Discovery Market Review

30 November 2024

Market background

The US election was the main event of the month, with Donald Trump's clean sweep driving a sharp risk-on rally, particularly in the US. It was a mixed month for South African assets, while in Europe, French assets underperformed, given the country's budget situation. Sovereign bond yields generally fell over November, predominantly in Europe, although Japan bucked this trend. US yields were volatile.

United States

November saw widespread gains across US equity markets as post-election exuberance drove major indices to record highs. Political developments were central to market sentiment, as the election of Donald Trump and a Republican-majority Congress introduced a policy agenda focused on corporate tax cuts and deregulation. The S&P 500 – already having one of its best-ever years – posted its best performance of 2024. Moreover, gains were broad-based, with the equal-weighted S&P 500 seeing an even larger gain, as did the Dow Jones Industrial Average and Nasdaq indices. Small-cap stocks outperformed, with the Russell 2000 Index jumping 11.2%, its best monthly performance since December 2023.

Economic data further bolstered confidence. 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 second quarter's 3% growth 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. Personal income, disposable personal income and personal saving rates all rose slightly in October. Weekly initial jobless claims fell to their lowest since May.

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. Meanwhile, geopolitical and fiscal risks, including concerns over inflation and fiscal deficits, remain on the horizon.

South Africa

After a volatile month, the FTSE/JSE ALSI closed November marginally in the red, weighed down by global trade uncertainties and mixed domestic economic indicators. In the US, President-elect Donald Trump hinted at potential trade tariffs on China, South Africa's largest trading partner, while geopolitical tensions in Eastern Europe and the Middle East further dampened investor sentiment. Domestically, October's manufacturing PMI pointed to slowing factory activity, while September's retail sales also declined.

Despite these headwinds, there were pockets of optimism. S&P Global upgraded South Africa's credit rating outlook to 'positive', signalling confidence in the country's economic reform progress. The SARB continued its rate-cutting cycle, reducing its key interest rate by 25 basis points to 7.75%, as inflation continued to ease below the midpoint of the central bank's target range. Additional positives included a sharp drop in October's PPI, business confidence reaching its highest level in nearly three years, and robust earnings from select JSE heavyweights such as Naspers/Prosus, Anglo American Platinum, and FirstRand.

Europe and the United Kingdom

European shares posted their first positive month in three, although their relative performance was hampered as investors bet the export-dependent region would be hurt by any increase in trade tensions. Automakers, in particular, came under pressure. Whilst the US election dominated attention, there were also significant political developments in France, where there was growing speculation about the government's survival as it attempted to pass its 2025 budget to address the country's growing deficit. The far-right National Rally party threatened a no-confidence vote to bring the government down if its demands weren't met, sending the benchmark CAC40 index lower and on track for its worst year relative to European shares since 2010.

UK equities fared better, with both larger and smaller companies posting healthy gains for the month. Aside from the positive overspill from the US election, there was some notable M&A activity, with insurer Direct Line receiving a bid from larger rival Aviva, helping lift financial services to be the best-performing sector for the month. On the economic front, third-quarter GDP growth came in at 0.1%, shrinking in September itself, with uncertainty about the new government's first budget being blamed for the weak growth.

China

November was a negative month for Chinese equities as investors digested the implications of a resounding Republican victory in the US, and what it portends for future trade tariffs. Equities started the month well and held up relatively well in the immediate aftermath of the election result, with this down to the fiscal stimulus announced from China's NPC standing committee meeting that occurred between 4-8 November. In addition, China has been dealing with tariffs since 2018, and the current Biden administration has been increasing trade barriers, so the election result does not necessarily imply a huge pivot in US policy toward China. However, as the month progressed, the expectation of an empty window for further policy rollouts before year-end, coupled with mixed economic data, saw equities creep lower, weakening investor hopes for some good news to ease the impact of the US election result. Retail sales for October were a strong beat, and various PMIs were above consensus, but credit growth, property data, and inflation data remained weak, all while the trade deficit remained in strong surplus. Looking ahead, the December Politburo meeting and the annual Central Economic Work Conference are both taking place in mid-December, during which growth targets will be discussed and agreed for 2025, and policy tones will be set, so this may encourage greater detail on stimulus to be shared to help substantiate any targets.

Global equities

The US election was the main protagonist in November, with Donald Trump's decisive victory driving global equities higher, led by his home market. US equities rose to another all-time high, bouncing back from their October losses, as investors bet that some of the new administration's policies, such as corporate tax cuts and lighter regulation, could boost domestic growth. However, there were pockets of weakness in other markets at risk of proposed US tariffs, including China and Mexico, which sank over the month, as did European car manufacturers. France was another laggard amid concerns about the viability of the government's proposed budget. 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, financials and tech all performed strongly, however, more defensive areas, such as materials and utilities, lagged. Healthcare stocks were hit by the nomination of vaccine sceptic Robert Kennedy Jr to head the US health department.

Indices	Net return (USD)
S&P 500	5.8%
Nasdaq Composite	6.3%
MSCI ACWI	3.7%
Nikkei 225	-2.2%
EuroStoxx 600	1.0%
FTSE 100	2.6%
Hang Seng Index	4.2%
SSE Composite	+1.4%

Indices	Net return (ZAR)
FTSE JSE All Share Index	-0.9%
FTSE/JSE Financials Index	0.5 %
FTSE/JSE Industrials Index	0.5%
FTSE/JSE Resources Index	-6.6%
FTSE/JSE ALBI	3.1%
STEFI	0.6%

Source: Bloomberg, for the month ending 30 November 2024.

Global fixed income

Starting in the US, it was a volatile month for Treasuries, with the 10-year yield starting the month at 4.28%, peaking intramonth at 4.45% and ending November at 4.17%. Donald Trump's victory in the US election caused markets to initially 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 quickly, causing the market to scale back its expectations for the speed of interest rate cuts in 2025. However, yields dropped sharply following Trump's nomination of Scott Bessent as Treasury Secretary, which the market took favourably. Turning to the US dollar, the currency continued its recent strong run versus a global basket of currencies, helped by the hawkish comments from Powell.

In Europe, sovereign bond yields fell meaningfully across the continent, helped by the market's anticipation of a faster pace of interest rate cuts from the European Central Bank. In addition, German inflation was lower than expected, providing further impetus to the bund market. The widening gap between US and European rates caused the euro to weaken 2.8% versus the US dollar. Elsewhere, political turmoil in France relating to budget negotiations and the prospect of a vote of no confidence in the government caused French assets to underperform. While yields still fell in France, it was by a lesser amount than regional peers.

In the UK, the Bank of England (BoE) cut rates by 25bps to 4.75%, the second cut this year. Despite the more expansionary than expected autumn 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. This, combined with signs of softening in activity data throughout the month and the correlation to US and European yields, helped gilt yields fall.

The bond market in Japan bucked the trend of falling rates, with the 10-year yield rising 12bps over November to 1.05%, helping the yen appreciate versus the US dollar. Driving this was the market's increased expectations of a rate hike from the Bank of Japan in December following higher-than-expected inflation. This followed comments from central bank governor Kazuo Ueda earlier in the month, saying the bank would be adopting a data-dependent approach.

Indices	Net return (USD)
The Bloomberg US Treasury Index	0.8%
Bloomberg Global-Aggregate Total Return	0.3%
The Bloomberg EuroAgg Index	2.0%

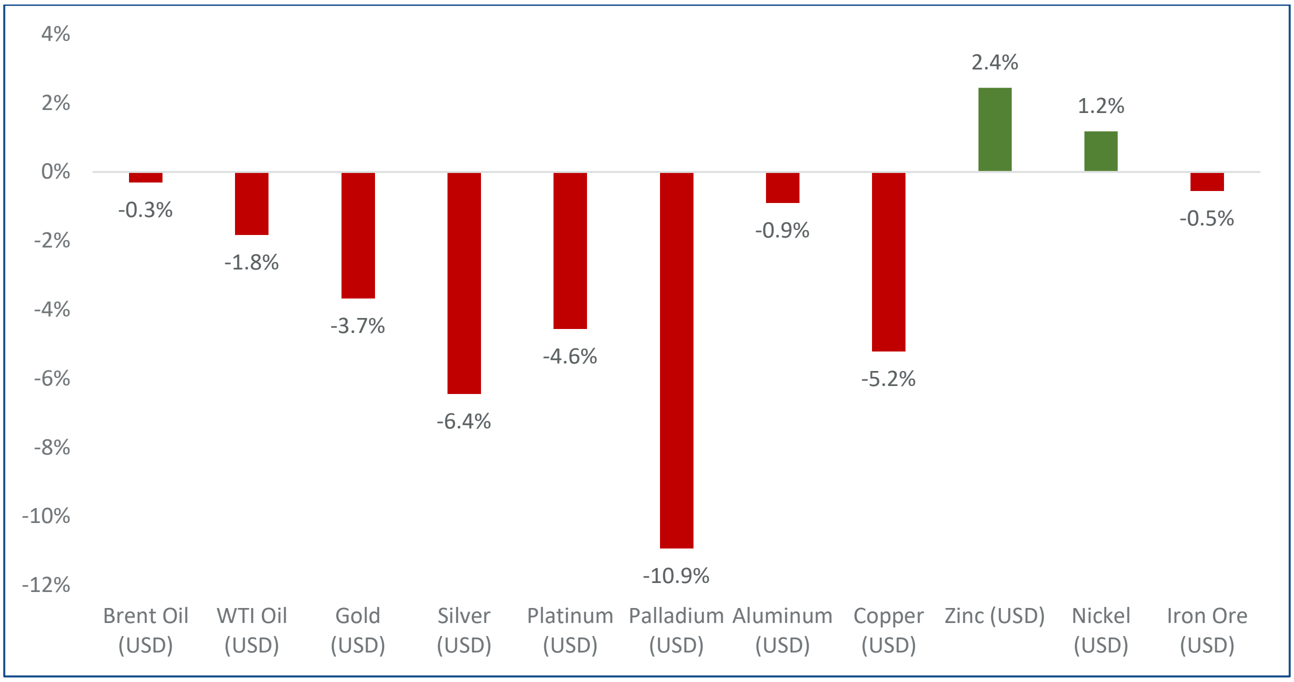
Source: Bloomberg, for the month ending 30 November 2024.

Commodity markets

Speculation about the incoming US administration's policy agenda contributed to a mixed month in commodity markets. Gold declined on expectations that President-elect Trump's policies may re-stoke inflationary pressures and cause US interest rates to remain higher for longer. The precious metal ended November at US$2,643 per Troy ounce, 3.7% lower. Despite stronger global steel production in November, positive sentiment towards iron ore was tempered by the prospect of higher tariffs on Chinese exports to the US. The commodity ended the month slightly down overall. Fears over trade disruptions also weighed on copper, which declined more than 5% in November, also impacted by forecasted surplus inventories.

In energy markets, OPEC+ member countries postponed a plan to increase oil production until the end of the year, seeking to counter weakening oil prices. Despite the conflict in the Middle East threatening supply, oil has declined in recent months on macro concerns, specifically over the outlook for Chinese demand. The price of a barrel of Brent crude was little changed in November, ending the month at about US$73. Natural gas prices spiked after Ukraine began using long-range missiles to strike inside Russia.

Commodity price changes



Source: Bloomberg, for the month ending 30 November 2024.