Market Commentary

August 2024

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Global markets rebounded despite volatility around U.S. recession concerns

The S&P 500 outperformed, and Asian and emerging markets also showed solid gains

Global REITs rose by 6.2%, benefitting from lower interest rate expectations

U.S. Treasuries and global bonds gained amid hopes for rate cuts

Global market themes

During August, stock markets were quite volatile driven by concerns over a potential U.S. recession and the impact of a greatly strengthening Japanese yen. The month began with a sharp decline in global stock markets following disappointing U.S. economic data and an interest rate hike by the Bank of Japan. However, by the end of the month, markets rebounded as investors anticipated more aggressive policy easing by the U.S. Federal Reserve (Fed).

Global markets saw a brief dip during this period, leading to a spike in volatility (VIX) and a surge in global bonds. The Bloomberg Global Aggregate Index rose by 2.4% over the month as weaker economic data and lower inflation supported the argument for a Fed rate cut in September. In the latter part of the month, investors found comfort in the possibility of lower U.S. interest rates, which helped stock markets recover, with developed market equities ending the month 2.7% higher. Interest rate-sensitive asset classes, such as real estate, also saw gains, with the Global REITs Index rising by 6.2%.

The S&P 500 continued to perform well in August, with earnings growth extending beyond the technology sector. Asian and emerging market equities outperformed Western developed markets, with returns of 2% and 1.8%, respectively, as expectations of Federal Reserve rate cuts weakened the dollar.

August was a positive month for fixed-income investors, with U.S. Treasuries performing well and delivering returns of +1.3%. European sovereign bonds also saw more modest gains. Japanese government bonds rallied due to increased demand from domestic investors.

Global credit markets also performed strongly, benefitting from a stable corporate earnings outlook. Global investment-grade bonds delivered a 1.9% return, whilst emerging market debt also posted a strong performance in August, delivering returns of 2.3%.

In the U.S., the ISM manufacturing index for August fell well below expectations to 47.2, raising concerns about a possible recession. Additionally, an increase in labour force participation led to a rise in the unemployment rate, which reached 4.3%. These developments contributed to growing concerns about the state of the U.S. economy.

On the other hand, the pan-European STOXX Europe 600 Index gained 1.3%, reaching a record high. The benchmark extended its rally for a fourth consecutive week as sharply slower inflation bolstered the case for the European Central Bank (ECB) to consider further rate cuts in September. The UK's FTSE 100 Index also ended higher, gaining 0.9%.

Eurozone inflation estimates for August dropped to 2.2%, nearing the ECB's target, though some policymakers remained cautious. Headline annual inflation decelerated to 2.2% from 2.6% in July, marking the lowest level in three years. This decline was partly due to the previous year's higher energy costs. Core inflation, which excludes volatile food and energy prices, edged down to 2.8% from 2.9%, while services inflation—a key metric closely monitored by policymakers—accelerated to 4.2% from 4.0%.

Despite slowing inflation, some ECB policymakers remained cautious about lowering borrowing costs, preferring to assess the broader economic context before making any further decisions. In monetary policy, the Bank of England narrowly voted to reduce its key interest rate by 25 basis points to 5.00%, marking the first decrease since March 2020. The Bank indicated that further reductions would depend on the economic outlook, suggesting a measured approach to policy easing.

Meanwhile, the Bank of Japan raised its policy rate to 25 basis points, prompting an abrupt unwinding of carry trade positions, which had previously taken advantage of low Japanese yen borrowing costs to invest in higher-yielding assets. Japan's stock

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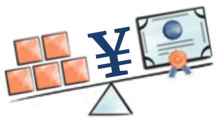
The Bank of England made its first interest rate cut since 2020



The Japanese yen strengthened, pressuring export-driven firms and boosting domestic bonds

China's growth outlook weakened due to the ongoing real estate slump and weak domestic demand

markets saw gains over the last week, with the Nikkei 225 Index rising 0.7% and the broader TOPIX Index up 1.0%. By the end of August, both indexes had recovered most of the ground lost during the steep sell-off earlier in the month.

In fixed-income markets, the yield on the 10-year Japanese government bond remained relatively stable at around 0.9% throughout the month. The Japanese yen strengthened for the second consecutive month in August, influenced by the interest rate differential between Japan and the U.S. This, in turn, negatively impacted the earnings prospects of Japan's export-driven firms.

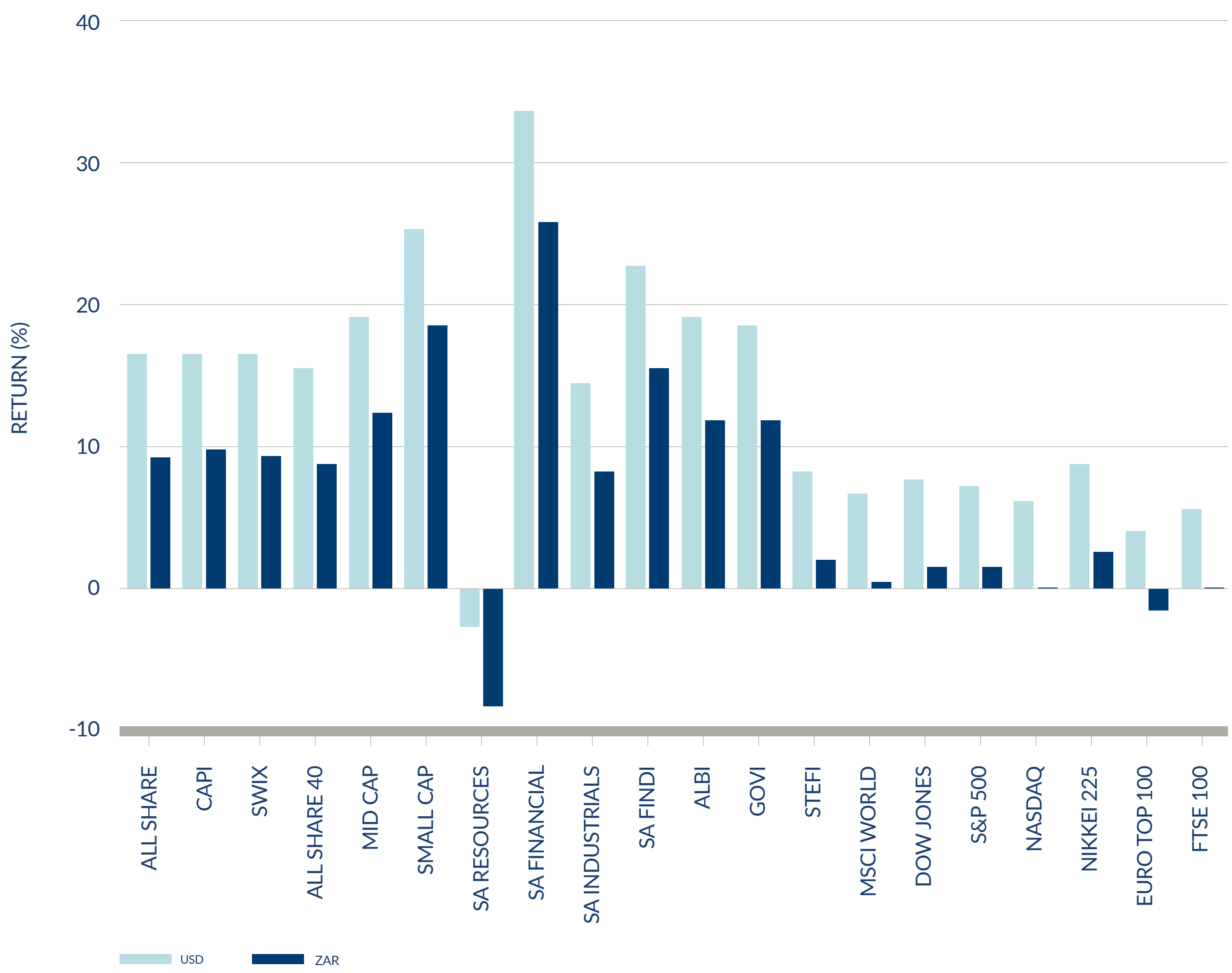
Chinese stocks saw a decline, as several corporate earnings reports failed to meet expectations, leading to a decrease in investor sentiment. The Shanghai Composite Index fell by 0.43%, while the blue-chip CSI 300 dropped 3.3%. In contrast, Hong Kong's benchmark Hang Seng Index gained 2.14%, according to FactSet.

Amidst ongoing challenges, several economists have lowered their 2024 growth forecasts for China. This is due to the country's continued struggle with a prolonged property sector slump and weak domestic demand. According to a Bloomberg survey of economists, retail sales growth, a key indicator of consumer spending, is now expected to increase by 4% this year, down from the earlier forecast of 4.5% in July. Additionally, fixed asset investment is projected to grow by 4.2%, slightly below the previous month’s projection of 4.4%. Economists also revised their consumer price index forecast down to 0.5% from 0.6%. This weakened outlook has raised concerns that China may miss its official growth target of around 5% for the year, increasing expectations for further monetary policy easing, including potential interest rate cuts and a reduction in reserve requirements for domestic lenders.

Commodity markets faced challenges in August amid weaker global growth and declining manufacturing momentum. Oil prices dropped by 6.3% to close at $73.58 because of demand concerns, while gold prices rose to $2,535.40. Iron ore prices hit a two-year low due to China's real estate crisis, while the overall Bloomberg Commodity Index remained steady for the month. The VIX, a measure of market volatility, ended the month at 15, down from 16.36 in July.

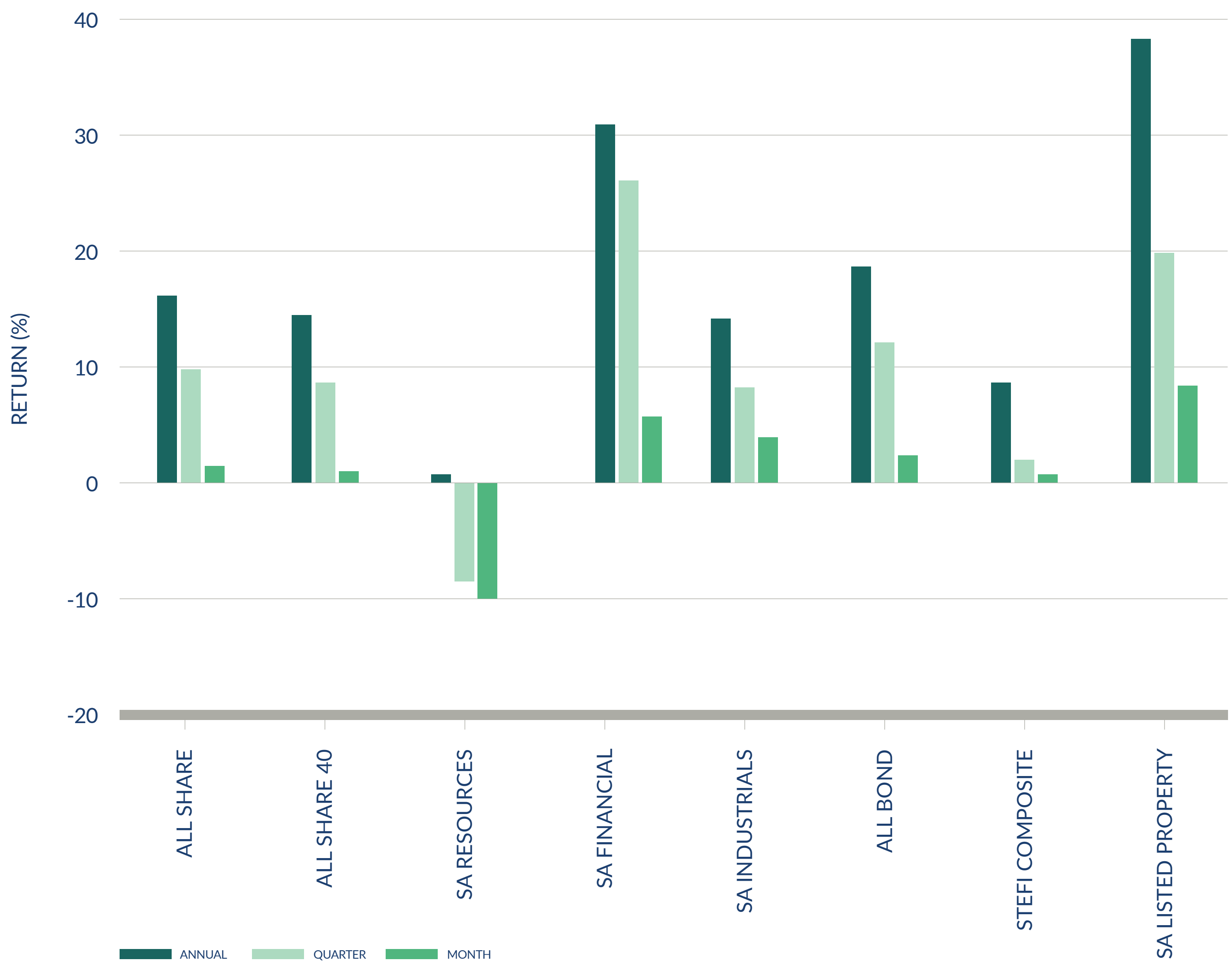
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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