Discovery

Discovery Market Review

31 December 2024

Market background

Robust US economic data and higher inflation made for a volatile end to the year in bond markets, pushing up yields and strengthening the US dollar. A more hawkish tone from the Federal Reserve further dented optimism around the path of interest rate cuts, resulting in a more subdued end to an otherwise strong year for equity markets.

United States

US equities ended a turbulent quarter in the green despite a sharp decline in December. The period was marked by a number of notable moves, with US equities lifted to record highs after the decisive election result in which the Republicans also took control of the House of Representatives and the Senate. However, several concerns – primarily the Fed's hawkish turn, but also the lingering threat of inflation, mixed economic data and fears of a government shutdown after Congress failed to pass a spending bill to keep federal agencies open – hampered sentiment. At one stage, the blue-chip Dow Jones Industrial Average fell for 10 consecutive sessions – its longest streak since 1974.

Overall, economic data was broadly positive for the quarter. The US Commerce Department reported at the end of October that the economy grew at a healthy 2.8% in the third quarter, slightly lower than the 3% growth over the prior three months but still robust. Consumer spending, which drives nearly 70% of US economic activity, jumped 3.5% year-over-year, accelerating from 2.8% in the prior quarter. Weekly initial jobless claims fell to their lowest since April. Despite these positive indicators, areas of caution emerged. The housing market showed signs of strain, with new home sales declining amid rising mortgage rates and elevated property prices.

South Africa

South African financial markets came under pressure in Q4 2024, with December marking the third consecutive month of equity declines. Global headwinds were among the main drivers behind risk-off sentiment, particularly in the US, where uncertainty over monetary policy and the possibility of a Federal Government shutdown gained momentum. Also weighing on investor sentiment were concerns over South Africa's inclusion in the AGOA trade programme after reports emerged that South Africa's participation could come under review.

On the domestic front, key developments over the quarter included October's Medium-Term Budget Policy Statement, which reflected a positive shift towards greater private sector participation in infrastructure projects and fiscal rule improvements. Finance Minister Enoch Godongwana, however, warned that fiscal deficits and national debt are expected to rise over the next three years, tempering investor optimism to some degree and contributing towards a weaker rand.

In other news, the SARB continued its rate-cutting cycle over the quarter after lowering the repo rate by 25bps to 7.75%, largely in line with market forecasts. Q3 GDP growth unexpectedly contracted by 0.3% q/q, with four out of ten industries registering declines. Annual inflation rose to 2.9% in November, marking the first increase in five months, although still well below the midpoint of the SARB's target range. Meanwhile, in more positive news, business confidence rose to 45 in Q4, its highest reading since Q1 2022, and annual retail sales surged by 6.3% in October, marking its strongest growth since July 2022.

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Europe and the United Kingdom

European shares had a weak quarter as concerns over trade tensions in the export-dependent region weighed on sentiment following the US election. In particular, automakers came under pressure, although concerns were broad-based after President-elect Trump warned the EU would face trade tariffs on its exports to the US unless its member states increase their purchases of American oil and gas. Political developments in France also pressured markets. The government collapsed after failing to pass its 2025 budget, subsequently losing a no-confidence vote. This drove the benchmark CAC40 index to its worst year relative to European peers since 2010. In contrast, German equities outperformed, with economic research centre ZEW suggesting the upcoming snap-elections could help a new government bring greater stability.

UK equities softened in December and over the broader quarter, although they outperformed European peers. The biggest news for the market was the announcement of the first Labour Budget in 14 years. Chancellor Reeves' announcement of significant borrowing led traders to price in a slower pace of interest rate cuts over the coming year, weighing on the equity market. Economic data added to the cautious mood. The Office for National Statistics revised Q3 GDP growth to 0%, down from its initial estimate of 0.1%. The Bank of England cut rates to 4.75% in November but held steady in December, citing heightened economic uncertainty. However, the governor of the Bank of England signalled a likely downward path for rates in 2025.

China

After the excitement of September's policy announcements, October was a much quieter month as investors digested the stimulus measures which were interpreted more as risk mitigation rather than as growth stimulation. Markets gave up some of their gains after late September's enthusiasm, awaiting the NPC Standing Committee meeting at the start of November and the US presidential elections, where relations with China was a key policy topic. Sentiment did improve a little after the PBoC officially launched two market stabilisation programmes aimed to provide additional liquidity provisions and support to equity markets, and manufacturing PMI expanded for the first time in six months, but for the month as a whole, equities retreated 5%.

The US election result and disappointment at the scale of the fiscal stimulus announced at China's NPC Standing Committee meeting resulted in further equity market weakness in November. Disappointing economic figures continued to undermine market sentiment, with retail sales in November failing to follow up on October's positive surprise, partially reflective of the earlier start of the "Double 11" shopping season this year.

In December, the market recovered some ground in anticipation of the annual Central Economic Work Conference and the Politburo meeting for indication of policy stimulus in the coming year. The country's leadership changed its stance on monetary policy to "moderately loose" from "prudent" for the first time in fourteen years and called for "more proactive fiscal policies". Policymakers did not signal towards significant cash handouts to vigorously boost consumption and domestic demand, but instead pointed to an expanded version of 2024's consumption subsidy programme, along with a marginal increase in social welfare spending.

The continued fall in Chinese bond yields over the quarter suggests that deflationary concerns remain while investors await further policy initiatives. With regard to Chinese equities, the MSCI All China Index rallied 1.5% in December as expectations recovered somewhat, but finished down 7.0% for the quarter, in US dollar terms.

Global equities

Global equities ended the final quarter in negative territory, driven by a sharp December selloff following the Federal Reserve's cautious outlook on interest rate cuts for 2025. The central bank projected only two rate cuts for the year, down from the four previously anticipated. This dampened the positivity seen in the previous month, when Donald Trump's decisive victory drove global equities higher. The November rally, led by Trump's home market, reflected investors' view that some of the new administration's policies, such as corporate tax cuts and lighter regulation, could boost domestic growth.

There was significant divergence among geographies, with US equities rising to another all-time high in November before trailing off in the final month of the year, albeit still up for the quarter. Japanese equities were another positive, supported by a weaker yen. However, there were pockets of weakness in other markets at risk of proposed US tariffs, including China and Mexico, which fell over the quarter, as did European car manufacturers. France was a

notable laggard after the government of Michel Barnier fell following the first successful no-confidence vote since 1962 after his proposed budget failed to pass.

Geopolitics was in focus too, with Ukraine launching US long-range missiles into Russia, which responded by loosening the terms of use for its nuclear doctrine. In the Middle East, a ceasefire agreement was reached between Israel and Hezbollah. At the sector level, consumer discretionary, communication services and tech all performed strongly, however materials lagged, as did healthcare stocks, which were hit by the nomination of vaccine sceptic Robert Kennedy Jr to head the US health department. The interest-rate-sensitive real estate sector also struggled amid concerns about tighter monetary policy.

Indices	**Q4 net return (USD)**
S&P 500	2.3%
Nasdaq Composite	6.3%
MSCI ACWI	-1.0%
Nikkei 225	5.3%
Eurostoxx 600	-2.9%
FTSE 100	-0.2%
Hang Seng Index	-1.1%
SSE Composite	0.7%

Indices	**Q4 net return (ZAR)**
FTSE JSE All Share Index	-2.1%
FTSE/JSE Financials Index	0.9%
FTSE/JSE Industrials Index	0.2%
FTSE/JSE Resources Index	-9.3%
FTSE/JSE ALBI	0.4%
STEFI	2.0%

Source: Bloomberg, as at 31 December 2024.

Global fixed income

Bond yields rose across the US Treasury curve over the quarter. The initial market reaction to Donald Trump's victory in the US election was to price in elevated US fiscal risks and a potentially higher inflation outlook. In addition, hawkish comments from US Federal Reserve Chair Powell indicated a lack of urgency to cut rates, resulting in a scaling back of market expectations around the speed of monetary policy easing in 2025. Treasury yields subsequently fell back following Trump's market-friendly Treasury Secretary nomination, but soon resumed their rise on signs of sticky inflation and hawkish forecasts from the Fed – with the Fed's 'dot plots' pointing to just two rate cuts in 2025, down from four in its previous meeting. The US dollar continued its recent strong run against a global basket of currencies, helped by the Fed's hawkish stance.

In Europe, the overall change in sovereign bond yields was less pronounced than in the US, although yields on 10-year government bonds still rose across the continent. The European Central Bank (ECB) reduced interest rates twice in the quarter, each time by 25 basis points. However, the ECB's December meeting – in which committee members signalled wariness over the path of inflation – led to some disappointment among market participants, who had been expecting a more dovish tone. German inflation was lower than expected during the quarter, providing impetus to the bund market, but not enough to prevent yields from rising overall. Elsewhere, political turmoil in France relating to budget negotiations and a vote of no confidence in the government drove up volatility in French assets, with yields rising.

UK 10-year gilt yield rose meaningfully over the quarter. The major news over the period was the announcement of the first Labour budget in 14 years. While yields rallied into the announcements, they ultimately rose as the market digested the implications of higher borrowing. In November, the Bank of England (BoE) cut rates by 25bps to 4.75%, the second cut of the year. Despite the more-expansionary-than-expected budget (which the BoE expects will increase both growth and inflation) the monetary policy committee maintained its guidance that a gradual approach to

reducing the policy rate remains appropriate. However, this did not prevent yields from rising over the quarter, as inflation rose and the BoE left rates unchanged in December.

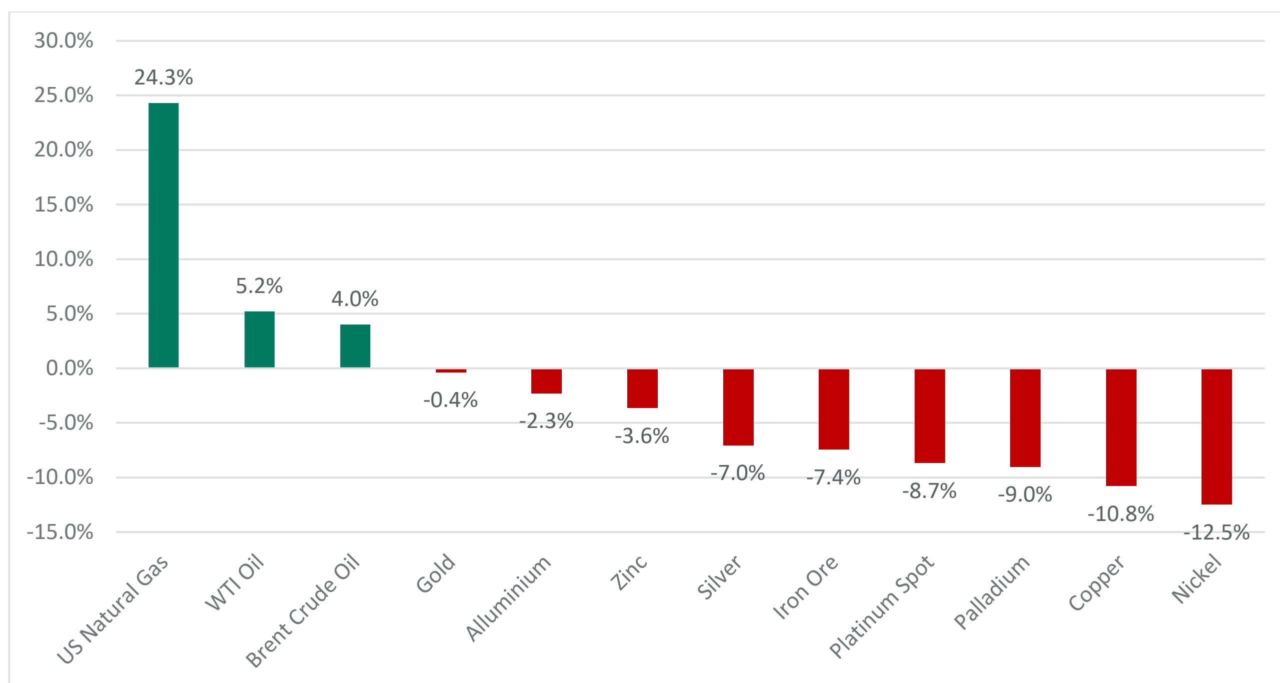
Japanese government bond yields rose over the quarter, as the market continued to price in expected interest rate hikes from the Bank of Japan (BoJ) in 2025. The BoJ kept rates on hold over the quarter at 0.25%, and while some market participants had expected a rate hike in December, uncertainty around the incoming US administration kept the BoJ in 'wait and see' mode. Also during the period, the ruling coalition failed to reach a majority in the elections for the first time since 2009; this uncertainty, combined with a hawkish Fed and dovish BoJ, caused the yen to weaken, with the US dollar gaining more than 9% relative to the yen over the quarter.

Indices	Q4 net return (USD)
The Bloomberg US Treasury Index	-3.1%
Bloomberg Global-Aggregate Total Return	-5.1%
The Bloomberg EuroAgg Index	0.1%

Source: Bloomberg, as at 31 December 2024.

Commodity markets

Commodity markets were mixed in December and in Q4 2024. Oil was volatile, with the price of a barrel of Brent crude ending 2024 at about US$75, 2% higher over December but 3% lower over the full year. While the threat of supply disruptions due to conflict in the Middle East persisted, the risk of slowing demand as China's economy struggled and the potential for increased supply counterbalanced upward pressure on oil prices. Natural gas prices spiked after Ukraine began using long-range missiles to strike inside Russia. After a strong run (+27% over 2024), gold had a muted end to the year, declining 1% in December to US$2,625 per Troy ounce. Although it reached a new all-time high in October, the precious metal was weaker following Donald Trump's US election victory on concern that the incoming administration's policies will be inflationary. Sustained demand weakness in China weighed on the prices of many industrial metals in December and in Q4, notwithstanding Beijing's recent announcement of fresh stimulus, with copper, iron ore, nickel and aluminium all in negative territory over both periods. Among agricultural commodities, corn prices climbed into year-end on expectations of a tighter market due to lower production in the European Union and Ukraine.



Source: Bloomberg, as at 31 December 2024.