected. The annual CPI inflation rate in the UK slowed to 3.9% (year-on-year to the end of November), the lowest reading since September 2021 and well below forecasts of 4.4%. China's consumer prices fell by 0.5% (year-on-year to the end of November), below market forecasts of a 0.1% fall.

Turning to other important economic releases. The US job market remains robust, with low unemployment numbers. The unemployment rate in the United States fell to 3.7% (to the end of November), the lowest level since July this year. The University of Michigan's consumer sentiment index for the US was revised

higher to 69.7 in December of 2023, from a preliminary figure of 69.4. The reading was the highest in five months, amid substantial improvements in how consumers view the trajectory of inflation. GDP growth in the UK expanded 0.3% (year-on-year to the end of November), the slowest growth in five months, and well below forecasts of a 0.6% increase.

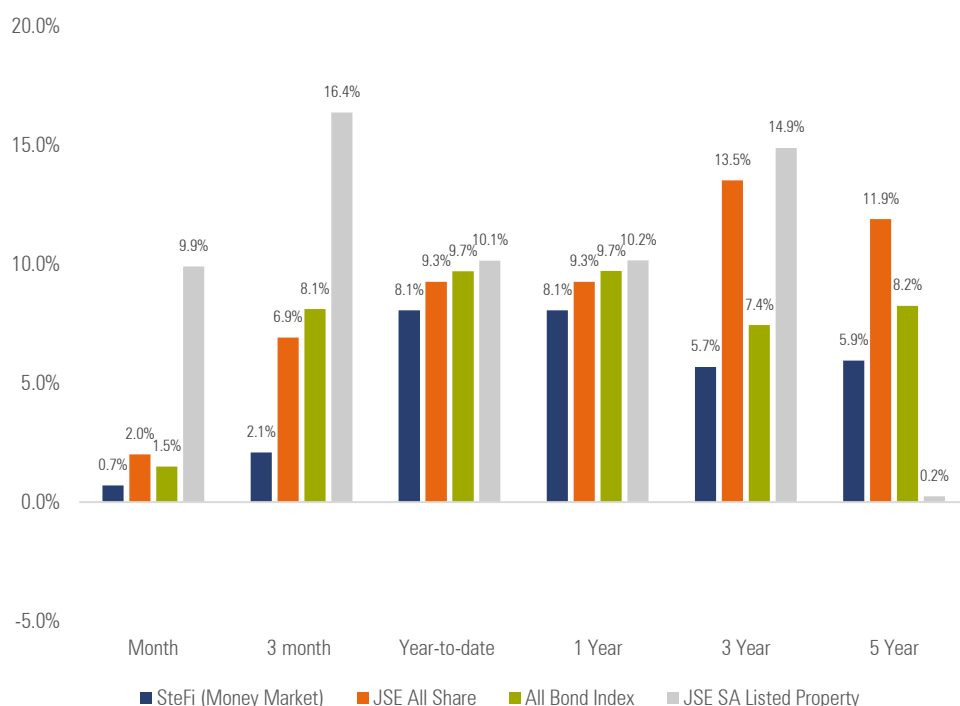
South African asset classes followed global peers higher this month, as local equities, property and bonds produced strong returns. South African property counters had a robust month, producing returns ahead of most other local asset classes, as the sector followed global counterparts higher on the belief that the interest rate cycle has peaked. Local equities produced a positive return this month, however, the asset class lagged the broader emerging market complex. South African bonds continued their strong run, producing robust returns for December and following global peers higher. The rand strengthened this month against the major crosses, given the risk on environment.

The strength in South African equities was driven largely by the Financials sector, which moved higher over the month and was the best performing sector of 2023. Industrials, on the other hand, produced a positive albeit volatile return. During the month, index heavy weights Naspers (-9.7%) and Prosus (-10.6%) fell on the back of the recently announced gaming curbs in China, which negatively impacted Tencent. Resources produced a negative return this month, lagging the broad market increase, on the back of weakness in the energy and gold sectors.

Local bonds ended the month higher, as the yield curve shifted lower, with the longer dated part of the yield curve falling the most. The SA bond market produced robust returns in 2023, ahead of most other local risk assets and in line with global peers.

Local listed property continued its strong performance in December and was the best performing local asset class in 2023. The prevailing risk-on sentiment, coupled with a robust performance in the index heavy weights Growthpoint (+10.2%) and Redefine (+11.0%) led the sector higher.

### Exhibit 1 | SA Market Performance (total returns)

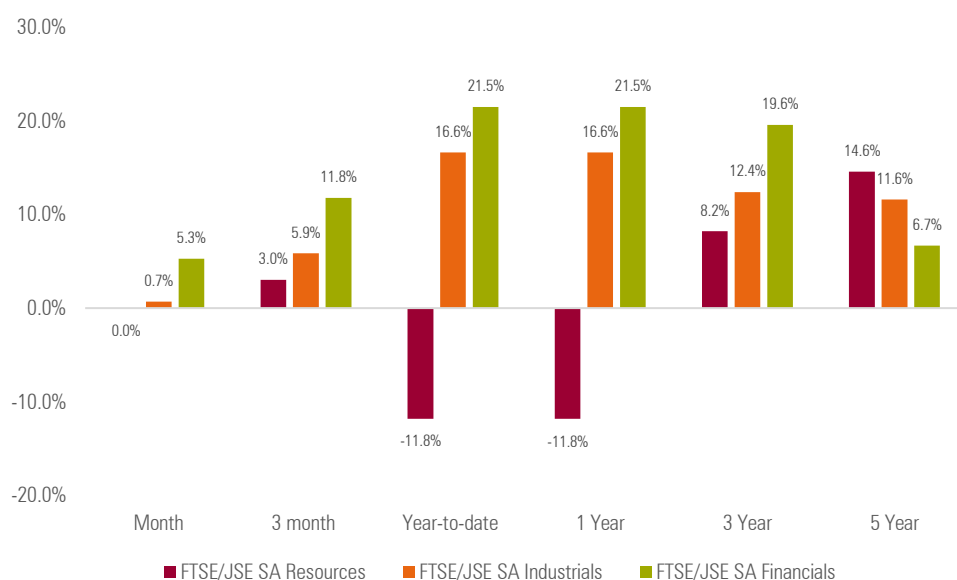


Source: Morningstar Direct as at 31/12/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South Africa's annual inflation rate moved lower to 5.5% (year-on-year to the end of November), below market estimates of 5.6%, with the largest price declines coming from the prices of transportation (namely fuels) on the back of a weaker oil price. The annual core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, ticked up to 4.5% (year-on-year to the end of November), in-line with market forecasts.

South Africa posted a trade surplus of R21 billion in November 2023, above market estimates of a R5.8 billion surplus. Exports increased 9.2% (month-over-month to the end of November), due to a rise in the sales of base metals (23%), prepared food (21%), mineral products (12%) and precious metals and stones (10%). Meanwhile, imports declined by 10%, amid a drop in the purchases of mineral products (-21%), original equipment components (-13%), transport equipment (-11%) and machinery and electronics (-8%).

## Exhibit 2 | SA Sector Performance (total returns)



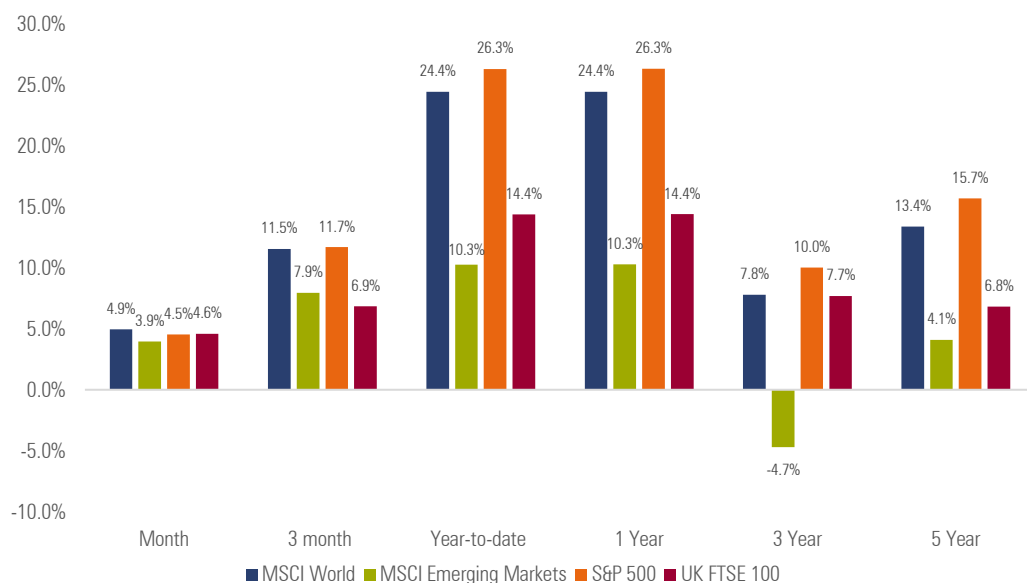
Source: Morningstar Direct as at 31/12/2023. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Most of the major developed equity markets ended the month higher. **The MSCI World Index** delivered a return of +4.9%, which was ahead of emerging market peers.

Most emerging equity markets moved higher during the month, however, the emerging market complex lagged developed market peers on the back of poor performance from Chinese equities. **The MSCI Emerging Markets Index** ended the month +4.0% higher in December.

Most major global equity markets produced positive returns in December, barring China, which ended December and 2023 in negative territory. The UK's **FTSE 100** (+4.6%), Germany's **FSE DAX** (+4.6%) and Japan's **Nikkei 225** (+5.0%) ended the month in positive territory. On the other hand, China's **Shanghai SE Composite** (-1.3%) ended the month in negative territory.

US equities moved higher in December, following global peers. The tech-heavy **NASDAQ 100** (+5.6%) posted a strong return in December, capping off a robust year, where the index finished 55.1% higher. The **S&P 500** (+4.5%) also ended the month higher, as most sectors ended in positive territory.

**Exhibit 3 | International Market Performance (total returns)**

Source: Morningstar Direct as at 31/12/2023. Returns are in US dollars and have been annualised for periods longer than 1 year.

**Impact on client portfolios**

From a portfolio perspective, investors generated a robust performance this month as most asset classes ended in the green. Strong performance from South African equities, the local bond market, local listed property, global equities and bonds provided a tailwind to the performance of portfolios. Rand strength acted as a headwind to the performance of global allocations, as the local unit was firmer against most of the major crosses during the month.

The path of interest rates and inflation will continue to act as key talking points among investors going into 2024. In this uncertain environment, it reinforces the need for robustness and diversification in portfolios. Specifically, we continue to seek exposure to assets that offer strong forward-looking prospects, while balancing risks with defensive exposures.

We remain comfortable with the current positioning of client portfolios, both from an asset allocation and a manager selection perspective. We will continue to follow our valuation-driven approach by allocating assets to the most attractive areas of the market from a reward-for-risk perspective and ensure we build robust portfolios. We are confident that we will continue to deliver on the specific investment objectives of each client portfolio independent of the prevailing market environment.

<b>Local Market Indices</b>	<b>1 Month</b>	<b>YTD</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>
JSE All Share	2.00	9.25	9.25	13.51	11.88	9.93
JSE Capped SWIX	2.90	7.87	7.87	12.69	8.97	6.89
JSE SA Listed Property	9.90	10.15	10.15	14.87	0.24	-1.71
All Bond Index	1.49	9.70	9.70	7.43	8.25	8.45
STeFI (Money Market)	0.70	8.06	8.06	5.68	5.94	6.35
<b>Local Market Sectors</b>	<b>1 Month</b>	<b>YTD</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>
JSE Top 40	1.39	8.98	8.98	13.40	12.51	10.68
JSE Mid Cap	7.92	9.70	9.70	12.83	7.29	4.69
JSE Small Cap	6.00	11.17	11.17	23.90	12.71	6.94
FTSE/JSE SA Resources	-0.03	-11.84	-11.84	8.21	14.57	15.18
FTSE/JSE Ind/Financials	5.27	21.48	21.48	19.58	6.69	6.17
FTSE/JSE SA Industrials	0.71	16.62	16.62	12.40	11.61	8.32
<b>Global Market Indices</b>	<b>1 Month</b>	<b>YTD</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>
MSCI World	4.94	24.42	24.42	7.79	13.37	11.30
MSCI Emerging Markets	3.95	10.27	10.27	-4.71	4.08	5.37
S&P 500	4.54	26.29	26.29	10.00	15.69	13.42
NASDAQ 100	5.56	55.13	55.13	10.18	22.66	20.52
FTSE 100	4.58	14.38	14.38	7.67	6.81	5.60
SSE Composite	-1.27	-5.61	-5.61	-7.56	2.92	-0.89
Nikkei 225	4.96	22.56	22.56	-1.77	7.54	7.55
FSE DAX	4.59	24.53	24.53	3.30	8.92	6.24
US T-Bill 3m	0.46	5.41	5.41	2.51	2.01	1.86
<b>Commodities</b>	<b>1 Month</b>	<b>YTD</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>
Oil Price Brent Crude	-6.99	-10.32	-10.32	14.15	7.45	4.45
Gold	2.11	14.59	14.59	3.26	10.20	8.88
Platinum	6.72	-3.01	-3.01	-0.30	4.88	1.55
Copper	1.04	-0.54	-0.54	2.27	6.65	4.53

Note: The performance of Local Market Indices and Local Market Sectors is quoted in rands and the performance of Global Market Indices and Commodities is quoted in US dollars. All data is sourced from Morningstar Direct as at 31/12/2023.

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