

Market Overview

July 2024

Morningstar Investment Management
August 2024

For Financial Advisers & Their Clients

Market and Economic Summary

Global equity markets delivered mixed performance in July, as investors grappled with rapidly changing forward looking interest rate expectations from key economies, a slowing global economy (particularly in the US) and a reacceleration of inflation in some advanced economies (including the eurozone). Political developments were also front of mind during the month, with the sudden withdrawal of US President Joe Biden from the upcoming US presidential race creating an additional layer of uncertainty heading into the second half of the year. This followed an assassination attempt on Republican candidate, Donald Trump, at a rally in Pennsylvania, which heightened tensions and raised serious questions about the security detail on duty at the rally. There was positive news on the US inflation front, as a further moderation in US inflation in June and comments from the US Federal Reserve's Chair Jerome Powell at a press conference on the 31st of July led to markets pricing in an increased likelihood of an interest rate cut from the Fed in September.

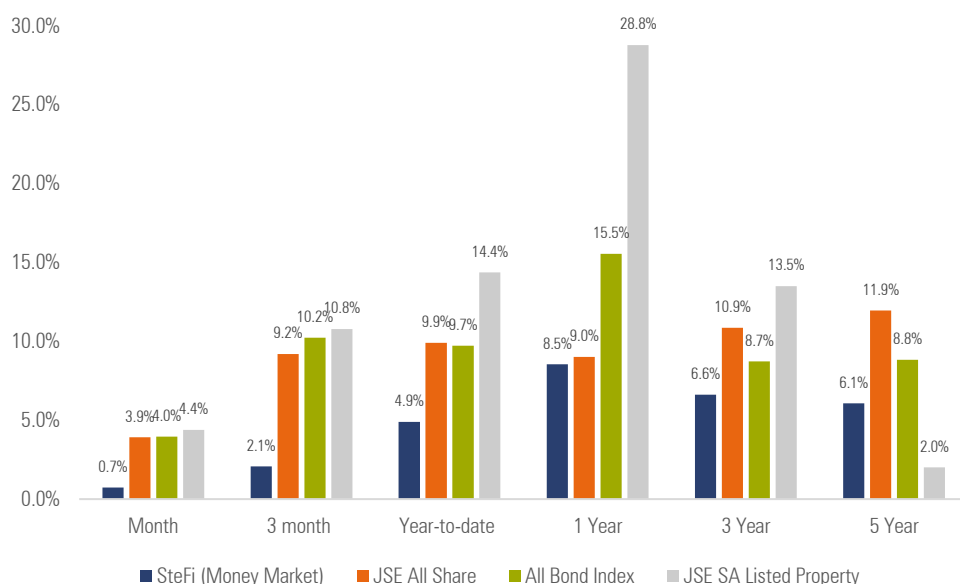
There were some moves from the key major global central banks during the month on interest rates. China's central bank, the People's Bank of China (PBOC), cut both short-term and long-term interest rates following a meeting of the Communist Party's Central Committee. This was the first interest rate cut from the PBOC since August 2023 and signalled increasing intent from the government to support growth in the world's second largest economy. In Japan, the Bank of Japan (BOJ) raised its benchmark interest rate from a range of 0%-0.1% to 0.25%, also announcing plans to reduce bond purchases going forward. This is the latest step from Japanese authorities to normalise interest rates and provide support to the Japanese Yen, which has recently come under severe pressure relative to key developed market currencies. While the US Federal Reserve left the Fed Funds Rate unchanged at 5.25%-5.50% during its July meeting, the Fed did open the door to the possibility of an interest rate cut in September. This followed positive news on the inflation front as well as some softening in the US labour market.

There was generally positive news on the inflation front for key developed market economies. In the US, inflation came in slightly lower than expectations, with headline CPI advancing 3.0% (year-on-year to the end of June 2024) versus May's 3.3% print. US core CPI also moderated slightly to 3.3% (year-on-year to the end of June 2024), from May's 3.4% reading. In the euro area, annual headline CPI inflation was 2.5% (year-on-year to the end of June 2024), slightly below May's 2.6% level. With inflation still above the European Central Bank's (ECB) 2.0% target, the likelihood of significant policy easing from the ECB has decreased slightly. In the UK, June headline CPI came in at 2.0% (year-on-year to the end of June 2024) and core CPI came in at 3.5%. Both figures were unchanged from May, which paves the way for the Bank of England (BOE) to lower interest rates for the first time in four years.

South African asset classes continued a recent trend of strong performance during the month, outperforming both developed and emerging market peers. Investors continue to react positively to the market friendly election outcome, an improved growth outlook and a continuation of the stability in the electricity grid. The FTSE/JSE All Share Index delivered strong performance during the month, ending July at an all-time high. The performance was largely broad based, with all local equity sectors ending the month in positive territory.

SA bonds also delivered strong performance in July, as yields moved lower across the curve, as positive political developments and the increased possibility of lower interest rates in the second half of the year led to decent performance. SA property counters also ended the month with strong performance, as property cemented its lead as the best performing local asset class on year-to-date basis. The rand had mixed performance during the month against major developed market currencies, ending slightly stronger against the US dollar, but slightly weaker against both the pound sterling and the euro.

Exhibit 1 | SA Market Performance (total returns)



Source: Morningstar Direct as at 31/07/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

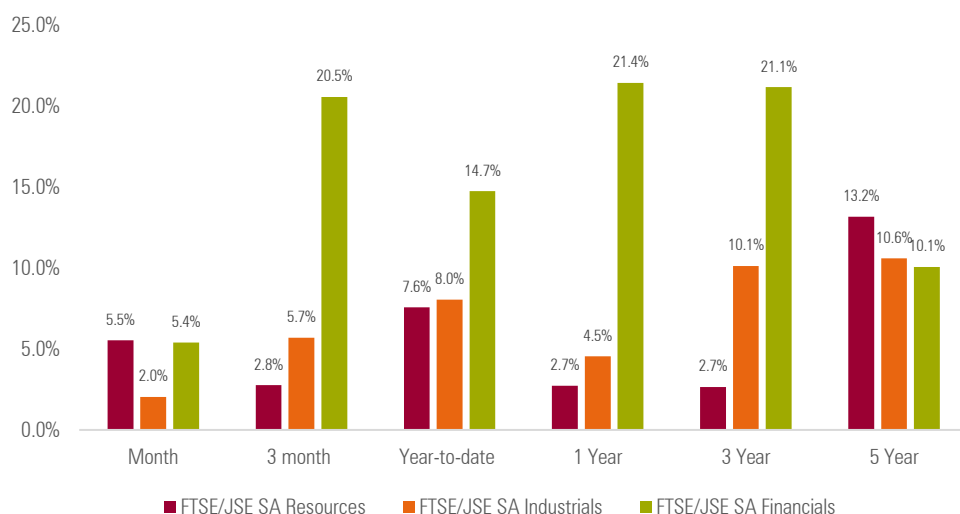
South Africa's annual inflation rate moved lower to 5.1% (year-on-year to the end of June 2024) from 5.2% in May, while core inflation also moved lower to 4.5% from 4.6% in May. The disinflation trend was broad based in June, with nine of the 12 major categories recording smaller increases in the month. Headline CPI has now remained within a range of between 5%-6% for 10 consecutive months.

The South African Reserve Bank (SARB) met during the month and left the repo rate unchanged at 8.25% (with the prime interest rate remaining at 11.75%), in line with market expectations. Interestingly, however, two of the six Monetary Policy Committee (MPC) members voted for an interest rate cut of 0.25%, indicating an increased likelihood of interest rate decreases towards the end of the year.

In terms of economic data releases on GDP growth, data releases for May appear to indicate a continued trend of sluggish growth. Manufacturing production slowed to record a year-on-year contraction of -0.6%, while mining production and wholesale trade also struggled. While the economy is still expected to record positive growth in the second quarter off a low base in Q1, growth remains well below potential. The combination of an improvement in the rail and electricity sectors, the possibility of lower interest rates

and better delivery on structural reforms by the newly formed government will hopefully result in an improved outlook for SA growth going forward.

Exhibit 2 | SA Sector Performance (total returns)



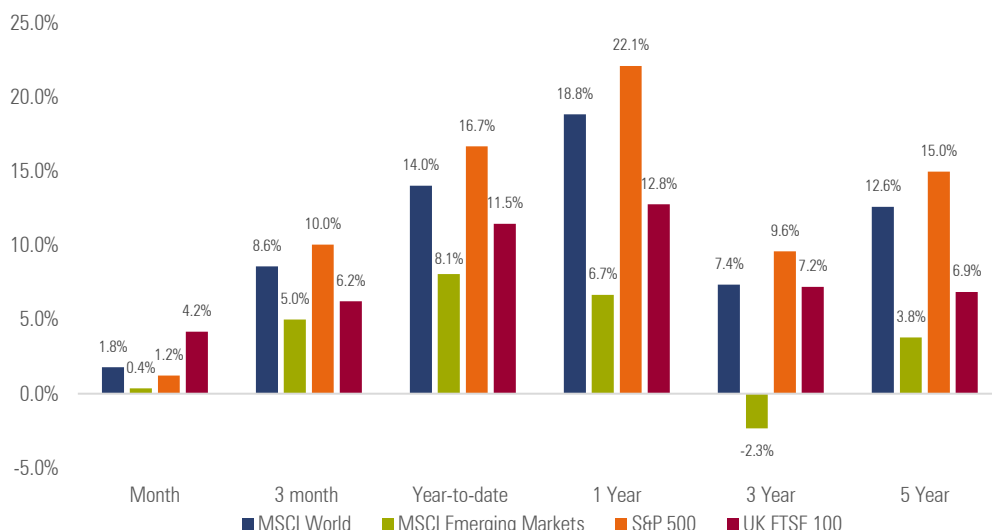
Source: Morningstar Direct as at 31/07/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

The major developed equity markets ended the month with mixed returns; however, most developed equity markets ended the month higher. The **MSCI World Index** delivered a return of +1.8%, which was slightly ahead of emerging market peers.

Within emerging markets, there was a bit of a divergence in the fortunes of the key constituents during the month. India delivered decent performance, while China and Taiwan struggled slightly. The **MSCI Emerging Markets Index** ended the month +0.4% higher in July.

Performance from the major developed equity markets varied, however, most markets delivered decent performance for the month. Germany's **FSE DAX** (+2.5%), the UK's **FTSE 100** (+4.2%) and Japan's **Nikkei 225** (+5.6%) all delivered strong performance. China's **Shanghai SE Composite** (-0.4%) ended the month marginally lower.

Within US equities, the tech-heavy **NASDAQ 100** (-1.6%) ended the month lower, weighed down by a combination of disappointing second quarter earnings releases as well as concerns over high valuations. The **S&P 500** (+1.2%) ended the month higher, as we saw a slight reversal in the fortunes of unfavoured sectors including Real Estate and Utilities, while Information Technology and Communication Services were the laggards.

Exhibit 3 | International Market Performance (total returns)

Source: Morningstar Direct as at 31/07/2024. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

From a portfolio perspective, investors generated strong returns over the month. This was largely driven by the performance of SA asset classes, as markets continued to react positively to the market friendly election outcome, an improved growth outlook and a continuation of the stability in the electricity grid. This buoyed the performance of local assets, as equities, bonds and property all delivered decent returns over the month. Global equity and bond markets also contributed to the performance of portfolios over the month, however, rand strength against the US dollar did provide a slight headwind to the performance of global assets in rand terms.

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	3.92	9.89	9.04	10.87	11.96	9.82
JSE SA Listed Property	4.39	14.37	28.84	13.50	2.01	-0.65
All Bond Index	3.96	9.73	15.58	8.72	8.82	9.05
STeFI	0.74	4.89	8.56	6.62	6.08	6.43
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	3.70	9.40	6.67	10.78	12.29	10.18
JSE Mid Cap	5.09	11.04	16.53	10.24	9.09	6.73
JSE Small Cap	5.44	15.53	25.06	19.29	16.28	9.61
FTSE/JSE SA Resources	5.53	7.56	2.72	2.65	13.17	15.09
FTSE/JSE Ind/Financials	5.39	14.73	21.46	21.15	10.06	7.69
FTSE/JSE SA Industrials	2.04	8.04	4.55	10.12	10.59	7.33
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	1.78	14.03	18.89	7.37	12.60	11.35
MSCI Emerging Markets	0.37	8.08	6.68	-2.34	3.80	3.12
S&P 500	1.22	16.70	22.15	9.60	15.00	14.14
NASDAQ 100	-1.59	15.60	23.93	9.88	20.81	19.65
FTSE 100	4.18	11.45	12.80	7.21	6.86	5.44
SSE Composite	-0.43	-3.06	-11.70	-8.23	-0.92	-2.53
Nikkei 225	5.62	10.47	13.37	3.55	7.65	7.46
FSE DAX	2.48	8.23	10.45	2.81	8.09	4.94
US T-Bill 3m	0.45	3.21	5.60	3.59	2.37	2.25
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-8.55	2.57	-7.64	1.16	3.93	5.97
Gold	4.09	16.74	23.12	9.94	11.19	9.72
Platinum	-3.95	-2.80	2.42	-2.35	2.17	0.51
Copper	-4.90	6.21	1.10	-3.63	7.78	3.52

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 31/07/2024.

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