Market Overview

September 2024

Morningstar Investment Management

October 2024

For Financial Advisers & Their Clients

Market and Economic Summary

Global markets delivered strong returns in September, buoyed by a larger-than-expected interest rate cut by the US Federal Reserve and Chinese authorities' policy support. This led to a strong risk-on sentiment towards most asset classes and led most developed equity markets to record highs during the month. Turning to China, the government's stimulus plan sparked the country's largest stock market rally in over a decade. In the last week of September, the Chinese stock market had its best weekly performance since 2008, advancing 16%. Nevertheless, China's broader economic outlook remains clouded by challenges in the real estate sector, post-COVID recovery and labour market strains. These headwinds suggest the government's 5% growth target may be difficult to achieve.

During the month the US Federal Reserve (Fed) reduced interest rates by 0.5% to 5% in September, ahead of market expectations of a 0.25% cut. Fed Chair Jerome Powell reiterated that the central bank would lower interest rates over time, while emphasising that the overall US economy remains strong. The European Central Bank reduced interest rates for a second time when they lowered the key deposit rate by 0.25% this month, in line with expectations. On the other hand, the Bank of England kept its key rate unchanged at 5% during its September 2024 meeting, following a 0.25% cut in August, the first reduction in over four years. This decision was in line with market expectations.

Inflation across most major developed market countries continued its downward trend this month. Annual inflation in the United States retreated to 2.5% (year-on-year to the end of August), marking the lowest inflation rate since February 2021. This represents the fifth consecutive month of declining annual inflation, highlighting a steady retreat from previous highs. In the Eurozone, inflation continued on its downward path. The annual inflation rate fell to 1.8% (year-on-year to the end of August), the lowest since April 2021, down from 2.2% in July and below market expectations of a 1.9% increase. Inflation in the Eurozone is now below the European Central Bank's 2% target. In contrast, inflation increased marginally in China, with consumer price inflation moving to 0.6% (year-on-year to the end of August), the highest level since February.

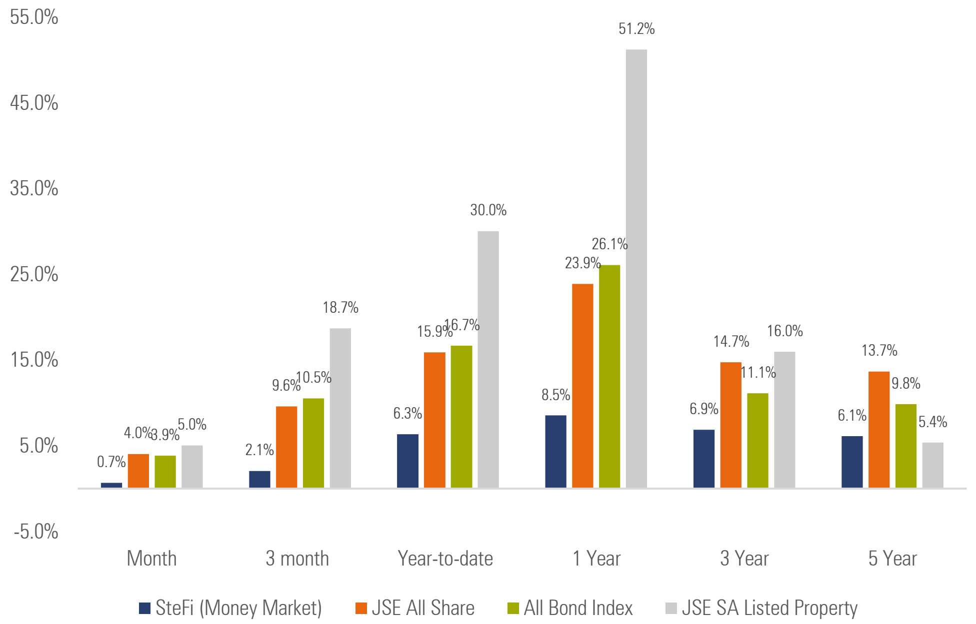
Turning to other economic updates, the US economy continued to demonstrate resilience, growing at an annualised rate of 3.0% in the second quarter of 2024, in line with previous estimates. This growth rate is a notable improvement over the revised 1.6% expansion recorded in the first quarter. Additionally, the US labour market saw a slight improvement, with the unemployment rate easing to 4.2% in August 2024, down from 4.3% in July, and meeting market expectations.

South African (SA) assets maintained their strong momentum in September, delivering their second-best monthly return of the year and outperforming most developed market counterparts. This robust performance was largely driven by a combination of factors, including the South African Reserve Bank's

(SARB) interest rate cut, improved domestic sentiment, attractive relative valuations and supportive policy announcements from China. SA equities posted a strong +4.0% return, led by strong gains in the Resources (+3.7%) and Industrials (+5.4%) sectors. Market heavyweights BHP Group and Prosus were standout performers, advancing +14.5% and +14.3% respectively.

South African nominal bond yields continued their trend lower (leading prices higher), as the stronger rand, along with a third consecutive month of net foreign inflows into South African bonds, pushed yields lower. SA bonds delivered a sixth consecutive positive month, delivering +3.9% for September and +10.5% for the third quarter. South African listed property also continued its upward trajectory, with the property index rising +5.0% in September, bringing quarterly returns to +18.7% and is the best-performing local asset class on a year-to-date basis. The rand strengthened this month, breaking below R17.20 for the first time since January 2023, supported by China's stimulus measures and a favourable interest rate differential between South Africa and the United States.

Exhibit 1 | SA Market Performance (total returns)

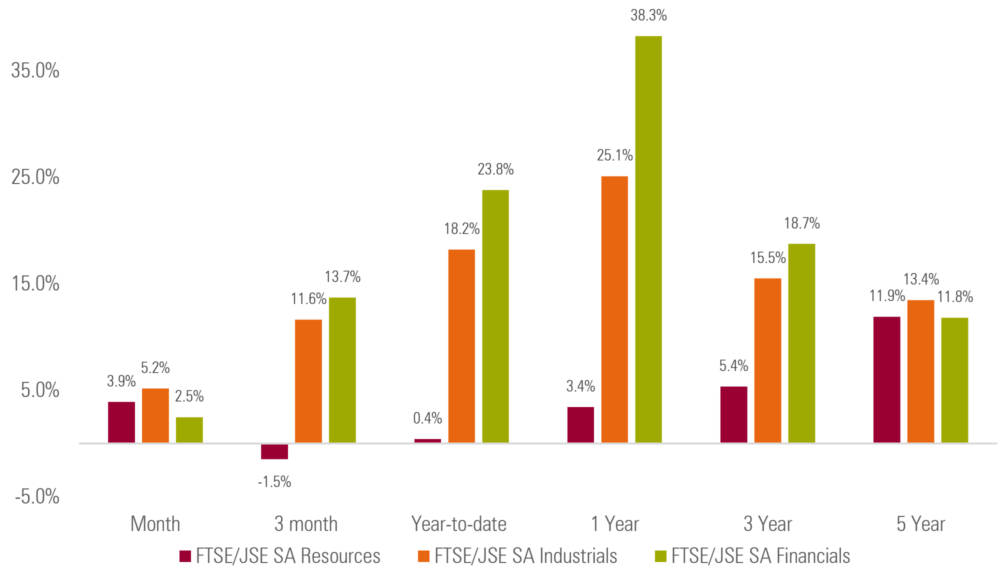


Source: Morningstar Direct as at 30/09/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

The South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) reduced the repurchase (repo) rate by 0.25% to 8%, in line with market expectations. Inflation has continued its downward trajectory, falling below the SARB's target range for the first time in over three years. Despite the significant downward revision of the SARB's inflation forecast, the decision not to opt for a more aggressive 0.5% interest rate cut was somewhat unexpected. The SARB justified its cautious stance by highlighting several risks, including rising housing costs, higher electricity prices, wage growth, geopolitical tensions and policy uncertainty, which all contribute to economic unpredictability. South Africa's economic growth remains sluggish, but recent business and consumer sentiment surveys suggest an improving outlook for the second half of the year.

In August, year-on-year headline inflation slowed to 4.4%, down from 4.6% in July, marking the first time in over three years that inflation has fallen below the SARB's target. The inflation print was ahead of consensus forecasts of +4.5%. Lower annual inflation rates were observed across several product groups, most notably in transport given the firmer rand and pressure on the oil price. The annual core inflation rate, which excludes volatile items such as food, non-alcoholic beverages, fuels, and energy, eased further to 4.1% (year-on-year to the end of August 2024), the lowest since May 2022.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 30/09/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

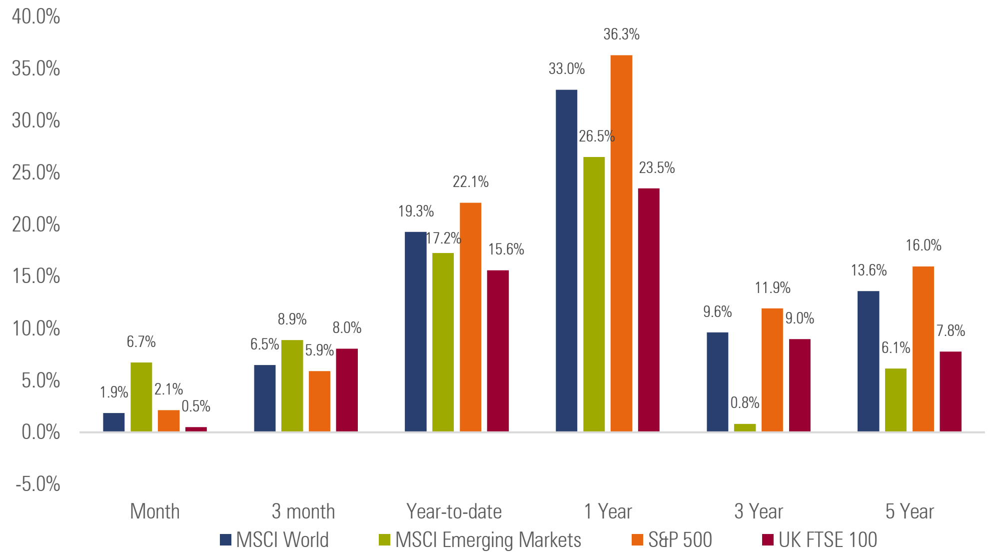
Major developed equity markets recorded modest gains, supported by generally positive global sentiment. The **MSCI World Index** returned +1.9% in September, although this lagged behind its emerging market counterparts.

Within emerging markets, China led the way with robust performance, contributing significantly to the outperformance of the broader index. As a result, the **MSCI Emerging Markets Index** ended +6.7% higher in September, reflecting the strong gains across key emerging economies.

Performance in major developed markets was more subdued. The UK's **FTSE 100** (+0.5%), Japan's **Nikkei 225** (+0.5%), and Germany's **DAX** (+3.1%) all posted positive returns. However, China's **Shanghai SE Composite** soared +18.6%, driven by the government's broad stimulus measures.

In the US, the tech-heavy **NASDAQ 100** rose by +2.6%, slightly outperforming the broader market. Meanwhile, the **S&P 500** gained +2.1%, led by strong performance in defensive sectors such as Consumer Discretionary and Utilities.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 30/09/2024. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

From a portfolio standpoint, investors achieved solid returns for the month, largely due to strong performance across South African asset classes, with local equities, bonds and property sectors showing positive gains. On the global front, positive market sentiment fuelled a risk-on environment, particularly in emerging markets, further enhancing portfolio returns. However, the strengthening of the rand against the US dollar posed a challenge, as it dampened 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	4.04	15.91	23.93	14.73	13.67	10.39
JSE SA Listed Property	5.04	30.04	51.34	15.97	5.37	0.91
All Bond Index	3.86	16.68	26.14	11.14	9.84	9.67
STeFI	0.69	6.33	8.55	6.87	6.12	6.45
Local Market Sectors	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
JSE Top 40	3.70	14.59	22.09	14.80	13.95	10.57
JSE Mid Cap	5.10	17.23	28.94	10.70	10.24	7.68
JSE Small Cap	3.97	26.64	37.48	18.09	19.33	10.71
FTSE/JSE SA Resources	3.89	0.41	3.43	5.36	11.90	13.33
FTSE/JSE Ind/Financials	2.46	23.78	38.34	18.74	11.82	8.85
FTSE/JSE SA Industrials	5.16	18.20	25.14	15.50	13.46	8.47
Global Market Indices	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
MSCI World	1.87	19.28	33.03	9.61	13.59	11.67
MSCI Emerging Markets	6.72	17.24	26.54	0.82	6.15	4.04
S&P 500	2.14	22.08	36.35	11.91	15.98	14.50
NASDAQ 100	2.57	19.97	37.48	11.88	21.97	19.96
FTSE 100	0.49	15.59	23.51	8.96	7.77	5.58
SSE Composite	18.60	13.37	11.67	-4.86	3.16	-0.83
Nikkei 225	0.53	13.50	26.42	2.20	7.73	7.72
FSE DAX	3.06	16.55	32.39	6.84	9.74	5.16
US T-Bill 3m	0.41	4.09	5.53	3.88	2.48	2.35
Commodities	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
Gold	4.64	26.54	40.60	14.70	12.11	10.80
Platinum	4.79	-1.50	6.72	0.76	1.82	0.98
Copper	8.11	14.71	18.08	1.88	10.25	4.45

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 30/09/2024.

About the Morningstar Investment Management Group

Morningstar's Investment Management group, through its investment advisory units, creates investment solutions that combine award-winning research and global resources with proprietary Morningstar data. Morningstar's Investment Management group provides comprehensive retirement, investment advisory, and portfolio management services for financial institutions, plan sponsors, and advisers around the world.

Morningstar's Investment Management group comprises Morningstar Inc.'s registered entities worldwide including: Morningstar Investment Management LLC; Morningstar Investment Management Europe Limited; Morningstar Investment Management South Africa (Pty) Ltd; Morningstar Investment Consulting France; Ibbotson Associates Japan, Inc; Morningstar Investment Adviser India Private Limited; Morningstar Investment Management Asia Ltd; Morningstar Investment Services LLC; Morningstar Associates, Inc.; and Morningstar Investment Management Australia Ltd.

About Morningstar, Inc.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, retirement plan providers and sponsors, and institutional investors in the private capital markets. Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, and real-time global market data. The company has operations in 27 countries.

Important Information

The opinions, information, data, and analyses presented herein do not constitute investment advice; are provided as of the date written; and are subject to change without notice. Every effort has been made to ensure the accuracy of the information provided, but Morningstar makes no warranty, express or implied regarding such information. The information presented herein will be deemed to be superseded by any subsequent versions of this document. Except as otherwise required by law, Morningstar, Inc or its subsidiaries shall not be responsible for any trading decisions, damages or losses resulting from, or related to, the information, data, analyses or opinions or their use. Past performance is not a guide to future returns. The value of investments may go down as well as up and an investor may not get back the amount invested. Reference to any specific security is not a recommendation to buy or sell that security. There is no guarantee that a diversified portfolio will enhance overall returns or will outperform a non-diversified portfolio. Neither diversification nor asset allocation ensure a profit or guarantee against loss. It is important to note that investments in securities involve risk, including as a result of market and general economic conditions, and will not always be profitable. Indexes are unmanaged and not available for direct investment.

This commentary may contain certain forward-looking statements. We use words such as “expects”, “anticipates”, “believes”, “estimates”, “forecasts”, and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

The Report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is not a citizen or resident of or located in any locality, state, country or other jurisdiction listed below. This includes where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Morningstar or its subsidiaries or affiliates to any registration or licensing requirements in such jurisdiction.

The Report is distributed by Morningstar Investment Management South Africa (Pty) Limited, which is an authorized financial services provider (FSP 45679), regulated by the Financial Sector Conduct Authority.

Morningstar South Africa
5th Floor

20 Vineyard Road

Claremont

7708

+27 21 201 4645