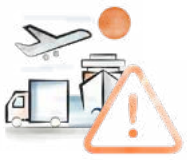
Market Commentary

January 2024

RISCURA

South African market themes

SA stocks currently more attractively priced than global counterparts within the equity market space



The IMF downgraded economic growth forecasts for SA, citing logistical challenges as a drag on activity

Inflation dynamics at play with a fuel price drop easing inflation, but a resurgence expected in this quarter

Monetary policy updates include SARB holding rates and remaining cautious amid inflation risks

SA banks showed resilience due to diversified business models

At the start of the new year, investors were optimistic that central banks would cut interest rates aggressively, possibly in the first quarter of 2024. This marked a change from the beginning of 2023, when a series of interest rate hikes were priced in to tame high levels of inflation. In January, both the All-Share Index and Capped SWIX declined by 2.9% and 2.8%, respectively. The Rand was also under pressure due to the strength of the US Dollar, resulting in a 1.7% decrease against the US Dollar and a 1.6% decrease against the British Pound, while remaining unchanged against the Euro. Resources experienced the most significant decline, with a contraction of 6.3% in January. However, the South African property market continued its positive momentum, achieving gains of 4.4%, while the ALBI made a modest gain of 0.8%.

South African stocks are currently more attractively priced relative to their global counterparts within the equity market space. This is despite large capital flows leaving the country due to various risks pertaining to the state of the economy and political challenges inherent to South Africa. However, domestic private sector activity experienced a contraction for the second consecutive month in January, primarily due to weak demand and disruptions at major ports, particularly Durban. The International Monetary Fund (IMF) has downgraded its economic growth forecasts for South Africa, citing logistical challenges as a drag on regional activity. Additionally, uncertainties surrounding the composition of the coalition government post-national elections, likely in the second quarter of 2024, continue to dampen domestic sentiment.

During its January meeting, the South African Reserve Bank (SARB) elected to keep its key repo rate at 8.25%, the highest level since 2009. The decision was unanimous, and the SARB highlighted the risks of persistent inflation, while also emphasising the need for a balanced assessment of risks to medium-term growth. The inflation forecasts for 2024 remained stable at 5%, with a slight revision to 4.6% for 2025 compared to November 2023 (previously 4.5%). Similarly, the growth projections for 2024 and 2025 were retained at 1.2% and 1.3%, respectively.

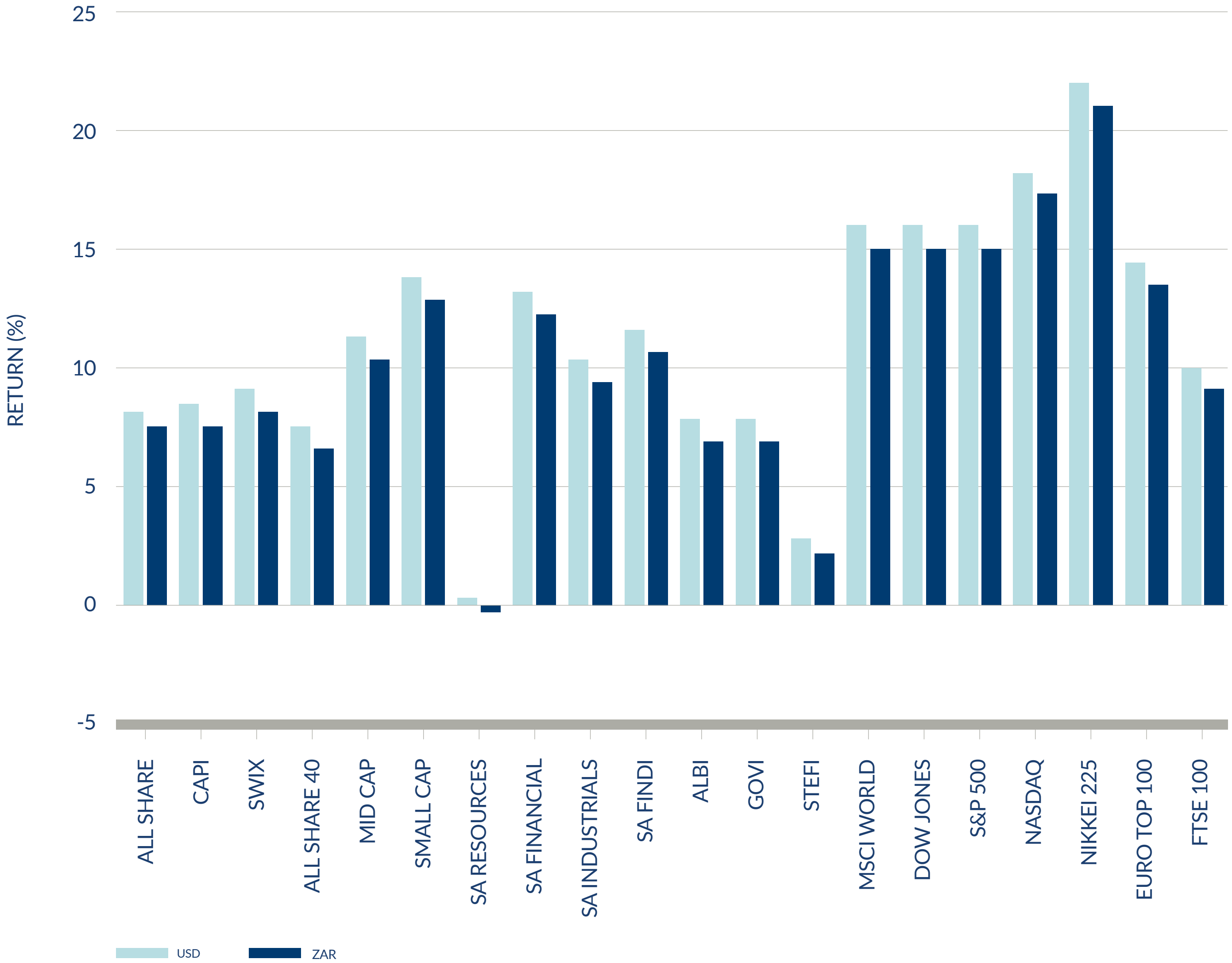
The recent decrease in fuel prices has contributed to a decline in inflation towards the end of last year. This was further aided by the appreciation of the Rand and slightly less volatile commodity prices. However, there is an expectation of a resurgence in inflationary pressures, possibly due to petrol price increases. Although economists warn of a potential inflationary trend reversal in early 2024, interest rates are not expected to rise in response to the temporary 5.8% inflation increase forecasted for January. Risks to the economic outlook include a potential left-leaning stance from the government post-election, which could hinder growth through anti-business policies.

In December, Consumer Price Inflation (CPI) dropped to 5.1%, aligning with market expectations and approaching the midpoint of the SARB's target range of 3% to 6%. Core inflation, which excludes food, non-alcoholic beverages, fuel, and energy prices, remained steady at 4.5%. The SARB's decision to maintain the benchmark interest rate at 8.25% during its January meeting, along with continued emphasis on elevated inflation risks, highlights a cautious approach to monetary policy.

South African banks have exhibited resilience despite economic challenges through their diversified business models and non-interest income generation capabilities. The private sector's capacity to absorb debt has been maintained by moderate wealth levels, although it has been constrained by consumers and households having less purchasing power due to high interest rates, elevated food prices, and structural economic problems such as high unemployment and income inequalities. As a result, banks' interest income on new loans is likely to have deteriorated.

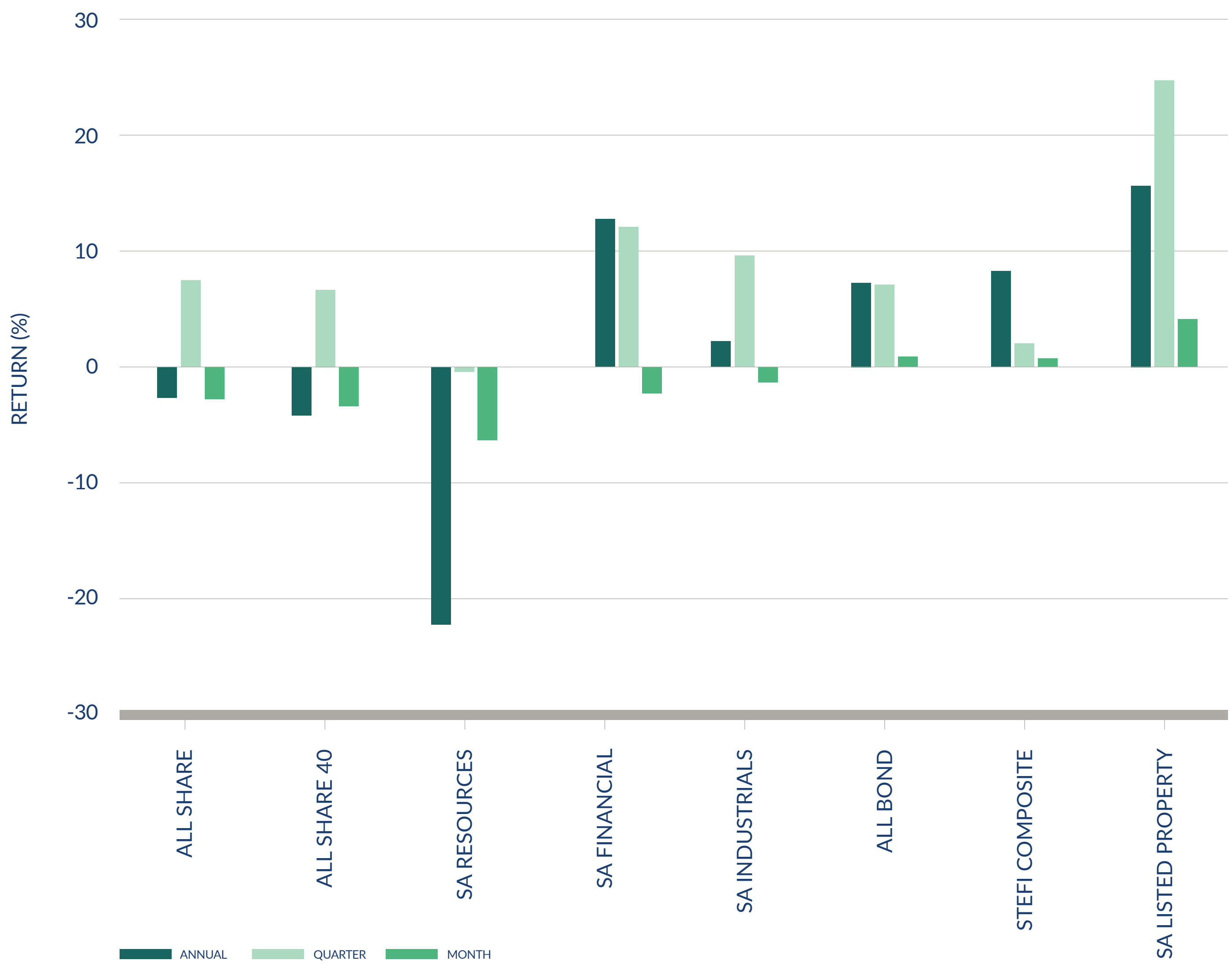
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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