BELMONT
ASSET MANAGEMENT

MARKET COMMENTARY - QUARTER ENDED 31 DECEMBER 2023

There were strong returns from both equity and bond markets during the last quarter of 2023 in an environment of strong US economic growth, falling inflation and growing optimism that central banks would cut interest rates sooner in 2024 than had previously been expected.

Developed equity markets outperformed those of emerging markets during the quarter and growth stocks outperformed value stocks. Information technology shares led markets higher and real estate shares also staged a strong recovery after having been battered by rising interest rates over the past year. Consumer staple shares rose but lagged the overall market. Energy shares declined as oil prices fell despite output cuts from the Organisation of the Petroleum Exporting Countries (OPEC) and some other oil-producing countries.

The Euro, Sterling and Yen strengthened against the US Dollar by 4.3%, 4.4% and 5.8% respectively.

INDEX	3 MTH TOTAL RETURN IN US (%)	3 MTH TOTAL RETURN IN EUR (%)	3 MTH TOTAL RETURN IN GBP (%)
MSCI WORLD	11.4	6.8	6.7
S&P 500 (US)	11.7	7.0	6.9
FTSE EUROPE EX UK	12.4	7.7	7.6
FTSE ALL SHARE(UK)	7.8	3.3	3.2
TOPIX (JAPAN)	8.0	3.5	3.4
MSCI EMERGING MARKETS	7.9	3.4	3.3
MSCI ASIA EX JAPAN	6.4	2.0	1.9

The US

The S&P 500 Index rose by 11.7% in US Dollars.

US GDP (gross domestic product) grew by an annualised 4.9% in the third quarter. This was the fifth consecutive quarterly GDP gain. Consumer spending rose by 3.1%. The unemployment rate rose to 3.9%. The Consumer Price Index (CPI) slowed over the period from 3.7% in September to 3.2% in October and 3.1% in November.

This led the Federal Reserve (Fed) to a somewhat more dovish policy stance at its December meeting, at which it left the federal funds rate unchanged at a target range of 5.25% – 5.50%. The Federal Open Market Committee’s median forecast of the key rate suggests an easing of 0.75% in 2024. Regarding potential rate cutting, Fed Chairman Jerome Powell said that the central bank was aware of the risk of keeping rates at restrictive levels for too long.

Europe

Eurozone

The FTSE Europe ex UK Index rose by 7.7% in Euros and by 12.4% in US Dollars.

Eurozone GDP fell by 0.1% quarter-on-quarter in the third quarter. Annual inflation fell to 2.4% in November from 2.9% in October. A year previously the inflation rate had been 10.1%. The Eurozone composite Purchasing Managers' Index (PMI) increased from 46.5 in October to 47.0 in December though it remained in contractionary territory (below 50). Industrial production excluding construction fell by 0.7% month-on-month in October following a 1.0% fall in September.

While the European Central Bank (ECB) left its key deposit rate unchanged at its December meeting, the rapid decline in consumer prices, along with signs of weakening economic data, prompted some economists to predict that the ECB would start cutting rates in the second quarter of 2024. Since July of 2022, the ECB has raised its key deposit rate 10 times to 4%, the highest level in the history of the Eurozone.

UK

The FTSE All Share Index rose by 3.2% in Sterling and by 7.8% in US Dollars.

UK GDP fell in the third quarter, having previously shown zero growth. The composite PMI for November rose back into expansionary territory (above 50) and further increased in December to a 6-month high of 51.7. Inflation moderated more than expected during the quarter. The Office for National Statistics revealed that CPI had dropped to 3.9% in November. This contributed to hopes that the Bank of England's (BoE's) series of interest rate increases may have come to an end.

In his Autumn statement, Chancellor of the Exchequer Jeremy Hunt indicated that increased inflation had resulted in higher nominal tax receipts. This allowed the government to announce some fiscal easing while spending was left broadly unchanged.

Japan

The Topix Index rose by 2.0% in Yen and by 8.0% in US Dollars.

Japanese GDP contracted by an annualised 2.9% quarter-on-quarter, as lingering inflation weighed on domestic consumption. However, the Bank of Japan (BoJ) tankan survey released in December showed continuous improvement in business sentiment for both the manufacturing and the non-manufacturing sectors.

The government unveiled a $113 billion stimulus package to cushion the impact of rising prices. It includes income and residential tax cuts along with subsidies on petrol and utility bills. Despite market speculation that it might reverse course on its ultra-loose monetary policy, the BoJ kept its key interest rate unchanged. However, it relaxed yield caps on 10-year Japanese government bonds allowing them to potentially rise above 1%.

Emerging Markets

The MSCI Emerging Markets Index rose by 7.9% in US Dollars.

China: The MSCI China IMI Index fell by 4.2% in US Dollars. China's economy remained sluggish amid a weak housing market and fragile consumer confidence. Moody's cut its credit outlook on China to negative from stable while maintaining its long-term rating of A1 on the country's sovereign debt. The Chinese government approved the issuance of CNY 1 trillion (USD 137 billion) of government bonds, aimed at providing infrastructure projects for areas hit by disasters. This is projected to raise the 2023 budget deficit from 3.0% to 3.8% of GDP and to support activity over the next 12 months.

Brazil*:* The MSCI Brazil IMI Index rose by 17.8% in US Dollars. Brazil's central bank cut its key interest rate for a fourth consecutive time by 0.5% and indicated that similar cuts could follow in 2024 as inflation had eased.

India: The MSCI India IMI Index rose by 11.9% in US Dollars amid strong economic growth and government investment in the country's infrastructure. India's economy grew by 7.6% year-on-year, helped in part by a growing manufacturing base as multinationals set up new factories.

South Africa

GDP growth finally succumbed to ongoing economic challenges after a surprisingly positive spell. A negative reading of 0.7% was recorded. While load shedding at Eskom improved to 20 days of stage 5 and stage 6 versus 46 days' worth in the second quarter, half of all productive industries recorded a decrease in growth. Agriculture was worst hit due to lower field crops, Avian Flu and flooding in the Western Cape. Water restrictions affected several municipalities and logistical state company Transnet continued its downward slide in terms of performance. Cash-strapped consumers reduced their discretionary spending for the second quarter in a row. The South African Reserve Bank (SARB) forecasts GDP growth of 1.2% for 2024, which remains unsustainably low and undoubtedly affected by Eskom's projected weekly capacity shortfall of 2GW this year.

The SARB left interest rates unchanged for the second consecutive quarter in a unanimous decision. Inflation risks remained elevated according to the SARB and the Consumer Price Index (5.5% year-on-year) hovered around the upper end of the target band.

Finance Minister Enoch Godongwana presented the medium-term budget policy statement (MTBPS) in November. Higher load shedding costs, lower corporate taxes and increased refunds for renewable energy projects led to a revenue shortfall of R56.8bn. Expenditure grew by 10%, largely due to a higher wage bill while interest expense accounted for 22% of all spending. Consequently, the budget deficit grew above estimates to 5% this year and to a projected 4% for the next two years. In further news Mr Godongwana indicated that South Africa has made encouraging strides towards being removed from the Financial Action Task Force (FATF) grey list.

The Rand and the JSE: The US Dollar weakened 4.4% against the Rand during the quarter due to the prospect of rate cuts by the US Fed. In contrast the Rand continued to weaken against Sterling (by 0.6%) and against the Euro (by 0.3%). The JSE similarly benefitted from the dovish Fed as the All-Share Index increased by 6.3%. The Financial Index (11.9%) and the Property Index (13.5%) were amongst the strongest performers locally, as the market priced in expectations of lower rates and higher growth going forward.

Indices By Sector

		Sector	2022 31-Dec	2023 31-Mar	30-Jun	30-Sep	29-Dec	*3 Months* % Chg	*6 Months* % Chg	*9 Months* % Chg	*12 Months* % Chg
JS5513	1	Precious Metals & Mining	56531	55046	51124	40145	48660	21,2%	-4,8%	-11,6%	-13,9%
J253	2	Listed Property	320	304	295	288	327	13,5%	10,8%	7,6%	2,2%
JS3011	3	Banks	9917	9656	9921	9642	10840	12,4%	9,3%	12,3%	9,3%
JI0030	4	Financials	39604	39564	40771	40088	44672	11,4%	9,6%	12,9%	12,8%
JS4041	5	Retailers	6028	5527	5677	5662	6147	8,6%	8,3%	11,2%	2,0%
JI0020	6	Health Care	4424	5162	5349	5055	5488	8,6%	2,6%	6,3%	24,1%
JI0040	7	Consumer Discretionary	32419	38162	40663	36072	39123	8,5%	-3,8%	2,5%	20,7%
JI0045	8	Consumer Staples	78773	79971	77850	76507	82097	7,3%	5,5%	2,7%	4,2%
J203	9	**All Share Index**	74436	76615	76234	71238	75709	6,3%	-0,7%	-1,2%	1,7%
J200	10	**Top 40**	68361	70959	70933	65417	69338	6,0%	-2,2%	-2,3%	1,4%
JI0050	11	Industrials	32835	34329	34671	36610	38622	5,5%	11,4%	12,5%	17,6%
JI0015	12	Telecommunications	6145	6102	6138	4997	5267	5,4%	-14,2%	-13,7%	-14,3%
JI0010	13	Technology	36783	40652	40986	37100	37160	0,2%	-9,3%	-8,6%	1,0%