

Market Overview

January 2025

Morningstar Investment Management
February 2025

For Financial Advisers & Their Clients

Market and Economic Summary

January was a month full of newsworthy events, including the change in leadership in the US, the additional player in the Artificial Intelligence (AI) race, as well as continued policy uncertainty surrounding the direction of inflation and interest rates. Newly inaugurated President Donald Trump introduced proposals covering taxes, regulation, immigration, energy, and industrial policy, among other areas. This policy uncertainty will likely remain a source of market volatility in the coming months. In the tech sector, DeepSeek's introduction of R1, their open-source AI model competing with established players but at lower costs, pressured AI-related stocks. The noteworthy events were not meaningful enough to temper the strong start to the year for most equity markets, with Europe, Germany and UK leading the market higher. Emerging markets produced a strong return however, they lagged developed market peers. Turning to fixed income, bond markets reflected ongoing policy uncertainty, with yields ending marginally higher amid concerns that inflation could delay anticipated rate cuts.

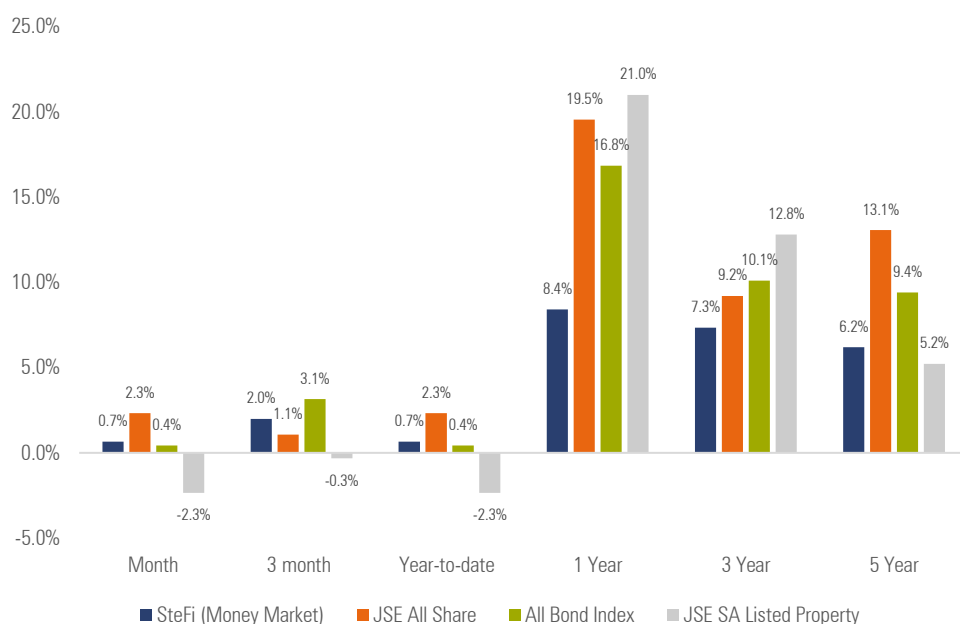
Several central banks made key policy decisions this month. As expected, the Federal Reserve kept the federal funds rate unchanged at 4.5% during its January 2025 meeting, following three consecutive rate cuts in 2024 that totalled a full percentage point (1%). Fed Chair Jerome Powell emphasized that the central bank is in no rush to lower rates further, opting to pause and assess continued progress on inflation before making additional adjustments. In Contrast The European Central Bank (ECB) lowered its key interest rates by 0.25% in January 2025, as expected, reducing the deposit facility rate to 2.75%. This move reflects the ECB's updated inflation outlook, with price pressures easing in line with projections. In contrast, the Bank of Japan (BoJ) raised its key short-term interest rate by 0.25% points to 0.5%, its highest level in 17 years. The move reflects steady inflation progress and growing wage hike momentum.

US inflation delivered a positive surprise, with the annual rate rising for the third consecutive month to 2.9% (year-over-year to the end of December), up from 2.7% in November, in line with market expectations. In the Euro Area, inflation also accelerated for the third straight month, reaching 2.4% (year-on-year to the end of December) the highest since July—up from 2.2% in November. Meanwhile, UK inflation unexpectedly edged lower, declining to 2.5% (year-on-year to the end of December) from 2.6% in November, coming in below the expected 2.6% but in line with the Bank of England's (BoE) projections. Turning to economic growth, the US economy grew at an annualized rate of 2.3% in Q4 2024, marking the slowest expansion in three quarters. This was a decline from 3.1% in Q3 and below the anticipated 2.6%. In the Eurozone, economic growth unexpectedly stalled in Q4 2024, marking its weakest performance of the year. Meanwhile, China's real GDP was up 5.4% from a year earlier and up 1.6% from the previous quarter. This marked the strongest quarterly growth in 18 months, with the government attributing the acceleration to stimulus measures.

South African (SA) equities (+2.3%) had a decent January, outperforming the broader emerging market (EM) composite for the month. The strong performance in the local equity market was led by a strong rebound in the Resources sector (+17.9%). Key contributors included platinum and gold miners such as Anglo American Platinum (+15.5%), Anglo Ashanti (+34.3%), Harmony Gold (+42.3%) and Kumba Iron Ore (+19.2%), benefitting from higher commodity prices and broad-based strength in the sector over the month. On the other hand, most other major sub-indices closed the month in negative territory. Index heavyweights Naspers (-5.4%) and Prosus (-4.0%) weighed on performance. Additionally, SA retailers such as Mr Price (-15.4%), Foschini (-15.4%), and Pepkor (-9.1%), along with banks like Capitec (-5.2%) and Absa (-2.2%), also contributed negatively to performance.

South African bonds (+0.4%) produced a positive return in a particularly volatile month (+0.4%) as bonds faced pressures during the first half of January as investor sentiment toward EM turned negative. However, both the bond market and the currency improved shortly after, as the new US administration took a less confrontational stance than anticipated. However, in the final week of the month, volatility spiked due to concerns about the sustainability of the Government of National Unity (GNU) and the return of load shedding, leading to slightly higher bond yields and a weaker currency. South African listed property produced a weak return in January with the property index falling -2.3% behind all other risk assets this month.

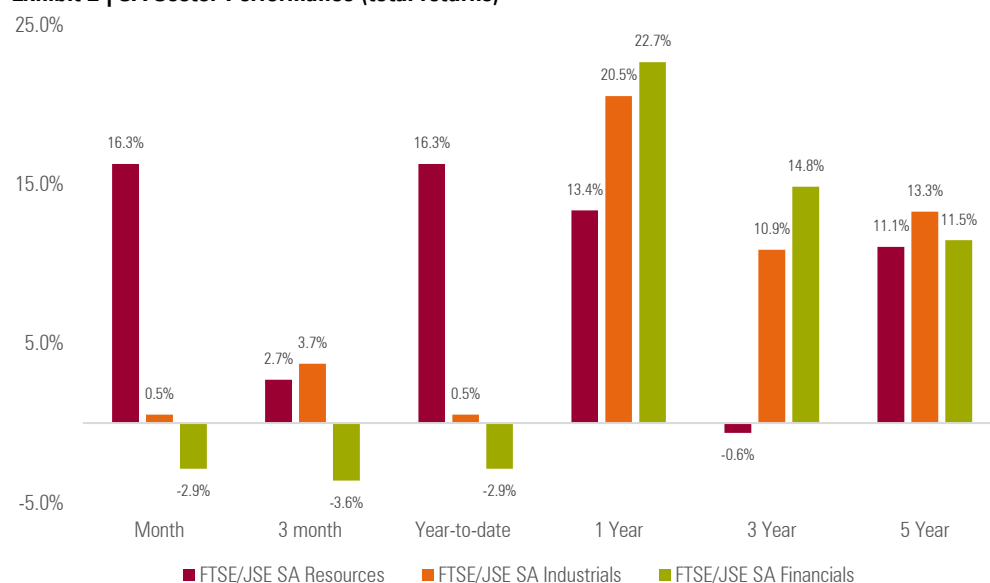
Exhibit 1 | SA Market Performance (total returns)



Source: Morningstar Direct as at 31/01/2025. Returns are in South African Rand and have been annualised for periods longer than 1 year.

As anticipated, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) reduced the interest rate by 0.25%, bringing it to 7.5% during its meeting on January 30. The committee maintained a cautious tone, reiterating its commitment to anchoring inflation expectations at 4.5% amid an increasingly complex and uncertain global economic environment.

South Africa's inflation rate inched up slightly to 3% (year-over-year to the end of December 2024), from 2.9% in November, although it remained below the projected 3.2%. Despite this modest increase, inflation continues to be well below the SARB's preferred midpoint target of 4.5%.

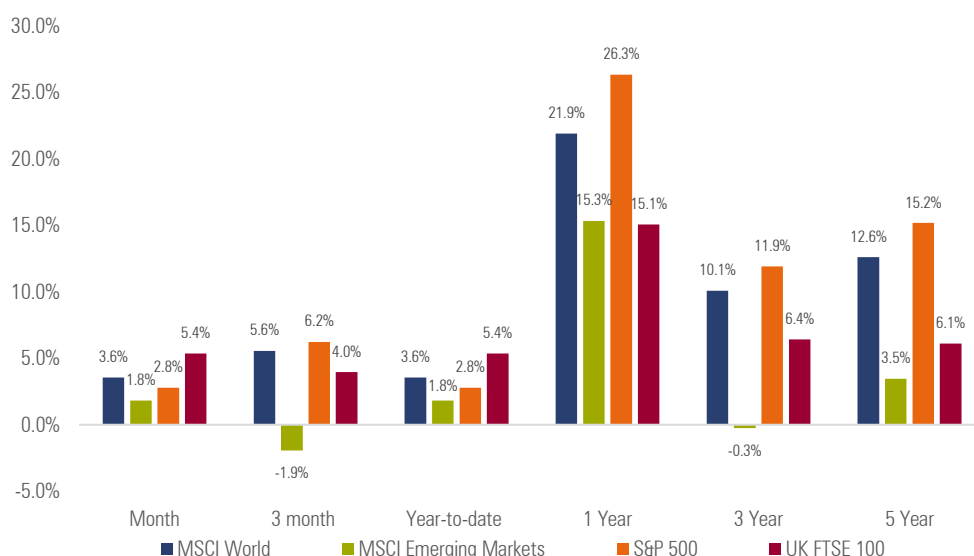
Exhibit 2 | SA Sector Performance (total returns)

Source: Morningstar Direct as at 31/01/2025. Returns are in South African Rand and have been annualised for periods longer than 1 year.

Major developed equity markets recorded positive returns, as the market had some widespread positive sentiment over the month. The **MSCI World Index** (+3.5%) recorded positive returns for the month. The **MSCI Emerging Markets Index** (+1.8%) ended the month positively, however underperforming its developed market peers for the month.

Within emerging markets, China's **Shanghai SE Composite** (-2.6%) ended the month lower, while Korea's **KOSPI** (+6.3%) ended the month higher. Performance in major developed markets followed a similar trend, as the UK's **FTSE 100** (+5.4%), Japan's **Nikkei 225** (+0.7%) and Germany's **DAX** (+9.6%) all posted positive returns.

In the US, tech-heavy **NASDAQ 100** (+2.2%) ended positively, however it underperformed the broader market. Furthermore, the **S&P 500** (+2.8%) performed well over the month, as the Financials, Basic Materials and Healthcare sectors contributed to performance.

Exhibit 3 | International Market Performance (total returns)

Source: Morningstar Direct as at 31/01/2025. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on Client Portfolios

Portfolios delivered strong returns in January, driven by robust performances from both local and global equity allocations, which acted as a significant tailwind for equity-exposed portfolios. Funds with emerging market (EM) allocations contributed positively to performance; however, weakness in Chinese equities weighed on the broader EM basket, causing it to underperform relative to developed markets (DM). Locally, South African equities and bonds posted positive returns, while the property sector declined for the month. Additionally, the rand strengthened against most major currencies, slightly dampening the returns of global assets when measured 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	2.32	2.32	19.58	9.20	13.06	9.27
JSE SA Listed Property	-2.34	-2.34	21.02	12.79	5.22	0.80
All Bond Index	0.44	0.44	16.86	10.10	9.40	9.18
STeFI	0.66	0.66	8.42	7.35	6.19	6.49
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	3.26	3.26	18.37	8.65	13.20	9.48
JSE Mid Cap	0.74	0.74	19.62	9.17	8.10	5.90
JSE Small Cap	-4.60	-4.60	27.13	16.15	19.83	10.53
FTSE/JSE SA Resources	16.29	16.29	13.38	-0.62	11.07	12.97
FTSE/JSE Ind/Financials	-2.87	-2.87	22.73	14.85	11.49	6.41
FTSE/JSE SA Industrials	0.53	0.53	20.58	10.90	13.28	7.82
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	3.55	3.55	21.94	10.07	12.61	10.53
MSCI Emerging Markets	1.81	1.81	15.35	-0.26	3.45	0.88
S&P 500	2.78	2.78	26.38	11.91	15.17	13.38
NASDAQ 100	2.25	2.25	26.33	13.84	20.00	18.54
FTSE 100	5.36	5.36	15.09	6.42	6.10	4.00
Nikkei 225	0.68	0.68	4.77	5.03	5.62	4.77
KOSPI	9.58	9.58	23.04	9.21	9.45	4.65
FSE DAX	0.36	0.36	5.18	4.38	2.67	2.51
US T-Bill 3m	3.55	3.55	21.94	10.07	12.61	10.53
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	3.58	3.58	-6.40	-5.70	5.63	1.47
Gold	7.78	7.78	36.96	16.14	12.16	11.11
Platinum	6.79	6.79	5.52	-1.56	0.33	-0.40
Copper	6.27	6.27	6.11	-2.51	9.24	2.30

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 31/01/2025.

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