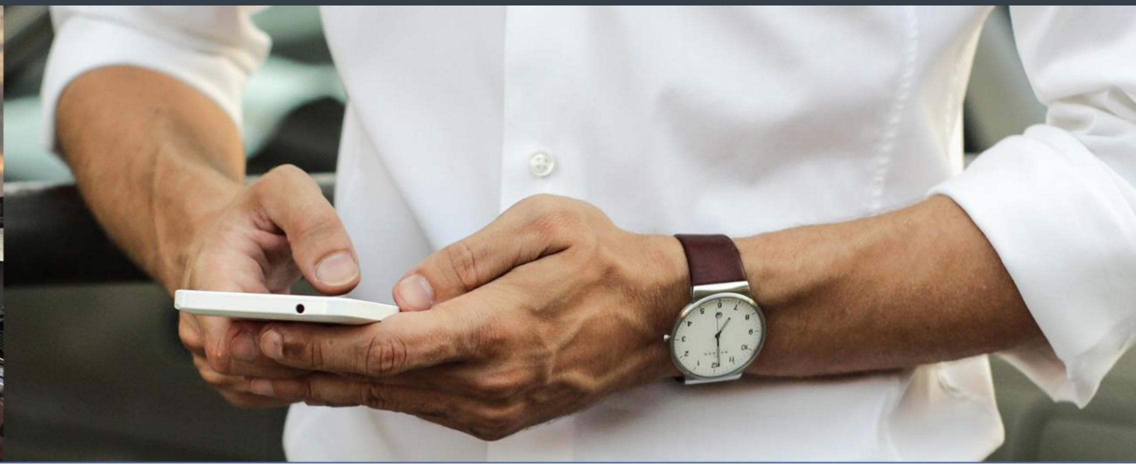
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: March 2024

Introduction

In March, South African asset classes saw mixed performance. Local equities, represented by the FTSE/JSE All Share Index, were up 3.23%, led by strong returns from Resources (+12.80%). SA Industrials (+2.64%) fared well, but SA Retailers struggled, dragging Industrials (-0.60%) down. Financials (-3.36%) were negatively impacted by weakness in banking and insurance. SA property (-0.58%) retreated after a strong start, and SA bonds (FTSE/JSE All Bond Index) fell by 1.93%, reflecting concerns over South Africa's fiscal position amid an election year.

Global equity markets sustained their momentum in March, defying concerns over persistent inflation and postponed rate cuts. Central banks, cautious amid inflationary pressures, postponed rate cut projections for later in 2024. Despite this, optimism towards risk assets prevailed, driving most markets into positive territory. Both emerging and developed markets experienced gains. Major central banks, such as the ECB, US Fed, and Bank of England, left interest rates unchanged, aligning with market forecasts.

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Domestic highlights

- SA Gross Domestic Product (GDP) – Q4 2023
- Monetary Policy Statement – 28 March 2024

SA Gross Domestic Product (GDP) – Q4 2023

SA's In Q4 2023, the SA economy grew by 0.1%, contrasting with the previous quarter's 0.2% decline and below the expected 0.3% growth. Transport led the expansion, rising by 2.9%, while mining rebounded by 2.4%, and manufacturing saw a modest increase of 0.2%, attributed to reduced power cuts. However, agriculture (-9.7%) and trade (-2.9%) saw significant declines. On the expenditure side, household consumption increased by 0.2%, but government spending fell by 0.3%, and fixed investment shrank by 0.2%. Net exports had a negative impact due to a 0.6% rise in exports and a 4.0% increase in imports. Year-on-year, GDP grew by 1.2% in Q4, surpassing market estimates. Overall, SA's economy expanded by 0.6% in 2023, down from 1.9% the previous year.

Monetary Policy Statement – March 2024

On the 27th of March 2024, the South African Reserve Bank (SARB) kept its key repo rate at 8.25%, which was in line with expectations, and maintained its 2009 high for the fifth consecutive meeting. Policymakers noted that risks to the inflation outlook were predominantly to the upside. Concerns remain over food prices, the rand's vulnerability to global monetary policy decisions, and market sentiment amid domestic uncertainty. Despite weak economic growth of 0.6% in 2023, mainly due to supply issues like electricity shortages, a mild recovery is expected with improved power supply. Load-shedding is predicted to have a lesser impact on GDP growth this year and in 2025, with GDP growth forecasts of 1.2% for 2024, 1.4% for 2025, and 1.6% for 2026.

SA economy

In February 2024, South Africa's annual inflation rate rose to 5.6% from January's 5.3%, slightly above market expectations of 5.5% and further away from the central bank's 4.5% target midpoint within the 3–6% target range. This marked the highest level in four months, primarily driven by increased services inflation, notably within the "miscellaneous goods & services" category, where prices surged by 8.4% compared to 5.4% in the previous month. Medical aid rates, included in this category and surveyed in February, rose by 9.5% compared to a 6.4% increase in February 2023. Additionally, prices accelerated for transport (5.4% vs. 3.6% in January), housing & utilities (5.8% vs. 5.7%), and miscellaneous goods & services (8.4% vs. 5.4%). Conversely, food inflation slowed to a near two-year low of 6.1% from 7.2% the previous month. Meanwhile, annual core inflation, excluding food and fuel prices, reached an eight-month high of 5%, exceeding market estimates of 4.8%. Monthly, the Consumer Price Index (CPI) surged by 1%, marking the most significant increase since March 2023, following a 0.1% rise in January.

In February 2024, SA's annual producer price inflation eased to 4.5% from 4.7% the previous month, falling below market forecasts of 4.9%. This slowdown was primarily driven by decreases in prices for textiles, clothing & footwear (7.6% vs. 9.1% in January); paper and printed products (2.8% vs. 4.3%); non-metallic mineral products (5% vs. 6.7%); metals, machinery, equipment, and computing equipment (5.2% vs. 5.8%), and transport equipment (5.7% vs. 7.3%). Monthly, producer prices increased by 0.5% in February, following a 0.1% rise in the previous month, which also fell short of market expectations of a 0.9% increase.

Additionally, in March, the rand showed improvement as risk sentiment improved, emerging as one of the stronger emerging market currencies against the US dollar. It appreciated by 1.48% against the US dollar, 1.72% against the British pound, and 1.82% against the euro.

	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	Mar'24
CPI (y/y)	5.9%	5.5%	5.1%	5.3%	5.6%	5.4% (forecast)
PPI (y/y)	5.8%	4.6%	4.0%	4.7%	4.5%	5.2% (forecast)

Sources: Trading Economics

	31 March 2022	31 March 2023	31 March 2024
USD/ZAR	14.60	17.78	18.92
GBP/ZAR	19.19	21.93	23.81
EUR/ZAR	16.16	19.27	20.36

Source: IRESS

SA markets

In March, the SA equity market, represented by the FTSE JSE All Share index, saw a gain of 3.23%. The surge in SA equities was primarily fuelled by Resources (+12.80%), which rallied due to a rebound in gold, diversified miners, and platinum holdings. Harmony Gold (+40.4%), Gold Fields (+22.5%), and AngloGold (+18.1%) showed robust performance, driven by the strong bounce in gold prices. Other notable performers included Thungela (+16.1%), Glencore (+14.2%), and Anglo-American PLC (+12.6%). SA Industrials posted a positive return of 2.64% this month, while Industrials lagged with a -0.60% return, mainly due to pressure on SA Retailers. Spar (-9.4%), the Foschini Group (-4.8%), and Woolworths (-5.5%) ended the month in negative territory. Financials saw a negative return of -3.36%, mainly due to weakness in larger banking and insurance counters such as Absa (-9.4%), Sanlam (-5.7%), and Discovery (-11.2%). In terms of market capitalisation, large cap stocks led the gains, returning 3.82%, followed by mid-cap stocks which gained 2.31%, while small-cap stocks posted a loss of 0.72%. SA property, represented by the SA All Property Index, dipped by 0.58% this month after a strong beginning to the year. Index heavyweights Growth Point (-3.8%) and Nepi Rockcastle (-0.6%) retreated, relinquishing some gains made in the first two months of 2024.

Shifting to fixed income, local bonds, tracked by the FTSE JSE All Bond index, closed the month down by 1.93%, marking a second consecutive month of negative returns. Yields continued climbing, leading to lower prices, driven by concerns over SA's fiscal stance and the uncertainty surrounding an election year, dampening investor sentiment. Bonds with maturities of over 12 years saw the most significant drop, declining by 2.85%, followed by those in the seven- to 12-year range, which decreased by 2.28%. Bonds in the three- to seven-year category fell by 1.37%, while those in the one- to three-year range experienced a marginal gain of 0.07%.

During the month, foreigners were net sellers of R17.48 billion worth of SA equities and R25.13 billion worth of SA bonds.

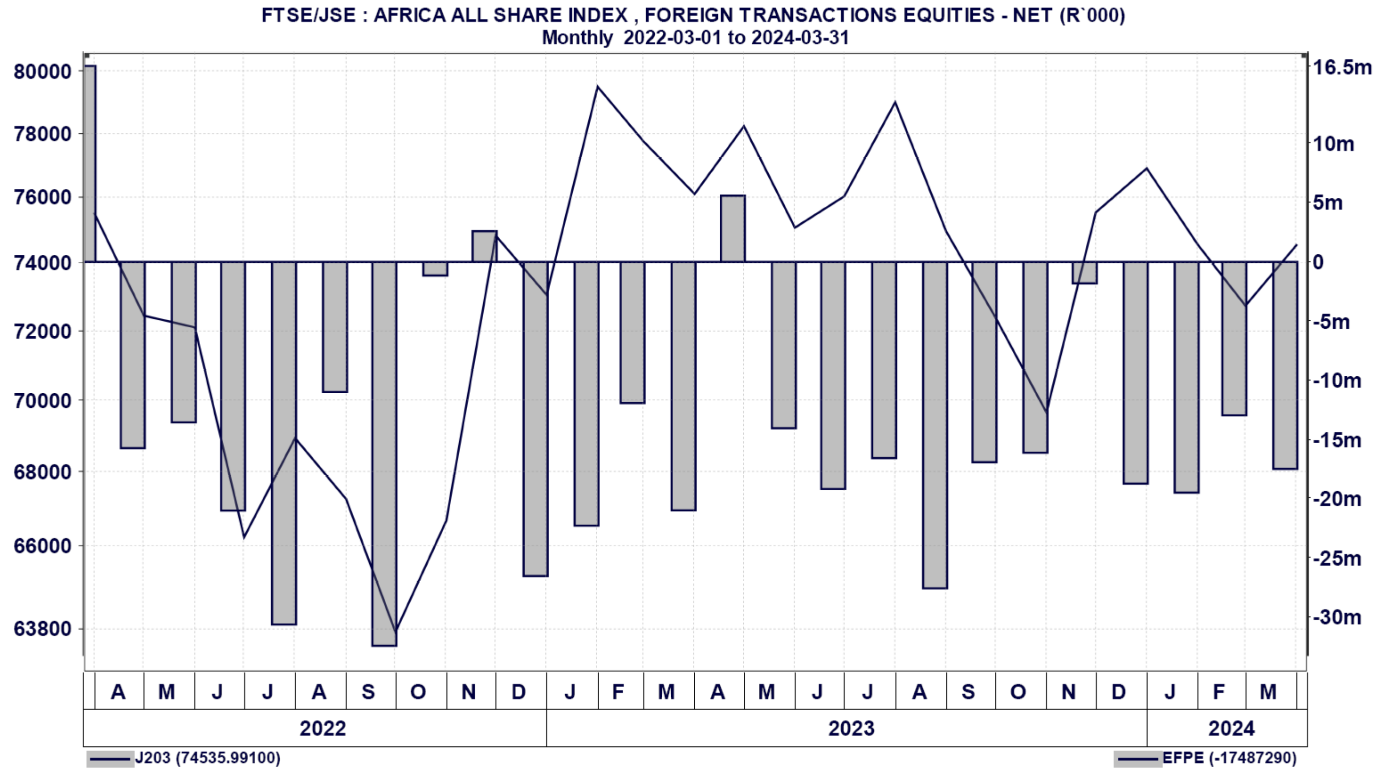
LOCAL RETURNS IN ZAR				
2023	**January 2024**	**February 2024**	**March 2024**	**2024 - YTD**
SA SMALL CAPS 11.17%	SA PROPERTY 4.42%	SA CASH 0.65%	SA TOP 40 3.82%	SA PROPERTY 3.47%
SA PROPERTY 10.70%	SA SMALL CAPS 1.74%	SA PROPERTY -0.34%	SA EQUITY 3.23%	SA CASH 2.00%
SA MID CAPS 9.70%	SA BONDS 0.71%	SA BONDS -0.58%	SA MID CAPS 2.31%	SA SMALL CAPS -1.05%
SA BONDS 9.70%	SA CASH 0.70%	SA SMALL CAPS -2.04%	SA CASH 0.63%	SA BONDS -1.80%
SA EQUITY 9.25%	SA MID CAPS -2.80%	SA EQUITY -2.44%	SA PROPERTY -0.58%	SA EQUITY -2.25%
SA TOP 40 8.98%	SA EQUITY -2.93%	SA TOP 40 -2.48%	SA SMALL CAPS -0.72%	SA TOP 40 -2.27%
SA CASH 8.06%	SA TOP 40 -3.47%	SA MID CAPS -2.99%	SA BONDS -1.93%	SA MID CAPS -3.54%

Source: Morningstar & Glacier Research

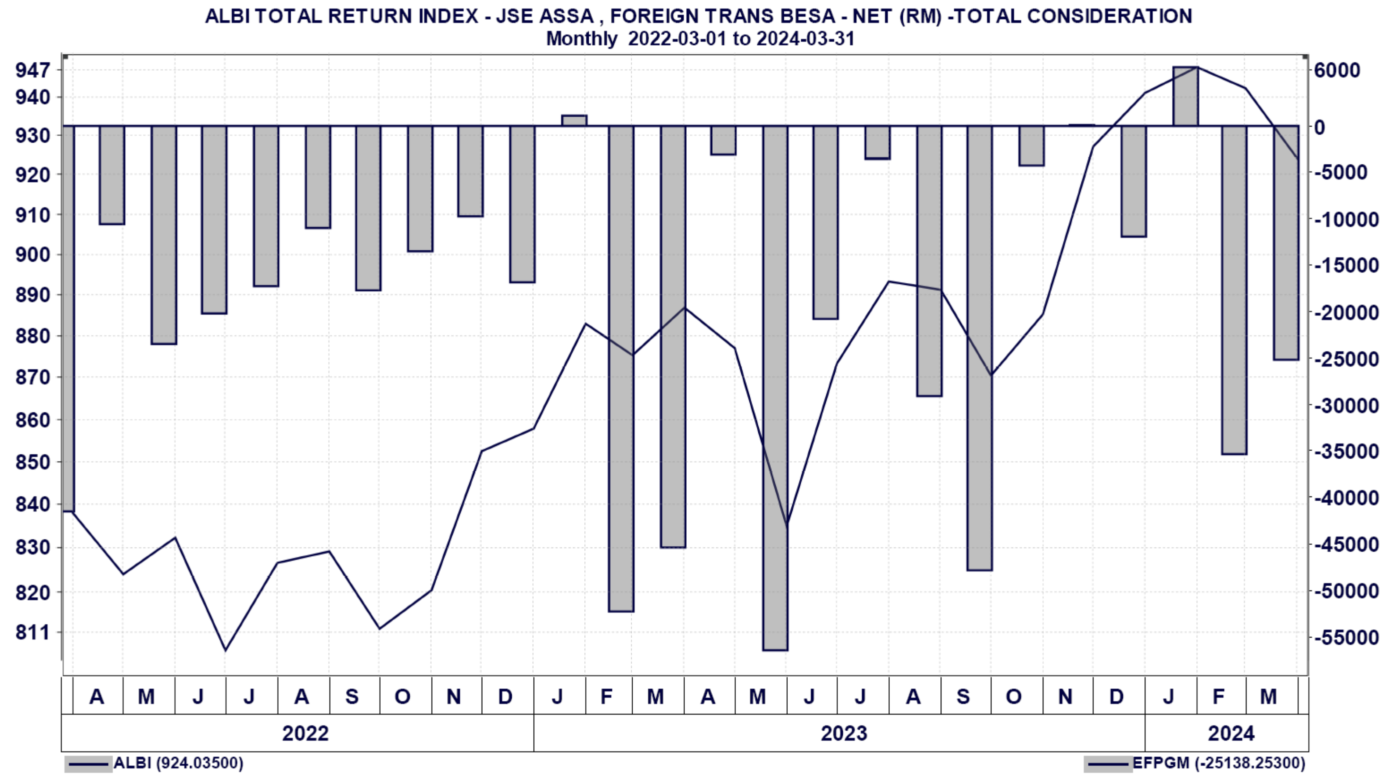
In March, local equity markets concluded with a 3.23% increase. The Resources sector led the gains with a notable rise of +12.80%, while SA Industrials also contributed positively with a gain of +2.64%. However, the Industrial sector experienced negative returns, with a decline of -0.60%, while Financials dropped by 3.36% for the month.

LOCAL SECTOR RETURNS IN ZAR				
2023	**January 2024**	**February 2024**	**March 2024**	**2024 - YTD**
GENERAL RETAILERS 35.34%	GENERAL RETAILERS 7.43%	CONSUMER SERVICES 0.07%	RESOURCES 12.80%	GENERAL RETAILERS 8.94%
CONSUMER SERVICES 29.16%	CONSUMER SERVICES 4.94%	GENERAL RETAILERS -0.12%	SA INDUSTRIALS 2.64%	CONSUMER SERVICES 1.92%
INDUSTRIALS 24.63%	CONSUMER GOODS 0.98%	SA INDUSTRIALS -0.74%	GENERAL RETAILERS 1.52%	SA INDUSTRIALS 0.64%
FINANCIALS 21.48%	SA INDUSTRIALS -1.22%	INDUSTRIALS -0.79%	CONSUMER GOODS 0.50%	CONSUMER GOODS 0.48%
SA INDUSTRIALS 16.62%	FINANCIALS -3.17%	CONSUMER GOODS -0.99%	INDUSTRIALS -0.60%	RESOURCES -1.63%
CONSUMER GOODS 10.05%	INDUSTRIALS -4.32%	FINANCIALS -1.20%	CONSUMER SERVICES -2.95%	INDUSTRIALS -5.64%
RESOURCES -11.84%	RESOURCES -6.31%	RESOURCES -6.92%	FINANCIALS -3.36%	FINANCIALS -7.55%

Source: Morningstar & Glacier Research



Source: IRESS April 2024



Source: IRESS April 2024

Global markets

The upward trend in global stock markets persisted throughout March, marking the fifth consecutive month of positive performance since November 2023. This continued momentum was primarily driven by the strong performance of mega-cap US tech stocks. However, in March, the rally expanded to include other sectors, with energy and materials as top performers due to increased commodity prices. Gold reached a record high in US dollar terms, surpassing the $2,200 mark. Brent crude oil, which saw a 4.6% increase in USD, continued its upward trajectory, supported by geopolitical factors such as heightened enforcement of Russian sanctions, Ukrainian drones targeting Russian refineries, disruptions to vital Red Sea shipping routes by Houthis, and ongoing conflicts in the Middle East.

In USD, the MSCI World, MSCI World ACWI, and MSCI Emerging Markets indices recorded increases of 3.21%, 3.14%, and 2.48%, respectively. Analysing global equity styles, value stocks led with the highest gains at 4.69%, followed by momentum (4.33%), quality (2.56%), and growth (1.85%).

In March, fixed-income markets saw a broadly positive trend after two months of subdued performance, as yields on government bonds stabilised and credit spreads tightened. Despite mixed economic data, signals from central banks were generally interpreted as dovish, suggesting that some monetary policy easing remained likely later in the year. Central banks continued to monitor economic conditions closely, with persistent inflation leading to expectations of delaying the first rate cut until later in 2024. The Bloomberg Global Aggregate Bond index recorded a 0.55% increase in USD. During their second meetings of 2024, the US Federal Reserve, European Central Bank, and Bank of England all opted to keep interest rates unchanged. Unexpectedly, the Swiss National Bank became the first developed-market central bank to cut interest rates, reducing by 25bps to 1.50%. Conversely, the Bank of Japan (BoJ) diverged by abandoning its longstanding policy of negative interest rates.

The US 10-year treasury yield declined from 4.25% to 4.20%. In Europe, the UK 10-year Gilts yield decreased from 4.12% to 3.93%, while the 10-year German bund yield also declined, moving from 2.41% to 2.30%.

United States

In March, US equities saw another month of positive performance, with signs of continued market expansion evident as sector performance showed across-the-board positivity. Leading the way in terms of total return were the energy, utilities, and materials sectors, partly driven by higher oil and commodity prices. Investor confidence was boosted by optimistic economic indicators, strong corporate earnings, and the anticipation of lower US interest rates. Consequently, the S&P 500, Dow Jones, and NASDAQ indices recorded increases of 3.22%, 2.21%, and 1.85%, respectively, in USD.

US consumer inflation data presented a mixed picture. Annual headline inflation unexpectedly rose to 3.2% in February 2024, up from January's 3.1%, surpassing the forecasted 3.1%. Conversely, core inflation, which excludes food and energy prices, eased to 3.8% from 3.9%, compared to forecasts of 3.7%.

In March 2024, the Federal Reserve maintained its benchmark interest rate unchanged for the fifth consecutive meeting, a decision widely anticipated by economists. This decision came in light of inflation data indicating that prices are still rising at a pace exceeding the Fed's preference. Additionally, the central bank's updated interest rate projections reaffirmed the expectation of three rate cuts in 2024. The Fed funds rate remains at a 23-year high of 5.25%-5.5%. US Fed Chair Jerome Powell emphasised that the timing of these reductions hinges on officials gaining greater confidence that inflation will persistently decrease towards the Fed's 2% target, even as the economy continues to surpass expectations.

Data releases highlighted the continued economic resilience of the US market. Retail sales and industrial production saw modest rebounds in February following a weak January. US retail sales increased by 0.6% month-on-month, following a 1.1% decline in January. Meanwhile, industrial production in the US rose by 0.1% in February, rebounding from two consecutive months of decline and defying market expectations of no growth. In February 2024, the US economy added 275,000 jobs, surpassing forecasts of 200,000 and exceeding the downwardly revised 229,000 added in January. Although the unemployment rate edged up to 3.9% in February 2024, slightly higher than market expectations of 3.7%, it remained low relative to historical standards. In late March, the final estimate of the US fourth-quarter GDP revealed a growth rate of 3.4%, slightly higher than the previously reported 3.2% in the second estimate. This upward revision was attributed to higher consumer spending and non-residential business investments.

The US composite Purchasing Managers' Index (PMI) remained relatively stable at 52.1 in March, slightly below the preliminary estimate of 52.5 and marginally lower than the previous month's 52.5. Despite this, the figure still indicated a robust monthly increase in overall business activity, with factory activity experiencing its fastest growth in almost two years, while growth in the service sector moderated slightly.

In politics, following the conclusion of the US primaries, a Biden-Trump rematch was confirmed for November 5th. During his State of the Union address, Biden hinted at further corporate tax increases and proposed a 'billionaire' tax if re-elected.

Eurozone

In March, European equity markets continued their positive trajectory, driven by robust economic data and expectations of impending interest rate cuts by central banks. Consequently, the Euro Stoxx 50 index posted a return of +4.33% (+4.12% in USD terms). The financials, energy, and real estate sectors outperformed, while consumer staples lagged.

European inflation rates exhibited a downward trend, with consumer price inflation decreasing to 2.4% year-on-year in March 2024, down from 2.6% in the previous month and below market expectations of 2.6%, as indicated by preliminary estimates. Core inflation also moderated to 2.9%, marking its lowest level since February 2022, compared to 3.1% in February and below forecasts of 3.0%.

During its March meeting, the European Central Bank opted to keep interest rates unchanged, with the main rate remaining at a 22-year high of 4.5%. ECB Chair Lagarde hinted at the possibility of an easing cycle commencing in June. However, despite the anticipated easing of inflation in March, the ECB intends to assess wage pressures in June before making any decisions.

In an unexpected move, the Swiss National Bank (SNB) reduced its main interest rate by 25 basis points to 1.50% towards the end of March, marking the first major central bank to backtrack on tightening monetary policy to address inflation. This decision by the SNB, its first rate cut in nine years, came in response to Swiss inflation dropping to 1.2% in February, marking the ninth consecutive month that price increases have fallen within the SNB's 0-2% target range. Surprising the markets, the SNB's action pushed the Swiss franc to its lowest level against the euro in eight months.

Meanwhile, a preliminary estimate revealed that the Eurozone's composite Purchasing Managers' Index (PMI) increased to 49.9 in March 2024, up from the upwardly revised 49.2 in the prior month and slightly exceeding market expectations of 49.7. This latest reading, the highest in nine months, indicated a near-stabilization of business activity, with the service sector output rising for the second consecutive month in March after six months of decline. However, manufacturing output continued to decline for the twelfth consecutive month, albeit at a slightly slower pace.

United Kingdom

UK equities saw strong performance in March, fuelled by expectations of a potential interest rate cut by the Bank of England. Progress on inflation in the UK continued, with headline and core CPI figures showing slower increases in February. The FTSE 100 index surged by 4.85% in pound sterling terms (or +4.71% in USD), reaching a 12-month high. Leading the gains were the energy, materials, and financial sectors.

Following a recession at the end of 2023, the UK economy rebounded in January. According to figures from the Office for National Statistics (ONS), gross domestic product (GDP) expanded by 0.2% between December of the previous year and January, driven primarily by growth in the services sector. This growth aligned with consensus forecasts, indicating that the UK economy might have already exited the recessionary phase.

In February, UK inflation data showed that headline inflation declined to 3.4% year-on-year, down from 4.0% in both January and December, slightly surpassing the market expectation of 3.5%. The Bank of England (BoE) foresees inflation continuing its downward trajectory, primarily due to decreasing energy costs. Meanwhile, services consumer price inflation, considered a more accurate gauge of domestic price pressures by policymakers, decreased but remained elevated at 6.1% in February compared to 6.5% in January. Core inflation also decreased to 4.5% year-on-year from 5.1% in January, slightly below the anticipated increase of 4.6%.

During its March meeting, the BoE opted to maintain interest rates for the fifth consecutive time, as policymakers awaited more precise signals indicating a reduction in the country's persistent inflationary pressures. The Monetary Policy Committee (MPC) voted by a majority of 8–1 to keep the Bank Rate at 5.25%. One member advocated for a 0.25 percentage point reduction in the Bank Rate to 5%. Additionally, the BoE communicated its expectation that consumer inflation would dip below its 2% target at some point in the second quarter, attributed to the freeze in fuel duty announced in the March Budget, which is anticipated to result in lower energy costs.

The labour market has shown signs of loosening but remains relatively tight compared to historical norms. Despite this, nominal wage growth has moderated across various indicators. Average weekly earnings, including bonuses, rose 5.6% year-on-year in the three months leading up to January 2024. This is the slowest pace since July 2022, down from 5.8% in the previous period (October to December 2023) and below forecasts of 5.7%. This aligned with the Bank of England's assessment that inflationary pressures were easing within the economy.

In March 2024, the S&P Global UK Composite PMI dipped slightly to 52.9 from 53.0 in February, just below expectations of 53.1. Nonetheless, it marked the fifth consecutive month of expansion in the country's private sector, driven by a solid increase in output. Despite losing momentum in March, growth in the service sector outpaced that in the manufacturing sector.

Spot Rates	31 March 2022	31 March 2023	31 March 2024
EUR/USD	1.11	1.08	1.08
GBP/USD	1.31	1.23	1.26
USD/JPY	121.66	132.79	151.31

Source: IRESS

Emerging markets and Asia

EM equities continued their upward trajectory in March but trailed behind developed markets. The MSCI EM index posted a return of +2.48%, compared to the +3.21% return of the MSCI World index, both denominated in US dollars.

Chinese equity markets experienced a positive month, buoyed by better-than-expected data releases. This included robust exports leading to a healthier trade balance and improvements in industrial profits and production. China's consumer price index rose for the first time in six months, reaching 0.7%, alleviating concerns about deflation. However, weaknesses persisted in retail sales and credit growth, and the property sector remained subdued, with ongoing declines in house prices and sluggish sales activity. Consequently, the People's Bank of China opted to maintain its one- and five-year loan prime rates at 3.45% and 3.95%, respectively.

Latin American equities underperformed in March, with Brazil experiencing a decline. However, Brazil's economy displayed resilience, expanding by 2.5% in 2023 despite high interest rates.

Asia emerged as the top-performing region, led by Taiwan and Korea, followed by Japan. Korea's markets saw growth driven by the information technology and healthcare sectors, with the Bank of Korea projecting a 2.1% economic expansion for 2024. Taiwan's markets flourished due to strong performance by IT companies, with GDP rising by 4.9% year-on-year. Japan's stocks surged as the yen depreciated, benefiting the export-heavy industrial sector.

The Bank of Japan made a notable departure from its past practices by ending eight years of negative interest rates, citing evidence of robust wage growth. This decision to revamp its monetary policy measures, including discontinuing the negative interest rate policy, abandoning yield curve control (YCC), and halting the ETF purchase program, was supported by significant progress in the spring wage negotiations known as Shunto. Initial figures released by the unions exceeded 5%, surpassing the previous year's levels and reaching a 34-year high.

GLOBAL RETURNS IN ZAR

2023	January 2024	February 2024	March 2024	2024 - YTD
EURO STOXX 50 35.98%	S&P 500 3.41%	SHANGHAI STOCK EXCHANGE 11.98%	FTSE 100 3.36%	S&P 500 14.48%
S&P 500 35.73%	EURO STOXX 50 2.94%	S&P 500 8.65%	EURO STOXX 50 2.78%	EURO STOXX 50 14.19%
MSCI WORLD 33.04%	MSCI WORLD 2.92%	MSCI EM 8.05%	S&P 500 1.89%	MSCI WORLD 12.74%
FTSE 100 22.94%	FTSE 100 0.30%	EURO STOXX 50 7.94%	MSCI WORLD 1.88%	FTSE 100 6.70%
GLOBAL PROPERTY 19.28%	GLOBAL BONDS 0.30%	MSCI WORLD 7.52%	GLOBAL PROPERTY 1.55%	MSCI EM 6.00%
MSCI EM 18.04%	GLOBAL PROPERTY -2.57%	FTSE 100 2.92%	MSCI EM 1.16%	SHANGHAI STOCK EXCHANGE 2.06%
GLOBAL BONDS 13.62%	MSCI EM -3.02%	GLOBAL PROPERTY 2.48%	GLOBAL BONDS -0.75%	GLOBAL PROPERTY 1.40%
SHANGHAI STOCK EXCHANGE -1.75%	SHANGHAI STOCK EXCHANGE -7.58%	GLOBAL BONDS 1.85%	SHANGHAI STOCK EXCHANGE -1.38%	GLOBAL BONDS 1.39%

Source: Morningstar & Glacier Research