EDITION #01
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Monthly Catchup

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Decoding 2023

Markets ended on a high at the end of the year as both local and global markets provided encouraging returns. Increased optimism for a US Federal Reserve (Fed) interest rate cut in 2024 was the main proponent of the positive trend in December, which seemed only fitting in a year where market dynamics were largely influenced by investor sentiment. This increased investor optimism, coupled with a consensus-beating November headline inflation print, led local markets to a positive end to the year.

(Photo: Daily Investor)

Global equities (MSCI ACWI) ended the month up 4.8%[1], bringing the yearly performance to 22.2%[1] in US dollar (USD) terms The strong end to the year was supported by developed market equities (MSCI World) with a 4.9%[1] return for the month and 23.8%[1] for the year in USD terms. The UK (FTSE 100), Japan (TOPIX), the US (S&P 500) and Europe (MSCI Europe ex UK) all posted monthly returns above 4.5%[1] for the month in USD terms. Emerging markets (MSCI EM) lagged their developed markets counterparts with a 3.9%[1] return for the month and 9.8%[1] for the year in USD terms (meaning their yearly performance lagged their developed market counterparts by more than 10%). Big contributors for the month were Brazil (MSCI Brazil) and India (MSCI India) with 7.2%[1] and 8.1%[1] returns respectively in USD terms.

As evidenced throughout the year, the local equity market was largely influenced by global factors with the improved investor sentiment. This was supported by a favorable November headline inflation print, which brought the local market (Capped SWIX) up 2.9%[1] over the month, to bring the yearly performance to 7.9%[1]. From a sector perspective, financials fared best over the month with a strong 5.8%[1] return, bringing the sector's yearly performance to an impressive 20.0%[1]. Industrials lagged with a muted 0.7%[1] return over the month, but still ended the year up a strong 16.6%[1]. Resources ended the year with a negative month to bring the total performance to remarkably low -11.8%[1].Local property (ALPI) ended the year incredibly strong, rallying 9.0%[1] in November and 9.9%[1] in December to bring the return for the year to 10.7%[1], some 3% higher than its local equity counterpart.

December saw generic 10-year yields decline in all major markets, leaving the WGBI up 4.2%[1] in USD terms for the month. Given the turbulent year for global bonds, investors will be relieved to see a positive yearly performance of 5.2%[1] in USD terms, especially after the tumultuous year experienced in 2022 (down 18.3%[1] for the year). Local bonds (ALBI) ended the month 1.5%[1] higher, with the main driver of performance coming from the seven- to 12-year area with a 2.2%[2] return as yields ticked lower.

December's positive return brought the yearly performance of the ALBI to an impressive 9,7%[1]. Inflation-linked bond yields followed the trend and ticked lower, leading to a 2.2%[1] return (IGOV) over the month and bringing the yearly performance to 7.0%[1]. Local cash (STeFI composite) remained stable, delivering a 0.7%[1] return over the month and ending the year up 8.1%[1].

South Africa's five biggest risks in 2024

The World Economic Forum **(WEF)** has highlighted an energy supply shortage as the biggest risk South Africa faces in 2024.

In its Global Risks Report for 2024, the **WEF** released the top five risks as identified by the Executive Opinion Survey for every country in the world.

For South Africa, these five risks are:

- Energy supply shortage
- Economic downturn
- Unemployment
- State fragility
- Water-supply shortage

Inflation is the enemy, not high interest rates – Kganyago

South African Reserve Bank (SARB) Governor Lesetja Kganyago said that while South Africans have felt the impact of the country's high interest rates, inflation is the biggest enemy. In November 2021, the Monetary Policy Committee (MPC) started its current hiking cycle, in which it has raised the repo rate by a cumulative 475 basis points, bringing it to a 14-year high of 8.25%. Kganyago told CNBC Africa that there had been positive and negative consequences of South Africa's high interest rates. Kganyago said these hikes have reigned in the country's inflation because the Reserve Bank acted early when it became clear that inflation was on an upward trend. "We managed to reign in inflation. The policy rate did rise but it has so far only gone up to 8.25%," Kganyago said. He emphasised that this is far lower than the peaks repo rates have reached historically when the Reserve Bank has had to reign in inflation. "The reason they peaked lower is because of the credibility of the monetary policy authority," he said. "The South African Reserve Bank has demonstrated its credential in reigning in inflation because inflation erodes the income of working people, and that is what we had to deal with."

Kganyago has previously compared inflation to an illness and interest rates the medicine needed to cure it. "South Africa is suffering from the disease that is inflation, and our task as the doctor is to cure that disease. The medication we are administering is the repo rate," he said. "It is medication – you have got to take the medication. It might be bitter, but you will not be healed if you don't take the medication."

Sources: Sources:

1. *Morningstar*
2. *RMB asset class returns – December 2023*
3. *Momentum Investments*
4. *Daily Investor*

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MARKETS

19 Jan 2024	Close price at 18 Jan 2024	Daily % change	Month to date	Year to date	Last year
FTSE/JSE indices					
All-Share Index	72,344.40	0.9%	-5.9%	-5.9%	-9.4%
All-Share Index Total Return	12,759.53	0.9%	-5.8%	-5.8%	-6.0%
Resources Index	30,774.12	0.8%	-11.4%	-11.4%	-32.9%
Industrials Index	106,609.82	1.1%	-3.6%	-3.6%	-1.0%
Financials Index	43,153.39	0.9%	-4.4%	-4.4%	6.0%
Top 40 Index	66,009.28	1.0%	-6.4%	-6.4%	-10.5%
Shareholder Weighted Index	13,666.29	0.8%	-5.7%	-5.7%	-9.2%
Capped Shareholder Weighted Index	20,233.17	0.8%	-5.7%	-5.7%	-9.0%
SA Listed Property Index	317.66	-0.5%	-2.6%	-2.6%	-1.5%
SA Volatility Index	21.21	-0.2%	12.8%	12.8%	8.7%
Interest-bearing indices					
FTSE/JSE All Bond Index	940.96	0.2%	0.1%	0.1%	6.3%
STeFI Composite Index	550.54	0.0%	0.5%	0.4%	8.1%
FTSE/JSE Inflation Linked Index	347.93	0.2%	-0.4%	-0.4%	5.7%
Interest rates					
Prime rate	11.75%				
Repo rate	8.25%				
Commodities (in US dollars)					
Gold price	2,022.94	0.8%	-1.9%	-1.9%	6.3%
Platinum price	908.67	3.1%	-8.2%	-8.0%	-12.4%
Oil price	78.94	1.0%	2.6%	2.5%	-6.6%
Global indices (in base currency)					
Dow Jones (US)	37,468.61	0.5%	-0.6%	-0.6%	12.5%
S&P 500 (US)	4,780.94	0.9%	0.2%	0.2%	21.7%
Nasdaq (US)	15,055.65	1.3%	0.3%	0.3%	37.4%
FTSE 100 (UK)	7,451.61	0.3%	-3.6%	-3.6%	-5.0%
Hang Seng (Hong Kong)	15,412.68	0.9%	-9.4%	-9.6%	-28.8%
Shanghai	2,845.78	0.4%	-4.3%	-4.3%	-11.7%
Nikkei (Japan)	35,466.17	0.0%	6.0%	6.0%	32.4%
Cac 40 (France)	7,397.71	1.4%	-2.2%	-1.9%	4.1%
Dax (Germany)	16,553.79	1.1%	-1.2%	-1.2%	8.7%
MSCI Emerging	961.34	0.3%	-6.1%	-6.2%	-6.7%
MSCI Developed	3,143.20	0.7%	-0.8%	-0.8%	15.8%
US Volatility Index	14.13	-4.5%	13.5%	13.5%	-30.5%
Exchange rates					
Rand/US dollar	18.94	-0.5%	3.5%	2.7%	10.7%
Rand/euro	20.60	-0.6%	2.1%	1.8%	11.5%
Rand/pound	24.07	-0.4%	3.4%	2.7%	14.1%
Dollar/euro	1.09	-0.1%	-1.5%	-1.5%	0.8%
Inflation indicator					
CPI					5.5%

Top JSE indices