DECEMBER 2024

ECONOMIC NEWSLETTER

WEALTH GROUP
Growing and Protecting Wealth

A ROARING YEAR FOR GLOBAL MARKETS

In the final week of November, the US equity market, as reflected by the S&P 500 Index, reached its 52nd record high of 2024, marking yet another all-time peak. With one month remaining in the year, the S&P 500 has gained an impressive 26.5% year-to-date in USD terms.

While much of the market's strong performance has been fuelled by excitement around AI and the so-called Trump 2.0 phenomenon, the primary source of these gains continues to be robust and resilient earnings. In Q3 2024, the S&P 500 posted earnings growth of 5.8%, while current estimates for Q4 suggest this growth will more than double to 12.0%. If achieved, it would represent the highest year-over-year earnings growth rate since Q4 2021, when it reached 31.4%.

On a broader scale, the US economy showed solid growth in the third quarter, driven largely by strong consumer spending. GDP grew at an annualized rate of 2.8% during the period, while consumer spending, the economy's main growth driver, expanded by 3.5%, the fastest pace seen this year.

From a portfolio perspective, 2024 has presented investors with buoyed returns across the different asset classes, both locally and offshore. To the end of November, local equities are up 13.8% year-to-date, while local bonds have returned 17.6%, more than double their ten-year average. Global markets have also provided investors with robust returns, with the MSCI ACWI index up 20.8% in USD to the end of November.

TRUMP 2.0

With a little under 50 days left until Donald Trump officially takes office, the former president is wasting little time in putting his policy into action,and has already laid the ground for a trade war that could shake the global economy.

In late November, Trump announced plans to issue an executive order imposing a 25% tariff on all imports from Canada and Mexico, along with a 10% tariff on imports from China.

Although Trump previously vowed to implement universal tariffs on all overseas imports during his campaign, these actions are specifically aimed at the U.S.'s three largest trading partners. In 2023, U.S. companies imported over $1.2 trillion worth of goods from Canada, Mexico, and China. Tariffs on these nations would effectively serve as a tax on these imports.

He stated the executive order would be signed on January 20, his first day in office.

More recently, Trump has taken a strong stance against any formation of a BRICS currency by its members. In a recent statement on Truth Social, Trump posted "The idea that the BRICS Countries are trying to move away from the Dollar while we stand by and watch is OVER. We require a commitment from these Countries that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar or, they will face 100% Tariffs,and should expect to say goodbye to selling into the wonderful U.S. Economy."

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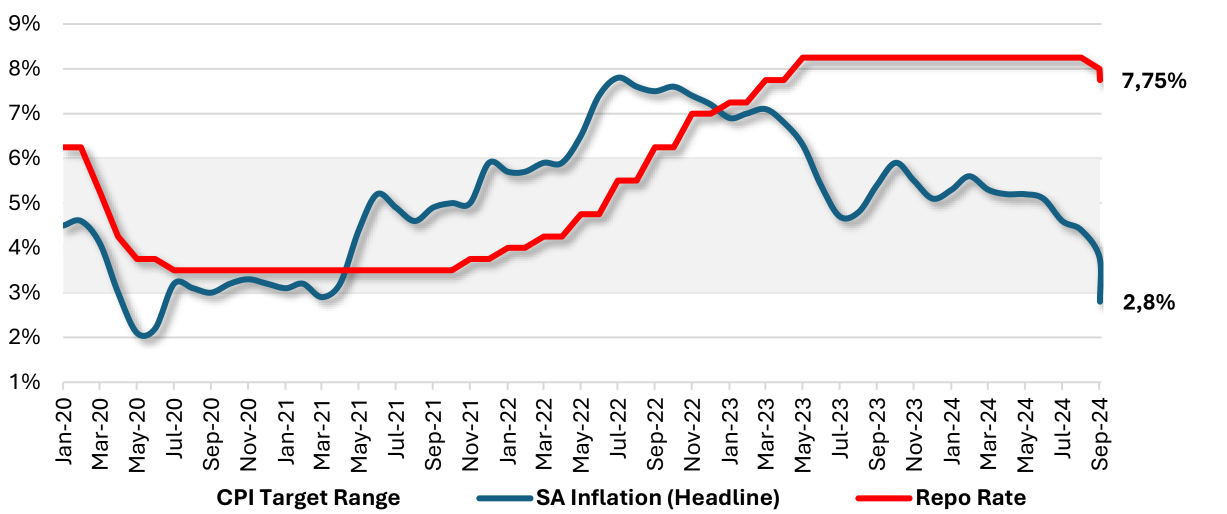
The South African Reserve Bank reduced its key interest rate by 25 basis points to 7.75% on November 21st, 2024, as anticipated, bringing borrowing costs to their lowest level since April 2023.

The decision was driven by a notable drop in headline inflation, which fell to 2.8% in October. This decline was largely due to a steep fall in fuel prices, with fuel inflation at -19% year-on-year, thanks to lower global oil prices. Food inflation also eased significantly, dropping below 3%, a stark contrast to the 14% level seen in 2023. Considering that South Africa entered 2024 with an initial inflation reading of 6.9%, this latest reading marks considerable positive progress in keeping inflation contained, and allowing the central bank to gradually reduce interest rates.

Despite these improvements, policymakers cautioned that the medium-term inflation outlook remains uncertain, with potential risks to the upside. They highlighted that October's inflation rate of 2.8% was below the target range of 3%-6%, driven by temporary factors like a stronger rand and lower oil prices. These supply-side effects are expected to keep inflation below 4% through mid-2025 but may not provide long-term stability.

Nevertheless, the positive progress should allow the SARB to continue to gradually reduce interest rates over the course of 2025.

Figure 1. South African Inflation & Interest Rates



Source: Statssa.gov

In a very positive move for local markets, international rating agency S&P Global revised its outlook on South Africa up from stable to positive during the month of November. The positive revision was centred around the potential for stronger economic growth and government debt stabilisation under the new coalition government. The impetus for reform and willingness to address infrastructure and fiscal-related pressures have been positively received by the international community, which could lead to easing financing conditions and increased investment.

As investors look forward to taking some much-needed time off in December, we would like to thank our clients for their continued support. This year provides no better proof that those who stay the course and remain invested will be rewarded for their efforts.

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