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South Africa's Market Surge Amid Global Uncertainty

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South African Markets experienced strong market performance during Q3.

This was primarily driven by post-election optimism and economic stimulus measures from China, positively impacting sectors such as financials, industrials, and diversified mining.

For the quarter ending 30 September, 2024, the JSE All Share Index (ALSI) posted a quarterly return of 9.6%, bringing year-to-date returns to 15.9%, and an increase of 23.9% over the past 12 months.

In contrast, global shares showed more modest gains, with the MSCI All Country World Index (ACWI) and MSCI Emerging Markets (EM) index delivering quarterly returns of 0.6% and 1%, respectively over the quarter. Year-to-date, the MSCI All Country World Index (ACWI) achieved a return of 11.8% and an annual increase of 20.5%, while the MSCI Emerging Markets (EM) index posted a year-to-date return of 5.4% and a 10.4% gain over the past year.

Global Index	Returns		
	2024 Q3	YTD	12 Months
MSCI All Country World Index (ACWI)	0.6%	11.8%	20.5%
MSCI Emerging Markets (EM) Index	1%	5.4%	10.4%

China's stimulus efforts notably lifted Tencent by 16% month-over-month, which, in turn, benefited Naspers and Prosus, with both holding significant stakes in Tencent. This resulted in a 14% month-over-month increase.

US Election Impact on Financial Markets

Following Trumps win in the US elections on 5 November 2024, the U.S. stock market surged. The Dow Jones Industrial Average, S&P 500, and NASDAQ Composite reaching record highs as investors anticipated a more business-friendly administration.

Off the back of Trumps “America First” rhetoric, expectations of corporate tax cuts and deregulation fueled optimism, particularly benefiting small-cap stocks and the Energy and Financial sectors.

Investor sentiment suggests that much of the election’s impact will manifest at the sector level. Financials, fossil fuels, and small companies are expected to outperform under new policies, while renewable energy stocks could face pressure due to potential policy shifts that may favour traditional energy sources. While tax cuts are expected to stimulate the economy, they may be partially offset by proposed tariffs. Trump's tariff plan—ranging from 10% to 20% on all imports, with steeper tariffs on goods from China - could increase costs for U.S. businesses and consumers, potentially prompting retaliatory measures from major trading partners.

In the fixed income market, rising Treasury yields, have dampened bond prices and could temper the equity rally by raising borrowing costs and impacting valuations. The 10-year yield US Treasury yield has risen to about 4.4% from a low this year of 3.6%. While higher yields typically weigh on stock prices, equities have shown resilience, supported by robust U.S. economic data driving the yield increase.

South Africa's Economic Outlook following Global Interest Rate Easing

In the third quarter of 2024, global interest rates began a long-anticipated easing cycle, signaling a significant shift in monetary policy across major regions, including the U.S., Eurozone, and UK—a trend that has also influenced South Africa. After a period of aggressive rate hikes to control post-COVID inflation, central banks are now transitioning towards easing financial conditions to support growth and labour markets amid slowing inflation and economic activity. In developed markets like the U.S., falling inflation has been driven by moderating employment and wage growth, as well as stabilised energy prices, fueling hopes that inflation could align with long-term targets by 2025.

Geopolitical tensions and residual supply chain issues risk disrupting this downward inflation trend.

As this less restrictive policy phase unfolds, the trajectory of rate adjustments will be pivotal for investors as we progress through the fourth quarter of 2024. A key question remains: how deep will these rate cuts go?

Fed Cuts Rates Amid Uncertainty, Future Moves Depend on Economic and Political Factors.

The future of U.S. interest rates appears cautiously optimistic but clouded by some uncertainty. While the Federal Reserve's recent 0.25% rate cut signals a continued easing trend, Chair Jerome Powell's cautious tone has tempered market confidence. Following a larger rate cut in September, the Fed has expressed hope that inflation is moving closer to its 2% target, even as employment data suggests a softening job market. Policymakers broadly support additional cuts through next year, aiming to stabilise rates near a neutral range around 3%. Market participants have mixed expectations for where rates will land by 2025, with projections ranging from the low 2% range to 3.25%. However, the pace of cuts could be influenced by broader economic conditions and the potential inflationary impact of President Trump's policies, such as tariffs and tax cuts.

SARB Adopts Gradual Approach to Rate Cuts, Aims for Stability and Sustainable Inflation Control

The South African Reserve Bank (SARB) is taking a cautious and data-driven approach to rate cuts, favouring gradual adjustments to maintain stability and control inflation over the medium term.

The SARB reduced the repo rate by 0.25% and again on 21 November 2024, currently at 7.75%, setting the prime rate at 11.25%. Opting for modest cuts over larger reductions to avoid market volatility and align policy with economic indicators. This incremental strategy suggests a preference for steady progress rather than sharp shifts, allowing the SARB to respond carefully to evolving economic conditions.

Looking forward, the SARB anticipates reaching a neutral rate of around 7% by 2025/2026, aligning with market expectations for about 1%-1.25% of cuts over this cycle. While the precise timing of cuts is less significant to the market, the SARB's overall direction toward stability and gradual rate normalization is key to its strategy.