Market Commentary

December 2024

GLOBAL MARKET THEMES

- Financial markets concluded the final month of 2024 on a subdued note, as equities, bonds, and commodities all experienced declines in December. This downturn was driven by changing monetary policies, inflationary pressures, and geopolitical uncertainties.
- The MSCI World Index dropped by 2.6%, while the MSCI Emerging Markets Index saw only a slight decline of 0.1%.
- The UK economy contracted by 0.1% in October, marking the second consecutive month of declines. This downturn can be attributed to the Labour government’s £40 billion tax increase, which has impacted growth. In November, inflation rose to 2.6%, while the Bank of England maintained interest rates at 4.75%.
- Equity markets experienced a decline following the Federal Reserve’s 0.25% rate cut and more hawkish forward guidance. The S&P 500 fell by 2.4% in December but posted an impressive annual return of 25%. Meanwhile, the NASDAQ 100 saw a monthly increase of 0.5%, bolstered by strength in the tech sector.
- China has adopted a “moderately loose“ monetary policy to counteract deflationary pressures.
- South Korean markets experienced a sharp decline of 7% due to ongoing political instability.
- In India, inflation has eased to 5.5%, offering some relief to policymakers.
- Brent crude oil increased by 1.3% in December; however, it declined by 7% over the entire year due to weaker global demand. In contrast, gold performed well as a safe-haven asset, rising by 27.2% annually.
- Global bond markets fell by 0.7% in December, influenced by adjustments in central bank policies and rising yields.

SOUTH AFRICAN MARKET THEMES

- South Africa's consumer price inflation for November softened to 2.9%.
- South Africa's employment statistics showed a decline of 133 000 in jobs (in the non-agricultural sector) for the third quarter of 2024 compared to the same period in 2023. The total employment numbers fell from 10.74 million to 10.61 million, a drop of 1.2%.
- In December, the Capped SWIX, All Share Index, and ALBI each fell by 0.3%.
- Financials and Resources dropped by 1.2% and 5.4% respectively, while Industrials rose by +2.7%.
- Transnet's losses for the six months ending September 2024, reported to be larger than anticipated at R2.2 billion compared to the anticipated R1.6 billion.
- Despite Q4 growth in 2024, the new-vehicle industry experienced an overall slowdown of 3% year-on-year.
- ArcelorMittal South Africa (Amsa) announced the closure of its Longs Business, potentially affecting over 3 000 jobs.
- Administrative sanctions have been imposed on Capitec for non-compliance with certain provisions of the Financial Intelligence Centre Act 38 of 2001 [FIC Act].
- The Presidency has assented to the South African Post Office SOC Ltd Amendment Bill.

Global market themes

Global financial markets ended December 2024 on a subdued note, with most asset classes experiencing declines. Equities, bonds, and commodities were negatively affected by changing monetary policies and increasing economic and geopolitical uncertainties. The MSCI World Index fell by 2.6%, while the MSCI Emerging Markets Index displayed relative resilience, declining by only 0.1%. This modest outperformance of emerging markets highlighted a shift in investor sentiment as inflationary pressures, central bank policies, and political developments continued to shape global economic conditions.

In the United States, equity markets experienced a sell-off despite the Federal Reserve's 0.25% interest rate cut in December. Although this reduction was widely anticipated, the Fed's cautious hawkish guidance for 2025 disappointed investors, leading to a 2.4% decline in the S&P 500. In contrast, the tech-heavy NASDAQ 100 defied the overall trend by gaining 0.5%, driven by the continued strength of AI-related companies. Persistent inflation, which rose to 2.7% year-on-year in November, tempered investor optimism. Nonetheless, U.S. equity markets closed the year on a positive note, with the S&P 500 delivering an impressive annual return of 25%, reflecting strong corporate earnings and robust economic fundamentals.

In December, the UK economy faced significant challenges, highlighted by a second consecutive month of GDP contraction. GDP fell by 0.1% in October, indicating ongoing economic strain. The Labour government's autumn Budget, which proposed £40 billion in tax increases, received criticism for its potential negative impact on consumer spending and business investment. Compounding these issues, inflation in the UK rose to 2.6% year-on-year in November. In December, the Bank of England decided to keep interest rates steady at 4.75%, aiming to balance the need to manage inflation while also avoiding further economic slowdown.

The Eurozone continued to face persistent challenges, even as the European Central Bank (ECB) implemented its fourth consecutive 0.25% interest rate cut to stimulate economic growth. In the third quarter, GDP across the bloc grew by a modest 0.4% quarter-on-quarter, while Germany's growth was revised down to only 0.1% due to ongoing difficulties in the manufacturing and export sectors. Despite these economic headwinds, European bond markets showed resilience, with peripheral economies outperforming their core counterparts, bolstered by the ECB's accommodative policy stance.

Asian markets showed mixed performance in December. China announced a significant shift in its monetary policy by adopting a "moderately loose" stance for 2025, a change not seen in 14 years. This move aims to counter deflationary pressures and address structural challenges, particularly in the property sector. Initially, this decision created a sense of optimism; however, by the end of the month, weak economic indicators tempered that enthusiasm. South Korea, on the other hand, experienced political turmoil following President Yoon Suk Yeol's declaration of martial law and the subsequent issuance of an arrest warrant for him. This instability negatively impacted financial markets, resulting in a 7% decline in the KOSPI Index (in USD terms).

Emerging markets demonstrated divergent performances, reflecting varying economic conditions across different regions. India experienced a positive outcome due to easing inflation, which dropped to 5.5% in November, allowing for greater policy flexibility. In contrast, China's inflation slowed dramatically to just 0.1%, raising concerns about potential deflationary risks. Commodities faced similar challenges; Brent crude oil prices rose by 1.3% in December but ended the year down by 7% due to weaker global demand and a stronger U.S. dollar. On the other hand, gold stood out as an exceptional performer, concluding the year up 27.2%, driven by its appeal as a safe-haven asset amidst global uncertainties.

Fixed-income markets experienced significant volatility in December due to shifts in central bank policies. The Federal Reserve's hawkish stance caused government bond yields to rise, while the UK gilt market declined amid broader economic concerns. U.S. Treasuries and German bonds experienced volatility, with the benchmark 10-year yield on U.S. Treasuries rising from 4.17% to 4.57% and the yield on German bonds increasing from 2.09% to 2.36%. In comparison, peripheral European bonds performed better, benefiting from the dovish policies of the ECB. Overall, global government bonds posted a 0.7% decline in USD-hedged terms, highlighting the challenging environment for fixed-income investors.

The technology sector presented a unique bright spot, fuelled by ongoing advancements in artificial intelligence and trends in digital transformation. The NASDAQ 100 demonstrated resilience, supported by strong earnings from prominent AI and semiconductor companies, such as Nvidia and AMD. However, elevated valuations across the sector have raised concerns about sustainability in a higher interest rate environment, indicating potential volatility in the future.

Geopolitical tensions continue to influence market sentiment. The ongoing conflict in Ukraine has disrupted energy markets, resulting in an 8% rise in natural gas prices in December. Furthermore, escalating tensions between the U.S. and China over technology exports and Taiwan's sovereignty have caused instability in the markets, particularly in Asia.

During December, emerging market currencies exhibited a range of trends, influenced by various regional economic and political factors. The Indian rupee appreciated by 0.8% against the U.S. dollar, supported by robust foreign investment inflows. In contrast, the Brazilian real struggled, falling by 2.2% amidst political uncertainty following the midterm elections. These fluctuations underscore the complexities of managing exposures in emerging markets, with volatility expected to persist into the new year.

South African market themes

At the end of 2024, the South African equity and bond markets lagged behind their respective emerging market counterparts. South Africa's consumer price inflation rate for November came in at 2.9%, slightly up from 2.8% in October. At a provincial level, the Western Cape reported the highest inflation rate at 3.4%.

South Africa's employment statistics showed a decrease of 133 000 in jobs in the non-agricultural sector for the third quarter of 2024, compared to the same period in 2023. The total employment numbers fell from 10.74 million to 10.61 million — a drop of 1.2% — job losses concentrated in community services, business services, manufacturing, logistics, mining, and electricity.

December saw a 0.3% drop in the Capped SWIX, All Share Index, and ALBI. Despite this monthly decline, the ALBI was up by +17.3% for the year. Inflation-linked bonds saw an uptick of +0.8% for the month. Financials and Resources fell by -1.2% and -5.4%, respectively, while Industrials rose by +2.7%. Mid-Caps and Large-Caps were also down by -1.9% and -0.7%, respectively, while Small-Caps performed well, gaining +3.3%. In terms of domestic real estate, the S&P SA REIT sector rose by 0.5%, while SA Listed Property gained 0.4%. However, the rand weakened significantly, depreciating by 4.5% against the US dollar.

Transnet reported R2.2 billion in losses for the six months ending September 2024, exceeding the anticipated R1.6 billion. Headwinds which affected this included rail inefficiencies, a drop in mining exports, and operational challenges. The focus going into 2025 includes improved debt management, enhanced security, availability of rolling stock, and improving rail infrastructure.

Although the new-vehicle industry grew over Q4 in 2024, the industry still experienced an overall slowdown of 3% year-on-year and struggled to gain momentum due to the strained economic climate for consumers. Bakkies and other light commercial vehicles experienced a year-on-year decline of 12%, medium and heavy commercial vehicles declined by 6.5%, and the bus sector declined by 4.9%. Passenger vehicle sales, however, increased by a modest 1.1% compared to the previous year.

ArcelorMittal South Africa (Amsa) announced the closure of its Longs Business which potentially affects over 3 000 jobs. The Group previously announced its plans to put the business unit into care and maintenance during challenging economic conditions. However, despite this proposed revival, the unit continued to struggle. The closure of the Longs Business will affect the steel plants which include Newcastle Works, Vereeniging Works, and the rail and structures subsidiary (AMRAS). The steel production is set to draw to a close by late January 2025, with the rest of the processes winding-down by the end of Q1 2025.

Administrative sanctions have been imposed on Capitec for non-compliance with certain provisions of the Financial Intelligence Centre Act 38 of 2001 [FIC Act] following inspections in 2021 and 2022. SARS has issued a financial penalty of R56.25 million for Capitec failing to comply with certain anti-money laundering regulations. Of that total amount, R10.5 million of the fine will be conditionally suspended. The Prudential Authority (PA) has since confirmed that Capitec has embarked upon the necessary remedial action. The Capitec share price fell by -3.9% in December.

The Presidency has assented to the South African Post Office SOC Ltd Amendment Bill. This Bill expands the Post Office's mandate and helps to repurpose its infrastructure to provide diversified and expanded services. The law will also outline various governance matters such as the size and functions of the Board. The Post Office is now enabled to serve as a hub for government services and agency services. It is also envisioned to become a digital hub for businesses and consumers.