

## MARKET COMMENTARY - QUARTER ENDED 30 JUNE 2024

Most global equity markets continued to rise during the second quarter amid anticipation of monetary easing later in 2024 and continued optimism about artificial intelligence and its potential to increase corporate profits. Initially investors aggressively lowered their expectations for central bank rate cuts as concerns about US overheating meant that strong April data was poorly received by the markets. But as the quarter progressed the worst of these worries abated and there was a revival of hope for a soft landing.

The equities of emerging markets outperformed those of developed markets. The US Dollar strengthened against the Yen and Euro by 5.9% and 0.8% respectively and weakened against Sterling by 0.1%.

INDEX	3 MTH TOTAL RETURN IN US (%)	3 MTH TOTAL RETURN IN EUR (%)	3 MTH TOTAL RETURN IN GBP (%)
<i>MSCI WORLD</i>	2.6	3.4	2.6
<i>S&amp;P 500 (US)</i>	4.3	5.1	4.2
<i>FTSE EUROPE EX-UK</i>	0.3	1.1	0.3
<i>FTSE ALL SHARE (UK)</i>	3.8	4.6	3.7
<i>TOPIX (JAPAN)</i>	-4.3	-3.6	-4.4
<i>MSCI EMERGING MARKETS</i>	5.0	5.8	4.9
<i>MSCI ASIA EX-JAPAN</i>	7.2	8.0	7.1

### The US

The S&P 500 Index rose by 4.3% in US Dollars.

Data in the US showed signs of slowing activity. US GDP (gross domestic product) rose by an annualised 1.4% quarter-on-quarter in the first quarter, down from 3.4% in the prior quarter. Retail sales rose by just 0.1% in May after falling by 0.2% in April. Unemployment ticked up to 4% in May albeit that employers added 272 000 new jobs, a rebound from the fewer-than-expected 165 000 jobs added in April. Annual inflation, as measured by the Personal Consumption Expenditures Index, eased slightly to 2.6% in May, from 2.7% in April.

The Federal Reserve (Fed) left its key interest rate unchanged during the quarter. In April, Fed chairman Powell and vice chairman Jefferson said that recent inflation data meant that the central bank was likely to delay its rate cuts. The Fed remained cautious throughout the quarter and also made no policy changes at its June meeting. Powell noted in a press conference after the June meeting that inflation had fallen without a major blow to the economy. He added that “these dynamics can continue as long as they continue. We’ve got a good strong labour market. We think we’ve been making progress towards the price stability goal. We’re asking ... is our policy stance about right? And we think yes, it’s about right”.

## Europe

### *Eurozone*

The FTSE Europe ex-UK Index rose by 1.1% in Euros and by 0.3% in US Dollars.

The Eurozone economy expanded at an annualised rate of 1.3% in the first quarter, a considerable improvement on the 0.2% contraction in the last quarter of 2023. This was the strongest GDP reading since the third quarter of 2022. Robust expansions in Spain and Ireland were tailwinds. March industrial production rebounded from a fall in February. Retail sales recovered in March, aided by a rebound in Germany. The unemployment rate fell to a record low of 6.4% in April.

For the first time in nearly five years, the European Central Bank (ECB) cut its key interest rate. This move had been strongly signalled prior to its June meeting, but stickier than expected services inflation prompted the ECB to stress that the path to any further policy normalisation would be heavily data dependent.

Politics was a key focus during the second quarter. European parliamentary elections saw gains for right-wing nationalist parties. This was notably the case in France and President Macron responded by calling parliamentary elections. This move surprised markets and saw French equities underperform the broader Eurozone equity markets.

### *UK*

The FTSE All Share Index rose by 3.7% in Sterling and by 3.8% in US Dollars.

Having suffered a mild recession during the second half of 2023, the UK economy rebounded in the first quarter of 2024 with GDP growth of 0.7%. However more recent data revealed that growth had stagnated in April, with the unemployment rate rising to 4.4% as 140 000 jobs were shed. Annual Consumer Price Index inflation fell back to 2.0% in May, hitting the Bank of England's (BoE's) target for the first time since July 2021.

The BoE maintained its base interest rate at 5.25% amid concerns that the fall in UK inflation may only be temporary and that high wage inflation was driving the elevated annual rate of inflation in services.

Prime Minister Rishi Sunak called for a general election to be held on 4 July 2024. By the time of writing, the Labour Party had won this election.

## Japan

The Topix Index rose by 1.7% in Yen but fell by 4.3% in US Dollars.

Annualised first quarter GDP growth was revised down to -2.9% from an initial estimate of -1.8%. Inflation remained elevated above the Bank of Japan's (BoE's) 2% target. Following its historic rate hike in March, the Bank of Japan (BoJ) left interest rates unchanged.

The Yen sank to its lowest levels since 1986. The interest rate differential between Japan and the US continued to put pressure on the currency and prompted the government to intervene for the first time since 2022. In May, it spent a record \$62 billion to prop up the Yen to prevent a further slide.

## Emerging Markets

The MSCI Emerging Markets Index rose by 5.0% in US Dollars.

**China:** The MSCI China IMI Index rose by 7.1% in US Dollars. Chinese policymakers unveiled more measures to boost the country's ailing property sector. However, rising exports fuelled fresh tariffs. The US imposed \$18 billion worth of tariffs on products such as electric vehicles and semiconductors. The European Union also enacted levies on Chinese electric vehicles.

**Brazil:** The MSCI Brazil IMI Index fell by 12.2% in US Dollars as Brazil's central bank slowed the magnitude of its interest rate cuts. The Brazilian Real weakened by more than 9% against the US dollar.

**India:** The MSCI India IMI Index rose by 10.2% in US Dollars. Incumbent Prime Minister Narendra Modi and his Bharatiya Janata Party won a third term but were forced to form a coalition government when they failed to secure a majority in parliament. India's economy continued to expand rapidly, growing by 7.8% year-on-year in the first quarter.

## South Africa

South Africa recorded negative GDP growth below expectations of 0.1% for the quarter and positive GDP growth of 0.5% for the year. While the country remains stuck in a low-growth trap, positive developments at Eskom bode well in the short term as the state-owned enterprise marked 100 days without rolling power cuts - its best performance in four years. This is a result of President Cyril Ramaphosa's Energy Action Plan (implemented in July 2022) finally bearing fruit.

South Africa's General Election was held on May 29th and saw the usually dominant African National Congress (ANC) lose its majority vote from 57.5% previously to 40.2%, forcing them into a coalition government. The Democratic Alliance (DA) slightly improved its performance by winning 21.8% of the votes while Jacob Zuma's MK Party (MKP) surprised many with 14.6% of the votes in its debut election. The agreement to form a Government of National Unity (GNU) between the ANC, DA, IFP, PA and RISE was well received by the markets and general public, allaying fears of a populist tie up with the MKP and the Economic Freedom Fighters (EFF).

The Consumer Price Index (CPI) was recorded at 5.1% for the year, inching nearer to the targeted midpoint of 4.5%. The South African Reserve Bank (SARB) kept the repo rate unchanged at a restrictive level once again. The SARB noted this policy remains appropriate as long as inflation expectations remain above the midpoint. However while the previous rate decision was unanimous, two policymakers in June voted for a rate cut signaling a more dovish stance going forward.

**The Rand and the JSE:** The Rand strengthened by 3.1% against the US Dollar, by 2.4% against Sterling and by 3% against the Euro mainly on the back of positive local election results. The JSE All Share Index fared similarly well, gaining 7.3% for the quarter. Local financials (+17.5%), retailers (+17.4%) and industrials (+17.4%) posted the biggest gains.

## Indices By Sector

		Sector	2023			2024		3 Months	6 Months	9 Months	12 Months
			30-Jun	30-Sep	29-Dec	29-Mar	28-Jun	% Chg	% Chg	% Chg	% Chg
JS3011	11	Banks	9921	9642	10840	9992	11946	19.6%	10.2%	23.9%	20.4%
JI0030	12	Financials	40771	40088	44672	41059	48249	17.5%	8.0%	20.4%	18.3%
JS4041	9	Retailers	5677	5662	6147	5756	6756	17.4%	9.9%	19.3%	19.0%
JI0050	10	Industrials	34671	36610	38622	35748	41956	17.4%	8.6%	14.6%	21.0%
JI0040	5	Consumer Discretionary	40663	36072	39123	39360	43141	9.6%	10.3%	19.6%	6.1%
J203	8	<b>All Share Index</b>	76234	71238	75709	74429	79854	7.3%	5.5%	12.1%	4.7%
J200	7	<b>Top 40</b>	70933	65417	69338	68275	72806	6.6%	5.0%	11.3%	2.6%
JI0020	4	Health Care	5349	5055	5488	5591	5962	6.6%	8.6%	17.9%	11.5%
J253	3	Listed Property	295	288	327	335	350	4.5%	7.0%	21.5%	18.6%
JI0010	1	Technology	40986	37100	37160	40797	42558	4.3%	14.5%	14.7%	3.8%
JI0045	6	Consumer Staples	77850	76507	82097	81642	84199	3.1%	2.6%	10.1%	8.2%
JS5513	2	Precious Metals & Mining	51124	40145	48660	52831	50574	-4.3%	3.9%	26.0%	-1.1%
JI0015	13	Telecommunications	6138	4997	5267	4608	4333	-6.0%	-17.7%	-13.3%	-29.4%

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