

Market Overview

January 2024

Morningstar Investment Management
February 2024

For Financial Advisers & Their Clients

Market and Economic Summary

Global developed markets produced a volatile and varied performance in January, with Japan, the US and parts of Europe producing strong returns, while emerging markets lagged. Japan produced a strong performance this month, with the Nikkei posting its best January return in 25 years. US markets produced strong returns; however, the last week of January saw some weakness creep into the market as the US Federal Reserve indicated it is unlikely to cut interest rates in March this year. On the other hand, emerging market peers struggled to produce meaningful returns as a strong US dollar as well as negative sentiment surrounding China was a headwind to the performance of the emerging market basket. China had a particularly tough start to the year, producing negative returns on the back of continued concerns around the real estate market, stubborn deflationary pressures, as well as uncertainties about the trajectory of US interest rates. From a fixed income perspective, global developed market bonds moved lower this month on the back of yields ticking higher, while emerging market fixed income contrasted this, with positive performance.

Most developed market central banks kept interest rates unchanged in January, however, they indicated that further evidence that inflation was under control was needed to justify the first round of cuts. The US Federal Reserve kept the fed funds rate steady at 5.25%-5.5% for a fourth consecutive meeting in January 2024, in line with expectations. Policymakers added that they do not expect it will be appropriate to reduce rates until they have gained greater confidence that inflation is moving sustainably toward their 2% target. The European Central Bank (ECB) followed the US and held its benchmark interest rate at record levels for the fourth consecutive time during its January meeting. The ECB pledged to maintain interest rates at restrictive levels for as long as necessary to bring inflation back to its 2% target in a timely manner, despite recessionary concerns.

Developed market inflation numbers ticked higher this month, with varying contributors, but remained well below the highs recorded in 2023. The annual CPI inflation rate in the US moved higher to 3.4% (year-on-year to the end of December), ahead of market forecasts. Food, shelter and energy continue to be the larger contributors to inflation. The annual CPI inflation rate in the Euro Area increased to 2.9% (year-on-year to the end of December), ahead of expectations. It also marked the first uptick in inflation since April, mainly driven by energy-related base effects. The annual CPI inflation rate in the UK rose to 4.0% (year-on-year to the end of December), ahead of expectations. It is the first increase in the inflation rate in ten months, with the biggest upward contribution coming from prices of alcohol and tobacco. China's consumer prices fell by 0.3% (year-on-year to the end of December), marking the third straight month of declines, which was the longest streak of declines since October 2009.

Most economies produced positive GDP growth over 2023, with the US and China producing strong growth ahead of expectations. The US economy grew at 3.3% (year-on-year in the fourth quarter of 2023), ahead of expectations of a 2.0% rise. On the other hand, the Euro Area produced 0.1% growth (year-on-year to the end of December). Lastly, China recorded 5.2% growth (year-on-year to the end of December), well ahead of most developed market counterparts and ahead of the official 5% target.

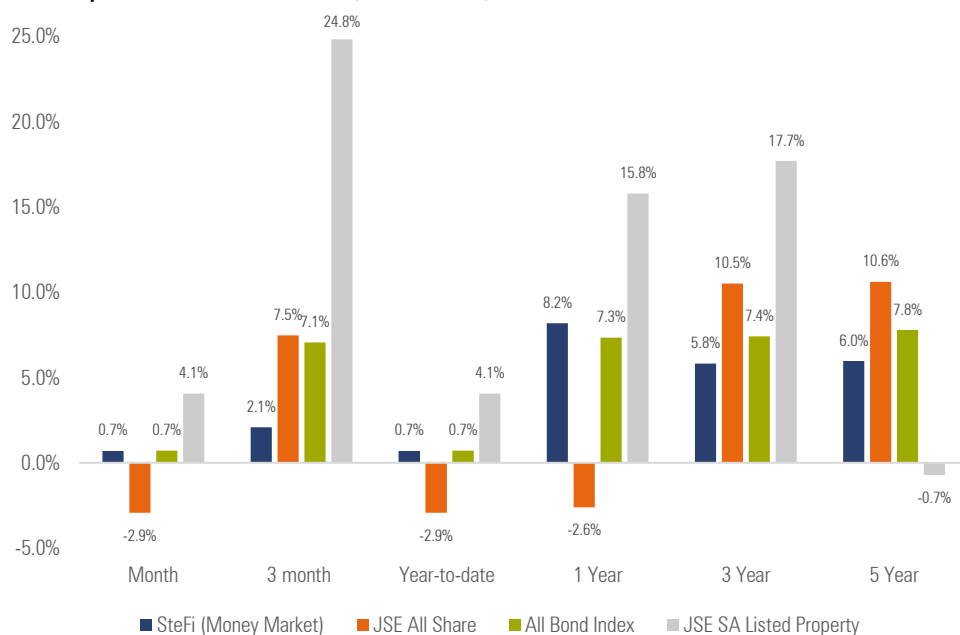
South African asset classes followed global emerging market peers lower this month, as local equities produced weak returns. South African property counters had a robust month, starting the year on the front foot and producing returns ahead of all other local asset classes. Local equities produced a negative return this month, as the commodity sector dragged the index lower. South African bonds moved higher this month, in line with cash returns, as the yield curve steepened. The rand weakened this month against the major crosses in the face of a stronger US dollar.

The weakness in South African equities was driven largely by the Resources sector, which moved lower over the month on the back of weak performance from energy and platinum holdings. Thungela (-22.0%), Sasol (-11.4%), Impala Platinum (-19.8%) and Anglo American Platinum (-17.3%) produced weak returns in January. Industrials produced a negative, albeit resilient return, as certain SA retailers produced strong returns on the back of resilient results. Mr Price (+9.3%) and The Foschini Group (+4.0%) ended the month higher. Financials produced a negative return this month, lagging the broad market moves, on the back of weakness in the larger banking counters including Firststrand (-7.6%), Standard Bank (-4.0%) and Capitec (-1.4%).

Local bonds ended the month higher, producing a positive return in a particularly weak environment. The higher starting yield on the longer-dated bonds was sufficient to compensate for the small capital value decline on the back of the yield curve moving slightly higher. The yield curve is expected to continue to steepen, as shorter maturities benefit from the potential of a declining repo rate, while longer dated bonds remain burdened by fiscal uncertainties.

Local listed property continued its strong performance in January and was the best performing local asset class. Fortress Real Estate and robust performance from the index heavy weights Growthpoint (+10.2%) and Redefine (+11.0%) led the sector higher.

Exhibit 1 | SA Market Performance (total returns)

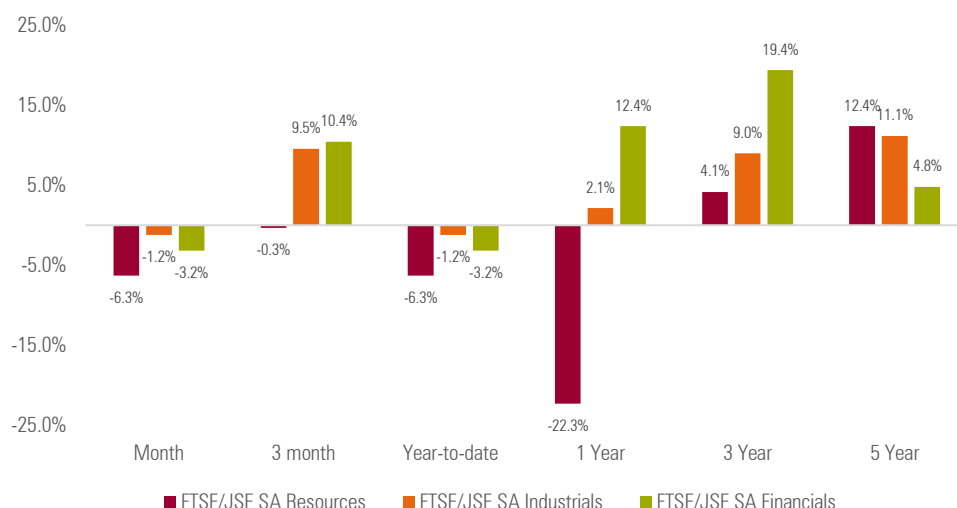


Source: Morningstar Direct as at 31/01/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South Africa's annual inflation rate dipped for the second month to 5.1% (year-on-year to the end of December), from 5.5% in November, and just below market forecasts of 5.2%. It was the lowest reading in four months, edging closer to the South African Reserve Bank's 4.5% target. Prices for food and non-alcoholic beverages were the biggest contributors to the decline in inflation. Further price decreases from transportation on the back of fuel prices retreating contributed to the decline in headline inflation. The annual core inflation was steady at 4.5% in December, slightly below market forecasts of 4.6%.

The composite leading business cycle indicator in South Africa fell by 0.4% in November. This was the first monthly decline since May, as decreases in five of the ten available components dragged the composite lower. The largest negative contributors were a narrowing of the interest rate spread and a slowdown in the six-month smoothed growth rate of job advertisement space. Meanwhile, the key positive contributors were increases in both the average hours worked per factory worker and the volume of orders in the manufacturing sector.

Exhibit 2 | SA Sector Performance (total returns)



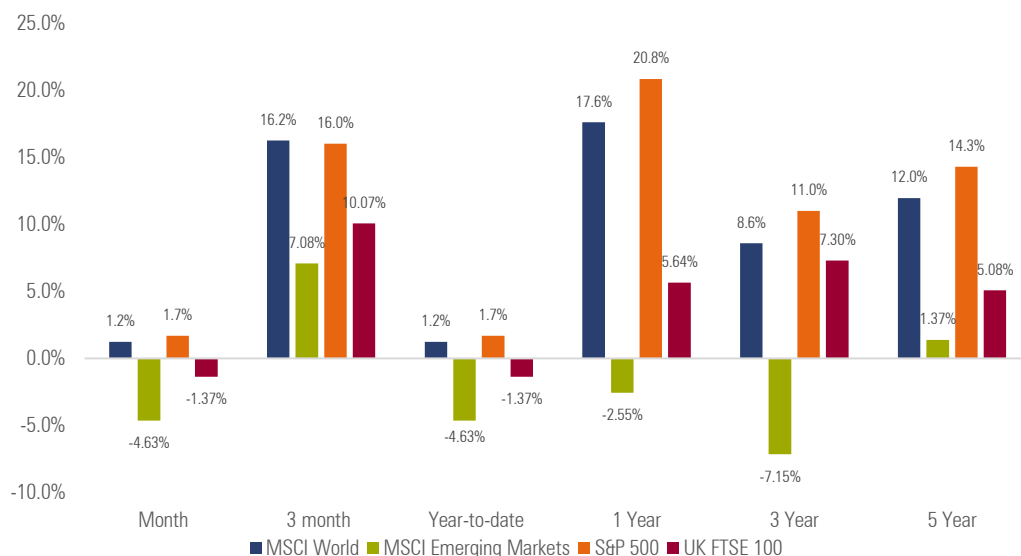
Source: Morningstar Direct as at 31/01/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Most of the major developed equity markets ended the month higher. The **MSCI World Index** delivered a return of +1.2%, which was ahead of emerging market peers.

Most emerging equity markets moved lower during the month on the back of poor performance from Chinese equities. The **MSCI Emerging Markets Index** ended the month -4.6% lower in January.

Most major global equity markets produced negative returns in January, barring the US and Japan. The Nikkei 225 (+4.6%) ended the month in positive territory. On the other hand, the UK's **FTSE 100** (-1.4%), Germany's **FSE DAX** (-0.8%) and China's **Shanghai SE Composite** (-7.4%) ended in negative territory.

US equities moved higher in January, starting the year on the front foot. The tech-heavy **NASDAQ 100** (+1.9%) posted a strong return in January, as tech stocks continue to produce strong returns. The **S&P 500** (+1.7%) also ended the month higher, as most sectors ended in positive territory.

Exhibit 3 | International Market Performance (total returns)

Source: Morningstar Direct as at 31/01/2024. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

From a portfolio perspective, investors struggled to generate a meaningful performance this month as SA equities dragged performance lower. Strong performance from global equities, the local bond market and local listed property provided a tailwind to the performance of portfolios. Rand weakness acted as a tailwind to the performance of global allocations, as the local unit was weaker against most of the major crosses during the month.

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.

| Local Market Indices | 1 Month | YTD | 1 Year | 3 Years | 5 Years | 7 Years |
|------------------------------|----------------|------------|---------------|----------------|----------------|----------------|
| JSE All Share | -2.93 | -2.93 | -2.61 | 10.50 | 10.61 | 8.80 |
| JSE Capped SWIX | -2.84 | -2.84 | -2.02 | 10.49 | 7.75 | 6.11 |
| JSE SA Listed Property | 4.06 | 4.06 | 15.78 | 17.68 | -0.72 | -1.38 |
| All Bond Index | 0.71 | 0.71 | 7.33 | 7.41 | 7.78 | 8.35 |
| STeFI (Money Market) | 0.70 | 0.70 | 8.18 | 5.82 | 5.96 | 6.36 |
| Local Market Sectors | 1 Month | YTD | 1 Year | 3 Years | 5 Years | 7 Years |
| JSE Top 40 | -3.47 | -3.47 | -4.09 | 10.12 | 11.12 | 9.40 |
| JSE Mid Cap | -2.80 | -2.80 | 2.70 | 10.82 | 6.19 | 4.02 |
| JSE Small Cap | 1.74 | 1.74 | 10.54 | 23.05 | 12.64 | 6.84 |
| FTSE/JSE SA Resources | -6.31 | -6.31 | -22.27 | 4.13 | 12.36 | 12.46 |
| FTSE/JSE Ind/Financials | -3.17 | -3.17 | 12.36 | 19.34 | 4.78 | 5.79 |
| FTSE/JSE SA Industrials | -1.22 | -1.22 | 2.14 | 8.98 | 11.14 | 7.53 |
| Global Market Indices | 1 Month | YTD | 1 Year | 3 Years | 5 Years | 7 Years |
| MSCI World | 1.22 | 1.22 | 17.59 | 8.58 | 11.95 | 11.11 |
| MSCI Emerging Markets | -4.63 | -4.63 | -2.55 | -7.15 | 1.37 | 3.87 |
| S&P 500 | 1.68 | 1.68 | 20.82 | 10.99 | 14.30 | 13.38 |
| NASDAQ 100 | 1.89 | 1.89 | 42.83 | 10.75 | 20.98 | 19.97 |
| FTSE 100 | -1.37 | -1.37 | 5.63 | 7.30 | 5.08 | 5.20 |
| SSE Composite | -7.41 | -7.41 | -19.39 | -10.35 | 0.15 | -2.37 |
| Nikkei 225 | 4.59 | 4.59 | 20.63 | -0.09 | 7.52 | 7.75 |
| FSE DAX | -0.77 | -0.77 | 11.76 | 4.01 | 7.45 | 5.69 |
| US T-Bill 3m | 0.45 | 0.45 | 5.47 | 2.66 | 2.06 | 1.92 |
| Commodities | 1 Month | YTD | 1 Year | 3 Years | 5 Years | 7 Years |
| Oil Price Brent Crude | 6.06 | 6.06 | -3.29 | 13.50 | 5.71 | 5.63 |
| Gold | -1.21 | -1.21 | 6.72 | 3.28 | 9.18 | 7.81 |
| Platinum | -7.60 | -7.60 | -7.97 | -5.93 | 2.39 | -1.00 |
| Copper | 0.40 | 0.40 | -9.96 | 2.05 | 5.54 | 3.33 |

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 31/01/2024.

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