

MONTHLY market overview

DECEMBER 2024
IN REVIEW



ECONOMIC AND MARKET OVERVIEW

An eventful year draws to a close. Politically, there is plenty to reflect on that will have ramifications in 2025 and beyond.

Collectively, voters in many parts of the world have changed the political map. In the US, this has delivered a swing from a divided Congress with a Democrat as President, to one with full Republican control, setting the stage for Donald Trump to implement his agenda much more readily, at least during this year and 2026. In the UK, the swing has been the other way, from Conservatives to Labour. But public support for Keir Starmer's government has ebbed rapidly, as indicated by the polls. Meanwhile, French policymaking may be hampered by a precariously divided parliament that could topple another Prime Minister. Additionally, what compromises will need to be made to establish a new German government after the 23 February early election is yet to be seen. The consequences of all of this for economies and markets are all but certain to make 2025 eventful too.

It wasn't only elections that caused political changes - Syrian rebels seized the capital Damascus unopposed on Sunday 8 December after a lightning advance that sent President Bashar al-Assad fleeing to Russia after a 13-year civil war and six decades of his family's autocratic rule. In one of the biggest turning points for the Middle East in generations, the fall of Assad's government wiped out a bastion from which Iran and Russia exercised influence across the Arab world. Moscow gave asylum to Assad and his family, said Mikhail Ulyanov, Russia's ambassador to international organizations in Vienna, on his Telegram channel.

A court in South Korea has issued an arrest warrant against suspended president Yoon Suk Yeol over his attempt to impose martial law on 3 December. The warrant came after Yoon, who is being investigated for abusing his power

and inciting an insurrection, ignored three summonses to appear for questioning over the last two weeks of December. Yoon's legal team has called the warrant "illegal and invalid" and said they would challenge it in court. South Korea has been in a political crisis since the short-lived martial law declaration, with Yoon and a successor both impeached by the opposition-dominated parliament.

At the December 2024 Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) lowered interest rates by 25 basis points. This lowers the target interest rate range from 4.25% to 4.5% and reflects the Fed's ongoing commitment to achieving its dual goals of maximum employment and price stability. US Equity markets sank nearly 3% immediately after the decision on the hawkish rate cut. Within a couple of days, equity markets have just about recovered, but the S&P500 still ended December in the red.

A few days later the US Senate approved legislation to avert a federal government shutdown just after a midnight deadline, capping a chaotic week in which President-elect Donald J. Trump blew up a bipartisan spending deal, only to see his own preferred plan collapse as Republicans defied him. President Biden signed the funding bill, which would extend funding into mid-March and approve disaster relief for parts of the nation still recovering from hurricane and other storm damage.

The European Central Bank (ECB) Governing Council (GC) announced on 12 December that it is cutting its policy rates by 25bps, bringing the key Deposit rate to 3.0%. President Lagarde disclosed that a 50bp cut had indeed been discussed, but that all GC members had in the end settled on 25bps as the preferred option. The tone of the official

statement and press conference took a turn in a less hawkish direction. At the previous meeting in October, the ECB had noted its intention to 'keep policy rates sufficiently restrictive for as long as necessary to ensure that inflation returned sustainably to its 2% medium-term target.' Now that this point is almost within touching distance this sentence has been dropped. Instead, the GC's expectation is not only that inflation will be maintained at 2%, but a fresh emphasis that the risks around this forecast are two-sided.

The United Kingdom's prime minister Keir Starmer delivered a New Year's Day message in which he pledged 2025 to be the 'year of rebuilding'. He acknowledged the downbeat sentiment among British voters, which appears in part to be linked to a stagnating economy, but also came as voters' confidence in the Labour party has eroded. Indeed, Labour's standing in opinion polls has plummeted since July's landslide election win, with the party now neck-and-neck with the Tories, and the Reform party also making gains. In fact, since the election, one of the first mega polls predicted that were an election to be held now (remembering that they don't have to call one before August 2029), Labour would lose nearly 200 seats, which would completely erode its majority in Parliament.

Positioning in the options market suggests South Africa's rand is poised for a rebound that may be as steep as its rapid decline in December, when the US Dollar gained 4.5% against the local currency. It had its worst December performance since 2015, and its biggest quarterly decline in more than two years. But with the rand having wiped out all its 2024 gains and hovering around its weakest level since the May elections, traders are betting that the fundamentals that drove the pre-December rally will come back into play early in 2025.



MARKET PERFORMANCE

South African equities took a breather in December as the FTSE/JSE All Share Index retreated by -0.3%. The market still ended the year 13.4% higher, nearly 2% ahead of its emerging market peers. The bond market had an even better year than local equities, as the FTSE/JSE All Bond Index added 17.2% for 2024.

The US Federal Reserve cut their official interest rate by 0.25%, but the hawkish tone of the statement unnerved markets with US Treasury yields rising over 10 basis points and the S&P 500 selling off almost 3% on the day. The market's reaction to the change in the Federal Open Market Committee's (FOMC) statement language is a clear indication of the concern about stretched valuations and uncertainty surrounding implications of the incoming US administration's economic policies on inflation and interest rates.

Despite shedding 2.4% in December, the S&P500 in the United States ended the year 25% higher in 2024. This follows its 2023 performance of 26.3% which is the highest 2 consecutive calendar years performance since the late 1990s. Global equities (measured in US dollars) ended the year 18% higher, with global bonds giving up -1.7% as long-term interest rates in many developed markets remain persistently high.

Gold outperformed US stocks, with the gold price ending 2024 27.5% higher (in US dollars) than where it began the year. Oil gained 4% during the last quarter but ended the year 3.1% lower. Geopolitical events may cause increased volatility in oil prices, as U.S. President-elect Donald Trump has warned the EU that it will face trade tariffs on its exports to the U.S. unless its member states purchase more American oil and gas.

MARKET INDICES ¹	31 DECEMBER 2024		
	3 months	12 months	5 years ²
(All returns in Rand except where otherwise indicated)			
SA equities (JSE All Share Index)	-2.1%	13.4%	12.2%
SA property (S&P SA REIT Index)	-0.8%	29.0%	5.1%
SA bonds (SA All Bond Index)	0.4%	17.2%	9.6%
SA cash (STeFI)	2.0%	8.5%	6.2%
Global developed equities (MSCI World Index)	-0.1%	19.2%	11.7%
Emerging market equities (MSCI Emerging Markets Index)	-7.8%	8.1%	2.1%
Global bonds (Bloomberg Barclays Global Aggregate)	-5.1%	-1.7%	-2.0%
Rand/dollar ³	9.5%	3.2%	6.2%
Rand/sterling	2.2%	1.4%	5.0%
Rand/euro	1.6%	-3.3%	4.5%
Gold Price (USD)	-0.3%	27.5%	11.6%
Oil Price (Brent Crude, USD)	4.0%	-3.1%	2.5%

1. Source: Factset

2. All performance numbers in excess of 12 months are annualised.

3. A negative number means fewer rands are being paid per US dollar, so it implies a strengthening of the rand.

DID YOU KNOW?

ABOUT 2024. Let me tell you the good news...

“There are so many things you can learn about. BUT...You’ll miss the best things if you keep your eyes shut.” - Dr. Seuss

What do you make of 2024? If you ask most people in what you might describe as the political class, the answer would be negative. And to some extent, you might see their point.

Wars on three continents broke out or continued during 2024, which is, of course, dreadful. Reading about these conflicts, never mind being caught up in them, was perhaps the most heartrending aspect of the year. Russia is rightly blamed for initiating the Ukraine conflict. Still, you must be stone-hearted not to feel for ordinary Russian families, who are losing around a thousand men and women a day now.

Rights and wrongs aside, the suffering of the people of Gaza is beyond horror. And the most frightening aspect to the changes in Sudan is that it is difficult to know what is happening, which raises the fear that when the truth finally leaks out, it is going to turn out to be much more dreadful than is appreciated.

But, but, but... we should remember that there have been at least three places on earth where wars, or at least insurgencies, were present in most years of the past decade. These are different though. Gaza, Ukraine, and Sudan are not only conflicts at a more heightened level than in previous years, with a greater number of combatants and deaths, but they are also more economically detrimental and more enduring than many of the conflicts in the past.

This year was, as we are almost tired of hearing now, the year of democracy; 76 countries went to the ballot box. Some were farcical (hello, Venezuela), some were consequential (hello, Botswana), and depending on who you support, some were disappointing to many (hello, US).

What is significant about the year of democratic elections is how uniformly incumbents got thumped. Financial Times columnist John Burn-Murdoch pointed out that every political party defending their record in government in the last 12 months lost vote share, some catastrophically; the US Democratic Party’s slippage of 3.7 percentage points is mild compared to the British Conservatives, which declined by almost 20% from their 2019 vote.

“The incumbents in every single one of the 10 major countries that have been tracked by the ParlGov global research project and held national elections in 2024 were given a kicking by voters. This is the first time this has ever happened in almost 120 years of records.”

There were only two exceptions to this rule in major democracies: Spain and Mexico. And in each case, there were special circumstances at work.

(In Mexico, you could say the incumbents took a drubbing - the PRI, the Institutional Revolutionary Party, which held not just a majority but a supermajority for more than half a century, got thumped again this year. In some senses, they reflect the trouncing of an incumbent even though they were not the party in power at the time of the election). But generally, incumbent parties got smashed, including in South Africa (SA), where the ANC fell below a plurality of votes for the first time.

But really, speaking generally, how negative is that? Surely, this is what we as citizens want, right? It’s like that old joke: why are politicians like nappies?

They need to be changed often, otherwise they begin to smell.

I would highlight two important positives about 2024, and neither is, I suspect, widely acknowledged.

One is the enormity of medical breakthroughs occurring this year - two very important for Africa. The first is Lenacapavir, a long-acting HIV treatment, which requires an injection every six months and prevents transmission. Effectively, the war against Aids has been won.

The second is the R21/Matrix-M Malaria vaccine, which has demonstrated high efficacy and a good safety profile in African children, marking a significant milestone in the fight against malaria.

There were more. Weight loss drugs such as Ozempic and Wegovy really hit their stride this year and are proving enormously popular after initially being developed for type-2 diabetes treatments. And the Covid-19 outbreak has had at least one positive spinoff: mRNA personalised cancer treatments.

The other big, largely unrecognised aspect of 2024 is how resilient the world economy has turned out to be. For people invested in stock markets, which is basically most of us, 2024 will go down as a cracker - and surprisingly so. At the start of the year, the International Monetary Fund (IMF) - always a little on the pessimistic side - was projecting global growth would decline to 3.2%.

By the end of the year, this had been revised upwards and inflation revised downwards - not by much, but when you are tracking the global economy, small changes end up constituting large absolute numbers. What is more, the revisions took place in both advanced and developing economies. The other thing about the IMF is that it’s developing a habit of underestimating the US and over-estimating China.

The IMF pegged US growth at 1.7% this year. It now seems it will come in 50% higher than that. In addition, despite all the fears of international trade declining (the IMF predicted a big drop for this year), the UN Conference on Trade and Development (UNCTAD) is projecting that it will not only increase, but that it will increase by around \$1 trillion, and that it will reach a record \$33 trillion in 2024.

Really, the increments are small, but I always enjoy seeing pessimists being proved wrong. For one thing, this gratifies my prejudice that optimism is underrated, because, broadly speaking, the miserable rule the world and dominate the media.

So, what will 2025 bring? I don’t know - who does? But what I will say is this: good years easily outnumber bad years over the average lifetime, and we should celebrate that.

Good investing.

Tim Cohen

This article is published with the permission of Tim Cohen (timcohen.co.za). It first appeared in his Daily Maverick column, After The Bell with Tim Cohen, on 20 December 2024.

Disclaimer

The information provided is of a general nature only and does not take into account investor’s objectives, financial situations or needs. The information does not constitute financial product advice and it should not be used, relied upon or treated as a substitute for specific, professional advice. It is, therefore, recommended that investors obtain the appropriate legal, tax, investment and/or other professional advice and formulate an investment strategy that would suit the investor’s risk profile prior to acting on such information and to consider whether any recommendation is appropriate considering the investor’s own objectives and particular needs. Although the information provided and statements of fact are obtained from sources that Analytics Consulting considers reliable, we do not guarantee their accuracy, completeness or currency and any such information may be incomplete or condensed. No guarantee of investment performance should be inferred from any of the information contained in this document. Collective Investment Schemes in Securities (“CIS”) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to future performance.

Any opinions, statements and information made available, whether written, oral or implied are expressed in good faith. Views are subject to change, without prior notice, on the basis of additional or new research, new facts or developments. All data is in base currency terms unless otherwise indicated, and sourced as disclosed.

Financial Services Providers: Portfolio Analytics Consulting (Pty) Ltd; FSP No 18490 and Analytics Consulting 1 (Pty) Ltd; FSP No 47564; Tel: (021) 936 9500; Website: www.analyticsconsulting.co.za