

Market Overview

August 2024

Morningstar Investment Management
September 2024

For Financial Advisers & Their Clients

Market and Economic Summary

Global equity markets recorded strong gains this month. However, these positive headline moves masked the volatile nature of global markets, as most experienced a sharp sell-off during the first week of the month. This sell-off was due to weaker-than-anticipated US jobs numbers, which led to declines in many risk assets. Additionally, earnings reports continued throughout the month, with markets being especially punitive toward companies that missed earnings or forecasts, with Nvidia being a case in point. Nonetheless, markets recovered strongly, as attention shifted to better-than-expected inflation prints across multiple regions, leading to an anticipation of deeper interest rate cuts.

Comments from US Federal Reserve Chair Jerome Powell at the Jackson Hole conference on August 23 led to markets pricing in an increased likelihood of a larger interest rate cut from the Fed in September. This sparked a continuation of risk-on sentiment, resulting in most risk assets recovering and producing strong returns for August, with many reaching all-time highs. Given the expectation of lower interest rates, US yields declined, and the US dollar weakened against most major currencies. However, not all markets recovered during the month, with China producing weak returns due to a combination of weak earnings and concerns over economic growth weighing on sentiment and dragging down the performance of the emerging market basket.

There was positive news on the inflation front for key developed market economies, paving the way for the first round of interest rate cuts in these regions. In the US, inflation came in lower for the fourth consecutive month, with headline CPI falling to 2.9% (year-on-year to the end of July 2024) versus June's 3.0% print. In the euro area, annual headline CPI inflation fell to 2.2% (year-on-year to the end of July 2024), below June's 2.6% level. With inflation heading toward the European Central Bank's (ECB) 2.0% target, the likelihood of policy easing from the ECB has increased marginally, as energy costs have come in lower. In the UK, headline CPI came in at 2.2% (year-on-year to the end of July 2024), slightly ahead of expectations and Core CPI came in at 3.3%. China's annual inflation rate climbed to 0.5% (year-on-year to the end of July 2024) from 0.2% in June, exceeding market forecasts. This is the highest CPI figure since February and it was also the sixth straight month of positive consumer inflation, as Beijing ramped up stimulus to bolster consumption.

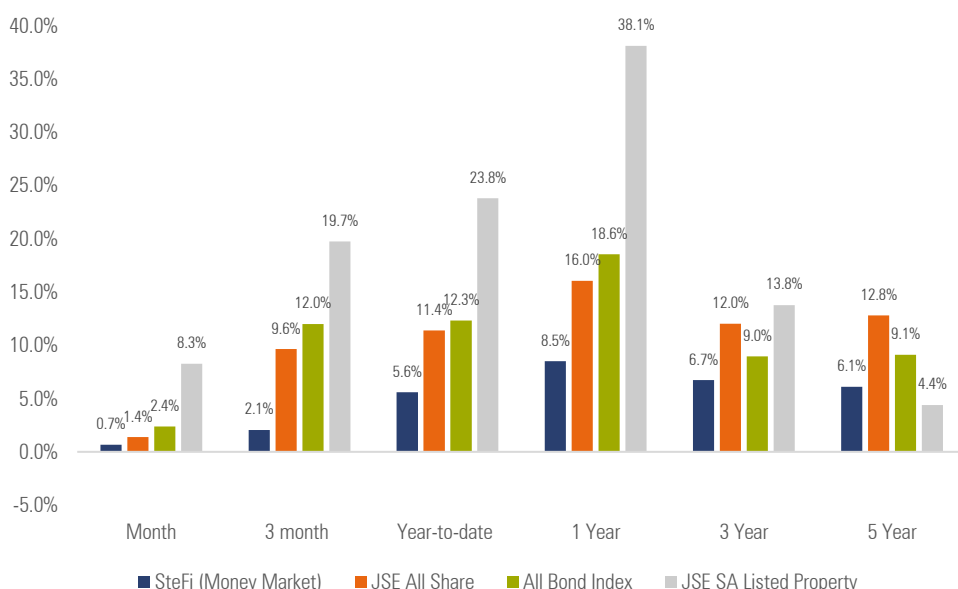
Turning to other important economic releases, economic growth in the US remains robust, fuelling hopes for a soft economic landing and contributing to the risk-on sentiment. Real gross domestic product (GDP) in the US grew at an annual rate of 3.0% (year on year to the end of the second quarter of 2024), ahead of market expectations. Additionally, the US unemployment rate remains low, however it rose slightly this month. The unemployment rate unexpectedly increased to 4.3% in July 2024 from 4.1% in the previous

month, marking the highest level since October 2021 and exceeding market expectations that it would stay at 4.1%.

South African asset classes continued their recent trend of strong performance this month, outperforming their emerging market peers. Positive global sentiment, continued optimism about the recent election outcome, and favourable macroeconomic developments locally contributed to the continued positive moves for South African assets. The FTSE/JSE All Share Index delivered impressive performance, driven by the Industrials and the Financials sectors. "SA Inc" shares, including those of Retailers, Banks, and Insurers, saw strong returns as they maintained their positive momentum. However, price pressures on certain commodities negatively impacted the Resource sector, which posted a double-digit loss in August. This decline in the Resource sector weighed on the overall returns of the broader index.

South African nominal bond yields continued their trend lower (leading to higher prices), as investors grew more comfortable that the Government of National Unity (GNU) will be able to deliver on its agenda. Furthermore, foreign investors demand for South African bonds continued, as they were net buyers for the second consecutive month in August. The net effect was that SA bonds delivered strong performance in August, as yields continued to move lower across the curve. SA property counters also ended the month with strong performance, as local property continued on its strong run, led higher by SA focused property counters including Growthpoint and Redefine. The rand strengthened against the major developed market currencies during the month.

Exhibit 1 | SA Market Performance (total returns)



Source: Morningstar Direct as at 31/08/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

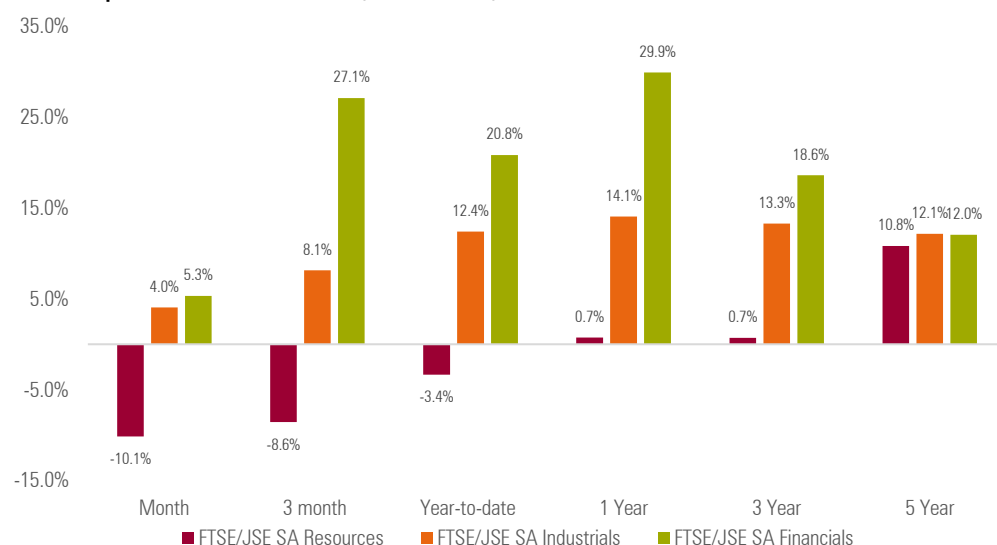
South Africa's annual inflation rate fell for the second month to 4.6% (year on year to the end of July 2024), the lowest print in the past three years, down from 5.1% in the prior month and edging closer to the central bank's preferred target of 4.5%. The annual core inflation rate, which excludes volatile items such as food, non-alcoholic beverages, fuels, and energy, eased to an over two-year low of 4.3% in July, down from 4.5% in the previous month. The lower inflation prints pave the way for the South African Reserve Bank (SARB) to start its interest rate cutting cycle in September.

The South African Chamber of Commerce and Industry (SACCI) business confidence index came in at a four-month high of 109.1 in July 2024. This reflects a modest improvement in business sentiment, which

dropped before May's election but has started to recover with the formation of the GNU. Business confidence has also improved on the back of the continued improvement in the power supply, with over 150 days of no loadshedding.

South Africa's unemployment rate rose to 33.5% as of the end of the second quarter of 2024, the highest in two years, up from 32.9% in the prior period and ahead of expectations. This was the third consecutive quarter that the unemployment rate has risen. The expanded definition of unemployment, which includes those discouraged from seeking work increased to 42.6%. Meanwhile, the youth unemployment rate, measuring jobseekers between 15 and 24 years old, picked up to an over one-year high of 60.8% in the second quarter of 2024, compared to 59.7% in the previous period.

Exhibit 2 | SA Sector Performance (total returns)



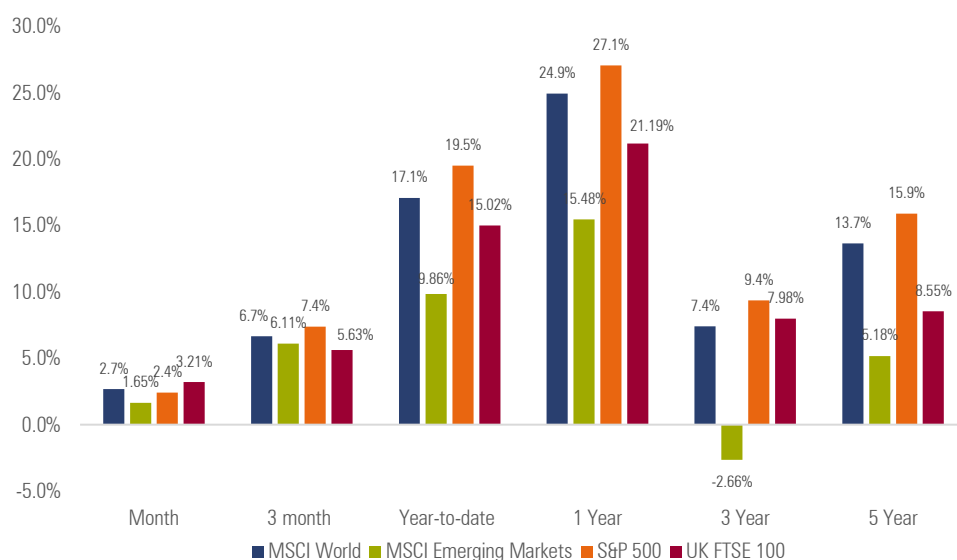
Source: Morningstar Direct as at 31/08/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

The major developed equity markets ended the month with strong returns, as positive global sentiment filtered through most global regions. The **MSCI World Index** delivered a return of +2.7%, which was ahead of emerging market peers.

Within emerging markets, there was a bit of a divergence in the performance of the key constituents during the month. Brazil and Taiwan delivered decent performance this month on the back of strong equity markets and a generally weaker US dollar, while China and Korea struggled to produce a positive return. The **MSCI Emerging Markets Index** ended the month +1.7% higher in August.

Performance from the major developed equity markets was largely encouraging, as positive global sentiment coupled with a weaker US dollar led to positive performance from most developed equity markets. Germany's **FSE DAX** (+4.5%), the UK's **FTSE 100** (+3.2%) and Japan's **Nikkei 225** (+2.2%) all delivered strong performance. China's **Shanghai SE Composite** (-1.4%) on the other hand ended the month marginally lower.

Within US equities, the tech-heavy **NASDAQ 100** (+1.2%) ended the month higher but lagged the broader US equity market, weighed down by the larger tech constituents including Microsoft and Alphabet. The **S&P 500** (+2.4%) ended the month higher, as the more defensive parts of the market including Financials, Consumer Staples and Healthcare recorded strong gains.

Exhibit 3 | International Market Performance (total returns)

Source: Morningstar Direct as at 31/08/2024. 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 decent returns over the month. This was largely driven by the performance of SA asset classes, as sentiment towards these assets remained robust. Global equity and bond markets also contributed to the performance of portfolios over the month, however, the rand strengthened against the US dollar which provided a 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	1.38	11.41	16.08	12.03	12.82	9.63
JSE SA Listed Property	8.25	23.81	38.20	13.78	4.40	0.37
All Bond Index	2.38	12.34	18.60	8.96	9.12	9.25
STeFI	0.67	5.60	8.53	6.74	6.10	6.44
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	1.01	10.50	14.13	12.05	13.12	9.94
JSE Mid Cap	0.45	11.54	21.31	9.07	9.11	6.12
JSE Small Cap	5.43	21.80	29.63	18.69	18.92	10.11
FTSE/JSE SA Resources	-10.14	-3.35	0.75	0.69	10.81	12.54
FTSE/JSE Ind/Financials	5.30	20.81	29.98	18.59	12.05	8.17
FTSE/JSE SA Industrials	4.04	12.40	14.10	13.29	12.15	7.64
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	2.68	17.09	25.00	7.42	13.66	11.74
MSCI Emerging Markets	1.65	9.86	15.52	-2.66	5.18	3.03
S&P 500	2.43	19.53	27.14	9.38	15.92	14.48
NASDAQ 100	1.18	16.96	27.30	8.79	21.55	19.51
FTSE 100	3.21	15.02	21.23	7.98	8.55	6.01
SSE Composite	-1.39	-4.41	-6.30	-9.91	-0.15	-3.36
Nikkei 225	2.21	12.90	20.67	3.32	8.45	7.94
FSE DAX	4.49	13.10	20.91	3.84	9.74	5.56
US T-Bill 3m	0.44	3.66	5.58	3.73	2.42	2.30
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-0.57	1.99	-9.54	2.49	5.39	5.96
Gold	3.59	20.93	29.40	11.46	10.46	9.73
Platinum	-3.29	-6.00	-4.08	-2.07	0.02	-0.68
Copper	-0.11	6.10	6.81	-2.95	8.77	2.59

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 31/08/2024.

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