

Market Overview

December 2024

Morningstar Investment Management
January 2025

For Financial Advisers & Their Clients

Market and Economic Summary

The year 2024 ended on a subdued note, with most equity markets posting negative returns in December. While the US Federal Reserve delivered a widely anticipated 0.25% rate cut, the hawkish tone of its accompanying statement unsettled markets. Global bonds ended the month in negative territory as yields rose (and prices declined) post the hawkish tone from the US Federal Reserve. Despite a decline in December, the S&P 500 ended the year with an impressive 25.0% annual return, building on the 26.3% gain from 2023. This marked the index's best two-year performance streak since the late 1990s. Emerging Market (EM) equities outperformed their Developed Market (DM) counterparts in December but continued to lag on a year-over-year basis. Overall, 2024 delivered strong returns across asset classes, albeit with greater variability compared to 2023.

The annual inflation rate in the US rose for a second consecutive month to 2.7% (year-on-year to the end of November 2024) from 2.6% in October, in line with expectations. This increase was partly attributed to low base effects from the previous year. The UK also saw its annual inflation rate edge higher for the second month in a row, reaching 2.6% (year-on-year to the end of November 2024) from 2.3% in October. In contrast, China's inflation rate unexpectedly slowed to 0.2% (year-on-year to the end of November 2024), down from 0.3% in October and well below market forecasts of 0.5%. This marked the lowest inflation level since June and underscored rising deflationary risks despite recent stimulus efforts by Beijing and the central bank's accommodative policies. Meanwhile, India's inflation rate eased to 5.5 (year-on-year to the end of November 2024), from 6.2% in October, roughly in line with expectations.

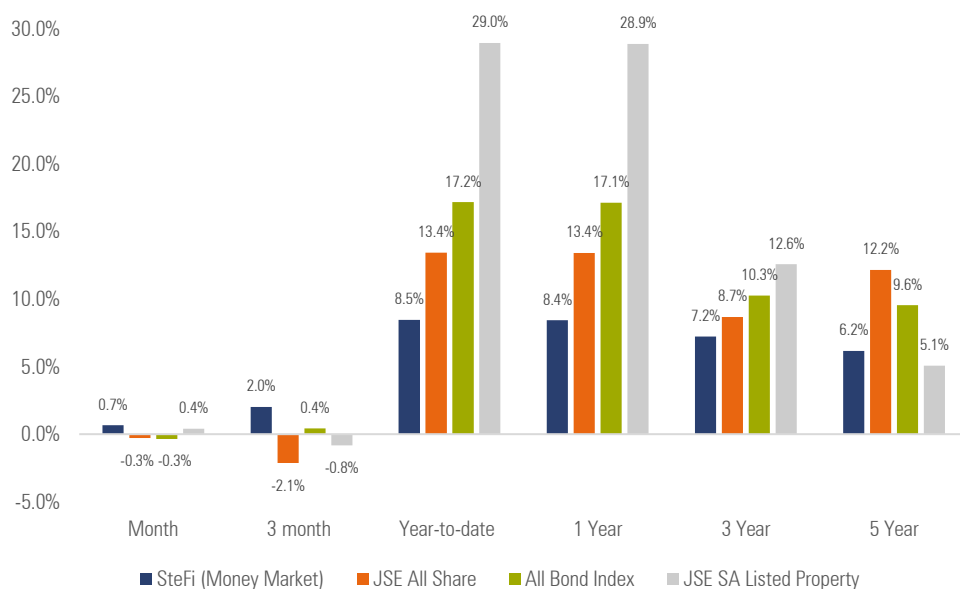
The US economy expanded at an annualized rate of 3.1% in the third quarter of 2024, surpassing the second estimate of 2.8% and the 3.0% growth recorded in the second quarter. This marks the strongest quarterly growth rate of the year, driven by robust consumer spending and business investment. In the Euro Area, Gross Domestic Product (GDP) grew by 0.4% quarter-on-quarter in Q3 2024, reflecting steady, albeit modest, growth across the bloc. Germany, Europe's largest economy, posted a 0.1% quarterly expansion in Q3, revised downward from an initial estimate of 0.2%. Japan's GDP grew by 0.3% quarter-on-quarter in Q3 2024, exceeding expectations of 0.2%. In contrast, China's economic performance in November continued to lag, with key indicators falling short of expectations despite a series of stimulus measures introduced since September.

In other economic news, the BOE kept its benchmark interest rate unchanged, as widely expected. This stance underscores the BOE's continued prioritisation of inflation control over supporting economic growth. Meanwhile, the European Central Bank (ECB) announced its third consecutive 0.25% interest rate cut, signalling a clear commitment to further easing. In the US, the job market remains robust. The latest employment report showed healthy growth in payroll employment for November, reflecting continued labour market strength.

South African (SA) equities declined in December, underperforming the broader Emerging Markets (EM) composite for the month. The weakness in the equity market was largely on the back of the poor performance of the Resource sector (-5.4%). Platinum and gold miners including Impala Platinum (-14.0%) Anglo American Platinum (-4.2%), AngloGold Ashanti (-6.9%) and Gold Fields (-3.5%) detracted from performance on the back of weaker commodity prices and general weakness in the sector. On the other hand, strong performance from MTN (+13.9%), Richemont (+11.5%), and Mr Price (+3.6%) led the Industrials sector (+2.7%) higher in December. On a year-over-year basis, SA equities delivered a strong return of 13.4%, outpacing many peers within the EM space.

South African bond yields rose in December (pushing prices lower), mirroring trends in global bond markets. The upward movement in yields led to capital loss that outweighed the accrued income, resulting in the All Bond Index (ALBI) posting a negative return of -0.3% for the month. Despite this, the ALBI ended 2024 with an impressive annual gain of 17.2%, its best calendar-year performance since 2003. South African listed property produced a positive return in December with the property index rising +0.4% bringing its year-to-date return to +29.0%. The rand weakened this month, moving above R18 on the back of a firmer dollar.

Exhibit 1 | SA Market Performance (total returns)

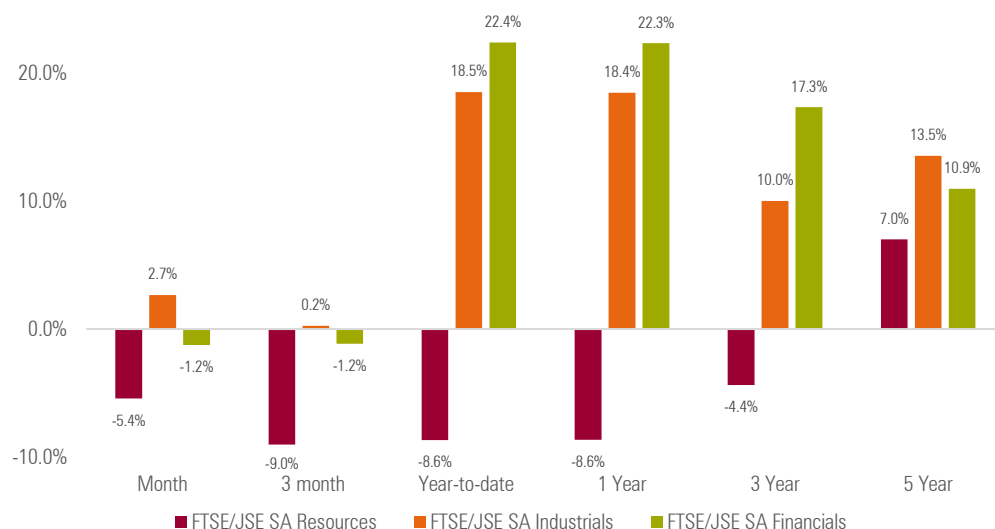


Source: Morningstar Direct as at 31/12/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Headline year-over-year inflation increased slightly to 2.9% (to the end of November 2024) from 2.8% in October, coming in below consensus expectations of 3.1%. This marks the sixth positive inflation surprise in the past nine months, underscoring a trend of moderating price pressures. However, economic growth in the third quarter of 2024 fell well short of expectations, contracting by 0.3% quarter-on-quarter compared to a forecasted expansion of 0.4%. The unexpected downturn was primarily driven by a sharp 28.8% contraction in agricultural output, attributed to severe drought conditions.

The South African Chamber of Commerce and Industry (SACCI) business confidence index climbed to 118.1 in November 2024, the highest since October 2015, up from 114.2 in the prior month. This increase was largely attributed to higher tourist numbers, precious metal prices and new vehicle sales. On the other hand, the FNB/BER Consumer Confidence Index for South Africa edged down to -6 in the last quarter of 2024 from -5 recorded in the third quarter.

Exhibit 2 | SA Sector Performance (total returns)



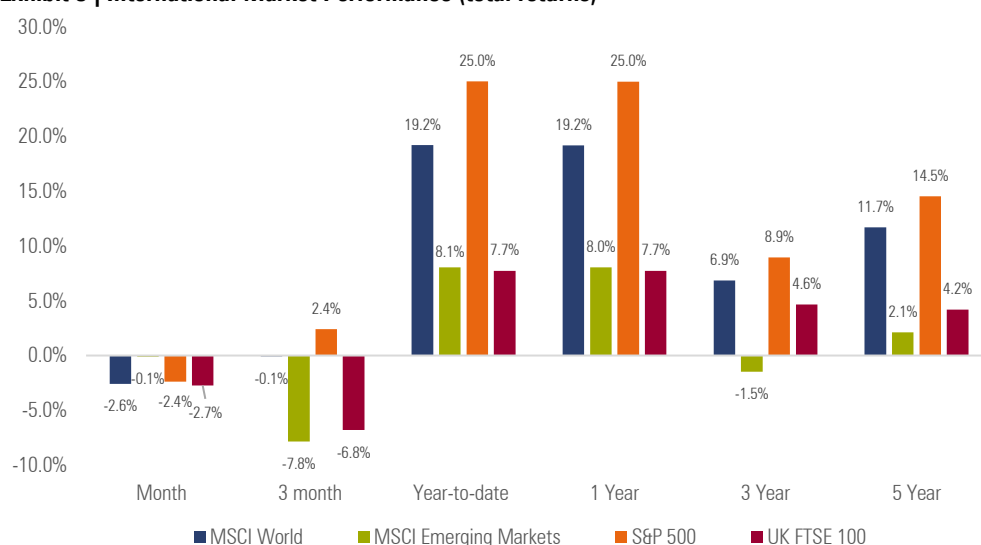
Source: Morningstar Direct as at 31/12/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Major developed equity markets recorded negative returns, as the market had some widespread negative sentiment to close off the year. The **MSCI World Index** (-2.6%) recorded negative returns for the month. The **MSCI Emerging Markets Index** (-0.1%) ended the month slightly negative, however outperforming its developed market peers for the month.

Within emerging markets, China's **Shanghai SE Composite** (-4.6%) and Korea's **KOSPI** (-7.0%) ended the month lower, reflecting widespread weakness in broader Asian markets. Performance in major developed markets followed a similar trend, as the UK's **FTSE 100** (-2.7%), Japan's **Nikkei 225** (-0.1%) and Germany's **DAX** (-0.6%) all posted negative returns.

In the US, tech-heavy **NASDAQ 100** (+0.5%) ended slightly positive, outperforming the broader market. Furthermore, the **S&P 500** (-2.4%) struggled over the month, as Energy, Basic Materials and Utilities detracted from performance.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 31/12/2024. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on Client Portfolios

Portfolios delivered relatively weak returns in December, weighed down by broad-based declines across global equity markets, which acted as a significant headwind for equity-exposed portfolios. Funds with allocations to emerging markets, particularly Asian markets, were notable detractors from performance. Locally, South African equity and bond markets posted slight declines, while the local property sector delivered modest gains during the month. Additionally, the weakening of the rand against the US dollar provided a slight tailwind to the returns of global assets when measured in rand terms.

As we head into the new year The future will always come enveloped in clouds of uncertainty—2025 will be no exception. Volatility, however, is inevitable at some point, making it critical to focus on enduring principles like diversification, fundamental analysis, and the prices paid for assets. These factors form the cornerstone of our investment philosophy and will continue to guide us, regardless of what the future holds.

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	-0.29	13.44	13.44	8.68	12.16	8.92
JSE SA Listed Property	0.41	28.96	28.96	12.60	5.07	-0.35
All Bond Index	-0.35	17.18	17.18	10.25	9.56	9.40
STeFI	0.66	8.46	8.46	7.23	6.17	6.48
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	-0.72	10.65	10.65	7.91	12.15	9.01
JSE Mid Cap	-1.90	15.41	15.41	8.76	7.26	5.77
JSE Small Cap	3.32	35.58	35.58	17.47	20.79	11.23
FTSE/JSE SA Resources	-5.43	-8.65	-8.65	-4.36	7.00	11.05
FTSE/JSE Ind/Financials	-1.24	22.35	22.35	17.31	10.94	6.39
FTSE/JSE SA Industrials	2.65	18.48	18.48	9.99	13.51	7.80
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	-2.57	19.19	19.19	6.85	11.70	10.80
MSCI Emerging Markets	-0.09	8.05	8.05	-1.48	2.10	1.78
S&P 500	-2.38	25.02	25.02	8.94	14.53	13.83
NASDAQ 100	0.46	25.88	25.88	9.71	20.18	19.58
FTSE 100	-2.73	7.73	7.73	4.64	4.18	3.67
SSE Composite	-0.15	9.47	9.47	-7.01	0.96	-1.43
Nikkei 225	-0.10	8.84	8.84	2.56	5.13	5.36
KOSPI	-6.99	-19.60	-19.60	-11.64	-1.14	—
FSE DAX	-0.55	11.41	11.41	4.50	6.75	4.15
US T-Bill 3m	0.37	5.28	5.28	4.26	2.63	2.47
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	1.76	-4.15	-4.15	-1.72	2.27	1.43
Gold	-1.58	25.53	25.53	13.05	11.49	10.57
Platinum	-2.87	-8.70	-8.70	-1.63	-0.83	-0.19
Copper	-2.74	0.25	0.25	-5.47	5.67	0.95

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 31/12/2024.

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