SELECT MANAGER

Newsletter

August 2024

MARKETS AND ECONOMICS

Financial markets started August off in a dramatic fashion, with equities selling off sharply and bond yields falling as investors shifted towards safe-haven assets. Corporate earnings drove the initial jitters, as the large United States (US) tech companies' second-quarter results struggled to meet investors' expectations. Intel was probably the worst off as the share price dropped more than 20% following an announcement of dividend suspension and job cuts. Recession fears took over soon after with the release of weaker-than-expected US employment data. A 4.3% increase in the unemployment rate for July triggered the closely watched Sahm Rule, which tracks the pace of the US unemployment rate against the start of recessions. This led to concerns that the Federal Reserve (Fed) might not be able to orchestrate the elusive "soft landing". While most major indices lost significant value, Japanese stocks saw disproportionate losses, owing to a partial unwinding of the "carry trade" and the impact of a stronger yen on a predominantly export-focused market. This came after the Bank of Japan unexpectedly increased short-term interest rates, forcing many investors to rush out of now unprofitable carry trades, in which they borrowed in cheap currency at near-zero interest rates in Japan and then invested the funds in higher-yielding assets in other markets. The result was significant selling pressure for equities and a spike in volatility, as the VIX Index (which tracks volatility and is typically seen as a "fear" gauge) rose to levels last seen during the COVID-19 pandemic.

Fortunately, central bank comments and better-than-expected economic data during the rest of the month calmed markets, as the Bank of Japan confirmed that they would not raise interest rates again while markets are unstable, and US Fed officials confirmed monetary policy action to avoid a recession. As a result, investors priced in a 0.25% cut at the Fed's September meeting, even seeing a chance of a 0.5% cut, and expect roughly 1% of interest rate cuts by the end of 2024. Markets, subsequently, recovered losses and ended the month in positive territory, with performance broadening out across sectors and regions.

Local markets continued to deliver strong returns during August, despite significant losses from platinum miners, who are facing significantly lower metals prices that have led to large earnings declines. The All Share Index posted its sixth consecutive month of positive returns (+18% since the end of February), while the All Bond Index posted its fifth consecutive month of positive returns (+14% since the end of March). Apart from an improved global risk appetite during the second half of the month, various local data releases were also supportive. Retail sales figures surprised on the upside in June, showing a 4.1% yearly increase, while inflation figures for July moderated more than expected, showing a 4.6% increase over the year (5.1% in June). Also worth mentioning is the better-than-expected preliminary trade balance data during the month, adding to the year-to-date trade surplus. The improved trade balance alongside a weakening US dollar in anticipation of interest rate cuts, helped the rand to appreciate approximately 2% during the month to reach its lowest level in more than a year at around R17.80 to the US dollar at month-end.

JSE All Share 1,38% | 83 749,86	**MSCI World (USD)** 2,64% | 3 661,24	**MSCI EM (USD)** 1,61% | 1 099,92
SA Bonds 2,38% | 1 057,07	**SA Property** 8,25% | 391,14	**CPI (y/y)** 4,60% | 115,90
Gold 3,56% | 2 503,12	**Platinum** - 4,67% | 926,00	**Oil** - 4,84% | 76,93
$/R - 2,00% | 17,83	**€/R** - 0,01% | 19,69	**£/R** - 0,03% | 23,40

t: 087 944 7999 | e: info@selectmanager.co.za | 81 Dely Road, Hazelwood, Pretoria, 0081
FSP Licence no : 928