INTUITION
5 JANUARY 2024

Markets in Pictures

2023 has been consigned to the history books, although some of the events that occurred during the year will continue to reverberate for quite some time. The wars in Ukraine and Gaza appear no closer to resolution. Piracy, usually the topic of children's story books, is causing waves (excuse the pun) around the horn of Africa. As we start the new year, we use this opportunity to take a brief stock of 2023 as well as to highlight some interesting trends that we trust provides food for thought.

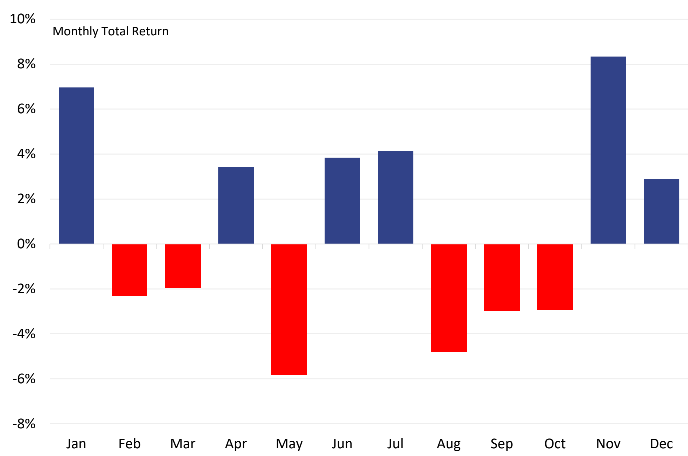
Michael Porter

We all tend to complain at how quickly time goes by. Another year has come and gone, bringing with it its fair share of surprises, both good and bad. The outbreak of another regional war was definitely a lowlight, as were record high interest rates and near uninterrupted loadshedding (from an SA perspective.) Taken together, they conspired to make 2023 a tough year – for businesses and consumers alike.

It might come as a surprise then that all major asset classes outperformed cash last year, and the best of the local bunch was in fact listed property, with a total return of 10.2%, better than equities at 9.3%, bonds at 9.7% and cash at 8%. Encouragingly, with inflation forecast to end the year at 5.2%, investors enjoyed inflation-beating returns – although it probably doesn't feel like it. That is because most of the returns came in the last 6 weeks of the year – as shown in the chart alongside. January started at a cracking pace, only for the market to be steadily eroded by wave after wave of bad news. That changed in November and December, which saw a strong rally. If nothing else, this highlights the danger of reading the news too closely! Markets are forward looking, and are already discounting events forecast to happen this year, even though the headlines are far behind.

The rest of this article looks at some interesting charts to give perspective to current trends.

JSE ALL SHARE: MONTHLY RETURNS

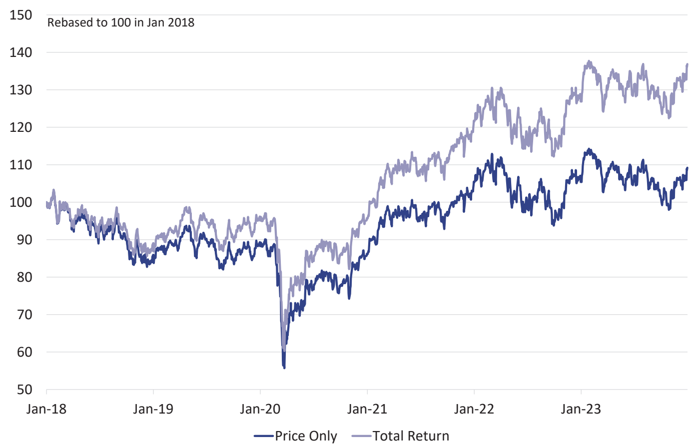


Markets never move in a straight line. Returns are highly unpredictable. The entire year's return was largely generated in the last 6 weeks of the year."

SPEED READ

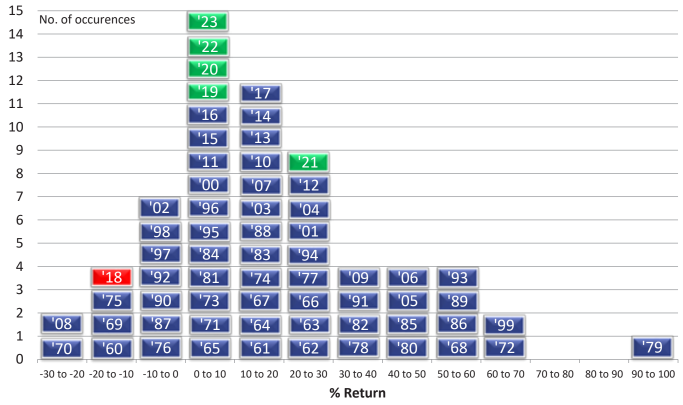
- Returns for 2023 were better than expected, but due mainly to a strong rally in the last 6 weeks of the year. Locally, equities and property outperformed cash.
- Offshore markets also performed well, but the US stole the show – again. Europe performed solidly, whilst the UK was flat. Within the US, returns were driven largely by the top ten shares in the S&P 500.
- The rally was fueled by optimism over inflation and interest rates. Consequently, bond yields have retreated sharply, which sparked the equity rally.
- Valuations are far from benign, yet there are pockets of opportunity.
- Geopolitical tensions are on the rise – piracy around the Horn of Africa could have unpredictable outcomes.

JSE ALL SHARE CAPPED SWIX INDEX



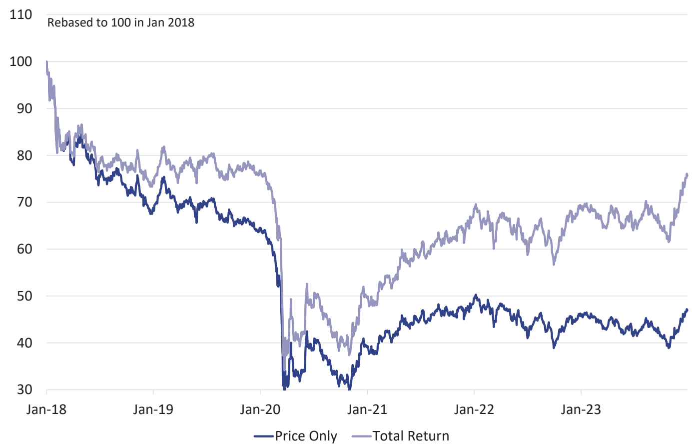
When analysing price returns only, SA equities have only delivered a gain of 10% over the past 6 years. This improves to almost 40% when dividends are included, but they highlight the tough environment that investors have had to face since the exposure of State Capture, and everything that has happened subsequently.

JSE ALL SHARE RETURNS HISTOGRAM"



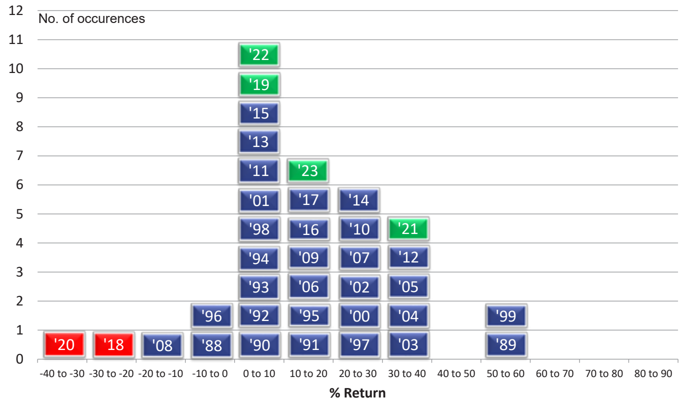
This chart breaks down annual returns into different "buckets" for the past 64 years. Unsurprisingly, returns have fallen between 0% - 20% on 27 occasions, whilst returns have been negative in only eleven of the last 64 years. This underscores the notion that investing is a marathon, not a sprint. Outsized returns are uncommon, but they can happen when the right conditions converge.

JSE LISTED PROPERTY INDEX



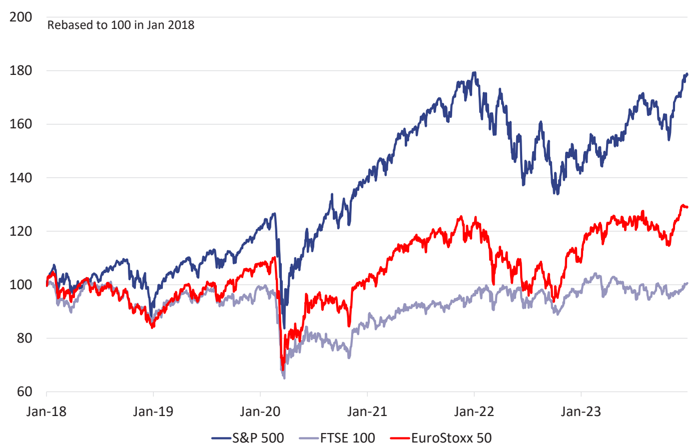
This has been one of the toughest sectors over the past 6 years, so it might surprise you to know that listed property is back to pre-Covid levels on a total return basis, spurred by the rally over the past 6 weeks. On a price basis, the sector is still only half of where it traded at the start of 2018. We remain of the view that the stars are increasingly aligning for the sector.

JSE LISTED PROPERTY RETURNS HISTOGRAM



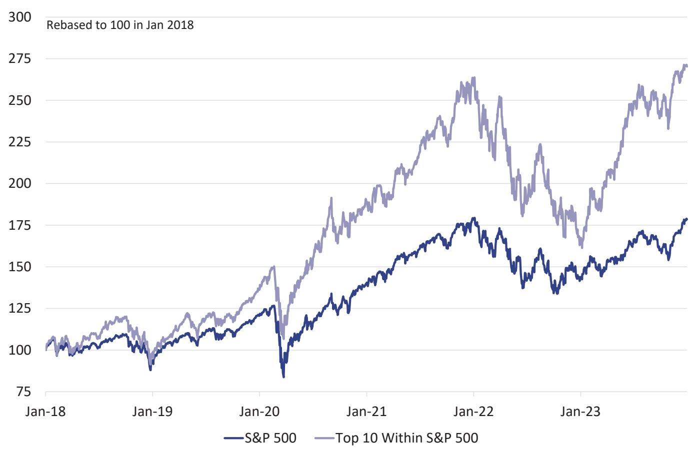
With a return of 10.2%, listed property was the best performing local asset class in 2023, ahead of bonds, equities, and cash. Over the past 35 years, there have only been five occasions when returns have been negative, but two of those years have occurred recently.

SELECTED GLOBAL INDEX PERFORMANCE



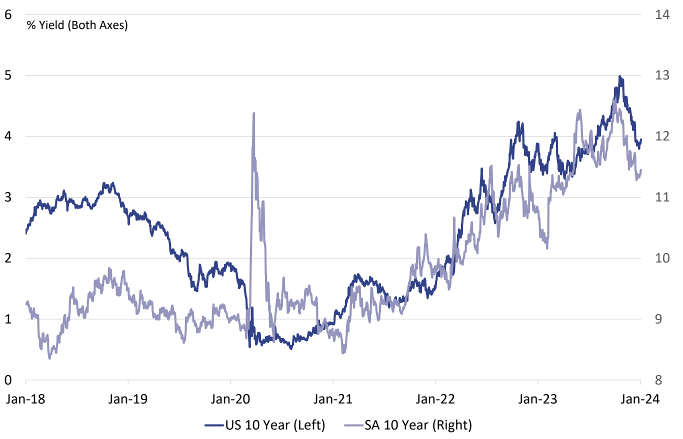
The US market was the star performer in 2023, and has been so for the past six years, far outstripping returns from Europe and the UK. In fact, the UK is unchanged over the period, reflective in part of the cyclical nature of their market but also the economic malaise post Brexit.

S&P: TOP 10 VS THE REST



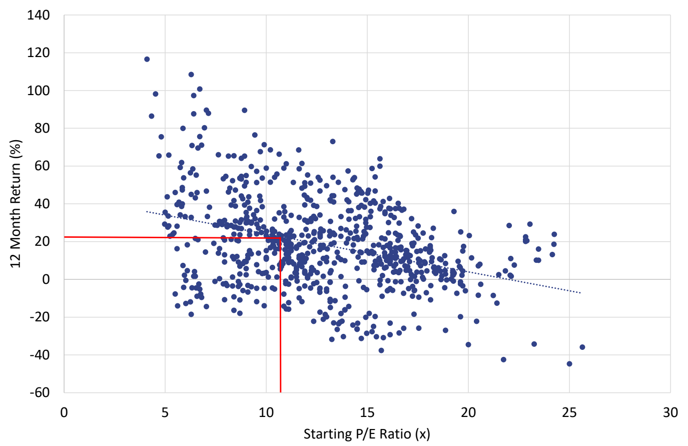
Whilst the US has been the top performer globally, it is interesting to delve deeper. The top 10 stocks in that Index – mainly consisting of the IT giants, have largely been responsible for much of this growth. This is especially so in 2023, where the Top 10 delivered a return of 62% vs 24% for the balance of the market. That implies far more mediocre returns from the bulk of American companies.

BOND YIELDS



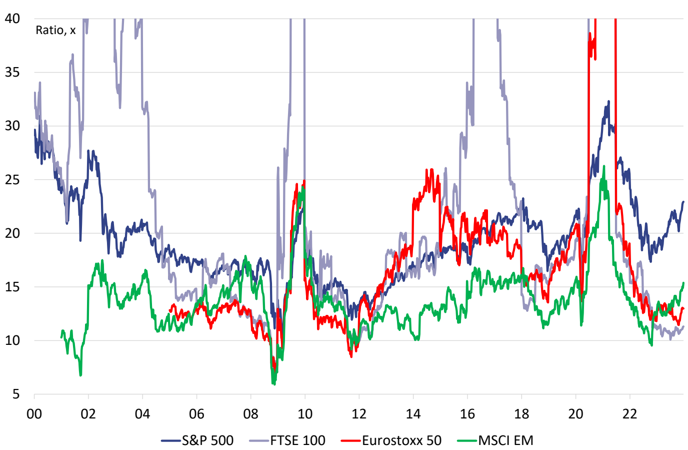
The rally in equities was spurred by the sharp fall in bond yields, itself a function of optimism over inflation and interest rate policy. In the US, yields have dropped from 5% to below 4%, allowing yields across the world to follow suit. It is worth noting how closely yields in SA track those of the US. Yields are largely a function of global trends rather than local government failure.

JSE PE VS RETURNS SCATTERGRAM



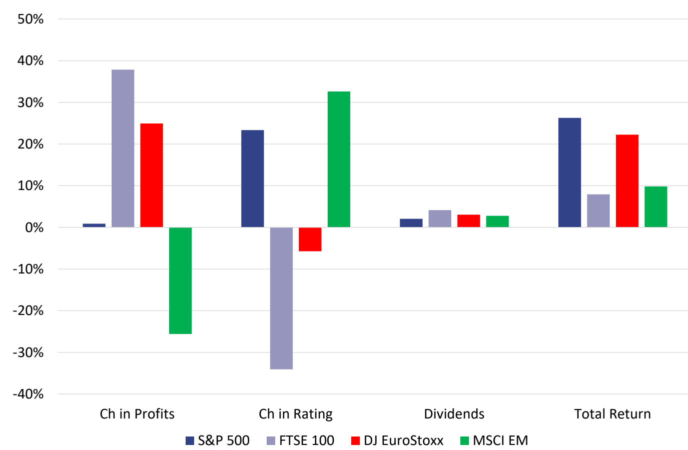
We have mentioned often enough how cheap SA equities have become. This chart tracks monthly data going back to 1960 and plots the relationship between the starting valuation (PE Ratio) and the subsequent 12-month return. Whilst markets are never predictable, generally an investment into equities at these valuations leads to superior returns in the future, as illustrated by the red lines.

GLOBAL PE RATIOS



This is a slightly "messy" chart because of the cyclicality of the UK market. But ignoring that, we can make a few observations: the US is trading at its most expensive valuations since the start of the century (barring Covid); UK shares have seldom been cheaper; and emerging market valuations have risen sharply over the past 12 months – but that is not the case in SA. We highlighted this in our year end presentation in December.

GLOBAL PERFORMANCE ATTRIBUTION

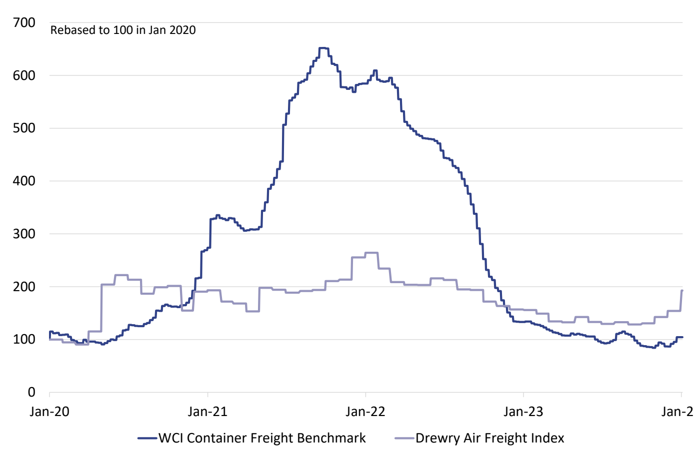


Adding substance to the prior chart, this chart breaks down the returns achieved over 2023. To illustrate, the US delivered a total return of 26%, of which 2.1% came from dividends, 1% came from rising profits, and the rest from an increase in valuation levels (or change in rating). In contrast, UK and European companies grew profits far more strongly and yet saw their valuations decline.

BRENT OIL PRICE

Markets are watching oil prices like a hawk. The Israeli war failed to ignite prices, with the market rather choosing to focus on weaker growth and oversupply than geopolitical risk. That has continued into the new year, with oil prices now below $80 per barrel. But a new threat has emerged – piracy around the Horn of Africa. Various navies have deployed warships to the area, so tensions are high.

FREIGHT RATES



The piracy issue is neatly captured in the sharp rise in global freight rates – both container freight and airfreight. Whilst the current rise is nothing like the shock experienced during Covid, rates are rising, especially for routes that rely on the Suez Canal where rates have soared by 60% over the past 3 months for containerized freight. The last thing the global economy needs is further supply disruptions."

Our schedule for 2024 will be published early in the new year.

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Topic: **To Be Announced**

Natal Midlands

Date:	TBC
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	TBC
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	TBC
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

CONTACT DETAILS:

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