Market Overview
June 2024

Morningstar Investment Management
July 2024

For Financial Advisers & Their Clients

Market and Economic Summary

Global equity markets ended the month higher, delivering strong returns for the second quarter of 2024. Inflation continued to moderate across most developed markets, fuelling expectations that their respective central banks will begin cutting interest rates. This risk-on environment led to significant gains, particularly in the US equity market, driven once again by strong performance from the US technology sector. However, developed market returns were not uniform, with Europe and the UK experiencing declines over the month. Emerging markets outperformed their developed market counterparts, with India producing strong returns following a perceived favourable outcome from the recent election. Turning to fixed income, yields declined (and prices increased), as moderating inflation strengthened expectations for interest rate cuts later this year.

Developed market central banks largely kept interest rates unchanged, barring the European Central Bank (ECB), which was one of the first large developed market economies to cut interest rates. The ECB lowered interest rates by 0.25% to 4.25% in June, in line with expectations, as inflation has cooled toward their 2% target. However, it's worth noting that given the continued domestic price pressures, the ECB aims to keep policy rates sufficiently restrictive. There continues to be a divergence in the number of interest rate cuts priced into different developed markets as inflation has cooled quicker in some developed economies. The US Federal Reserve left the fed funds target range steady at 5.25%-5.50% for a 7th consecutive meeting in June 2024, in line with forecasts. Policymakers hinted that they do not expect it will be appropriate to reduce rates until they have gained greater confidence that inflation is moving sustainably toward the 2% inflation target. The Bank of England decided to maintain the Bank Rate at 5.25% during its June meeting, as expected. Interestingly two members advocated for a decrease to 5%.

Inflation in key economies generally came down this month, barring the Euro Area, where inflation rose. The annual CPI inflation rate in the US moved lower to 3.3% (year-on-year to the end of May 2024), compared to 3.4% in April, below market forecasts. The United Kingdom's CPI inflation dropped to 2.0% (year-on-year to the end of May 2024), down from the 2.3% level recorded in April, in line with forecasts. The CPI inflation rate in the Euro Area moved higher to 2.6% (year-on-year to the end of May 2024), in line with 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 to 0.3% (year-on-year to the end of May 2024), below market estimates. It was the fourth straight month of higher consumer inflation prints, signalling an ongoing recovery in domestic demand.

Turning to unemployment numbers. Headline unemployment numbers remain low, however, the figures have been ticking higher recently. The unemployment rate in the US rose to 4.0% at the end of May 2024, ahead of market expectations. The unemployment rate in the UK ticked higher to 4.4% in May, ahead of expectations and was the highest reading since September 2021.

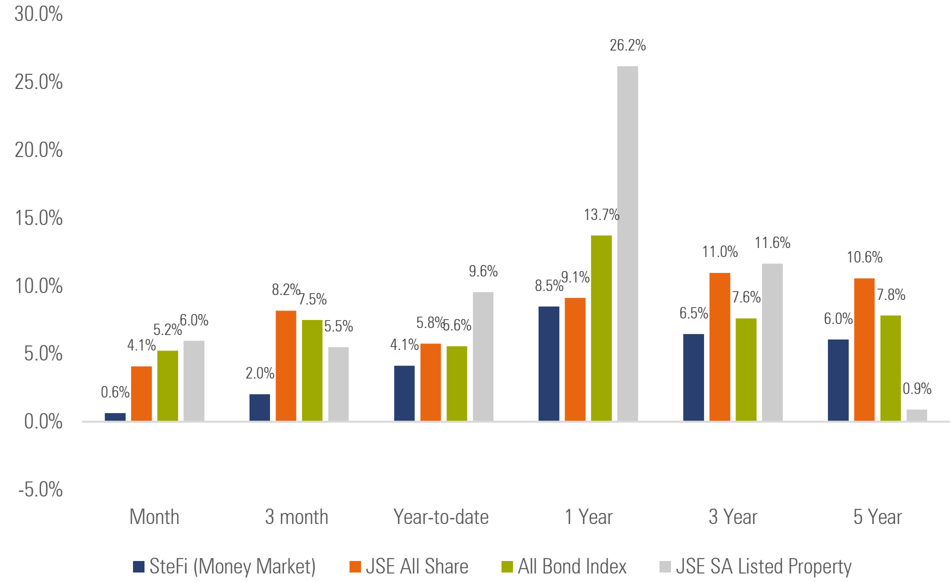
South African asset classes produced strong returns this month, ahead of their developed market peers. The positive headline moves masked the volatile nature of risk assets this month, on the back of the uncertainty surrounding the formation of the Government of National Unity (GNU) and the respective cabinet appointments. Overall, markets ended the month on the front foot as risk-on sentiment coupled with strong foreigner flows led both South African (SA) equities and bonds higher. Local equities, and particularly "SA Inc" stocks moved higher, driven by domestic focused sectors. On the other hand, SA resources moved lower as pressure on commodity prices filtered through to underlying stock performance. Given the risk-on environment, SA property counters moved higher this month, driven higher by SA focused counters. South African bonds had their second-best Q2 return in 22 years, as bonds were a beneficiary of foreign inflows on the back of SA election risk subsiding. Given the risk on environment, the rand strengthened against the major crosses this month.

The strength in SA equities was largely driven by the Financials sector, particularly SA banks and insurers. Capitec (+23.4%), Discovery (+22.8%) and Firstrand (+18.3%) produced strong double-digit returns this month. SA retailers also benefitted from the risk-on environment, with Foschini (+34.2%) and Mr Price (+16.0%) producing strong returns. SA rand hedges produced poor returns, with Richemont (-4.5%) and Prosus (-3.6%) leading the way lower and giving up some of the strong gains recorded in May. Further weakness was seen in the Resources sector, which fell on the back of weaker commodity prices. Platinum and gold miners, including Impala Platinum (-5.7%) and Gold Fields (-6.6%), saw significant declines, dragging the Resources basket lower.

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. During the first half of the month SA bonds recorded strong gains as the election risk premium subsided. However, towards the end of the month and amid the initial failure by the parties to agree on cabinet positions, SA bonds posted one of the largest one-day spikes in SA yields in 24 years. Despite the sell off, we saw strong returns over the month for South African bonds.

Local listed property moved higher during June, producing strong returns. Index heavyweights and SA focused counters including Redefine (+12.0%) and Growthpoint (+10.8%) produced double digit returns this month, leading the sector higher.

Exhibit 1 | SA Market Performance (total returns)



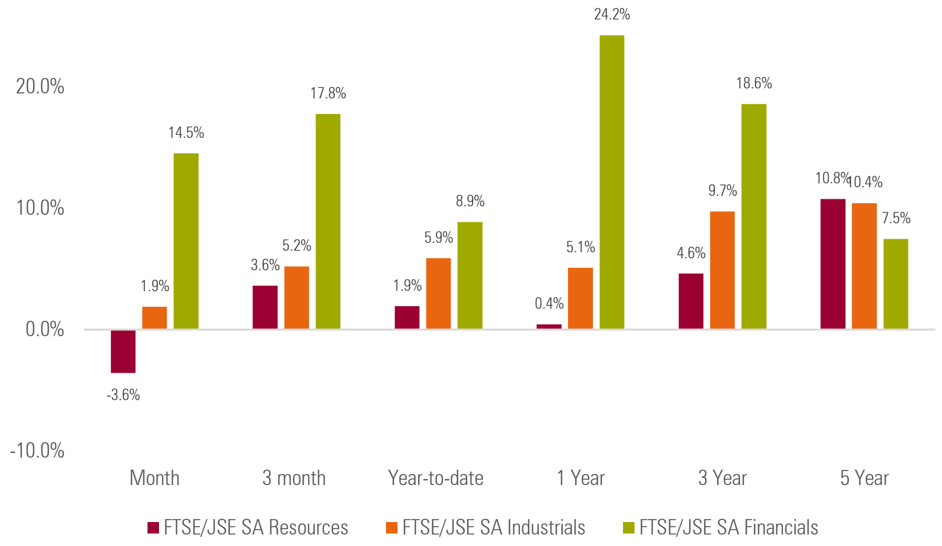
Source: Morningstar Direct as at 30/06/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

South Africa's annual inflation rate remained at 5.2% (year-on-year to the end of May 2024), in line with market forecasts. Inflation remains above the central bank's preferred level of 4.5%. Higher rates were recorded for transport, alcoholic beverages, tobacco and recreation and culture. The core inflation rate, excluding volatile items such as food and non-alcoholic beverages, fuels, and energy, remained at 4.6% (year-on-year to the end of May 2024).

The South African Chamber of Commerce and Industry (SACCI) business confidence index fell to 107.8 in May 2024, down from 108.9 in April and an over one-year high of 114.7 in March 2024. The latest reading indicated a second consecutive month of declining business sentiment, negatively impacted by the uncertainty surrounding the domestic elections.

The headline news event from a South African perspective was the outcome of the coalition talks between the larger parties after the South African election as well as the cabinet announcement this month. South Africa officially formed a government of national unity (GNU), with 11 political parties agreeing to be part of the GNU in parliament. These include the African National Congress (ANC), Democratic Alliance (DA), Patriotic Alliance (PA), Inkatha Freedom Party (IFP), Good Party, Pan Africanist Congress of Azania (PAC), Freedom Front Plus (FFP), United Democratic Movement (UDM), Al Jama-ah, Rise Mzansi and the United Africans Transformation. The resultant GNU announcement was well received by local equity and bond markets this month.

Exhibit 2 | SA Sector Performance (total returns)



Source: Morningstar Direct as at 30/06/2024. Returns are in South African Rand and have been annualised for periods longer than 1 year.

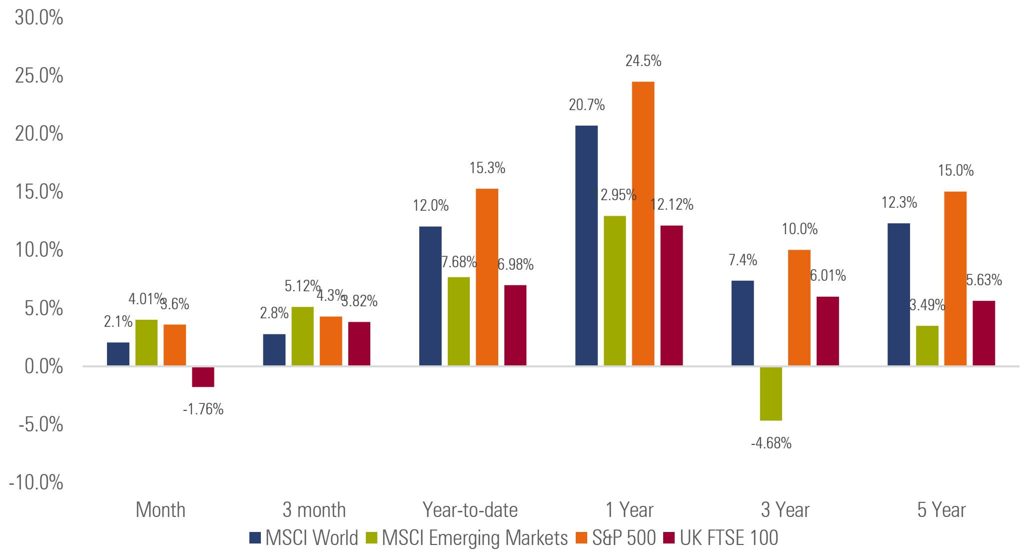
Most of the major developed equity markets ended the month with mixed returns, with the US leading the way higher. The **MSCI World Index** delivered a return of +2.1%, which was behind emerging market peers.

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 +4.0% higher in June.

Performance from developed equity markets varied, with the US leading the way higher and other equity markets struggling to gain traction. Germany's **FSE DAX** (-2.7%), the UK's **FTSE 100** (-1.8%) and the **Shanghai SE Composite** (-4.2%) all ended in negative territory. On the other hand, The **Nikkei 225** (+0.6%) managed to eke out a positive performance in the month of June.

US equities moved higher in June, continuing their strong run. The tech-heavy **NASDAQ 100** (+6.3%) posted a robust return in June and is up over 30% over the past year. The **S&P 500** (+3.6%) also ended the month higher, as most sectors ended in positive territory.

Exhibit 3 | International Market Performance (total returns)



Source: Morningstar Direct as at 30/06/2024. 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 and quarter, with local bonds and equities moving higher. The strong performance from SA asset classes came on the back of moderating election risks, which created a risk-on appetite, benefitting portfolios. Rand strength acted as a headwind to the performance of global assets, as the local unit was firmer across most of the major crosses during the month.

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	4.08	5.75	9.14	10.96	10.57	10.29
JSE Capped SWIX	4.17	5.72	10.04	10.12	8.74	7.53
JSE SA Listed Property	5.95	9.55	26.25	11.65	0.90	-0.74
All Bond Index	5.24	5.55	13.73	7.62	7.82	8.68
STeFI (Money Market)	0.63	4.12	8.50	6.47	6.05	6.41
Local Market Sectors	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
JSE Top 40	3.70	5.49	7.21	11.08	10.88	10.77
JSE Mid Cap	6.41	5.66	17.27	9.43	7.58	6.67
JSE Small Cap	6.51	9.56	20.23	16.76	15.17	8.90
FTSE/JSE SA Resources	-3.56	1.92	0.42	4.61	10.76	16.27
FTSE/JSE Ind/Financials	14.51	8.87	24.29	18.57	7.47	7.64
FTSE/JSE SA Industrials	1.87	5.88	5.11	9.72	10.41	7.87
Global Market Indices	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
MSCI World	2.07	12.04	20.75	7.38	12.32	11.45
MSCI Emerging Markets	4.01	7.68	12.97	-4.68	3.49	3.93
S&P 500	3.59	15.29	24.56	10.01	15.05	14.28
NASDAQ 100	6.27	17.47	30.77	11.50	21.77	20.63
FTSE 100	-1.76	6.98	12.15	6.01	5.64	5.17
SSE Composite	-4.16	-2.64	-7.35	-9.76	-1.20	-2.01
Nikkei 225	0.61	4.59	9.15	0.25	6.56	6.80
FSE DAX	-2.68	5.62	10.94	2.00	6.72	4.82
US T-Bill 3m	0.45	2.75	5.61	3.43	2.32	2.20
Commodities	**1 Month**	**YTD**	**1 Year**	**3 Years**	**5 Years**	**7 Years**
Gold	-0.74	12.15	21.89	9.75	10.59	9.41
Platinum	-3.44	1.20	12.82	-1.50	4.35	1.34
Copper	-4.48	11.68	13.33	-0.56	8.48	5.23

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 30/06/2024.

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