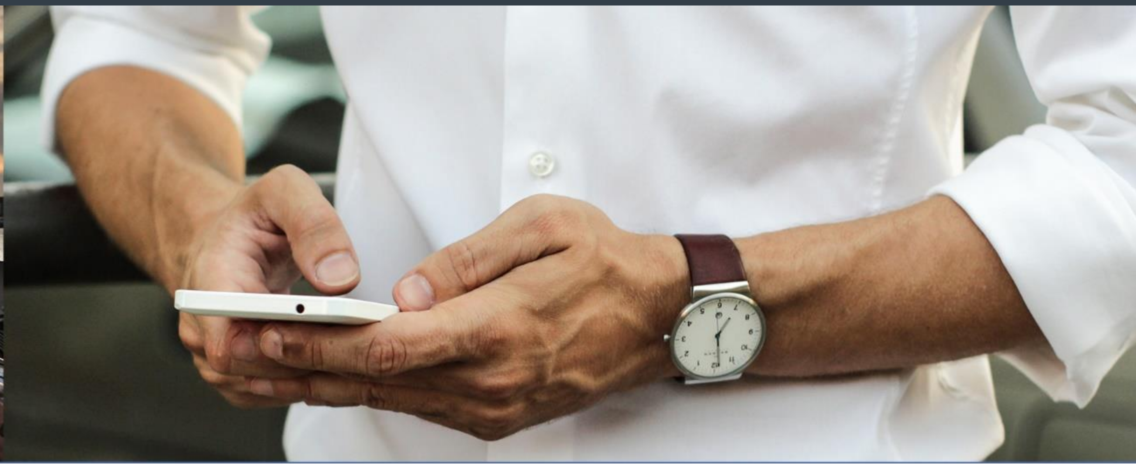
ECONOMIC REPORT

by Glacier Research

glacier by Sanlam



Review period: January 2024

Introduction

In January, South African (SA) asset classes followed global emerging market peers lower, as local equities produced weak returns. The FTSE/JSE All Share Index declined by 2.93%, primarily due to a downturn in the commodity sector. SA property counters stood out, starting the year strong with the SA All Property Index advancing 4.42%. SA bonds, represented by the FTSE/JSE All Bond Index (+0.71%), moved higher alongside cash returns as the yield curve steepened. In sector-specific performance, Resources (-6.31%) led the decline, impacted by poor showings in energy and platinum holdings due to weakened commodity prices. Domestically focused companies were a drag on the local bourse, with Industrials declining by 4.32%. Financials (-3.17%) also contributed to negative returns, with major banks such as Firstrand (-7.6%), Standard Bank (-4.0%), and Capitec (-1.4%) showing weakness. SA Industrials (-1.22%), housing rand-hedge companies, incurred milder losses, benefiting from a partially weakened rand.

Global equity markets exhibited volatility and varied performances. Strong returns were evident in Japan, the United States, and certain European regions, whereas emerging markets faced relative challenges. In the US, markets displayed robust returns initially but weakened towards the end of the month as the Federal Reserve resisted an interest rate cut in March. Japan's Nikkei recorded its best January return in 25 years. Conversely, emerging markets encountered difficulties attributed to a robust US dollar and negative sentiments surrounding China due to real estate concerns, deflationary pressures, and uncertainties about US interest rates. Most developed market central banks, including the US Fed, maintained unchanged interest rates, underscoring the importance of evidence of controlled inflation before considering rate cuts. Global bonds experienced a decline as yields ticked higher.

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Domestic highlights

- SARB Monetary Policy Decision

SARB Monetary Policy Decision

In its January 2024 meeting, the South African Reserve Bank (SARB) unanimously opted to maintain interest rates, keeping the repo and prime lending rates at 8.25% and 11.75%, respectively, marking the highest borrowing costs since 2009. The Monetary Policy Committee (MPC) acknowledged inflation risks leaning towards the upside due to various domestic and global factors while assessing medium-term growth outlook risks as balanced. Despite a gradual moderation expectation, the return of inflation to the target has been slow. Headline inflation dropped to 5.1% in December but remained above the central bank's 4.5% midpoint target. The 2024 inflation forecast is maintained at 5%, with a slight upward revision to 4.6% for 2025. Economic growth projections are 1.2% for 2024 and 1.3% for 2025. Governor Kganyago emphasised that future interest rate decisions will hinge on data available during MPC meetings.

SA economy

In December 2023, South Africa's annual inflation rate dropped for the second consecutive month to 5.1%, down from 5.5% in November and slightly below the anticipated 5.2%. This represents the lowest reading in four months and approaches the South African Reserve Bank's preferred 4.5% midpoint within the 3–6% target range. Notably, price deceleration occurred in food and non-alcoholic beverages (8.5% vs. 9% year-on-year in November) and transportation costs (2.6% vs. 4.3%). Conversely, faster increases were observed in housing & utilities (5.7% vs. 5.5%), restaurants & hotels (7% vs. 6.3%), and health (6.5% vs. 6.4%). Annual core inflation, which excludes food, non-alcoholic beverages, fuel, and energy, held steady at 4.5%, aligning closely with market forecasts of 4.6%. On a monthly basis, consumer prices remained unchanged in December, following a 0.1% decline in the previous month, slightly below market expectations of a 0.1% increase.

In December 2023, South Africa's annual producer price inflation (PPI) experienced a second consecutive easing, dropping to 4% from the previous month's 4.6% and falling below market predictions of 4.3%. This marks the softest reading in five months. Notably, there was a notable deceleration in the prices of food products (4.7% vs. 5% in November 2023) and paper and printed products (3.5% vs. 5%). Additionally, prices decreased for coal and petroleum products (-3% vs. 1.2%), attributed to reduced costs of diesel (-9.3% vs. -5.4%) and petrol (-3.7% vs. 3.7%). On a monthly basis, producer prices fell by 0.6% in December, matching the previous month's pace and contrasting with market expectations of a 0.3% decrease.

Furthermore, the SA rand experienced depreciation against major currencies in January, influenced by a stronger US dollar. Specifically, the rand declined by 2.14% against the US dollar, 1.79% against the British Pound, and 0.11% against the euro.

	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24
CPI (y/y)	4.8%	5.4%	5.9%	5.5%	5.1%	5.4% (forecast)
PPI (y/y)	4.3%	5.1%	5.8%	4.6%	4.0%	4.0% (forecast)

Sources: Trading Economics

	31 January 2022	31 January 2023	31 January 2024
USD/ZAR	15.38	17.40	18.67
GBP/ZAR	20.68	21.44	23.69
EUR/ZAR	17.28	18.90	20.20

Source: IRESS

SA markets

In January, the SA equity market, represented by the FTSE JSE All Share index, faced a 2.93% loss. The weakest performance came from the Resources sector, experiencing a 6.31% decline due to weakened commodity prices affecting energy and platinum holdings. Thungela (-22.0%), Impala Platinum (-19.8%), Anglo-American Platinum (-17.3%) and Sasol (-11.4%) contributed to this negative trend in January. Domestically focused companies, particularly in Industrials, saw a decline of 4.32%, with telcos MTN (-17%) and Vodacom (-12%) notably affected by currency devaluations in their African operations. However, discretionary retailers, including Mr Price (+9%), provided a positive exception among domestically focused companies. Financials recorded a 3.17% decline, influenced by larger banking counters such as Firstrand (-7.6%), Standard Bank (-4.0%), and Capitec (-1.4%). SA Industrials (-1.22%), and housing rand-hedge companies experienced milder losses, benefiting from a partially weakened rand. In terms of market capitalisation, large-cap stocks led the decline with a 3.47% loss in January, followed by mid-cap stocks decreasing by 2.80%, while small-cap stocks posted a gain of 1.74%.

For the second consecutive month, the notable performer was South African property, reflected in the SA All Property Index, showing a gain of 4.42% for the month of January. The sector's positive momentum was driven by Fortress Real Estate and strong performances from key index contributors, including Growthpoint (+10.2%) and Redefine (+11.0%).

Shifting focus to fixed income, local bonds, as indicated by the FTSE JSE All Bond index, concluded the month with a positive return of 0.71% amid challenging market conditions. Within various duration categories, bonds in the three- to seven-year range led the gains with a rise of 0.83%, followed by the one- to three-year range, which increased by 0.78%. The seven- to 12-year range saw a 0.69% uptick, while the 12+ year range advanced by 0.65% in January. Anticipations suggest the yield curve will continue to steepen, with shorter maturities potentially benefiting from a declining repo rate, while longer-dated bonds face challenges due to fiscal uncertainties.

During the month, foreigners were net sellers of R1.95 billion worth of SA equities and net buyers of R0.45 billion worth of SA bonds.

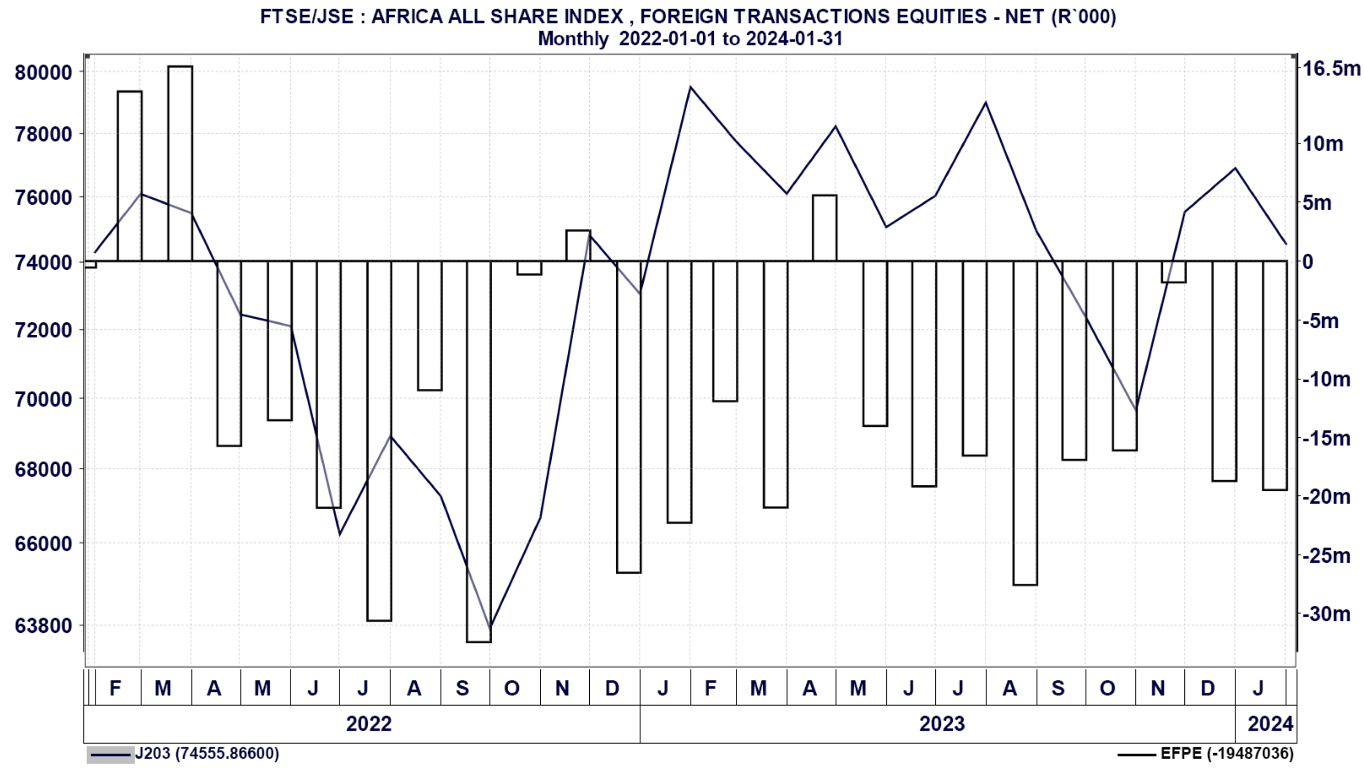
LOCAL RETURNS IN ZAR				
2022	**November 2023**	**December 2023**	**2023**	**January 2024**
SA SMALL CAPS 7.55%	SA TOP 40 9.09%	SA PROPERTY 9.92%	SA SMALL CAPS 11.17%	SA PROPERTY 4.42%
SA CASH 5.21%	SA PROPERTY 9.04%	SA MID CAPS 7.92%	SA PROPERTY 10.70%	SA SMALL CAPS 1.74%
SA BONDS 4.26%	SA EQUITY 8.55%	SA SMALL CAPS 6.00%	SA MID CAPS 9.70%	SA BONDS 0.71%
SA TOP 40 4.21%	SA MID CAPS 5.28%	SA EQUITY 2.00%	SA BONDS 9.70%	SA CASH 0.70%
SA EQUITY 3.58%	SA SMALL CAPS 4.82%	SA BONDS 1.49%	SA EQUITY 9.25%	SA MID CAPS -2.80%
SA MID CAPS 1.60%	SA BONDS 4.73%	SA TOP 40 1.39%	SA TOP 40 8.98%	SA EQUITY -2.93%
SA PROPERTY -1.90%	SA CASH 0.68%	SA CASH 0.70%	SA CASH 8.06%	SA TOP 40 -3.47%

Source: Morningstar & Glacier Research

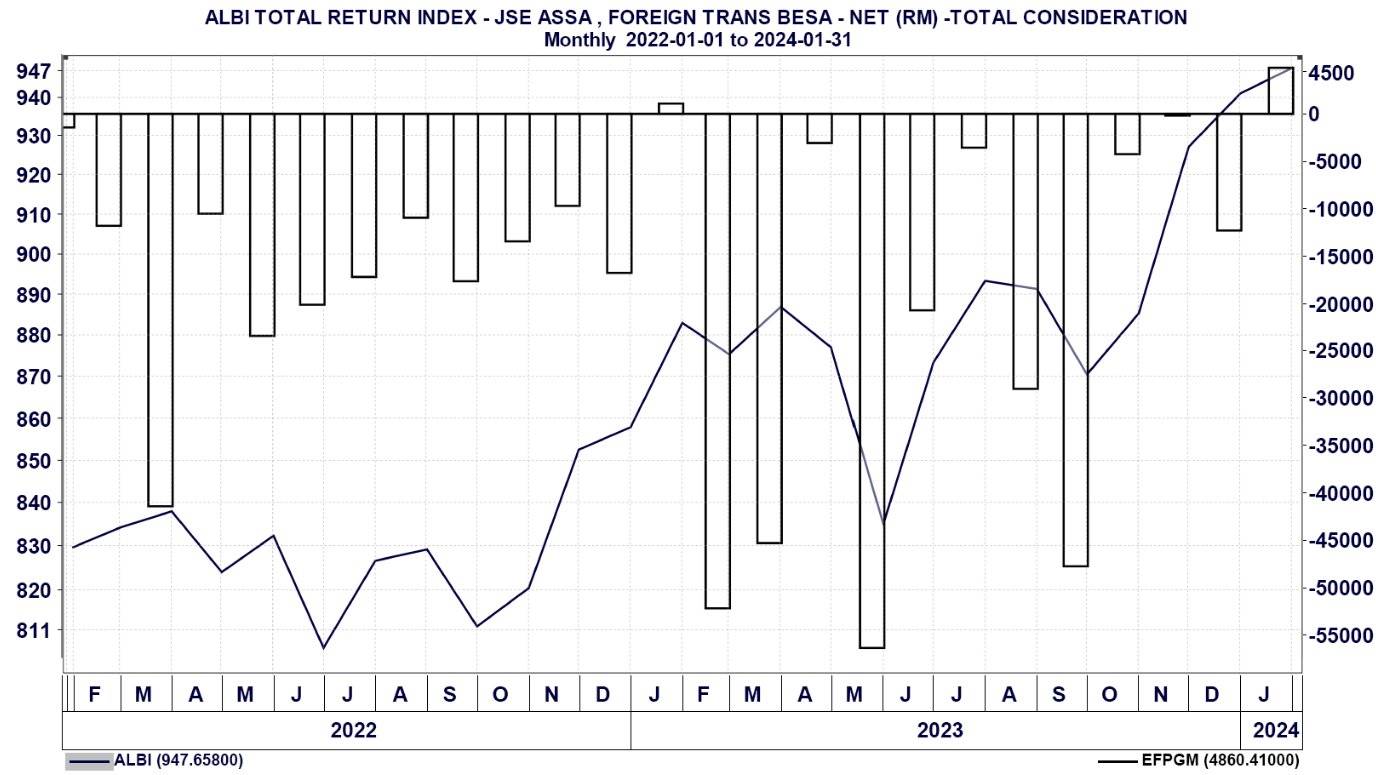
In January, local equity markets concluded the month with a 2.93% decrease. The primary contributor to this decline was the Resources sector (-6.31%), followed by Industrials (-4.32%). The Financial sector (-3.17%) also yielded negative returns, and SA Industrials experienced a 1.22% decline for the month.

LOCAL SECTOR RETURNS IN ZAR				
2022	**November 2023**	**December 2023**	**2023**	**Janaury 2024**
FINANCIALS 8.61%	GENERAL RETAILERS 14.03%	INDUSTRIALS 6.94%	GENERAL RETAILERS 35.34%	GENERAL RETAILERS 7.43%
RESOURCES 8.61%	SA INDUSTRIALS 10.10%	CONSUMER SERVICES 5.65%	CONSUMER SERVICES 29.16%	CONSUMER SERVICES 4.94%
CONSUMER GOODS 6.97%	FINANCIALS 8.32%	FINANCIALS 5.27%	INDUSTRIALS 24.63%	CONSUMER GOODS 0.98%
SA INDUSTRIALS -3.71%	CONSUMER GOODS 7.35%	CONSUMER GOODS 2.23%	FINANCIALS 21.48%	SA INDUSTRIALS -1.22%
CONSUMER SERVICES -4.47%	RESOURCES 6.40%	GENERAL RETAILERS 1.15%	SA INDUSTRIALS 16.62%	FINANCIALS -3.17%
GENERAL RETAILERS -6.19%	CONSUMER SERVICES 5.61%	SA INDUSTRIALS 0.71%	CONSUMER GOODS 10.05%	INDUSTRIALS -4.32%
INDUSTRIALS -13.26%	INDUSTRIALS 2.56%	RESOURCES -0.03%	RESOURCES -11.84%	RESOURCES -6.31%

Source: Morningstar & Glacier Research



Source: IRESS February 2024



Source: IRESS February 2024

Global markets

In January, global stock markets exhibited volatility and varied performances. Developed markets recorded modest gains while emerging markets experienced negative returns. The MSCI World and MSCI World ACWI posted increases of 1.20% and 0.59%, respectively, while the MSCI Emerging Markets Index experienced a loss of 4.64% in USD terms. Notable gains were observed in Japan, the United States, and specific European regions. At the same time, a strong US dollar and concerns about China's economic outlook contributed to the underperformance of emerging markets.

Confidence among investors regarding anticipated US Federal Reserve rate cuts for 2024 wavered due to stronger-than-expected economic data and the emphasis from major central banks on the necessity of witnessing evidence of controlled inflation before contemplating any rate reductions. Geopolitical tensions persisted, with Houthi rebels' strikes in the Red Sea posing risks to supply chains, potential inflationary pressures (as evident in rising freight costs), and the possibility of heightened responses from Western powers. Consequently, oil prices surged. Additionally, drone attacks on Russian energy infrastructure further fuelled uncertainty in the global oil market. Analysing global equity styles, momentum (+5.59%) saw the highest gains, followed by quality (+2.85%), growth (+2.12%), and value (+0.26%) in USD terms.

Following a robust year-end rally, bond markets lost ground in January as investors paid attention to warnings from central banks indicating that while interest rate cuts are anticipated, they are not imminent. The Bloomberg Global Aggregate Bond Index, representing the broad measure of global bonds, recorded a decline of 1.38% (in USD) for the month. Yields increased across all major sovereign bond markets. The US 10-year treasury yield rose from 3.88% to 3.91%, while the UK 10-year Gilts yield ticked up from 3.54% to 3.79%. The 10-year German bund yield increased from 2.02% to 2.17%.

United States

The commencement of January saw robust performance in US equities, buoyed by strong corporate earnings and indications of a ‘soft’ landing. There was optimism that the Federal Reserve would signal an imminent interest rate cut in the first quarter. However, these expectations were dashed towards the end of the month as the Federal Reserve pushed back against the dovish market pricing for rate cuts. The central bank explicitly mentioned that a rate cut in March is unlikely. Consequently, US indices closed the month with weakened momentum, although still in positive territory. The S&P 500, Dow Jones, and NASDAQ recorded increases of 1.68%, 1.31%, and 1.04%, respectively. Information technology and communication services emerged as the top-performing sectors, while basic materials and real estate lagged.

Several data releases highlighted the sustained strength of the US economy. A strong jobs report revealed the addition of 216,000 jobs to the economy in December, surpassing market forecasts of 170,000 jobs. Additionally, there was firmer wage growth, and the unemployment rate remained steady at 3.7%. Furthermore, the fourth-quarter GDP exceeded consensus expectations, with the US economy expanding at an annualised rate of 3.3%, a substantial improvement compared to the anticipated 2% rise according to the advanced estimate.

In December 2023, the annual inflation rate in the US climbed to 3.4%, rebounding from November's five-month low of 3.1%, surpassing market expectations of a 3.2% uptick. This rise was linked to a slower decline in energy prices. Simultaneously, the annual core inflation rate slightly eased to 3.9%, below November's 4%, but exceeded expectations of 3.8%. This development tempered market expectations for a swift interest rate cut in the US, particularly in March. As anticipated, the Federal Reserve maintained the Fed funds rate at a 23-year high of 5.25%-5.5% for the fourth consecutive meeting in January 2024. Chair Jerome Powell acknowledged a more balanced situation concerning employment and inflation but resisted the idea of a rate cut in March. Policymakers stressed that they would not entertain the prospect of reducing rates until they had greater confidence that inflation was consistently moving toward the 2% target.

In January 2024, the S&P Global US Composite PMI stood at 52.0, showing minimal change from the preliminary estimate of 52.3 and an improvement from December's figure of 50.9. This latest reading suggests a slight increase in business activity, representing the most significant uptick since July 2023, driven by a faster rise in service sector output.

Eurozone

Eurozone stocks recorded positive returns in January, driven by the strength of the information technology sector. Some semiconductor equipment stocks saw significant gains despite facing export bans on high-end chipmaking equipment to China. Demand for such equipment remains robust in other regions. Additionally, the communication services sector showed robust performance. The Euro Stoxx 50 index, measured in euros, achieved a return of +2.93% (+1.21% in USD terms). However, the utilities sector faced weakness due to concerns about declining gas prices and potential impacts on renewables considering a potential Trump presidency. Real estate and materials were also among the sectors with weaker performance. Despite an increase in oil prices in January, the energy sector underperformed.

The confirmed year-on-year inflation figure for December stood at 2.9%, up from the previous month's 2.4%, which dampened expectations for an early interest rate cut from the ECB. However, the preliminary estimate for January revealed a slight easing, with inflation at 2.8%, aligning with market expectations. In January, core inflation also moderated to 3.3%, above forecasts of 3.2% but down from December's 3.4%. In its January meeting, the ECB maintained unchanged interest rates. The commitment was made to sustain these rates at adequately restrictive levels for as long as needed, with the primary goal of promptly returning inflation to the 2% target. ECB President Lagarde's stated that it was premature to discuss rate cuts given that price pressures have not been fully resolved and numerous wage negotiations are ongoing.

In the final quarter of 2023, the eurozone economy saw no growth in GDP, following a slight contraction of 0.1% in Q3. This performance was marginally better than the consensus forecast of a 0.1% quarterly contraction, thus averting a technical recession. The largest economy in the eurozone, Germany, played a significant role in this growth challenge, contracting by -0.3% in Q4. For the entire year of 2023, the Eurozone's GDP expanded by 0.5%. However, the outlook for 2024 poses challenges due to factors like elevated borrowing costs and prices, weakened domestic and external demand, and a subdued manufacturing sector, especially in Germany.

The composite Purchasing Managers' Index (PMI) for the Eurozone reached a six-month high of 47.9 in January, slightly up from 47.6 in December, in line with initial estimates. Although still below the critical 50.0 threshold, indicating a decline in Euro Area business activity, the rate of decline was the slowest since July.

United Kingdom

In January, UK equities experienced a decline prompted by an unexpected increase in inflation and disappointing retail sales data. The FTSE 100 index fell 1.27% in pound sterling terms (-1.37% in USD).

December saw UK headline inflation unexpectedly increasing to 4.0% year-on-year, up from November's nearly two-year low of 3.9%, surpassing the anticipated 3.8%. This upturn was primarily attributed to a surge in alcohol and tobacco prices. The annual core inflation rate for December 2023 stood at 5.1%, slightly surpassing market forecasts of 4.9%. Following this inflationary development, market expectations regarding potential interest rate cuts by the Bank of England were revised downward.

While there are indications of growth momentum picking up in the UK, with the composite PMI increasing by 0.8 points to 52.9 (compared to December's 52.1) and consumer confidence reaching a two-year high in January 2024, this optimism was tempered by the latest retail sales data. Retail sales sharply declined by 3.2% month-on-month in December 2023, following a revised 1.4% increase in the previous month and surpassing the market's expectation of a 0.5% fall, raising concerns of an imminent slowdown.

Spot Rates	31 January 2022	31 January 2023	31 January 2024
EUR/USD	1.12	1.09	1.08
GBP/USD	1.34	1.23	1.27
USD/JPY	115.10	130.09	146.88

Source: IRESS

Emerging markets and Asia

In the opening month of 2024, emerging market (EM) equities entered negative territory, contrasting with the modest gains observed in developed markets. China once again served as the primary contributor to underperformance. Concerns about the Federal Reserve's intention to maintain higher interest rates for an extended period compounded the negative sentiment in EM, especially considering signs of economic strength in the US. Consequently, the MSCI EM index recorded a -4.64% return, significantly trailing the +1.20% return of the MSCI World index, both measured in US dollars. Weakness in the consumer discretionary, communication services, and information technology sectors notably impacted regional performance, while the energy sector stood out as the top performer.

Asian equity markets experienced a general decline, with China and Korea being the weakest performers in the region. On the contrary, Japan and India emerged as the top-performing markets, both recording gains. Japanese equities received a boost from a depreciating yen, beneficial for Japanese exporters, along with the implementation of a new set of corporate reforms.

In China, the domestic economy continued to grapple with challenges marked by disappointing retail sales and further deterioration in housing activity. Investors expressed concerns over the possibility of an extended period of slow economic growth in the world's second-largest economy. Fourth-quarter GDP growth met expectations at 5.2% year-on-year, yet it still reflected historical weakness. Despite the People's Bank of China (PBOC) announcing several stimulus measures, the market was disappointed as these measures fell short of the anticipated policy actions needed to reignite economic activity.

Equity markets in Latin America, notably Chile and Brazil, had a sluggish start to the year, posting negative returns. Colombian and Peruvian markets showed limited movement. Most Latin American countries are undergoing a monetary easing cycle, potentially supporting economic activity and asset prices.

Geopolitical tensions, particularly in the Red Sea, have escalated in emerging markets, raising concerns about broader regional conflicts and the economic impact of higher oil prices and increased import costs.

GLOBAL RETURNS IN ZAR

2022	November 2023	December 2023	2023	January 2024
FTSE 100 -0.87%	EURO STOXX 50 12.73%	GLOBAL PROPERTY 6.08%	EURO STOXX 50 35.98%	S&P 500 3.41%
EURO STOXX 50 -9.44%	GLOBAL PROPERTY 12.19%	MSCI WORLD 1.24%	S&P 500 35.73%	EURO STOXX 50 2.94%
GLOBAL BONDS -10.71%	MSCI WORLD 10.56%	FTSE 100 0.92%	MSCI WORLD 33.04%	MSCI WORLD 2.92%
S&P 500 -12.70%	S&P 500 10.31%	S&P 500 0.89%	FTSE 100 22.94%	FTSE 100 0.30%
MSCI WORLD -12.73%	MSCI EM 9.17%	EURO STOXX 50 0.84%	GLOBAL PROPERTY 19.28%	GLOBAL BONDS 0.30%
MSCI EM -14.81%	FTSE 100 7.87%	GLOBAL BONDS 0.51%	MSCI EM 18.04%	GLOBAL PROPERTY -2.57%
SHANGHAI STOCK EXCHANGE -19.53%	GLOBAL BONDS 6.18%	MSCI EM 0.28%	GLOBAL BONDS 13.62%	MSCI EM -3.02%
GLOBAL PROPERTY -20.90%	SHANGHAI STOCK EXCHANGE 3.31%	SHANGHAI STOCK EXCHANGE -4.85%	SHANGHAI STOCK EXCHANGE -1.75%	SHANGHAI STOCK EXCHANGE -7.58%

Source: Morningstar & Glacier Research