Market Commentary

June 2024

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South African market themes

South African markets gained despite political uncertainties and election results in June

ANC lost parliamentary majority, prompting coalition negotiations and the formation of the Government of Unity (GNU)

The rand, bonds, listed property, and equity markets surged following the formation of the new GNU

Economists cautioned investors against rash decisions and highlighted SA's institutional strengths

The rand, bonds, listed property, and equity markets surged following the formation of the new Government of Unity (GNU) and its cabinet. The FTSE JSE ALPI gained an impressive 6.2%, while the FTSE JSE ALBI rose by 5.2%. Inflation-linked bonds, measured by the FTSE JSE CILI, returned a modest 2.9%. The FTSE JSE All Share and FTSE JSE Capped SWIX both gained 4.1% in June, and the rand appreciated by 3%.

South Africa's 2024 National and Provincial election results marked a historic shift in the country's political landscape. With 16 025 198 votes cast and a turnout rate of 58.61%, the ruling African National Congress (ANC) lost its parliamentary majority of 30 years, securing 39.77% of the National Assembly vote, resulting in 159 seats out of 400— a decline of 71 seats from 2019. The ANC also lost its majority in key provinces such as KwaZulu-Natal, Gauteng, and the Northern Cape.

Before the elections, markets were hopeful that the ANC would secure sufficient votes to form coalitions with smaller parties, ensuring continuity in government and policy stability. However, the election results led the ANC to seek larger coalition partners to form the seventh administration. The re-election of the new president by parliament was crucial in shaping South Africa's political and economic trajectory. Economists cautioned investors against rash financial decisions, highlighting South Africa's strengths such as a robust constitution, independent judiciary, free media, and strong financial institutions, which are expected to mitigate political risks.

From a listings perspective, the Johannesburg Stock Exchange (JSE) saw a significant decline, hitting a 30-year low with listings dropping by 56% since 1998. Challenges such as mergers, acquisitions, and relocations contributed to this decline, with insufficient new listings to offset losses. Despite these challenges, JSE CEO Leila Fourie introduced initiatives to reverse this trend, including new requirements for listed companies and facilitating secondary listings for those on the Hong Kong Exchanges and Clearing. Economists noted that the JSE was undervalued and suggested that positive election outcomes could bolster both equity and bond markets. It was further suggested that South African equities are priced at a discount, with the potential for significant growth if the political situation stabilised.

South Africa's prospects of achieving over 1% GDP growth in 2024 appeared to be diminishing after a poor start to the year. Stats SA reported a quarterly decline of 0.1% in Q1 2024 GDP, lower than market expectations of 0.1% growth. The first quarter was negatively impacted by load shedding, affecting electricity production and energy-intensive sectors, as well as strained household finances amid high interest rates. However, the suspension of load shedding for over two months since April sparked some hope for improved results in Q2. Annual consumer price inflation was 5,2% in May, unchanged from April, while the monthly change in the consumer price index (CPI) was 0,2%. The seasonally adjusted SA Absa Purchasing Managers' Index (PMI) rose by 1.9 points to 45.7 in June, up from 43.8 in May. Despite the improvement, the PMI has remained below the 50-point mark for the second consecutive month.

Economists at Nedbank predicted a year of patchy economic growth for South Africa, with challenging operating conditions persisting on the supply front while domestic demand remained constrained. The first half of 2024 saw continued strain on household finances due to high interest rates, weighing on consumer confidence and demand. These pressures are expected to ease slightly in the second half as inflation is likely to soften and the prospect of monetary policy easing begins. Nedbank anticipated the interest rate cutting cycle to start in

JSE listings hit a 30-year low and in response JSE CEO, Leila Fourie, introduced new initiatives to reverse this trend

Nedbank forecasts patchy growth for SA in 2024 and anticipates the interest rate cutting cycle to start in September

The BER projects higher GDP growth and reported a rise in business confidence from 23 to 27 index points in Q2

September with a 25-basis point cut, followed by another cut in November, supporting real incomes, lowering debt service costs, and boosting consumer confidence and demand.

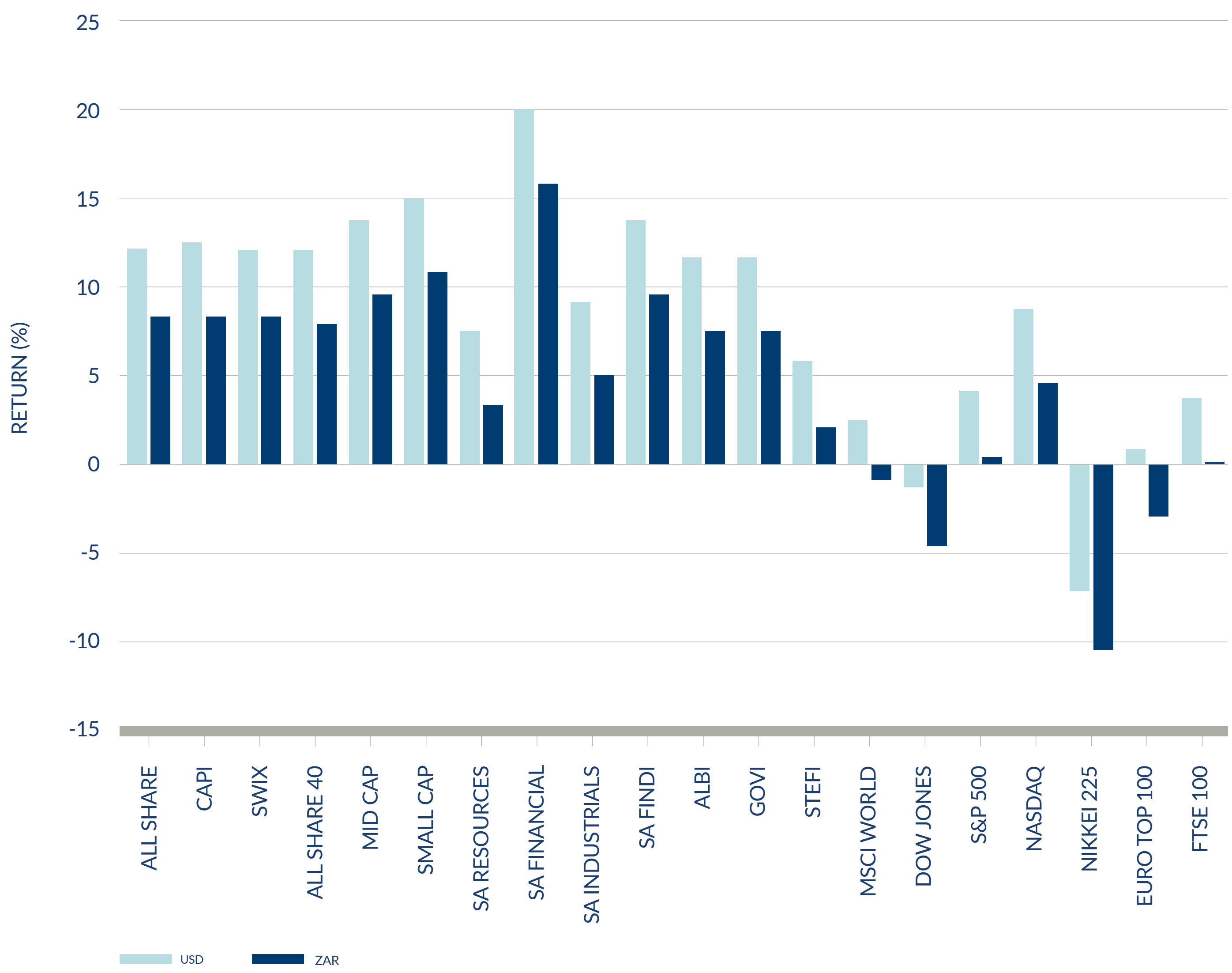
Government spending is expected to remain positive, but growth in fixed investment may decline due to the challenging operating environment and subdued growth prospects. Nedbank forecasted GDP growth of around 0.9% in 2024, aligning with the International Monetary Fund's (IMF) bleak outlook, which was reduced to 0.9% in April from 1.0% in January and 1.8% in October 2023. The IMF predicts that South Africa will continue to face low growth, inflation, and high unemployment during the year.

Despite this, economists at the Bureau for Economic Research (BER) were more optimistic, projecting GDP growth of 1.3% for 2024 and suggesting that South Africa could achieve 3.5% growth with existing policy and reform plans. The South African Reserve Bank was also slightly more optimistic with a 1.2% estimate for the year. FNB anticipated growth to reach 1.6% by 2026, expecting a rebound in the second quarter supported by the absence of load shedding and robust manufacturing sector performance. The BER reported a rise in business confidence from 23 to 27 index points in the second quarter of 2024, driven by improvements in the manufacturing and building sectors. Manufacturing and retail sector confidence increased, but the wholesale, retail, and new vehicle trade sectors saw lower sentiment, with 73% of respondents still unsatisfied with prevailing business conditions. The BER anticipated that the business mood would only improve sustainably when inflation declined, and interest rates were cut.

In conclusion, the 2024 election results introduced significant political uncertainty in South Africa, impacting financial markets and investor sentiment. The formation of a new Government of National Unity and the nature of coalition agreements will play a crucial role in determining the country's economic trajectory and stability in the coming months.

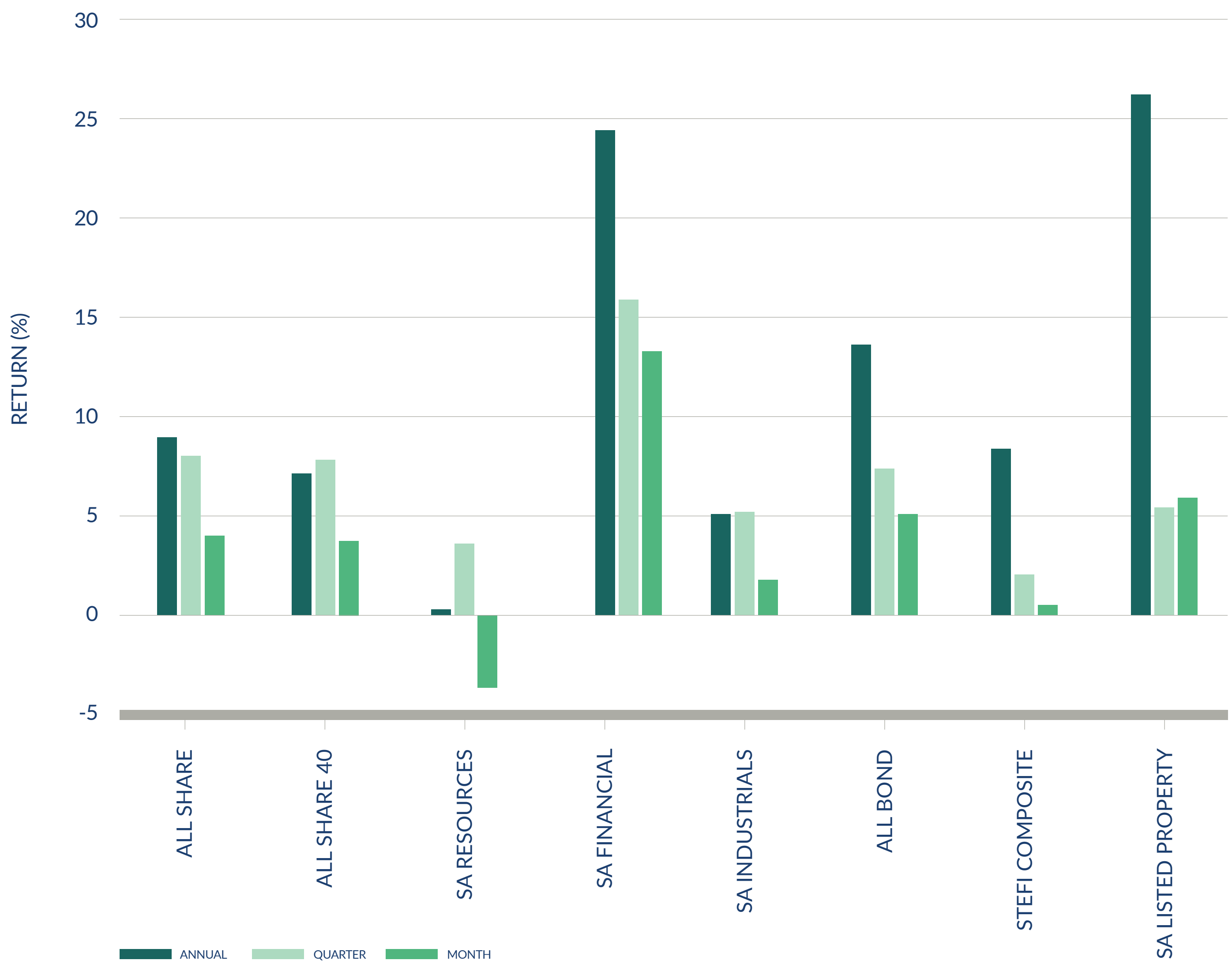
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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