Market Commentary

December 2024

RISCURA

Global market themes

Global financial markets ended December 2024 on a subdued note, with most asset classes experiencing declines. Equities, bonds, and commodities were negatively affected by changing monetary policies and increasing economic and geopolitical uncertainties. The MSCI World Index fell by 2.6%, while the MSCI Emerging Markets Index displayed relative resilience, declining by only 0.1%. This modest outperformance of emerging markets highlighted a shift in investor sentiment as inflationary pressures, central bank policies, and political developments continued to shape global economic conditions.

In the United States, equity markets experienced a sell-off despite the Federal Reserve's 0.25% interest rate cut in December. Although this reduction was widely anticipated, the Fed's cautious hawkish guidance for 2025 disappointed investors, leading to a 2.4% decline in the S&P 500. In contrast, the tech-heavy NASDAQ 100 defied the overall trend by gaining 0.5%, driven by the continued strength of AI-related companies. Persistent inflation, which rose to 2.7% year-on-year in November, tempered investor optimism. Nonetheless, U.S. equity markets closed the year on a positive note, with the S&P 500 delivering an impressive annual return of 25%, reflecting strong corporate earnings and robust economic fundamentals.

In December, the UK economy faced significant challenges, highlighted by a second consecutive month of GDP contraction. GDP fell by 0.1% in October, indicating ongoing economic strain. The Labour government's autumn Budget, which proposed £40 billion in tax increases, received criticism for its potential negative impact on consumer spending and business investment. Compounding these issues, inflation in the UK rose to 2.6% year-on-year in November. In December, the Bank of England decided to keep interest rates steady at 4.75%, aiming to balance the need to manage inflation while also avoiding further economic slowdown.

The Eurozone continued to face persistent challenges, even as the European Central Bank (ECB) implemented a 0.25% interest rate cut to stimulate economic growth, at its December meeting. In the third quarter, GDP across the bloc grew by a modest 0.4% quarter-on-quarter, while Germany's growth was revised down to only 0.1% due to ongoing difficulties in the manufacturing and export sectors. Despite these economic headwinds, European bond markets showed resilience, with peripheral economies outperforming their core counterparts, bolstered by the ECB's accommodative policy stance.

Asian markets showed mixed performance in December. China announced a significant shift in its monetary policy by adopting a "moderately loose" stance for 2025, a change not seen in 14 years. This move aims to counter deflationary pressures and address structural challenges, particularly in the property sector. Initially, this decision created a sense of optimism; however, by the end of the month, weak economic indicators tempered that enthusiasm. South Korea, on the other hand, experienced political turmoil following President Yoon Suk Yeol's declaration of martial law and the subsequent issuance of an arrest warrant for him. This instability negatively impacted financial markets, resulting in a 7% decline in the KOSPI Index (in USD terms).

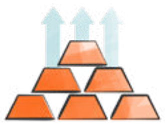
Emerging markets demonstrated divergent performances, reflecting varying economic conditions across different regions. India experienced a positive outcome due to easing inflation, which dropped to 5.5% in November, allowing for greater policy flexibility. In contrast, China's inflation slowed dramatically to just 0.1%, raising concerns about potential deflationary risks. Commodities faced similar challenges; Brent crude oil prices rose by 1.3% in December but ended the year down by 7% due to weaker global demand and a stronger U.S. dollar. On the other hand, gold stood out as an exceptional performer, concluding the year up 27.2%, driven by its appeal as a safe-haven asset amidst global uncertainties.

Global financial markets ended December 2024 on a subdued note affected by monetary policy changes

While the MSCI World Index fell 2.6%, Emerging Markets declined only 0.1%

The UK economy contracted 0.1% amid higher taxes and rising inflation

China adopted "moderately loose" policies to counter deflation and economic slowdowns



Gold surged 27.2% annually as a preferred safe-haven investment

South Korea's political instability led to a 7% market decline

Global bond markets fell 0.7%, impacted by central bank policy shifts

Fixed-income markets experienced significant volatility in December due to shifts in central bank policies. The Federal Reserve's hawkish stance caused government bond yields to rise, while the UK gilt market declined amid broader economic concerns. U.S. Treasuries and German bonds experienced volatility, with the benchmark 10-year yield on U.S. Treasuries rising from 4.17% to 4.57% and the yield on German bonds increasing from 2.09% to 2.36%. In comparison, peripheral European bonds performed better, benefiting from the dovish policies of the ECB. Overall, global government bonds posted a 0.7% decline in USD-hedged terms, highlighting the challenging environment for fixed-income investors.

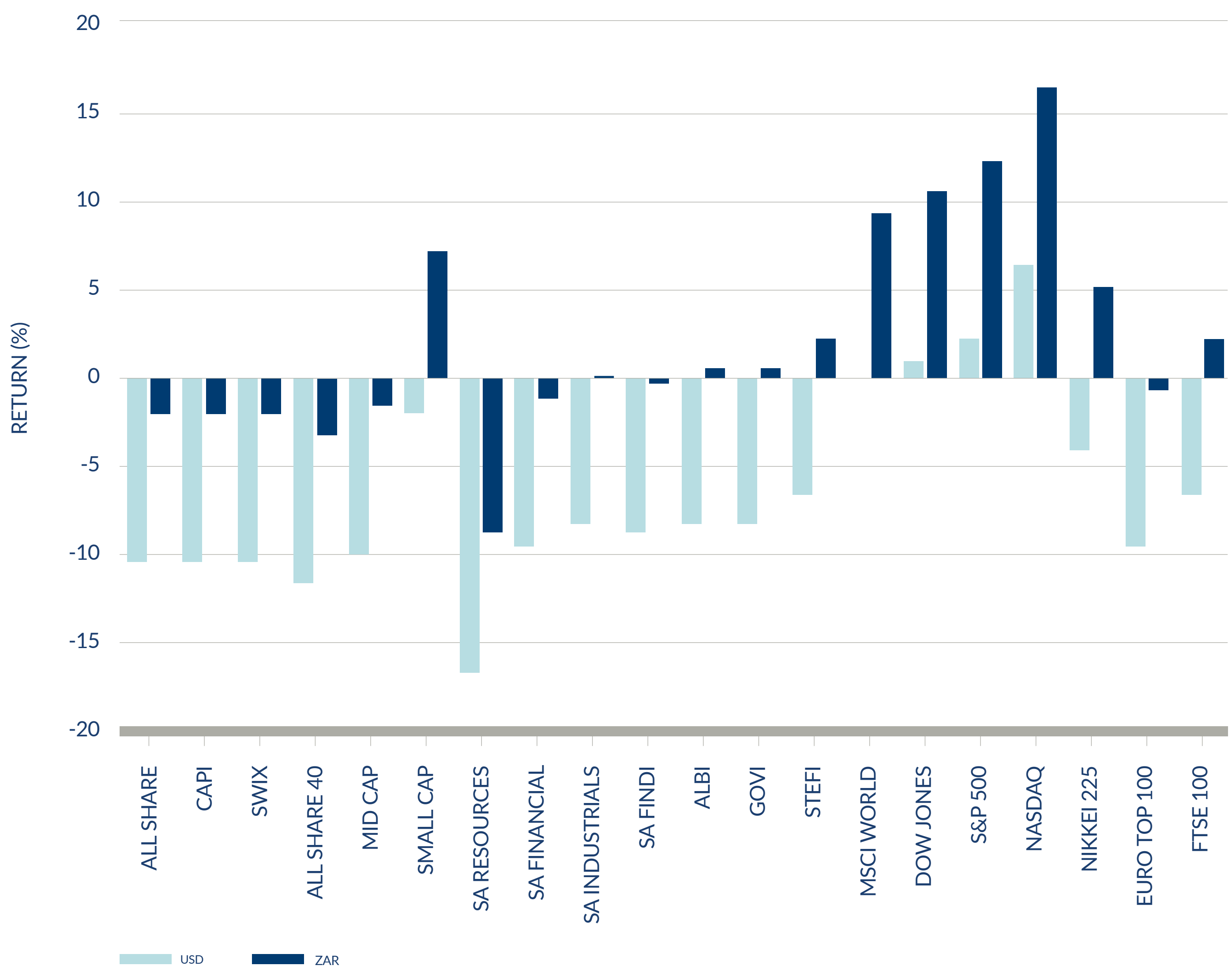
The technology sector presented a unique bright spot, fuelled by ongoing advancements in artificial intelligence and trends in digital transformation. The NASDAQ 100 demonstrated resilience, supported by strong earnings from prominent AI and semiconductor companies, such as Nvidia and AMD. However, elevated valuations across the sector have raised concerns about sustainability in a higher interest rate environment, indicating potential volatility in the future.

Geopolitical tensions continue to influence market sentiment. The ongoing conflict in Ukraine has disrupted energy markets, resulting in an 8% rise in natural gas prices in December. Furthermore, escalating tensions between the U.S. and China over technology exports and Taiwan's sovereignty have caused instability in the markets, particularly in Asia.

During December, emerging market currencies exhibited a range of trends, influenced by various regional economic and political factors. The Indian rupee appreciated by 0.8% against the U.S. dollar, supported by robust foreign investment inflows. In contrast, the Brazilian real struggled, falling by 2.2% amidst political uncertainty following the midterm elections. These fluctuations underscore the complexities of managing exposures in emerging markets, with volatility expected to persist into the new year.

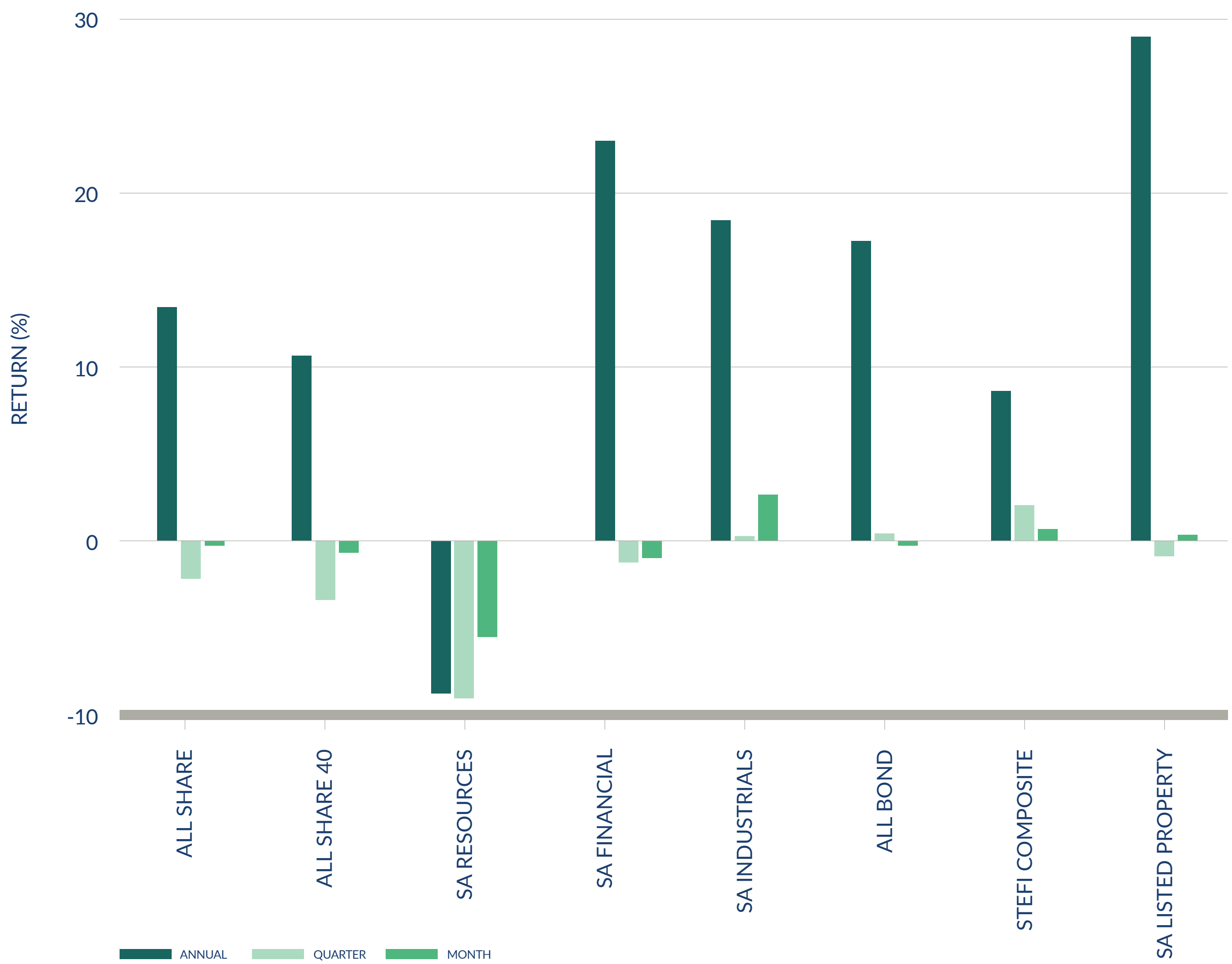
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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