INTUITION

13 DECEMBER 2024

Reflecting on an interesting year

We say it very year, but the speed with which the months pass seems to get faster and faster. As we head into the holiday period, we take this opportunity to reflect on the year that has passed and some of the calls we have made. It would be arrogant for any asset manager to claim a 100% success rate, but this year has been rewarding from the point of view that our more bullish call on SA finally came to the fore. Included in that, we singled out a few themes or sectors – property, the consumer cycle and reform momentum. We also predicted – erroneously - that 2024 would be a weaker year for global markets.

Michael Porter

Another year has largely come and gone. Indeed, we are almost a quarter of the way through the twenty-first century – a rather sobering thought. I was reminded of "Y2K" the other day – and the panic around global computer systems that it caused. That seems like a long time ago.

Looking back on the year that has passed, I have gone back through the weekly editions of Intuition to reflect on the year, our discussion points and the validity of our calls. Self-reflection is an important component to asset management – not only to assess whether we were right or wrong, but also whether we were right for the correct reasons and vice versa.

Within the broader theme of a recovery in SA – driven by reform momentum – two themes stood out. The first was listed property. We wrote about this sector on six different occasions. Indeed, the second article of the year compared listed property to Cinderella and predicted that its time in the limelight was drawing nearer. This optimism was based on the unfolding of a virtuous cycle based firstly on steady operation improvement, and then bolstered by improving sentiment and lower funding costs. That has largely played out – listed property has once again been the best performing sector of the JSE, outstripping broader equity returns, especially on a total return basis when income distributions are taken into account.

The second theme was our prediction for a recovery in the consumer cycle – driven by an improvement in consumer confidence, lower petrol prices and interest rates, and the potential for a spending splurge driven by the two-pot retirement reform. Within this, we focused on Mr Price in particular but noted that a rising tide would lift all boats.

SPEED READ

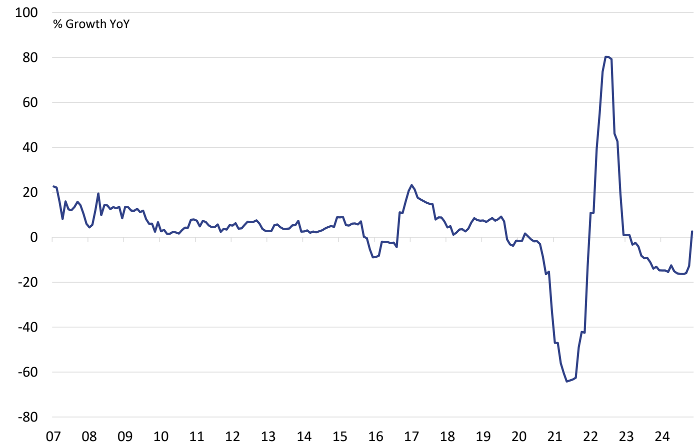
- **Reflecting on the year just past, we identified two themes within the broader SA Recovery that were undervalued – namely the listed property sector and the consumer sector.**
- **Both have rallied hard, as have SA Inc shares more broadly, despite lacklustre results so far. This reinforces the notion that markets are forward looking and being too conservative is dangerous.**
- **Globally, we were correct to predict that inflation would stay higher for longer, but that did not stop the US market from reaching new all-time highs.**
- **However, our prediction that China would recover was wrong, which impacted on commodities and sectors such as mining and luxury goods.**

In both instances, and indeed in the case of a broader SA recovery, it is worthwhile re-examining what has happened this year. Share prices have rallied hard, yet the news headlines and individual company reports have largely been far from stellar. In fact, many companies reporting now are reporting muted results. For the property sector, distribution growth has only turned positive in the past few weeks, yet the sector has rallied by almost 60% from its lows fourteen months ago. The same applies for the broader SA market, and therein lies the lesson: markets are forward looking and will price in expectations of the future long before those expectations make the daily headlines. Being too conservative is seldom the right strategy.

JSE ALL SHARE PE RATIO

SA assets have performed well this year. This performance has largely been driven by a rerating (higher p/e ratio) rather than rising company profits, in anticipation that profits will catch up in 2025.

PROPERTY SECTOR DISTRIBUTION GROWTH



Distribution growth has only just turned positive, after 20 months of negative growth. Investors might be sceptical of the 60% rally in share prices, but this just underscores that markets are forward looking.

Turning to our views on offshore markets, we were right to highlight that inflation would stay higher for longer, and that might impact on the pace of rate cuts. Furthermore, we presented a study showing the correlation between higher inflation rates and lower PE ratios. Whilst we got one side of the argument right, that didn't stop US markets from pushing to new highs and taking valuations even higher. Apart from the distortions caused by Covid, US valuations are now at their highest since 2002, but at least some of this years' gains have been driven by positive earnings growth.

"The weaker Chinese economy has dragged down global GDP growth, and has impacted negatively on commodities, mining shares and others with large exposure to China – such as luxury goods."

Conditions on the other side of the Atlantic have been trickier. Returns are positive, but profits have actually contracted, implying that returns have solely been driven by improve sentiment. That will need to change if returns are to be sustained.

However, our prediction that China would recover from its slump did not materialise. If anything, the news from China has steadily deteriorated over the course of the year, with rallies fuelled by hopes of stimulus rather than healthy underlying growth. The weaker Chinese economy has dragged down global GDP growth, and has impacted negatively on commodities, mining shares and others with large exposure to China – such as luxury goods.

We have recently articulated our views for 2025 in our Insight seminars. I would encourage you to read or listen to that presentation if you missed it. Next year promises to be a brighter year if we can sustain the reform momentum that has been building in this country. The global situation is as unpredictable as ever – just witness the political turmoil in South Korea, France and Syria over the past week. Whilst global markets have reacted positively to Mr Trump's re-election, they will face growing uncertainty as he rolls out his policy promises.

This is our last issue for 2024. We would like to wish all our readers a Happy Christmas and prosperous new year.

Our schedule and topic for the next seminar in March will be announced in the new year. We wish all our readers a happy and safe Christmas and holiday period."

Harvard House is on Facebook

Harvard House is on YouTube

CONTACT DETAILS:

For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

HARVARD HOUSE GROUP

3 Harvard Street, Howick, 3290, South Africa

P.O. Box 235, Howick, 3290, South Africa

+27 (0) 33 330 2164

+27 (0) 33 330 2617

@ admin@hhgroup.co.za

W www.hhgroup.co.za

Topic: TBC

Natal Midlands

Date:	TBC
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	TBC
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	TBC
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm