

# Market Overview

## February 2024

**Morningstar Investment Management**  
March 2024

**For Financial Advisers & Their Clients**

### Market and Economic Summary

Global equity markets produced strong returns this month as most markets ended the month in positive territory. February marks the 4th consecutive month of positive performance from the US equity market, as expectations that the US Federal Reserve have finished hiking rates boosted sentiment and propelled US equity markets to all-time highs this month. Japan's equity market also moved higher this month and was among the best-performing developed market countries, surpassing its all-time high last seen in the 1980s. On the other hand, the UK was the biggest laggard this month as its economy entered a technical recession, and inflation continued to stay elevated. From an emerging market perspective, China produced a robust return, pushing the emerging market basket higher as market participants expected further stimulus to assist the slowing economy.

Most developed market central banks kept interest rates unchanged in their first meeting of 2024, held in January. However, they indicated that further evidence that inflation was under control was needed to justify the first round of cuts. The Bank of England (BoE) followed suit when policymakers met for their first meeting of 2024 in February. UK policymakers elected to keep the key Bank Rate unchanged at a 16-year high of 5.25% for the fourth consecutive time during its first meeting of 2024, in line with market expectations. However, two policymakers voted to increase rates by 0.25%. UK policymakers followed global central banks in reiterating that monetary policy will remain restrictive until inflation returns to the 2% target.

Developed market inflation numbers produced varying prints this month, with most moving lower or remaining flat. The annual CPI inflation rate in the US moved lower to 3.1% (year-on-year to the end of January), ahead of market forecasts. Food, shelter, and new vehicles were the larger contributors to inflation this month. The annual CPI inflation rate in the Euro Area remained at 2.9% (year-on-year to the end of January), little changed from the 2.9% recorded in December. The annual CPI inflation rate in the UK remained unchanged at 4.0% (year-on-year to the end of January), which was below expectations. However, it remained double the Bank of England's inflation target of 2.0%. China's consumer prices fell by 0.8% (year-on-year to the end of January), the most in more than 14 years and worse than market forecasts of a 0.5% fall.

Turning to other important economic releases: The British economy contracted for the second quarter in a row, entering a technical recession. UK GDP growth contracted by 0.3% (quarter-on-quarter to the end of Q4 2023), following a 0.1% decline in Q3 and worse than market forecasts of a 0.1% fall. Turning to unemployment, US and UK unemployment continues to remain robust with low levels of unemployment. The unemployment rate in the United States held at 3.7% in January 2024, unchanged from the previous month and slightly below the market consensus expectations of 3.8%. The United Kingdom's

unemployment rate declined to 3.8% in the fourth quarter of 2023, down from 4.0% in the three months leading up to September and slightly below the market consensus expectations of 4.0%.

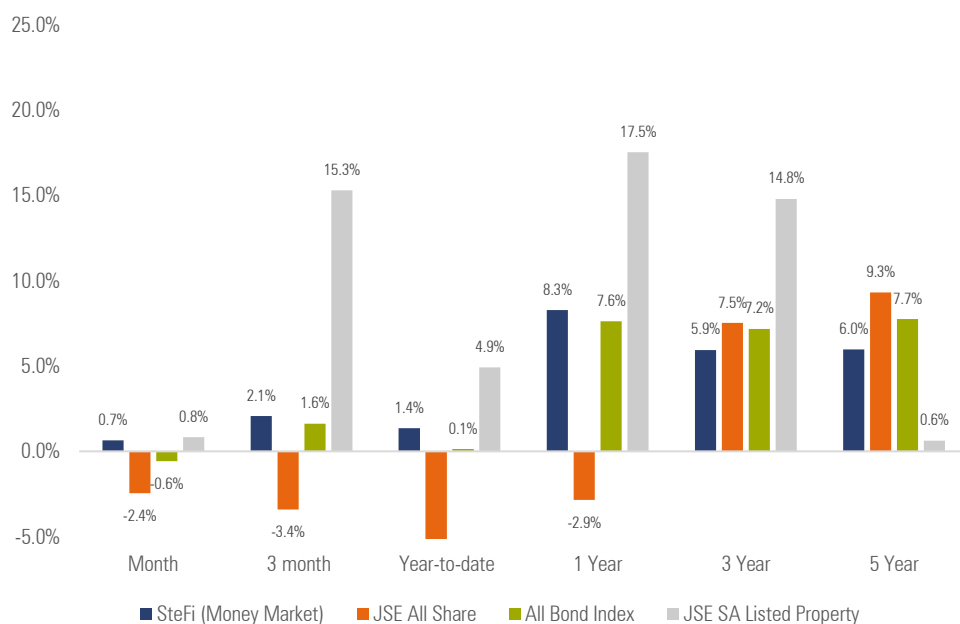
South African asset classes lagged global emerging market peers this month, as local equities produced negative returns for the second consecutive month. Local equities, particularly in the Resources and Retail sectors, continued their poor run of performance, posting declines this month. South African property counters, however, maintained their strong performance and were among the few SA asset classes to produce a positive return. South African bonds moved lower this month, trailing cash returns as the yield curve steepened. The rand weakened against major crosses in the face of a stronger US dollar.

The weakness in South African equities was largely driven by the Resources sector, which moved lower over the month due to weak performance from energy, diversified miners, and platinum holdings. Thungela (-12.4%), Sasol (-11.9%), Sibanye Stillwater (-13.2%), and Glencore (-9.2%) produced weak returns in February. Industrials generated a negative, albeit resilient, return, as certain rand hedges benefited from a weaker rand and positive global sentiment. Compagnie Financière Richemont (+8.9%) and British American Tobacco (+3.0%) ended the month higher. On the other hand, SA retailers produced poor returns this month, with the larger retailers Spar (-13.0%), Pick 'n Pay (-13.5%) and the Foschini Group (-8.0%) ending the month in negative territory. Financials also produced a negative return this month, primarily due to weakness in larger banking counters, including Firststrand (-4.6%), Investec Ltd (-2.7%), and Absa (-0.2%).

Local bonds ended the month lower, producing a negative return in a particularly weak environment. Yields initially moved lower after the South African budget speech; however, they gave up those gains towards the end of the month. Longer duration yields moved higher on the news that the government would likely reduce its bond issuances.

Local listed property continued its ascent in February and was the best-performing local asset class. Fortress Real Estate (+7.9%) announced its first interim dividend under its new scheme, and index heavyweight Nepi Rockcastle (+8.5%) produced robust Full Year 2023 results, leading the sector higher.

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

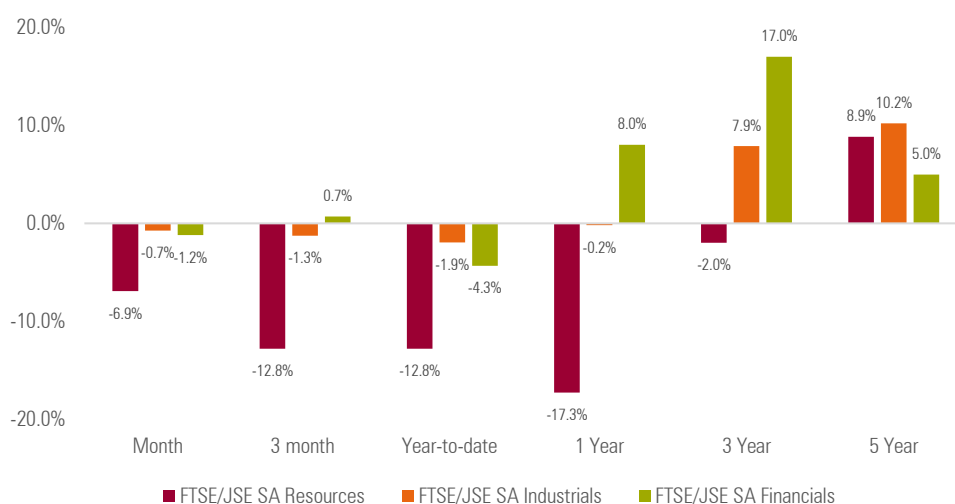


Source: Morningstar Direct as at 29/02/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

On 21 February 2024, Finance Minister Enoch Godongwana delivered the annual budget speech, providing an update on South Africa's finances. While the budget speech provided no surprises other than the use of the contingency reserve to reduce debt, the market reaction was generally positive with the 10-year SA treasury yield moving lower and the rand firming slightly on the day of the speech. Given that markets are forward-looking, the muted market moves suggest that a lot of the bad news is already priced in and that the reduction in government debt is seen as a net positive.

The annual CPI inflation rate in South Africa moved higher to 5.3% (year-on-year to the end of January), ahead of market forecasts. The annual core inflation, which excludes food and fuel prices, accelerated to a five-month high of 4.6% (year-on-year to the end of January), from 4.5% in December, slightly above market expectations of 4.5%.

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



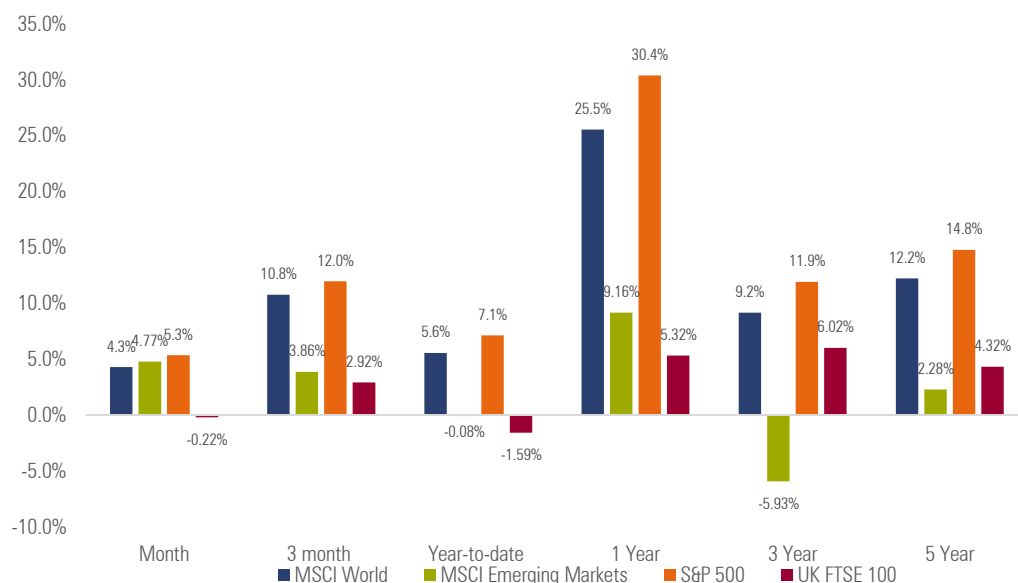
Source: Morningstar Direct as at 29/02/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Most of the major developed equity markets ended the month higher. The **MSCI World Index** delivered a return of +4.3%, which was behind that of emerging market peers.

Most emerging equity markets moved higher during the month on the back of robust performance from Chinese equities. The **MSCI Emerging Markets Index** ended the month +4.8% higher in February.

Most major global equity markets produced positive returns in February, barring the UK. The **Nikkei 225** (+5.5%) ended the month in positive territory touching an all-time high. Germany's **FSE DAX** (+4.2%) and China's **Shanghai SE Composite** (+7.9%) ended in positive territory. On the other hand, the UK's **FTSE 100** (-0.2%) was one of the few developed markets to produce a negative return in February.

US equities moved higher in February, with some indices touching all-time highs. The tech-heavy **NASDAQ 100** (+5.4%) posted a strong return in February, as tech stocks continue to produce strong returns. The **S&P 500** (+5.3%) also ended the month higher, as most sectors ended in positive territory.

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

Source: Morningstar Direct as at 29/02/2024. Returns are in US dollars and have been annualised for periods longer than 1 year.

**Impact on client portfolios**

From a portfolio perspective, investors managed to generate a positive performance this month as global allocations pushed performance higher. Strong performance from global equities and local listed property provided a tailwind to the performance of portfolios. Rand weakness acted as a further 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.

<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	-2.44	-5.31	-2.86	7.53	9.32	8.91
JSE Capped SWIX	-2.27	-5.05	-1.97	7.77	7.00	5.98
JSE SA Listed Property	0.82	4.92	17.58	14.80	0.62	-1.21
All Bond Index	-0.58	0.13	7.64	7.18	7.75	8.15
STeFI (Money Market)	0.65	1.36	8.30	5.95	5.98	6.38
<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	-2.48	-5.86	-4.20	7.10	9.79	9.64
JSE Mid Cap	-2.99	-5.71	-0.15	8.58	5.07	3.63
JSE Small Cap	-2.04	-0.33	7.46	18.96	12.80	6.24
FTSE/JSE SA Resources	-6.92	-12.79	-17.31	-1.97	8.86	12.98
FTSE/JSE Ind/Financials	-1.20	-4.33	8.04	17.02	4.97	5.57
FTSE/JSE SA Industrials	-0.74	-1.95	-0.18	7.88	10.21	7.66
<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	4.28	5.55	25.59	9.17	12.22	11.34
MSCI Emerging Markets	4.77	-0.08	9.18	-5.93	2.28	4.11
S&P 500	5.34	7.11	30.45	11.91	14.76	13.59
NASDAQ 100	5.41	7.40	51.11	12.72	21.56	20.14
FTSE 100	-0.22	-1.59	5.33	6.02	4.33	4.88
SSE Composite	7.92	-0.07	-11.31	-8.28	-0.96	-1.68
Nikkei 225	5.47	10.31	32.62	0.72	8.52	8.40
FSE DAX	4.19	3.38	17.40	4.56	7.85	6.18
US T-Bill 3m	0.45	0.91	5.52	2.81	2.11	1.98
<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	2.34	8.54	-0.32	8.14	4.84	6.01
Gold	-0.25	-1.46	12.25	5.53	9.20	7.24
Platinum	-4.00	-11.30	-6.73	-9.68	0.36	-2.10
Copper	-2.09	-1.70	-8.60	-3.29	3.95	3.16

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 29/02/2024.

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