INTUITION

3 JANUARY 2025

A wrap up for 2024

Another year has come and gone – all too quickly in many respects - although some of the events that occurred during the year will continue to reverberate for quite some time. More than half the world voted in elections. There were numerous changes in governments, the ramifications of which are already being felt, and which will continue to reverberate in the year ahead. That includes the changes in our own country. The two regional wars have continued throughout the year, but with surprising developments in Syria recently. As we start the new year, we wish all our clients a prosperous and healthy 2025 and use this opportunity to take brief stock of 2024 and where markets find themselves.

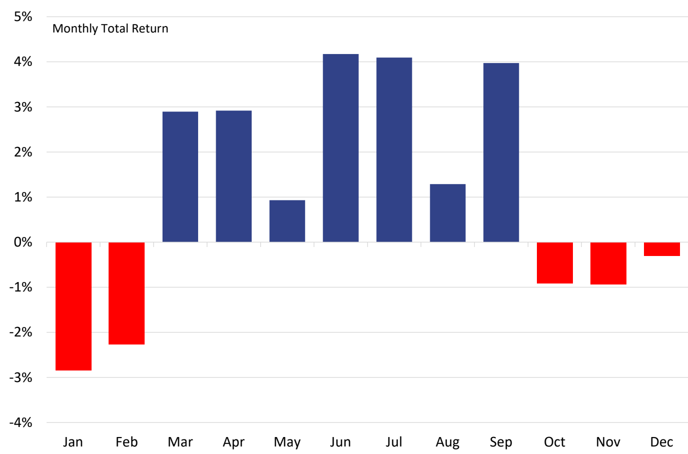
Michael Porter

We all tend to complain at how quickly time goes by. Longstanding clients might be interested to know that Nigel (Porter) celebrated his 80th birthday yesterday and has been retired from HH for 8 years. How quickly time flies. Yet another year has come and gone, bringing with it its fair share of surprises, both good and bad. 2024 will be remembered for its political changes – half the world voted, and many governments changed. The ramifications of those elections will be felt for months and years to come. Economically, the change in the interest rate cycle was the other big talking point. Locally, the highlight was our own election, the absence of loadshedding, and the change and renewed optimism it has brought to our country. We are hopeful that 2025 will finally see the building of some economic momentum. Given the renewed optimism, it is probably not a surprise that all major asset classes outperformed cash last year. For the second year in a row, listed property was the standout asset class, delivering a total return of just shy of 30%, better than equities at 13.4%, bonds at 17.2% and cash at 8.5%. Encouragingly, with inflation forecast to end the year at about 3.5%, investors enjoyed handsome inflation-beating returns. Looking back, the year was characterized by huge uncertainty pre our elections in May, with optimism rising thereafter. However, a quick glance at the chart of monthly returns below shows that after a weak start to the year, markets gradually started to price in a better electoral outcome – another reminder that markets are forward looking, and if you wait until you read the headlines before you act, it is probably too late. The last three months have been more challenging, primarily due to changes in the US, and investors reacting to what a second Trump presidency might mean for global markets.

SPEED READ

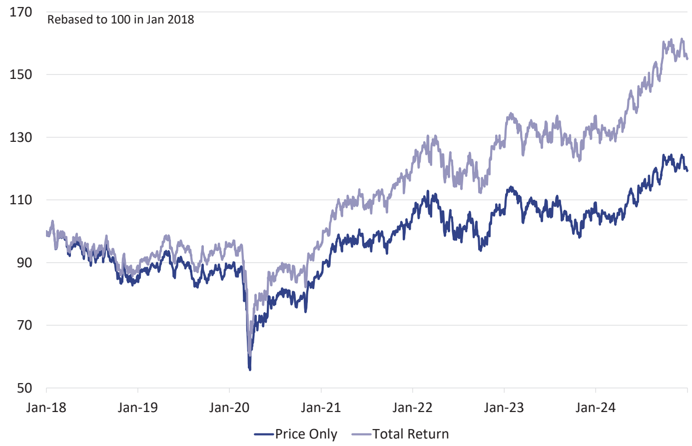
- **Returns for 2024 were better than expected, although markets were generally weaker in the last quarter. All SA assets classes beat cash and inflation.**
- **Offshore markets all closed in positive territory, but US markets continued to pull away from those in Europe and Asia.**
- **The start of the rate cutting cycle was the central talking point of the year, but some of that optimism has dissipated in recent weeks given political changes.**
- **This year will be a year of dealing with the repercussions of last year's electoral changes.**

JSE ALL SHARE: MONTHLY RETURNS



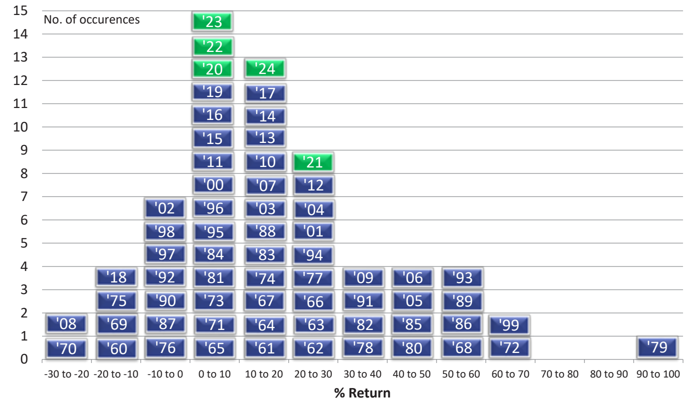
Our market performed very well in the middle six months of the year as investors cheered the election result and the absence of loadshedding. But global politics weighed on sentiment going into the final quarter.

JSE ALL SHARE CAPPED SWIX INDEX



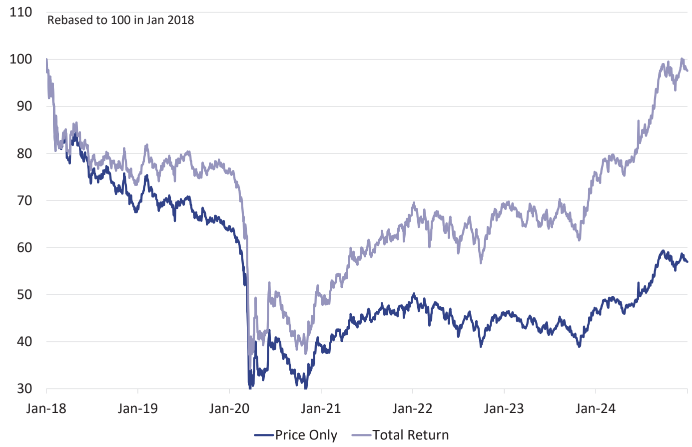
When analysing price returns only, SA equities have only delivered a gain of 20% over the past 7 years – with 10% of that return coming in 2024. This improves to almost 55% when dividends are included, which highlights the importance of income. Encouragingly, SA markets have reached new highs in the last 12 months. It has been a while since we could write that.

JSE ALL SHARE RETURNS HISTOGRAM



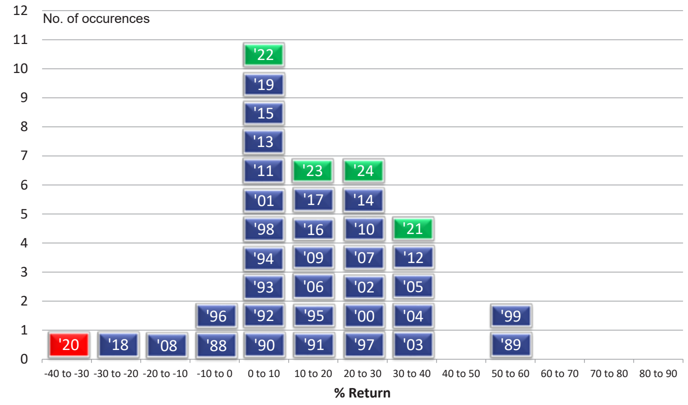
This chart breaks down annual returns into different "buckets" for the past 65 years. Unsurprisingly, returns have risen between 0% - 20% on 28 occasions, whilst returns have been negative in only thirteen of the last 65 years. This underscores the notion that investing is a marathon, not a sprint. Outsized returns are uncommon, but they can happen when the right conditions converge.

JSE LISTED PROPERTY INDEX



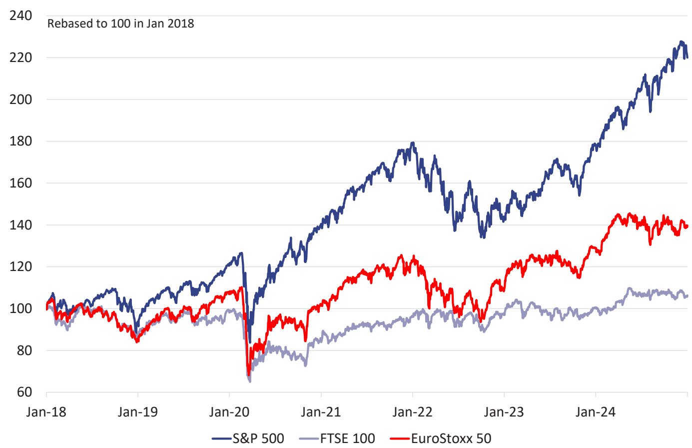
Investors are familiar with the challenges that property has faced over the past seven years, but we commented last year that we were increasingly confident that the stars were aligning for the sector. So, it is very welcome to see the sector back at the levels it reached in 2018 on a total return basis. Even on a price-only basis, the sector is trading at 5-year highs.

JSE LISTED PROPERTY RETURNS HISTOGRAM



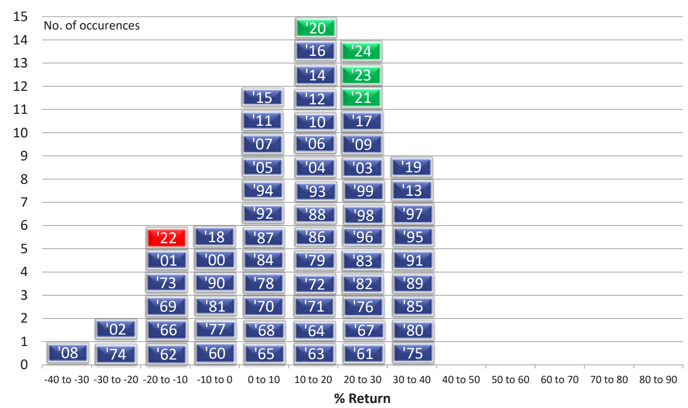
Listed property has delivered positive returns for the past four years, admittedly off the low base created during Covid. Once again, it was the best performing asset class in 2024, with a total return of just shy of 30%. Over the past 36 years, there have only been five occasions when returns have been negative, but the scars remain.

SELECTED GLOBAL INDEX PERFORMANCE



Once again, the US market was the star performer in 2024, and has been so for the past seven years, far outstripping returns from Europe and the UK. In fact, the UK is virtually unchanged over the period, reflective in part of the cyclical nature of their market but also the economic malaise post Brexit and the political upheaval in that country.

S&P 500 RETURNS HISTOGRAM

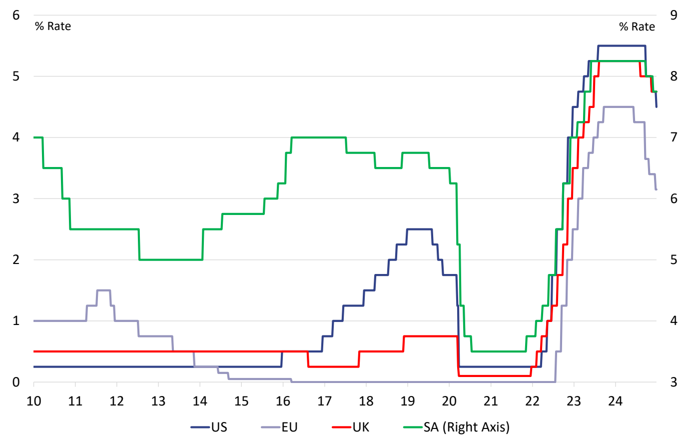


This is an interesting chart – and even more so when compared to the JSE histogram above. US markets have recorded positive returns for 50 of the last 65 years, with those returns relatively consistent. What is noticeable is the lack of meaningful outsized returns, whilst returns have been negative in fifteen of the 65 years – almost one in every four years. As we will see later, recent returns have been driven by further expansion in valuations, rather than meaningful profit growth.

DOLLAR INDEX

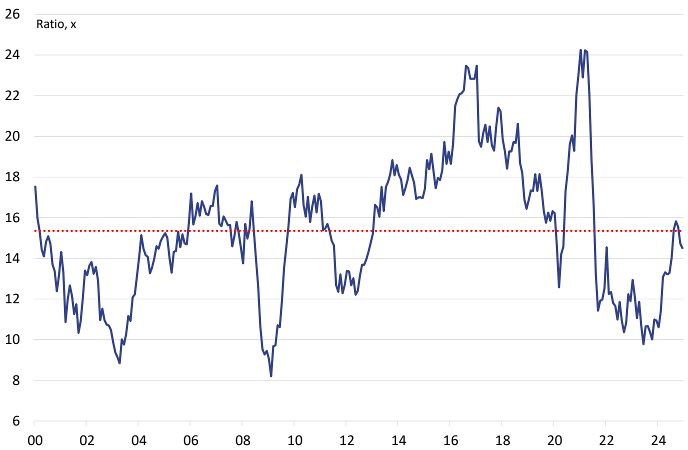
One of the major consequences of President Trump's re-election has been the surge in the US Dollar. Thanks to his "Make America Great Again" campaign and his threat of trade tariffs, investors have flocked to the US Dollar, pushing the weighted index to its highest in 30 months, and significantly higher than pre-Covid levels. This is one of the biggest risks to SA's recovery – a strong Dollar implies weaker emerging market currencies. We can already see that reflected in the weaker Rand.

SHORT TERM INTEREST RATES



After enduring one of the most painful increases in short term interest rates for decades, 2024 will be remembered economically as the year that rates started to fall again. Europe has been the most aggressive, understandable given the weakness in its economy. The US has cut rates by 1% in total, but the scope of further cuts remains uncertain given political changes. Our Reserve Bank has been cautious. Further cuts here hinge on the direction of the Rand.

JSE ALL SHARE PE RATIO

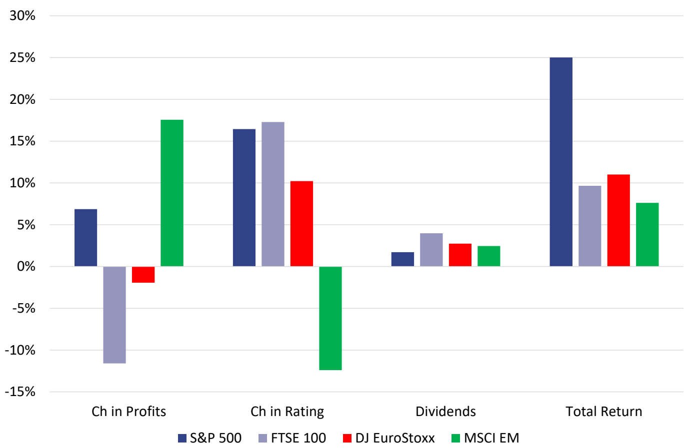


Local valuations recovered significantly in 2024, albeit off a very low base. That is the power of sentiment as investors price in a brighter future. Valuations are now back at the long-term average, but that does not mean positive returns are over. Returns in 2025 should be driven by higher profit growth and valuations can expand further if investors believe that stronger economic growth will continue.

GLOBAL PE RATIOS

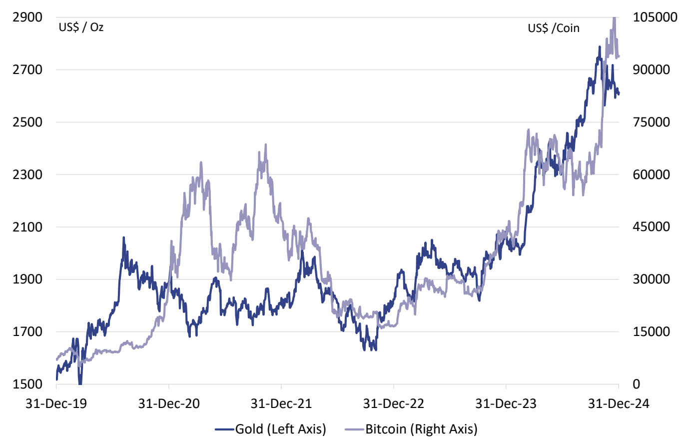
As I will articulate later, valuations in the US have continued to expand. The dark line shows that US shares have seldom been this expensive, especially if one ignores the distortions created by Covid. In contrast, European valuations are at decade lows, driven by the malaise in Germany and France, amongst others. For the moment, the US remains the horse to back, but investors should remember that past performance is no indicator of future performance.

GLOBAL PERFORMANCE ATTRIBUTION



This chart breaks down the returns achieved over 2024. To illustrate, the US delivered a total return of 25%, of which 1.7% came from dividends, 6.9% came from rising profits, and the rest from higher valuations. In contrast, profits from UK and European companies contracted, so investors were lucky to get positive returns at all. Once again, emerging market equities got cheaper, despite growing profits strongly.

"ANTI-ESTABLISHMENT" ASSETS



This chart is titled "anti-establishment assets" and it shows the performance of gold and Bitcoin. Both are bought as safe havens and as a hedge against currencies and political uncertainty. Both have performed well, although crypto has soared more in % terms. With the world becoming polarized, and global debt at excessive levels, investors seek protection in alternative assets and safe havens.

Thank you to all clients who have supported pour Insight presentations this year. Our schedule for 2025 and the topic for our next seminar in March will be published shortly.

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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

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