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The economy

The much-anticipated interest rate reductions were finally announced in the US and South Africa in September 2024. The US Federal Reserve's (Fed's) Open Market Committee cut the federal funds rate by 0.5% (initially, only a 0.25% cut was expected) and the South African Reserve Bank's Monetary Policy Committee cut the repurchase rate by 0.25%. The interest rate reductions were well received, US bond yields strengthened and the US dollar weakened. In South Africa, the rand exchange rate strengthened, bond yields improved and the JSE rose to a record level.

View - Central Bank Policy Rates graph

The interest rate cuts followed on consistent softer inflation in the US and South Africa. As more benign monthly inflation readings are released, average inflation for 2024 could dip below 3% in the US and below 5% in South Africa. Recent inflation values that have been released confirm the softer trend. A continuing concern is US employment remaining stronger than anticipated (unemployment is at 4.1%). This will be considered by the Fed when deciding on further interest rate cuts in November and December 2024.

The US economy expanded at an annual rate of 3% by June 2024, up from 2.9% by March 2024. This growth has exceeded expectations. Despite the expanding GDP growth rate, middle-class consumers remain under pressure as higher interest rates bite into their disposable income. Speculation remains whether the US economy will experience a mild economic recession or a soft landing in the coming months. The latest data points towards a soft landing.

The US elections are set for 5 November 2024, with Vice President Kamala Harris up against former President Donald Trump. Indications are that the election results are likely to be close and that those in key states will determine who the next president will be. The economic policies advocated by the respective candidates are aimed at addressing the agendas of very different interest groups and therefore differ substantially from each other. The election results could have a meaningful impact on economic developments from 2025 onwards.

In contrast to the US, GDP growth in China came under pressure. The annual growth rate was 4.7% by June 2024, down from 5.3% by March 2024. In response to the lower growth rate, Chinese authorities announced a host of stimulatory measures in September 2024. The People's Bank of China cut interest rates on existing mortgages by 0.5% and reduced the reserve requirements for banks to extend new loans. Interestingly, one of the measures that has been announced is aimed at making credit more accessible for those who wish to invest in China's stock markets. The measures are mostly aimed at supporting debt-laden property owners and boosting China's GDP growth rate. The question remains whether the measures will be sufficient to boost China's growth rate to the desired 5%. Therefore, the market is expecting additional economic stimulation to be implemented.

Globally, geopolitical tensions in Russia/Ukraine and the Middle East remain a risk for economic growth.

South Africa's economic growth in 2024 is likely to remain modest at approximately 1% for the calendar year. Anecdotally, improved conditions are evident in the economic environment. Inflation is lower, interest rates have been marginally reduced, there are fewer electricity outages, political stability seems to have improved and the outlook for earnings growth of JSE-listed shares has improved. As a result, South Africa's business confidence, building confidence and consumer confidence indices have all improved to September 2024. Overall, the economic outlook for the next two years is much better compared to the conditions that prevailed recently. Two-pot legislation was introduced in September 2024. Initial indications are that the value of money to be withdrawn from the retirement savings will be on the high end of scenarios considered. The cash injection into the economy is expected to have some short-term positive impact on economic growth, even though the long-term consequences of spending retirement savings are negative.

A concern in the South African economy remains the persistently high level of unemployment. Approximately 12 million South Africans of working age are jobless at present. The high level of unemployment is the result of flat economic growth over the past decade, which in turn corresponds with depressed fixed capital investment and uncertainty about various government policies over the period (refer to Economic Commentary – July 2024).

The improved level of optimism that is manifesting in South Africa is reflected in the rand exchange rate. The rand strengthened from R19.16 in February 2024 to R17.27 in September 2024 against the US dollar. The rand's strengthening manifested in two tranches, initially in June 2024 after the announcement of the Government of National Unity and again in August/September 2024 in the run-up to the interest rate cuts in September 2024. One could therefore conclude that the initial bout of rand strength was due to domestic developments whereas the second bout of rand strength relates to a larger pattern of global interest rate cuts. At the time of preparing this communication, the rand had lost ground to the US dollar – mostly due to dollar strength rather than rand weakness. This demonstrates that we should expect currency volatility to continue.

Financial markets

The returns for the indices representing the asset classes in which domestic retirement funds typically invest are shown in the table below.

% Change September 2024	Most recent quarter	Calendar YTD	1 year (p.a.)	3 years (p.a.)	5 years (p.a.)	10 years (p.a.)
All Share Index (ALSI)	9.6%	15.9%	23.9%	14.7%	13.7%	9.4%
Listed Property	18.7%	30.0%	51.3%	16.0%	5.4%	4.3%
STeFI Composite	2.1%	6.4%	8.6%	6.9%	6.1%	6.6%
All Bond Index (ALBI)	10.5%	16.7%	26.2%	11.1%	9.8%	9.1%
MSCI All Country World ZAR	1.3%	12.1%	20.8%	13.6%	15.7%	14.7%
Bloomberg Global Aggr. Bond ZAR	1.6%	-2.2%	2.2%	1.4%	1.8%	4.9%
Rand (+ stronger, - weaker)	5.3%	6.0%	9.6%	-4.2%	-2.5%	-3.5%
Inflation (estimate)	0.8%	3.2%	4.0%	5.9%	5.5%	6.2%
Gold ZAR	8.2%	21.3%	30.9%	25.3%	20.6%	23.6%

Despite the recent rand strength, offshore shares still added 20.8% in rands for the 12 months to September 2024 (32.3% when measured in US dollars). The stronger markets are still driven largely by increases in technology shares reflecting excitement about the impact of artificial intelligence on enterprises. Global bond yields also strengthened towards quarter-end when the federal funds rate was cut. The 12-month return on the Bloomberg Global Aggregate Bond Index was 12.0% when measured in US dollars, but only 2.2% when measured in rands.

The FTSE/JSE All Share Index rose 9.6% in the quarter, 15.9% for the year to date and 23.9% for the 12-month period to September 2024. Financial shares delivered the best performance, followed by industrial shares. Mining shares struggled in the respective periods to September 2024.

Similarly, the JSE ASSA All Bond Index rose 10.5% for the quarter, 16.7% for the year to date and 26.2% for the 12 months to September 2024. Bonds in the 7-12 years maturity bucket and the 12+ years maturity bucket performed better than shorter-dated bonds. For example, the 12-month return for the 7-12 years bucket to September 2024 was 28.2% and the 12-month return for bonds in the 12+ years bucket to September 2024 was 33.3%.

The FTSE/JSE Listed Property Total Return Index (SAPY TR) was up by 51.3% for the year to September 2024. The SAPY TR is now only 1% below the record level achieved in December 2017. The recovery reflects the income stream derived from property exposure. The clean price index is presently still 40% below the record level achieved in 2017. The yield on a 5-year government inflation-linked bond (ILB) is often considered to be the base for the required rate of return for listed property. The yield to maturity on the short-dated SA government ILB has not moved considerably in the past year, yet the SAPY TR has increased sharply (refer to the graph below). This points to positive expectations of the impact of lower interest rates on the listed property market. It should be noted that the SAPY TR has run hard thus far and may consolidate gains at some point.

View - FTSE/JSE Listed Property Total Return Index (SAPY TR) vs SA Govt ILB (I2029) graph

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Information for this article has been obtained from several sources:
National Treasury, South African Reserve Bank, Stats SA and Iress.