MARKET COMMENTARY - QUARTER ENDED 31 MARCH 2024

Global equity markets continued to rise strongly in the first quarter of 2024 buoyed by a resilient US economy and ongoing enthusiasm about Artificial Intelligence and its potential to increase corporate profits. Expectations of interest rate cuts also boosted equities although the pace of cuts is expected to be slower than the market had hoped for at the beginning of the year.

The equities of developed markets outperformed those of emerging markets, with particularly strong performances in Japan and the US. At a sector level, information technology and communication services led the way followed by energy and financial services.

The US Dollar strengthened against the Yen, Euro and Sterling by 6.8%, 2.2% and 0.9% respectively.

INDEX	3 MTH TOTAL RETURN IN US (%)	3 MTH TOTAL RETURN IN EUR (%)	3 MTH TOTAL RETURN IN GBP (%)
MSCI WORLD	8.9	11.4	9.9
S&P 500 (US)	10.6	13.1	11.6
FTSE EUROPE EX-UK	5.9	8.3	6.9
FTSE ALL SHARE (UK)	2.6	5.0	3.6
TOPIX (JAPAN)	10.1	12.6	11.1
MSCI EMERGING MARKETS	2.4	4.7	3.3
MSCI ASIA EX- JAPAN	2.4	4.7	3.3

The US

The S&P 500 Index rose by 10.6% in US Dollars.

US gross domestic product (GDP) rose by an annualised 3.4% in the fourth quarter, its sixth straight quarter of growth. In February, the Consumer Price Index rose by 3.2% from the previous year. Survey data from the composite Purchasing Managers' Index (PMI) remained firmly in expansionary territory. A strong labour market and persistent consumer spending continued to bolster the economy but there were indications of slowing growth.

The Federal Reserve (Fed) kept its benchmark interest unchanged at 5.25 to 5.5%. In his testimonies to Congress and the Senate in March, Fed chairman Jerome Powell expressed caution about easing policy too soon but also said that it was likely to be appropriate at some point this year. The Fed's meeting later in the month was also seen as dovish. The central bank indicated that it could cut its benchmark rate three times in 2024, citing strong economic growth and manageable inflation.

Belmont Asset Management (Pty) Ltd
21 Pear Lane, Constantia 7806, South Africa
Tel: +27 (0)21 794 4329 Email: mail@belmontasset.co.za

Authorised Financial Services Provider (Licence No. 680)
Company Reg No. 1994/004586/07

Europe

Eurozone

The FTSE Europe ex-UK Index rose by 8.3% in Euros and by 5.9% in US Dollars amid improving corporate earnings, falling inflation and flat economic growth in the Eurozone. Market gains were tempered by comments from European Central Bank (ECB) officials indicating that they were uncertain about the path of interest rate cuts in the months ahead.

During the quarter there were signs of improving business activity in the Eurozone. The flash Eurozone Purchasing Managers' Index (PMI) rose to 49.9 in March compared to 49.2 in February. This signals that business activity is almost at stable levels. The Consumer Price Index was 2.6% in February, down from 2.8% in January.

Lower inflationary pressures and lacklustre activity was reflected in the ECB's March meeting at which it kept policy unchanged but reduced its inflation and growth projections. ECB President Christine Lagarde said that good progress is being made towards achieving the inflation target although there was not sufficient confidence to cut at the March meeting.

UK

The FTSE All Share Index rose by 3.6% in Sterling and by 2.6% in US Dollars. The UK equity market lagged due to its value bias as well as from the poor performance of the UK economy which was confirmed to have fallen into a technical recession in the last six months of 2023.

The Bank of England's Monetary Policy Committee decided at its March meeting to keep the UK's main policy interest rate on hold at 5.25%. Annual inflation as measured by the Consumer Price Index fell from a peak of 11.1% in October 2022 to 3.4% in February 2024.

Japan

The Topix Index rose by 18.1% in Yen and by 10.1% in US Dollars. During the quarter, foreign investors played a leading role in driving the strong rally. This was fuelled by increasing optimism over Japan's positive economic cycle characterised by mild inflation and wage growth.

Corporate earnings in Japan have exceeded expectations and there have been positive revisions for both the current and the next fiscal years. The weak Yen has provided support.

In an historic shift, the Bank of Japan (BoJ) raised interest rates for the first time since 2007 reversing the negative interest rate policy it adopted in 2016. It raised its key interest rate to a range of zero to 0.1%. The BoJ's decision to overhaul its monetary policy measures, including lifting the negative interest rate policy, abandoning yield curve control and ceasing the ETF purchase programme was supported by significant progress in wage negotiations. Japan's largest companies agreed to raise wages by 5.28% this year.

Emerging Markets

The MSCI Emerging Markets Index rose by 2.4% in US Dollars.

China: The MSCI China IMI Index fell by 2.2% in US Dollars. Growth in China's economy remained sluggish amid tepid manufacturing output, weak home sales and deflationary pressures. In a move to support the property market, the People's Bank of China lowered its benchmark 5-year loan prime rate by 0.25%. The reserve requirement ratio for banks was cut by 0.5% in an attempt to stimulate lending and boost economic growth. The Chinese government announced CNY 1 trillion (USD 137 billion) in ultra-long special bond issuance this year to fund projects associated with national strategic goals.

Brazil*:* The MSCI Brazil IMI Index fell by 7.4% in US Dollars. Brazil's central bank cut its benchmark rate for the sixth time since August but equities fell as economic growth was stagnant for a second consecutive quarter.

India: The MSCI India IMI Index rose by 6.1% in US Dollars amid strong economic growth and significant investment in the country's infrastructure. India's economy expanded by 8.4% year-on-year in the fourth quarter of 2023.

South Africa

GDP grew by 0.1% over the previous quarter and by only 0.6% in 2023. The SA Reserve Bank estimates that the burden of Eskom's load shedding was responsible for a 1.5% loss in this annual growth figure. This significant cost however is forecasted to lower in the next few years thanks to an improved outlook for electricity generation.

Finance Minister Enoch Godongwana's Budget Speech was generally in line with the market's expectations. Revenue collections came in at R56.1bn below forecast due to lower commodity prices in the mining sector. There were few notable tax changes besides the lack of adjustments in the income tax brackets, bringing some taxpayers into higher tax brackets by default. Mr Godongwana highlighted the fact that "the size of the pie was not growing fast enough to meet our developmental needs" and that economic reforms are urgently required to address this. The biggest surprise came in the announcement to draw R150 billion over the next three years from the SARB's R500bn Gold and Foreign Exchange Contingency Reserve Account (GFECRA) to help reduce the government's greatest debt burden in almost 80 years. Soft tax revenues and an inability to reduce state spending largely explain the need for this drawdown, which is the first of its kind in the past 20 years. SA's gross debt has grown to 74% of GDP and Mr Godongwana projects it to peak at 75% of GDP in 2025/2026.

Inflation was 5.3% year-on-year. The South African Reserve Bank (SARB) left the repo rate unchanged at 8.25%, the highest level in 15 years. The SARB reiterated that inflation risks remain elevated and expects inflation to reach the targeted midpoint of 4.5% only by the end of 2025.

The Rand and the JSE: The Rand had a weak quarter as global interest rate expectations were adjusted upwards. The Rand declined by 3.1% against the US Dollar, by 1.8% against Sterling and by 0.7% against the Euro. South Africa's 10-year nominal government bond yield approached a 10-month high above 11%. The JSE All Share Index declined by 1.7% for the quarter, underperforming both its developed and emerging market peers. "SA Inc" shares such as local banks, retailers, telecoms and industrials fared the worst as US interest rate cuts failed to materialise and increased fear set in around the general election in May. Rand-hedged companies such as Naspers, Richemont, British American Tobacco and Anglo American on the other hand ended the quarter well in the green.

Indices By Sector

		Sector	2023 31-Mar	30-Jun	30-Sep	29-Dec	29-Mar	*3 Months* % Chg	*6 Months* % Chg	*9 Months* % Chg	*12 Months* % Chg
JI0010	1	Technology	40652	40986	37100	37160	40797	9.8%	10.0%	-0.5%	0.4%
JS5513	2	Precious Metals & Mining	55046	51124	40145	48660	52831	8.6%	31.6%	3.3%	-4.0%
J253	3	Listed Property	304	295	288	327	335	2.4%	16.3%	13.6%	10.2%
JI0020	4	Health Care	5162	5349	5055	5488	5591	1.9%	10.6%	4.5%	8.3%
JI0040	5	Consumer Discretionary	38162	40663	36072	39123	39360	0.6%	9.1%	-3.2%	3.1%
JI0045	6	Consumer Staples	79971	77850	76507	82097	81642	-0.6%	6.7%	4.9%	2.1%
J200	7	**Top 40**	70959	70933	65417	69338	68275	-1.5%	4.4%	-3.7%	-3.8%
J203	8	**All Share Index**	76615	76234	71238	75709	74429	-1.7%	4.5%	-2.4%	-2.9%
JS4041	9	Retailers	5527	5677	5662	6147	5756	-6.4%	1.7%	1.4%	4.1%
JI0050	10	Industrials	34329	34671	36610	38622	35748	-7.4%	-2.4%	3.1%	4.1%
JS3011	11	Banks	9656	9921	9642	10840	9992	-7.8%	3.6%	0.7%	3.5%
JI0030	12	Financials	39564	40771	40088	44672	41059	-8.1%	2.4%	0.7%	3.8%
JI0015	13	Telecommunications	6102	6138	4997	5267	4608	-12.5%	-7.8%	-24.9%	-24.5%

Belmont Asset Management (Pty) Ltd
21 Pear Lane, Constantia 7806, South Africa
Tel: +27 (0)21 794 4329 Email: mail@belmontasset.co.za
Directors: P.W. Beachy Head B Bus Sc (Hons) (UCT) (Managing), C.L. Lotz IAPM (UNISA), T.A. de Moyencourt B Bus Sc (Hons) (UCT), CFA
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