

# Market Commentary

Quarter 4, 2024

## Tech stocks continued their domination

2024 was characterised by record highs in US equity markets and uncertainty. Strong earnings, particularly among the major US technology companies, helped drive equity markets in 2024. Central banks started to cut interest rates as inflation cooled, which further fuelled market momentum. However, there have been elements of instability, with conflict in the Middle East and the continuation of the Russia-Ukraine war. Investors also had to contend with the uncertainty of election outcomes globally, with much focus on the US election and what could be on the cards once Trump returns to the White House in January and locally, on the new Government of National Unity (GNU).

Overall, it will be remembered as the year of Artificial Intelligence (AI). The ongoing boom in AI presented many other investment opportunities in cloud storage, data warehousing and technology service businesses. This resulted in big tech companies extending their dominance. In the two years since ChatGPT burst onto the scene, AI has come to dominate investor consciousness more than any other technological breakthrough in the past two decades. Tech giants are spending tens of billions of dollars to beef up the computing power needed to develop and run AI systems. Every big, and small, tech company will hype up the promise of AI 'agents' this year. So far, generative AI has mostly been about creating text, images and videos. But in the next evolution, AI systems do not just create, they do. Agents will understand context, learn the user's preferences and interact with them and other software to get stuff done, booking travel, ordering food, and shopping for those new running shoes.

Some investors are feeling vibes from the 1990s when the nascent internet was generating a similar euphoria. Arvind Narayanan, a Princeton University computer science professor and co-author of *AI Snake Oil: What Artificial Intelligence Can Do, What It Can't, and How to Tell the Difference*, says it will take a decade or two for businesses to fully reap the benefits of big AI pay-offs.

### Global equity markets surged...led by the US

Global equities, as measured by the MSCI AC World Index, rallied 18% in dollar terms in 2024, despite losing 0.9% in Q4. The US was at the forefront of the rally as the S&P 500 soared 25.0%. On the other hand, European equities returned 2.4% in dollar terms for the year. A slowing European economy, automakers' troubles and political turmoil in France impacted European shares. Emerging markets returned 8% for the year as the fastest tightening cycle in Fed history – accompanied by the steady rise of the US dollar – weighed heavily on them.

**Global equities**  
▲ 18%  
(MSCI AC World Index)

In global fixed income, global bonds ended the year down 1.7%, losing 5% in Q4, as measured by the Bloomberg Global Aggregate Index in dollar terms. Bond investors sold late in the year after the US Fed indicated sticky inflation may force them to keep interest rates higher-for-longer. The US 10-year Treasury yield, a global benchmark, rose to 4.6%, an 18% increase in yield. Investors remain concerned that a tough environment for bonds could get worse if President-elect Donald Trump pursues inflationary policies such as new tariffs. Many are debating whether hiding out in short-term T-bills could again be the smarter play.

**Global bonds**  
▼ 1.7%  
(Bloomberg Global Aggregate Index)

## United States

The Fed began cutting interest rates in September, after holding them at decades-highs. The combination of cutting rates and strong economic growth boded well for US equities. Cooling inflation boosted investor optimism, but after its final policy meeting of the year, the Fed signalled there will be fewer cuts in 2025 than previously expected, which could sap the market's momentum this year.

The Fed has been trying to pull off a balancing act. They want to prevent the aggressive rate increases of the past two years from unnecessarily slowing down economic activity now that price and wage growth have cooled, but they do not want to undo the recent progress on inflation. Trump has promised to impose tariffs, which could drive down growth and complicate efforts to control inflation.

“From here, it is a new phase, and we are going to be cautious about further cuts”  
- Jerome Powell - Federal Reserve Chairman

### Trump raises tariff temperature

President-elect Donald Trump is dusting off his old policy handbook and his new proposals, which includes new and increased import tariffs. This is spooking financial markets, not only because of the inflation risk but because history shows that similar policies failed to increase prosperity.

In 1922 the US experimented with protectionism, with the *Fordney-McCumber law* aimed at protecting American factories and farms. That did not help shares and the Dow fell 10% the following year. The last time the US introduced far-reaching taxes on imports was in the 1930's *Smoot-Hawley Tariff Act*, which raised tariffs on thousands of goods to historically high levels. That did not help the US out of the Great Depression as other nations retaliated and international trade was drastically reduced. The Dow Jones Index fell 40% in the year after the Act was passed.

Trump raised tariffs in his first term as president in 2018 and that hardly disturbed the economy and equity market. But despite Trump's boldness, the US trade deficit did not improve. In fact, it deteriorated from \$195 billion in the first quarter of 2017 to \$260 billion in the same period of 2021.

### Third consecutive year of big equity gains

Wall Street saw impressive returns in 2024. Investors were bullish on strong earnings growth for tech companies, and shares surged following President-elect Donald Trump's reelection in November as investors anticipated benefits from lower taxes and deregulation.

The S&P 500 rallied in 2024, despite being up only 1.9% in Q4, and the Nasdaq Composite gained 29.5%, up 8.7% in Q4. Ten of the 11 large-cap sectors finished higher in 2024, of which four gained more than 30%. The top performing sectors were communications (+40.2%), technology (36.6%), financials (+30.5%), and discretionary (+30.1%). At the other end of the performance spectrum were materials (-0.04%), healthcare (+2.6%), and real estate (5.2%).

Much of the stock market's gains were once again driven by the Magnificent Seven group of big tech shares – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla – that have been propelled higher by artificial intelligence excitement. Nvidia was the top performer among the Magnificent Seven for the year, surging more than 170%.

### Should investors focus less on the 'P' in P/E and more on the 'E'?

Wall Street is grappling with whether another year of robust gains is possible for a share market that was looking precariously expensive. Analysts generally agree that President-elect Donald Trump's pro-growth policies will benefit shares, but some question how much further they can run. A backdrop of high interest rates, geopolitical turmoil and potential trade wars could dent the market's gains. Yet many investors are hesitant to call an end to a rally that has repeatedly defied expectations.

The US market is at its highest valuation relative to the rest of the world on forward earnings since at least 1988, when data collection began. While it is never wise to write off price-to-earnings ratios, earnings have been growing at such a fast pace that it is easy to see why bullish investors are looking past valuations. While it is no mystery why investors are concerned about current P/Es, as corporate earnings remain robust, it is still difficult to justify a bearish perspective.

Wall Street analysts expect S&P 500 companies to earn profit growth of 15%, according to FactSet data. That is more than double the median long-term growth rate of 6.2%. What ultimately drives both margins and profits is the overall health of the economy and whether tech companies can continue to deliver on the outsize promise of AI. Analysts expect profit growth of nearly 20% from the Magnificent Seven tech stocks this year.

## China

Prior to 2024, the Chinese stock market endured three years of gloom as economic activity struggled to return to pre-pandemic buoyancy. This was exacerbated by a series of regulatory actions aimed at curbing the power of certain listed businesses and the very heavy-handed measures that the Chinese authorities imposed during Covid.

Nonetheless, the MSCI China Index gained almost 20% in US dollar terms last year, with almost all that gain coming in just two weeks in September after Beijing promised more stimulus. Measures included interest rate cuts, bigger incentives to buy homes and monetary tools to support share purchases. The gains crystallised as the Politburo vowed in December to embrace a “moderately loose” stance on monetary policies – its first such shift in 14 years – while pledging to ramp up fiscal measures this year.

To sustain the momentum in the share market, China needs to address some of the deep-rooted issues that are foremost on investors’ minds, including the **PROPERTY** downturn, weak **CONSUMER CONFIDENCE** and falling prices (**DEFLATION**). China’s economy today is burdened with excess. Millions of empty or unfinished apartment blocks, trillions of dollars in debt straining local governments and ballooning industrial production driving an export surge that is igniting trade tensions worldwide.

All eyes are now on the annual National People’s Congress session in March, where the authorities will have another opportunity to convince investors with more detailed policies to shore up growth. China will have to put enough fiscal stimulus into the economy to offset the deflationary forces that continue to depress consumer and investor sentiment. In December *Reuters* stated that the Chinese authorities have agreed to issue 3 trillion yuan (\$411 billion) worth of special treasury bonds this year, the highest on record, to revive their economy.

## United Kingdom

The Bank of England (BoE) continued to move cautiously, reversing its big rise in borrowing costs that took its key rate to a 16-year high to tame inflation. The BoE cut interest rates twice in 2024 but left its key interest rate unchanged at 4.75% in December, a day after the US Fed surprised markets by signalling fewer cuts this year. The UK faces a range of uncertainties, including the impact of a recent rise in employment tax and the possibility that the incoming Trump administration erects fresh trade barriers.

## Europe

The European Central Bank cut rates four times in the year to 3%, resulting in a cumulative reduction of 1% since June 2024. While the inflation threat has not been fully extinguished, the risks of recession are rising amid political uncertainty in France and Germany. Germany, Europe’s biggest economy, has barely grown since before the pandemic. Weaker growth in China, a key export destination, and persistently higher energy prices brought about by the Ukraine war have hammered consumers and businesses across the continent.

In France, the government collapse – sparked by a disagreement over how to lower the country’s massive budget deficits – sent the country’s borrowing costs higher. Credit ratings agency, Moody’s downgraded France’s rating in December, adding strain on the new prime minister to pressure divided lawmakers into backing his efforts to rein in strained public finances. It comes after President Emmanuel Macron named Francois Bayrou as his fourth prime minister last year.

## Japan

Japan’s inflation rate remained above the BoJ’s 2% target in November at 2.9%/y. The inflation data continues to support the more hawkish stance the BoJ adopted early last year, suggesting that the bank will keep raising rates, albeit very slowly, if the economy and prices continue to perform as expected. The BoJ kept interest rates unchanged at 0.25% during its December meeting.

The Nikkei 225 Index was up 21.3% in local currency terms in 2024 and 5.4% in Q4. The strong performance can be attributed to several factors, including positive corporate earnings reports and optimistic market sentiment. Nissan Motor Corp.’s shares jumped 23.7% on 18 December after Honda and Nissan confirmed plans to merge into the third-largest automaker. The agreement comes as a lifeline for Nissan, which has been struggling financially as sales have faltered in recent years. Honda and Nissan also signed an agreement last year that focused on jointly developing electric vehicles and automotive software.

## South Africa

### Economic growth, inflation, and rate cuts

The SARB’s economic growth projections for 2024 were revised slightly upwards to 1.1%, with growth of 1.7% expected in 2025. Similarly, the IMF expects growth of 1.0% y/y for 2024. “*The economy has shown resilience in the face of disruptions but persistent structural challenges risk impeding growth and so further reducing living standards*”.

**Economic growth remains sluggish**

The annual inflation rate in South Africa rose to 2.9% in November 2024, up slightly from a four-year low of 2.8% in October. This marked the first increase in consumer inflation after five consecutive periods of easing, though it remains well below the SARB’s midpoint target of 4.5%.

The SARB responded by cutting its key interest rate by 25 basis points to 7.75% in November, bringing borrowing costs to their lowest level since April 2023. The SARB stressed that while inflation is well-contained, the outlook carries significant uncertainties and potential for upside risks.

**SARB cut rates twice in 2024**

## Equities rallied aided by GNU euphoria

The FTSE All Share Index (ALSI) produced a respectable 13.4% in 2024, down 2% in Q4. Overall, the local market benefitted from the start of the interest rate cutting cycle in September and optimism around the new GNU.

SA equities  
▲ 13%  
(All Share Index)

During the year, financials and industrials were up 23% and 17.3% respectively. Unfortunately, the resources sector was a drag on overall performance, losing 8.6%.

- **Financials:** insurance companies Sanlam and Momentum were up 25% and 44% respectively. Big property index share, Redefine, was up 29%, whilst banking share, Capitec was up a staggering 57%, after producing good results with headline earnings up 36%. Lastly, Quilter, the UK-focused full-service wealth manager, jumped 52%, after its half-year profit beat forecasts and strong cash inflows.
- **Industrials:** ‘heavyweight’ rand hedge and index shares such as British American Tobacco (up 35%) and Prosus/Naspers (up 34%) made large contributions in 2024. Firstly, Prosus produced very good results, posted an operating profit from all those costly investments in new-age e-commerce and food delivery businesses. Secondly, they produced a \$2 billion profit on the investment in online food delivery business, Swiggy. Swiggy shares rose 13% on their trading debut in November. Lastly, *Reuters* reported in December that Apple is in talks with Tencent – Prosus hold 24.99% in Tencent – about integrating their AI models into iPhones sold in China.
- **Resources:** platinum group metal (PGM) miners such as Amplats (-39%), Northern Platinum (-29%), and Sibanye Stillwater (-40%) all detracted from investor portfolios last year. Automobile catalysts demand remains muted as new sales of vehicles with internal combustion engines, mainly fuelled by fossil oil, continue to disappoint and electric vehicles do not include PGM metals. Most PGM miners continue to be cash flow negative, and their balance sheets remain stretched.

In addition, the share price of Sasol dropped to their worst annual level on record, losing down 54% as investors weigh plans to reduce environmental and operational risks. Glencore and BHP, two of the world’s largest global diversified natural resource companies, were down 23% last year. China has been a big consumer of metals and minerals for years, swallowing 60% of global production but the glory days of double-digit GDP growth are over and repeated stimulus packages underwhelm. Production is one thing, price another. Commodity prices have been sliding and the latest World Bank estimates suggest little respite.

## Bonds produced a great return

SA bonds performed better than local equities last year with the FTSE All Bond Index adding just over 17% in the calendar year. Bonds showed positive performance on the back of falling local inflation, a 50-bps rate cut from the SARB, GNU optimism and an upgrade to SA’s BB- sovereign rating outlook by S&P. The yield curve also flattened slightly in the year with the back-end returning 21.4% compared to the 13.7% from the front end of the curve. SA money market gained 8.5% for the year and 2% for Q4.

SA bonds  
▲ 17%  
(All Bond Index)

## Rand held its own

The rand emerged as a leading emerging market currency last year but marginally weakened 2.9% against the US dollar, mostly on the back of a strong dollar, which ended the year at R/\$18.89. All currencies in the developed world weakened against the greenback as central banks had to support their economies. The dollar strength was underpinned by the robust US economy and now ‘higher-for-longer’ interest rates.

**Albert Louw**  
**STANLIB Multi-Manager**