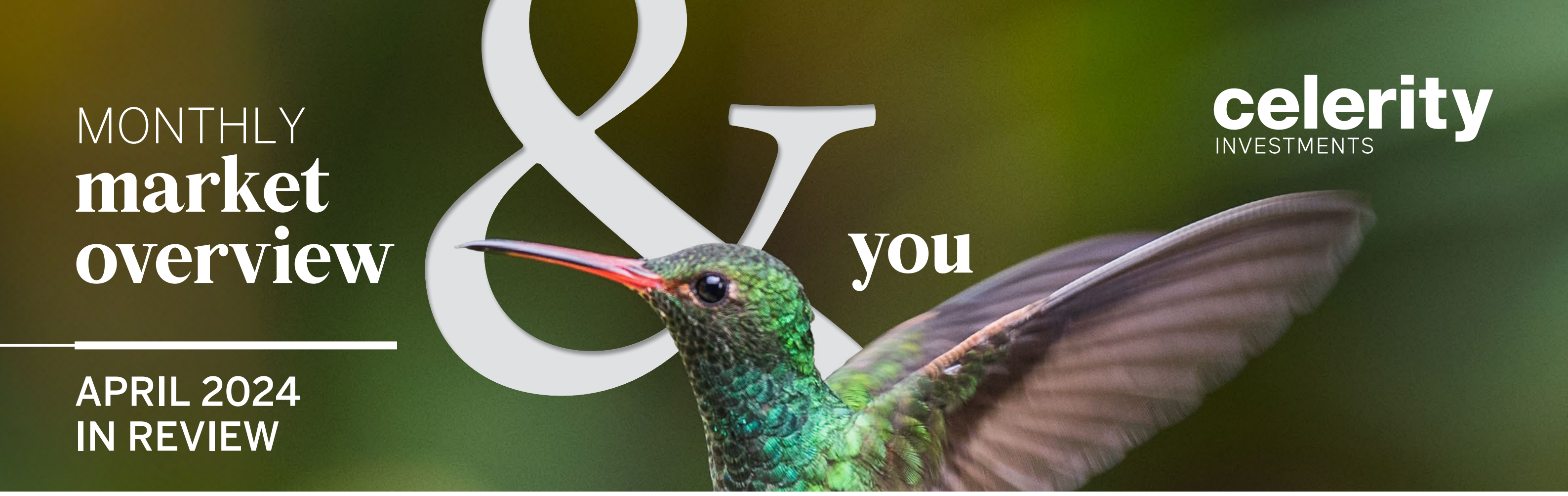


MONTHLY market overview & you

celerity INVESTMENTS

APRIL 2024 IN REVIEW

ECONOMIC AND MARKET OVERVIEW

Inflation and interest rates remained in the news, as various central banks had their meetings on monetary policy. At the end of the month the Federal Open Market Committee (FOMC) of the US Federal Reserve decide to not change policy rates. This was widely expected, with the Federal funds target rate range maintained at 5.25% - 5.50%. However, with recent inflation data having disappointed and the economy still strong, the focus was instead very much on any change in tone in the FOMC statement and Chair Jerome Powell's press conference. In this the overarching message was that the Fed was not prepared to cut interest rates anytime soon, with any easing only being appropriate once the committee had greater confidence that inflation was returning sustainably to the 2% target. The Fed's renewed caution over inflation was evident in the policy statement in changes to the wording that reflected the Fed's assessment that there had 'been a lack of further progress' towards target.

In South Africa inflation still hovers a little above 5%. This, coupled with the "higher for longer" interest rate message from the FOMC make it unlikely that local consumers will benefit from a rate cut soon.

With no Monetary Policy Committee (MPC) meeting at the South African Reserve Bank in April the focus has shifted from policy rates to politics as the general election on 29 May looms. Markets have not shown significant additional volatility in the run-up to this watershed election which will likely see the formation of coalition government with the ANC still, by some margin the senior partner. International investors are likely to remain on the sidelines until after elections, before committing funds to either local bonds or equities. Both of which look appealing from a valuation point of view.

The South African Revenue Service reported that South Africa recorded a trade surplus of R7.3bn in March 2024, on the back of imports of R156.8 billion and exports of R164.1 billion. The biggest contributor to the trade surplus comes from trade with Africa where exports exceeded imports by over R25 billion for the month, but this was just about offset by trade with Asia where imports exceeded exports by a similar margin.

Efforts have intensified to secure a deal for a ceasefire in Gaza and the release of hostages, with talks resuming in Cairo early in May. Estimates are that more than 35 000 Palestinians and Israelis have died as a result of the armed conflict that started in October last year.

US Stocks have remained largely resilient in recent weeks, despite reports of sticky inflation and risk that the Federal Reserve holds interest rates higher for longer. Wall Street strategists believe this is likely due to a better-than-expected set of first quarter earnings. With 80% of the companies in the S&P 500 done reporting by the time of writing, the benchmark index is pacing for 5% growth in first quarter earnings per share, (according to FactSet). This is the biggest year-over-year increase since the second quarter of 2022 and higher than the 3.2% growth analysts had expected prior to the start of the season.

MARKET PERFORMANCE

Global equity markets ended a five month run of strong returns as the S&P500, Nasdaq100, Nikkei225 and Eurostoxx all ended in the red. The MSCI World Index gave up 3.6% in April while emerging markets gained 0.7% in US dollar terms.

Local equities fared better and the JSE All Share index gained 3.0% for the month. This was driven by a rise in resource stocks, Anglo American in particular. This stalwart on the local exchange is the target of a $39 billion takeover bid by BHP Group of Australia which caused the Anglo share price to soar by almost one third in April. Barloworld and African Rainbow Minerals also showed strong upward price movement during the month while Sasol and Richemont shed nearly ten percent each.

South African bonds showed their resilience amid all the talk of a delay in interest rate cuts and gained 1.5% in April. Much of this support comes against an expectation that the election results won't be disastrous for capital markets and the South African government's ability to borrow money in future.

The rand strengthened against most major currencies during the month, while the Japanese Yen briefly hit its worst level against the US Dollar (¥160 per dollar) since April 1990.

MARKET INDICES[1]	**30 APRIL 2024**		
(All returns in Rand except where otherwise indicated)	3 months	12 months	5 years[2]
SA equities (JSE All Share Index)	3.7%	1.1%	9.4%
SA property (S&P SA REIT Index)	-4.0%	7.5%	-3.9%
SA bonds (SA All Bond Index)	-1.2%	6.9%	7.2%
SA cash (STeFI)	2.0%	8.4%	6.0%
Global developed equities (MSCI World Index)	5.1%	22.5%	17.2%
Emerging market equities (MSCI Emerging Markets Index)	9.3%	13.7%	8.0%
Global bonds (Bloomberg Barclays Global Aggregate)	-2.0%	0.5%	3.9%
Rand/dollar [3]	1.3%	3.0%	5.6%
Rand/sterling	-0.4%	2.6%	4.8%
Rand/euro	-0.3%	-0.2%	4.6%
Gold Price (USD)	11.9%	15.1%	12.3%
Oil Price (Brent Crude, USD)	7.5%	10.5%	3.8%

1. Source: Factset
2. All performance numbers in excess of 12 months are annualized.
3. A negative number means fewer rands are being paid per US dollar, so it implies a strengthening of the rand.

DID YOU KNOW?

TO HEDGE OR NOT TO HEDGE

Many South African-based investors have externalised assets over the last few decades and continue to do so.

Whether it's for diversification from local risks or to gain access to the world's investment opportunities it remains important to consider not only the assets that these investments will purchase but also the currency in which this is done.

The reason why choice of currency is paramount is that it could vastly influence your investment outcome.

There are several factors that you and your financial adviser need to consider once you've settled on the amount of asset class risk (and potential for future growth):

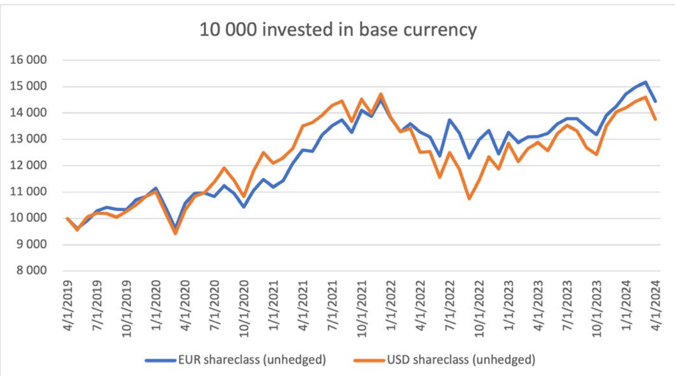
- Reporting currency of the investment platform,
- Choice of income treatment,
- Currency/ies of the underlying funds in your investment portfolio, and
- Whether these are hedged or not

The choice of reporting currency on the LISP (linked investment service provider) is important from a reporting point of view but should not have any bearing on the eventual outcome. It's useful to choose a currency that you are familiar with or one in which you are aiming to grow your wealth but it's inconsequential to the investment outcome.

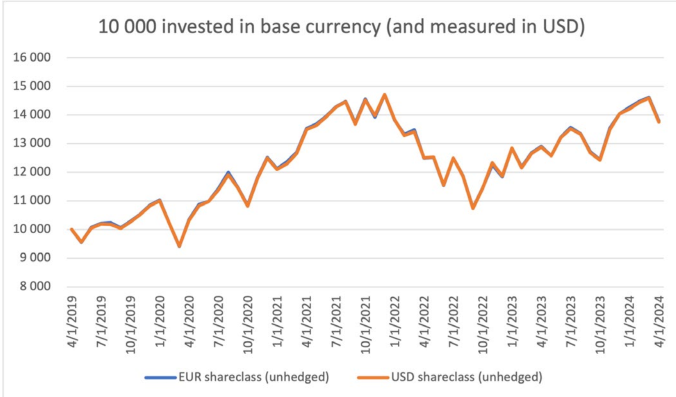
The typical choices for the treatment of income are whether it should be paid to the investor or whether it should accumulate in the investment. There are often both income requirements and tax treatment that should be considered here so your adviser will suggest the option that suits the investor's unique circumstances.

That brings us to the currencies of the underlying instruments in your global investment portfolio. An adviser will try to limit the number of foreign exchange transactions an investor requires before the funds hit the intended market. Every time one currency is exchanged for another somebody makes money. And this is not the investor. For example: if an investor intends to invest in two funds, one which prices in US dollars and the other in Pound Sterling it's almost always better to do an exchange from rands to dollars for the one fund and rands to pounds for the other fund, rather than exchanging everything for dollars and then again a portion to pounds. At this point the need for an experienced adviser should be clear.

An even more important requirement is whether you are investing in an unhedged or hedged version of the fund. This has nothing to do with hedge funds as an investment strategy, but rather whether the investor requires exposure to the underlying holdings in the fund and all the currencies that come with it, or the underlying holdings in the fund hedged back to one currency. In the example below we show the performance (over a five year period) of a well know global fund which offers myriad share classes. The first table shows the performance of the euro priced share class and the US dollar priced share class, both unhedged, in the pricing (or base) currency:

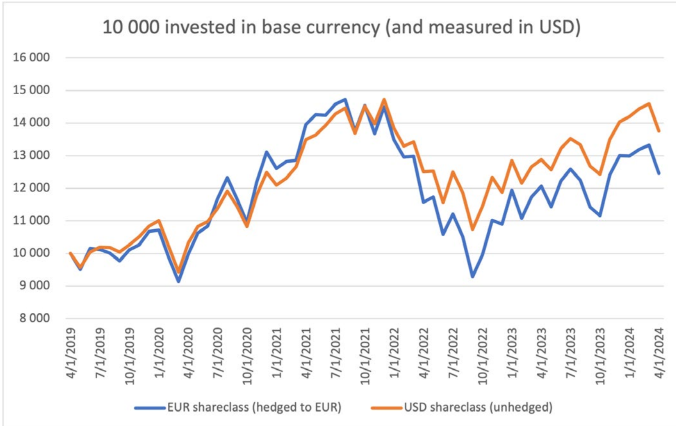


It looks like an investment of EUR10 000 has done better than an investment of USD10 000. This is obviously not true, as performance comparisons need to happen in the same currency. The graph below shows how both these share classes have performed when measured in the same currency (USD in this instance):



So clearly the pricing (or base) currency of the fund does not matter if the portfolio manager does not hedge any currency risk away.

This is however what happens in a fund where one share class is hedged to a single currency and another left exposed to all the underlying currencies:



In this instance it would have been detrimental to the investor (by some margin) to invest in the euro hedged share class of this particular fund, when compared to the unhedged USD version. The underlying shares in the fund produced exactly the same return, but because the investor chose to remove currency risk (hedging non-euro exposure back to euros) they gave up over 2% per annum. This matches the rate at which the euro weakened against the greenback over this period.

So to hedge or not to hedge is perhaps not the only question but important nevertheless. Your adviser knows this better than most.

Source:
Morningstar Direct