Navigating Economic Uncertainty: **Q2 2024 Insights**

Ashley Daswa
Senior Investment Specialist
Sanlam Corporate: Investments

The economic and capital markets landscape in the second quarter of 2024 has been marked by significant developments both locally and globally. For pension fund trustees and their advisors, it is crucial to approach investment decisions with prudence, considering the prevailing market conditions. We provide an overview of the key highlights during the quarter and a broad view on managing investments effectively during these times.

Economic Performance Overview

Global Perspective

Inflation remains a persistent challenge, with bond markets projecting only minimal improvements in the US over the next five years. Central bank rates are at cyclical peaks, yet there is a growing sentiment for potential rate cuts in the US as the economy shows signs of cooling. Despite muted expectations for policy easing compared to earlier in the year, global economic activity is still expanding, albeit at a slower pace than historical averages.

South African Economy

South Africa's economy contracted by 0.1% quarter-on-quarter in Q1 2024, missing market expectations. Key sectors such as manufacturing, mining, and construction have been negatively impacted by ongoing power outages. However, the recent national elections have ushered in a new era of coalitions, promoting collective decision-making, which is expected to bring stability and effective governance.

Capital Market Performance

Global Markets

The Q2 2024 saw major global equity indices advance, driven by optimism in the US technology sector and hopes for a soft landing for the US economy. The "Magnificent 7" technology giants – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla – have significantly influenced global equity performance, contributing to a large portion of the MSCI World's (a commonly used measure of global listed equity markets) gains. Notably, Nvidia has delivered impressive returns, reinforcing the dominance of mega-cap technology stocks. In Europe, most major equity markets closed lower despite the European Central Bank announcing the first rate cut in five years. UK equities also declined over June. May UK inflation fell to 2%, matching the Bank of England's (BOE) target for the first time in three years. Emerging market equities also performed well, with the MSCI EM Index gaining 4.1%, outpacing the MSCI World Index's 2.8% return.

South African Markets

Domestically, South African equities ended Q2 2024 in positive territory. April started on a strong note as optimism over corporate earnings lifted domestic equities, with further support coming from better-than-expected economic data. In May, national elections took centre stage, with various surveys suggesting that the ruling ANC could lose its parliamentary majority for the first time in 30 years. Speculation over possible alliances dominated headlines in June after political surveys proved to be correct and the ANC failed to win an outright victory at the polls. Property and nominal bonds also performed strongly, demonstrating the resilience of the local markets. By June, South African (SA) asset classes outperformed developed markets following positive investor sentiment surrounding the finalisation of the new Government of National Unity (GNU). Local equities, represented by the FTSE/JSE All Share Index, rose 4.08%, led by Financials (+14.51%).

"SA Inc" companies (companies that generate profits in South Africa) were the stand-out performers, with banks and insurers leading. Consumer-facing stocks were also up firmly, with consumer discretionary (+6.86%) and consumer staples (+4.60%) posting good gains. Resources (-3.56%) underperformed, with single-commodity companies such as Sibanye Stillwater and Kumba Iron Ore underperforming the diversified miners. SA property posted substantial gains, up 6.23%, while SA bonds (FTSE/JSE All Bond Index) increased by 5.24% as the yield curve shifted lower.

How should pension funds approach investment decisions going forward?

Given the mixed economic signals and varying market performances, it is essential to approach investment decisions with a strategic mindset. Here are key considerations for pension fund trustees:

1. **Diversification:** Spread investments across different asset classes and geographies to mitigate risks and capture growth opportunities.
2. **Risk Management:** understanding the investment time horizon and manage investment accordingly.
3. **Stay Informed:** Keep abreast of economic indicators, central bank policies, and global events that could impact market conditions and investment returns.

The second quarter of 2024 has highlighted both challenges and opportunities in economic and capital markets. By maintaining a prudent investment approach, emphasizing diversification, and staying informed about economic and geopolitical developments, we navigate this uncertain environment and guide our pension funds towards achieving their objectives.