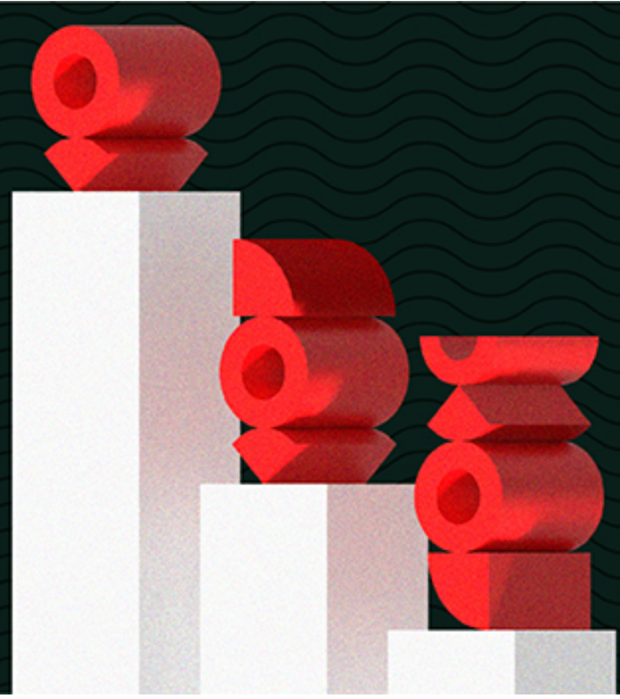
equilibrium

market
commentary



Monthly market commentary | December 2024

December marked a volatile end for markets for 2024, and in particular, a bittersweet ending for global equities. The spotlight fell on the US Federal Reserve (Fed) meeting, as they lowered interest rates by 0.25% amid a more cautious tone, which unnerved markets as the S&P 500 fell by 2.9%[1]. It was the second steepest day of decline in 2024, but it recovered some losses to close the month down 2.4%[1] in US dollar (USD) terms. Despite ending the month lower, the S&P 500 had another impressive year, up 24.5%[1] over the past 12 months.

Rising bond yields, as the Fed scaled back its projections for interest rate cuts in 2025, weighed on equities. Developed market equities (MSCI World) ended the month 2.6%[1] lower in USD terms, but still a substantial 18.7%[1] higher over the past 12 months. Emerging market equities (MSCI EM) ended the month virtually flat, down 0.1%[1] in USD terms, supported by Chinese announcements for more proactive policies support in 2025 and with the MSCI China 2.7%[1] higher in USD terms. However, the Indian (MSCI India) and Brazilian (MSCI Brazil) markets saw declines and offset gains, down 2.9%[1] and 8.2%[1], respectively, in USD terms. Global property (FTSE EPRA Nareit) also reacted negatively to the hawkish Fed sentiment, down 6.7%[1] in USD terms.

The Fed's less dovish stance and more moderate forecast for interest rate cuts in 2025 saw US Treasury yields rise across the board. This impacted bond markets negatively, with the FTSE WGBI ending the month 2.3%[1] lower in USD terms. Fewer US interest rate cuts are supportive of a stronger USD. Consequently, USD strength over the second half of the month drove the weakening of the rand against the greenback, down 4.6%[1] and ending the month at R18.90 to the USD.

SA equities (FTSE/JSE Capped SWIX) underperformed the emerging market composite over the month, down 0.3%[1], but still outperformed emerging markets by a healthy margin over the past 12 months, up 13.4%[1]. Resources were down 5.4%[1] for the month, while financials ended the month 1%[1] lower. This was offset by positive performance from Industrials, up 2.7%[1] for the month.

Listed property (ALPI) delivered marginal positive returns for the month, up 0.7%[1]. However, negative returns in October meant that the sector ended the quarter 0.4%[1] lower. It was still up a significant 29.8%[1] in 2024, making it the best performing local asset class over the past 12 months.

SA bond yields ended the month higher, in line with global bond markets. As a result, local bonds (FTSE/JSE ALBI) suffered a rare negative return, only the fourth time in twenty-four years, down 0.3%[1].

This was mostly driven by bonds in the 12+ year maturity spectrum, down 0.9%[1] followed by seven to 12-year maturities, down 0.2%[1]. Bonds in the one to 3-year and three to 7-year maturity spectrum delivered positive returns of 0.5%[1] and 0.2%[1] respectively. Despite the negative returns, the ALBI ended the year 17.2%[1] higher, recording its best performance for a calendar year since 2003.

Headline inflation continued to surprise on the positive side, however, as base effects start to disappear the possibility for negative inflation surprises increases. It limits the South African Reserve Bank's (SARB) scope to cut interest rates during the first half of 2025, exacerbated by fewer Fed interest rate cuts and a weaker rand. Local cash (STeFI) returned 0.7%[1] during the month and 8.5%[1] over the last 12 months.

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