

Market Overview

May 2024

Morningstar Investment Management
June 2024

For Financial Advisers & Their Clients

Market and Economic Summary

Global equity markets produced strong returns this month, with developed markets producing robust returns and outpacing emerging markets. Developed equity markets, after a pause in April, continued its strong run this month, with multiple markets hitting all-time highs in May. Given the risk on environment, global bonds moved higher, as yields fell. Growth and in particular technology companies produced strong returns this month, as market participants looked through the “higher for longer” rhetoric, leading most developed markets higher. Emerging markets lagged developed market peers as Brazil and China produced negative performance this month.

Most developed market central banks kept interest rates unchanged and at over 20-year highs at their fourth meeting of 2024. There has been some divergence in the number of interest rate cuts priced into the market this month, as inflation has cooled quicker in some developed markets, leading some central banks to have diverging views on the timing of rate cuts. The Bank of England maintained the key bank rate at 5.25% in its May meeting, the highest level since 2008, and in line with expectations. However, two committee members preferred to reduce the rate by 0.25%, compared to only one member in the previous meeting, and officials revised down inflation forecasts while boosting the growth outlook. Turning to the US, the US Federal Reserve kept the target range for the federal funds rate unchanged at 5.25%-5.50% during its May meeting for the sixth consecutive time, as ongoing inflationary pressures and a tight labour market indicate a stall in progress towards bringing inflation back down to its 2% target this year.

Inflation in key economies generally came down this month, barring China and the Euro Area, where inflation rose unexpectedly. The annual CPI inflation rate in the US moved lower to 3.4% (year-on-year to the end of April 2024) compared to 3.5% in March, in line with market forecasts. The United Kingdom’s inflation dropped to 2.3% (year-on-year to the end of April 2024), down from the 3.2% level recorded in March, however, above market expectations of 2.1%. The CPI inflation rate in the Euro Area moved higher to 2.6% (year-on-year to the end of April 2024), ahead of market expectations. Prices rebounded for energy and rose for services, but slowed for food, alcohol and tobacco and non-energy industrial goods. The annual CPI inflation rate in China rose unexpectedly to 0.3% (year-on-year to the end of April 2024), ahead of market estimates. It was the third straight month of positive inflation prints, amid an ongoing recovery in domestic demand despite a fragile economic revival.

Turning to other important economic releases this month. Unemployment numbers remain robust; however, they have ticked higher recently. The unemployment rate in the US rose slightly to 3.9% at the end of April 2024, ahead of market expectations. The unemployment rate in the Euro Area ticked lower to a record low of 6.4% in April, ahead of expectations. Turning to economic growth, GDP growth in the UK

economy came in stronger than expected at 0.3% (year-on-year to the end of April 2024). The Eurozone’s economy grew 0.4% (year-on-year to the end of April 2024), ahead of expectations.

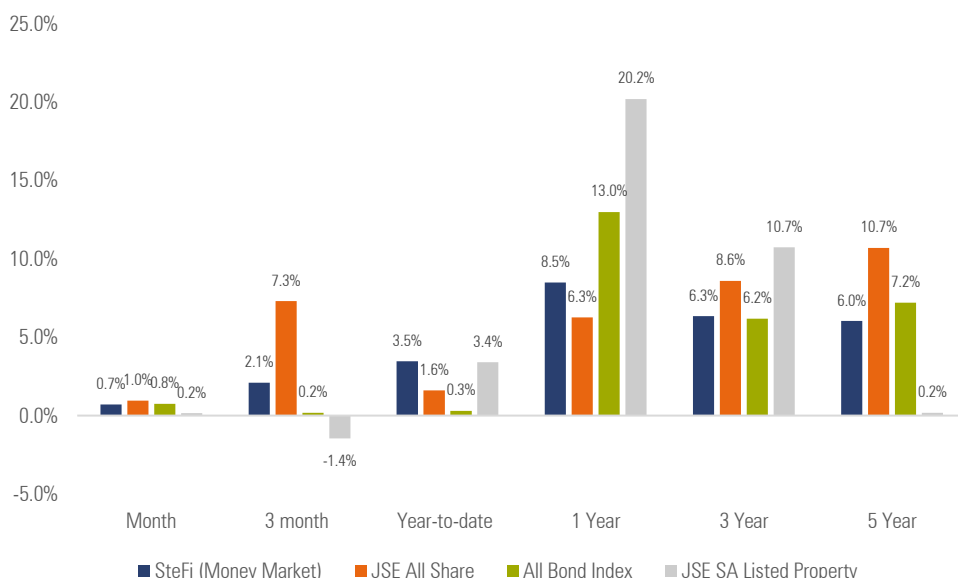
South African asset classes produced positive returns this month, however, they lagged developed market peers. The positive headline move masked the volatile nature of South African asset classes this month, as the election news weighed on sentiment. However, given the risk on global environment we saw most SA asset classes end the month in positive territory, as local equities, property and bonds ended the month higher. Local equities, and particularly the Industrials sector, posted strong returns, as the weak rand coupled with strong global equity markets led rand hedges higher. On the other hand, “SA Inc” stocks, namely SA Financials and SA Retailers produced weak returns in May. The rand weakened against the major crosses this month.

The strength in South African equities was largely driven by the Industrials sector, which moved higher over the month due to a positive move in SA rand hedge shares including Richemont (+12.7%), British American Tobacco (+4.5) and Prosus (+5.8%). On the other hand, SA retailers Woolworths (-9.8%), which fell on results and Foschini (-4.6%), ended the month lower. SA Resources produce mixed returns this month, as platinum holdings rebounded, while Energy and diversified miners ended the month lower. Financials produced a negative return this month, primarily due to weakness in Capitec (-7.2%) and Discovery (-8.8%).

Local bonds ended the month higher, as yields ticked lower (and prices higher) over the month. The positive bond moves masked the volatile nature of SA nominal bonds this month. In the first three weeks we saw yields move lower (and prices higher), but this unravelled somewhat towards the election in South Africa as yields came under pressure. Given the fractured nature of the election outcome, it will most likely continue to be a volatile local bond market going forward.

South African property counters moved higher this month, as the risk on environment favoured global listed property. Local listed property moved higher, in line with global peers this month. Index heavyweights and rand hedge Nepi Rockcastle (+2.2%) moved higher this month, pushing the market return into positive territory.

Exhibit 1 | SA Market Performance (total returns)



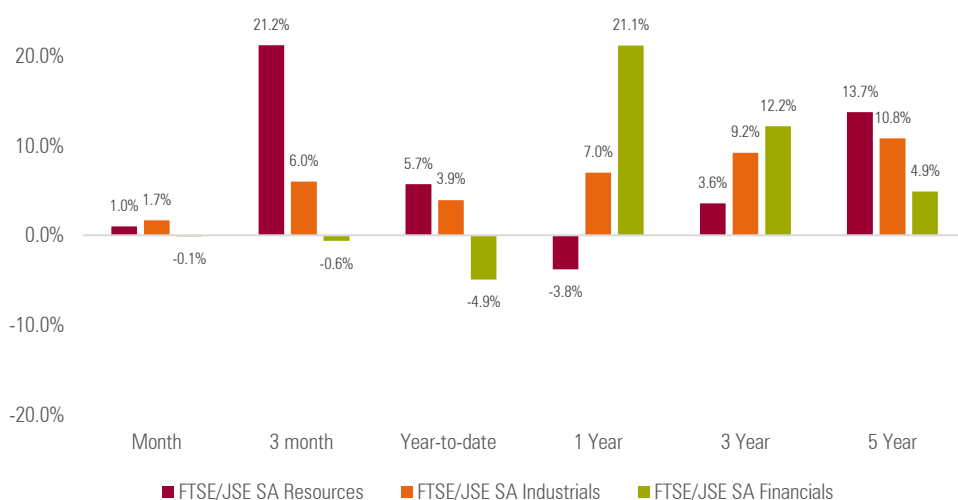
Source: Morningstar Direct as at 31/05/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South Africa’s annual inflation rate eased to a four-month low of 5.2% (year-on-year to the end of April 2024), down from 5.3% in March and slightly below market forecasts of 5.3%. Inflation remains above the central bank’s preferred level of 4.5%. In terms of price moves, prices softened primarily for food and non-alcoholic beverages. Meanwhile, prices picked up for restaurants, hotels, and transportation. The core inflation rate, excluding volatile items such as food and non-alcoholic beverages, fuels, and energy, fell for the second month to 4.6% (year-on-year to the end of April).

On the back of inflation remaining higher than the reserve bank’s preferred midpoint, the South African Reserve Bank (SARB) unanimously decided to keep its key repo rate at 8.25% in May, as widely expected. While the inflation forecast risks were assessed as broadly balanced, the SARB believes that high inflation expectations necessitate achieving their target sooner rather than later to re-anchor these expectations. Forecasts now indicate that inflation is expected to reach the midpoint of its target range in the second quarter of 2025, sooner than previously predicted.

The headline news event from a South African perspective was the widely anticipated elections, which saw the ANC lose its majority. The IEC announced the election results recently, with over 16 million South Africans casting their votes (of the 27 million registered voters, leading to a participation rate of 58.6%). The results showed a significant decrease in the ANC support (40.2% support versus 57.5% in 2019) and the newly formed uMkhonto WeSizwe (MK) party gained 14.6% of the vote. The Democratic Alliance (DA) secured 21.8% of the vote, while the Economic Freedom Fighters (EFF) secured 9.5%. On the back of the recent results and the need for a coalition partner with the ANC, it is likely to expect continued volatility in the performance of South African asset classes as we gain insight on the preferred coalition partners.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 31/05/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

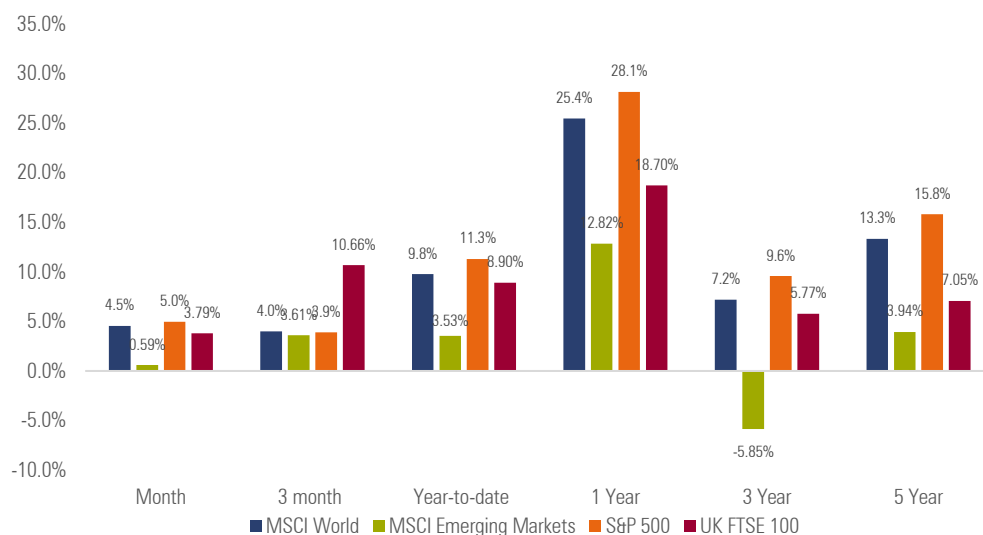
Most of the major developed equity markets ended the month higher. The **MSCI World Index** delivered a return of +4.5%, which was ahead of emerging market peers.

Emerging equity markets produced mixed returns this month on the back of poor performance from Brazil and China. On the other hand, India’s equity market produced a strong return, adding to the performance of the emerging market basket. The **MSCI Emerging Markets Index** ended the month +0.6% higher in May.

Most major global equity markets produced strong returns in May, as broad-based positive sentiment filtered through most developed market indices. The **Nikkei 225** (+0.4%), Germany's **FSE DAX** (+4.7%) and the UK's **FTSE 100** (+3.8%) all ended in positive territory. On the other hand, China's **Shanghai SE Composite** (-0.6%) ended in negative territory.

US equities moved higher in May, continuing their strong run. The tech-heavy **NASDAQ 100** (+6.4%) posted a robust return in May, as tech stocks produced strong returns. The **S&P 500** (+5.0%) also ended the month higher, as most sectors ended in positive territory.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 31/05/2024. Returns are in US dollars and have been annualised for periods longer than 1 year.

Impact on client portfolios

From a portfolio perspective, investors generated strong returns this month, with local and global equities leading the way higher. Global asset classes contributed significantly to performance this month, as positive sentiment led most global asset classes higher. Rand weakness acted as a further tailwind to the performance as the local unit was weaker most of the major crosses during the month (barring the US).

As we move out of the election period, all eyes will be on the outcome of the recent South African election and the coalitions that are formed. We expect markets to remain choppy, as market participants try to gauge whether coalition outcomes will be favourable or unfavourable for South Africa. This underscores the importance of constructing portfolios that effectively manage risk and maximize returns across various market conditions.

We remain comfortable with the current positioning of client portfolios, both from an asset allocation and a manager selection perspective. We will continue to follow our valuation-driven approach by allocating assets to the most attractive areas of the market from a reward-for-risk perspective and ensure we build robust portfolios. We are confident that we will continue to deliver on the specific investment objectives of each client portfolio independent of the prevailing market environment.

Local Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE All Share	0.96	1.60	6.27	8.60	10.71	9.10
JSE Capped SWIX	0.93	1.49	9.69	7.52	8.47	6.35
JSE SA Listed Property	0.16	3.40	20.25	10.74	0.17	-1.52
All Bond Index	0.75	0.30	13.03	6.19	7.21	7.74
STeFI (Money Market)	0.70	3.47	8.52	6.35	6.04	6.41
Local Market Sectors	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
JSE Top 40	0.88	1.73	4.48	8.79	11.24	9.62
JSE Mid Cap	1.44	-0.70	14.79	6.26	6.77	5.18
JSE Small Cap	1.90	2.87	17.21	13.95	13.69	7.49
FTSE/JSE SA Resources	0.98	5.69	-3.82	3.56	13.75	16.35
FTSE/JSE Ind/Financials	-0.12	-4.93	21.19	12.18	4.86	5.25
FTSE/JSE SA Industrials	1.67	3.93	7.01	9.18	10.82	6.93
Global Market Indices	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
MSCI World	4.53	9.77	25.51	7.18	13.31	11.19
MSCI Emerging Markets	0.59	3.53	12.85	-5.85	3.94	3.51
S&P 500	4.96	11.30	28.19	9.57	15.80	13.80
NASDAQ 100	6.39	10.54	31.12	11.55	22.09	19.17
FTSE 100	3.79	8.90	18.74	5.77	7.05	5.16
SSE Composite	-0.61	1.59	-5.53	-9.16	0.29	-0.99
Nikkei 225	0.35	3.95	12.85	-0.46	7.33	6.78
FSE DAX	4.73	8.52	20.25	2.12	8.97	5.09
US T-Bill 3m	0.45	2.29	5.60	3.28	2.26	2.15
Commodities	1 Month	YTD	1 Year	3 Years	5 Years	7 Years
Oil Price Brent Crude	-7.68	5.28	11.63	5.38	4.69	7.06
Gold	1.79	12.98	19.54	7.32	12.63	9.22
Platinum	11.61	4.80	4.49	-3.60	5.79	1.46
Copper	0.82	16.92	22.31	-1.95	10.07	6.61

Note: The performance of Local Market Indices and Local Market Sectors is quoted in rands and the performance of Global Market Indices and Commodities is quoted in US dollars. All data is sourced from Morningstar Direct as at 31/05/2024.

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