# Discovery Market Review

31 October 2024

## Market background

October was a volatile month for global markets for various reasons, but the key common factor throughout was the upcoming US elections, and the general appetite for risk eroded as the event drew closer. By month-end, most markets were down in US dollars.

## United States

October proved to be a turbulent month for US equities, with both the benchmark S&P 500 and blue-chip Dow Jones Industrial Average reaching all-time highs mid-month before retreating to end with losses, snapping their five-month winning streaks. Likewise, the Nasdaq Composite, heavily influenced by tech stocks, posted its first monthly loss since July. Despite solid results from Alphabet (Google's parent), the market was shaken by mixed earnings reports from other major tech players, including Apple, Microsoft and Meta. This weighed on the index at month-end, suggesting that investor enthusiasm around AI may be cooling as fundamentals come into sharper focus.

Investor unease was also shaped by external factors. Stronger US economic data, particularly in labour markets, tempered recession fears and led investors to scale back rate cut expectations. Fiscal risks resurfaced, with rising concerns over US fiscal deficits as the November election drew nearer. Meanwhile, heightened tension in the Middle East led to a rise in the price of Brent crude. The combination of rising oil prices and strengthening US macro data renewed investor concerns about inflation.

## South Africa

October marked the first month of negative performance for South African equities since the formation of the Government of National Unity (GNU) earlier this year. Global dynamics contributed to investor caution, including the upcoming US presidential election, uncertainty as to the implementation of China's latest round of stimulus measures and rising geopolitical tensions in the Middle East. Investors also kept a close eye on US economic data for signs that could influence the pace of the US Federal Reserve's (Fed's) interest rate cuts.

On the domestic front, Finance Minister Enoch Godongwana's first medium-term budget speech under the newly formed coalition government set a cautious tone. Fiscal deficits and national debt are expected to rise over the next three years, tempering investor optimism and contributing to a weaker rand. Turning to economic indicators, annual inflation (CPI) eased to 3.8% in September, reaching the lower end of the South African Reserve Bank's (SARB) target range and supporting the view that there could be more room for the SARB to accelerate its monetary policy easing. Despite the rather cautious backdrop, domestic indicators showed some pockets of strength, with factory activity (PMI) rebounding to 52.8 in September following last month's contraction, retail sales surging 3.2% year-on-year (y/y) in August, while mining activity for August rose by 0.3% y/y following two consecutive months of declines.

# Europe and the United Kingdom

European stocks closed down for the month as a combination of weak earnings and concerns about the US election dragged down sentiment. Higher-than-expected inflation figures from the Eurozone also weighed down the benchmark and boosted the case for a smaller quarter-point rate cut in December. The prospect of Donald Trump imposing a raft of new tariffs hampered the shares of export-sensitive European companies such as carmakers and luxury goods groups. ASML, Europe's largest tech company, also had a weak month after cutting its outlook for next year.

UK stocks trended lower during October. The biggest news for the market came in the form of the first Labour Budget in 14 years. Chancellor Reeves' announcement of significant borrowing led traders to price in a slower rate of cuts over the coming year to three from five and weighed on the equity market. There was some positive news on the growth front, with the UK economy growing in August following two months of stagnation. At the sector level, real estate and health care were among the laggards, while energy was the best performer after a decent month for oil.

# China

After the excitement of September's policy announcements, October was a much quieter month as investors digested the stimulus measures, which were interpreted as risk mitigation rather than growth stimulation. Markets remained subdued in the run up to the NPC Standing Committee meeting at the start of November, which is hoped will clarify further policy support to direct the economy back on the reflationary path. Furthermore, with the US presidential elections taking place in early November, and with China a key policy topic, it was unlikely we'd see any additional moves from Beijing until the election result was processed. Sentiment did improve after the PBoC officially launched the two market stabilisation programmes aimed to provide additional liquidity provisions and support to equity markets.

In a welcomed boost for policymakers, manufacturing PMI expanded for the first time in six months, albeit the smallest possible expansionary reading, to 50.1 in October, up from 49.8 in September. In a further boost to the economy, non-manufacturing PMI, which covers construction and services, rose to 50.2 in October. Investors will take encouragement from any kind of expansionary activity, especially so soon after the stimulus announcement, given the positive effects from the measures are still unlikely to be reflected in economic data.

Despite the pause in rhetoric from Beijing, optimism still remains high that further material fiscal support is on the way, but the market has adjusted its expectations that it will likely be a more considered and drawn-out process. Unsurprisingly, in the absence of additional positive news, the MSCI All China Index detracted 5.3% in October, but is still up c.16% over the past three months.

# Global equities

October was a volatile month for markets, with global equities moving lower after a sell-off at the end of the month. Global growth risks remained the primary concern for investors, who were spooked by some underwhelming earnings releases. Uncertainty was also heightened by the impending US election and the potential policy implications.

Emerging market equities – particularly Chinese stocks – underperformed developed markets. That said, US equities fell for the first time in six months, partly due to the 'Magnificent 7' earnings updates disappointing investors.

In Europe, sentiment was subdued, and equities lagged other developed markets. Japanese equities, however, gained on the back of a weaker yen amid political uncertainty, with the ruling LDP losing its parliamentary majority. Chinese stocks, having started the month strongly, gave up their gains as markets were disappointed by the lack of significant new fiscal spending announcements from Beijing, and speculative positioning eased.

Most sectors delivered negative returns, with materials and consumer staples the weakest performers. Financials and communication services were among the better-performing sectors, albeit flat for the month.

| Indices | Net return (USD) |
|---|---|
| S&P 500 | -0.9% |
| Nasdaq Composite | -0.5% |
| MSCI ACWI | -2.2% |
| Nikkei 225 | 3.1% |
| EuroStoxx 600 | -3.3% |
| FTSE 100 | -1.4% |
| Hang Seng Index | -3.8% |
| SSE Composite | -1.7% |

| Indices | Net return (ZAR) |
|---|---|
| FTSE JSE All Share Index | -0.9% |
| FTSE/JSE Financials Index | -0.7% |
| FTSE/JSE Industrials Index | -2.8% |
| FTSE/JSE Resources Index | 2.7% |
| FTSE/JSE ALBI | -2.2% |
| STEFI | 0.7% |

Source: Bloomberg, for the month ending 31 October 2024.

# Global fixed income

Yields across government bond markets rose in October, resulting in negative total returns in fixed-income markets. This was most pronounced in the US and UK.

Starting with the US, yields rose across the entire US Treasury yield curve. Drivers included resilient US labour market and consumer confidence data; this led to the market dialling back expectations of a US recession and pricing out several rate cuts. Weak US Treasury auctions throughout the month, combined with markets pricing in an increased likelihood of Trump winning in the upcoming presidential election, weighed on the market. Comments from members of the Fed over the month suggesting the central bank will take a more cautious approach to cutting rates put further pressure on the US Treasury market.

In the UK, although yields had been rising in line with other markets, much of the action in the Gilts market occurred at the end of the month, when the first Labour budget in 14 years was announced. The market initially rallied (yields fell) as the budget news was breaking, but Gilt yields ended the day higher as market participants began to consider a less benign outlook for interest rates. This is despite UK inflation falling to 1.7% in September, the first time it has been below the Bank of England's 2% target since 2021.

Sovereign bond yields also rose in Europe, although not as sharply as in the US or UK. This was against the backdrop of the European Central Bank turning more dovish and reducing rates by 25bps, the first back-to-back cut in 13 years.

In Japan, yields on the 10-year bond crept higher to end the month at 0.94%. Towards the end of the month, the ruling coalition failed to reach a majority in the elections for the first time since 2009; it will have to find another coalition partner, and this is expected to lead to an increase in fiscal spending. The yen weakened as a result of the uncertainty. At the end of the month, the Bank of Japan kept rates on hold as expected, but with some hawkish commentary from the bank.

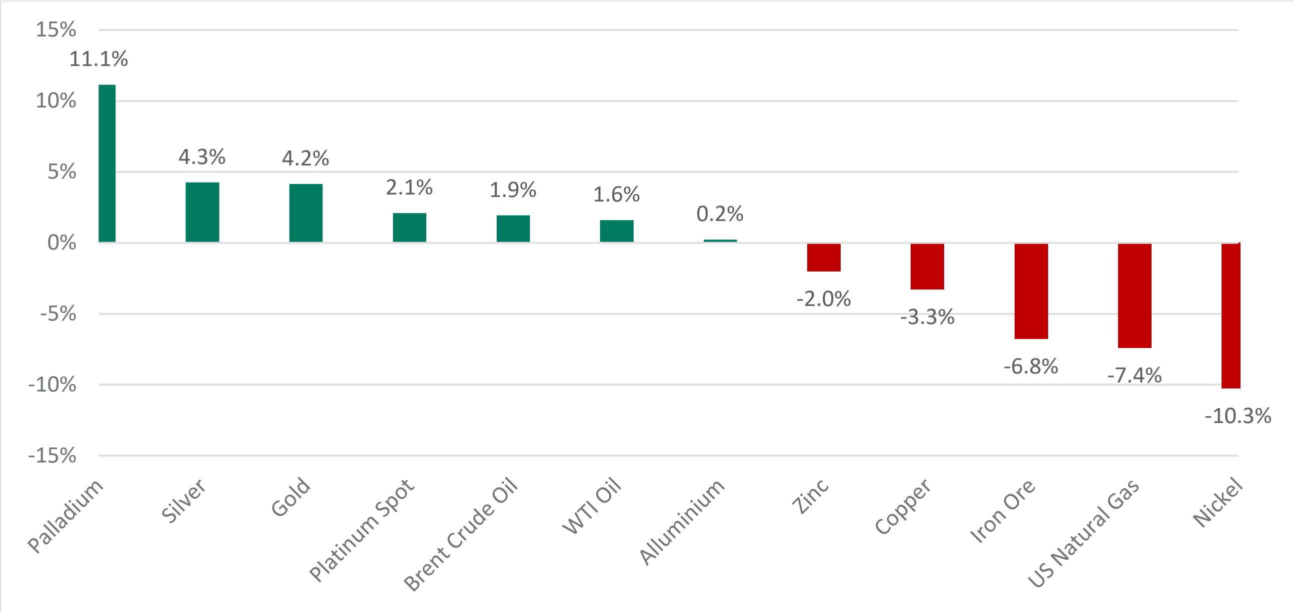
| Indices | Net return (USD) |
|---|---|
| The Bloomberg US Treasury Index | -2.4% |
| Bloomberg Global-Aggregate Total Return | -3.4% |
| The Bloomberg EuroAgg Index | -0.7% |

Source: Bloomberg, for the month ending 31 October 2024.

# Commodity markets

The oil price spiked in October after Iran launched a missile strike against Israel. Though it subsided after a more limited response than many had feared, a continuing risk of conflict escalation renewed the upward pressure on oil as the month progressed, with Brent crude finishing October about 2% higher at US$73 per barrel. Geopolitical fears also supported gold, often perceived as a haven investment, which touched a new high in October. The precious metal gained about 4%, ending the month at US$2,744 per Troy ounce, about 38% higher than its price a year ago. Silver also gained 4% in the month to US$32.80 per Troy ounce.

Among industrial metals, iron ore was notably weak, declining about 7% in October despite the substantial stimulus plans announced by China the month before. Disappointment over the details of the strategy, combined with continuing concern over the health of China's steel sector – reflecting a still-struggling property sector and slowing industrial activity, weighed on the commodity. Among other industrial metals, the price of copper fell about 3%, while aluminium was little changed. It was a negative month for some of the major agricultural commodities, with the prices of corn, wheat and soybeans all declining.




Source: Bloomberg, for the month ending 31 October 2024.