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LOCAL AND GLOBAL MARKETS CONTINUE TO GROW

Political changes in the US and South Africa have recently improved the JSE's performance compared to US equities. During the month of July, the S&P 500 gained 1.2% in USD, while the JSE All-Share Index rose by 3.9% in ZAR. Positive sentiment continued to bolster our local currency, with the rand gaining 0.4% against the dollar over the month.

Despite this monthly shift, the S&P 500 remains firmly entrenched as the leading market in 2024, up 16.7% for the year in USD, well-ahead of the JSE’s 9.9% gain. The short-term underperformance of the S&P 500 can be largely attributed to anticipated US Federal Reserve interest rate cuts, the potential re-election of Donald Trump, and concerns about overvalued large-cap stocks.

THE US ECONOMY CONTINUES ITS MARCH HIGHER

In the second quarter of 2024, the US economy grew by an impressive 2.8%, significantly surpassing the market expectations of 1.9% and the 1.4% growth seen in the first quarter. A key driver of this performance was the resilience in personal consumption expenditure, particularly spending related to services. However, with unemployment rising in the US (albeit at a marginal level at this stage), the labour market is beginning to soften, and slower wage growth combined with depleted savings is likely to slow consumer spending in the coming quarters, though a recession is not yet indicated at this stage. A notable portion of the US GDP growth was due to a large increase in inventories, contributing 0.8 percentage points, and increased government spending, adding 0.5 percentage points. This government spending surge, reflected in rising government employment, is unlikely to continue into 2025.

Trump’s market influence grew following his widely-publicised assassination attempt, with Trump Media shares rising by 30% on Monday the 15th of July, following the incident over the weekend. The shooting was the most significant attempt on the life of a US president or presidential candidate since Ronald Reagan was shot in 1981. Political scientists, historians, and various Democratic and Republican figures attributed the shooting to the increasing political polarization in the United States. The attack sparked widespread sympathy for Trump on social media, with public figures from across the political spectrum, both within the country and internationally, condemning the assassination attempt and calling for a reduction in political tensions.

Trump’s choice of JD Vance as his Republican running mate, a controversial figure known for his strong pro-tariff and mass-deportation views as well as anti-abortion and anti-immigration, has been met with mixed reviews among the Republican voter base due to his hardline positions and comments.

Under increasing pressure from the Democratic Party, along with the broader voter base, President Joe Biden announced he would not seek re-election in November 2024, endorsing Vice-President Kamala Harris as the Democratic nominee. This shift adds uncertainty to the election outcome. Although Donald Trump is still the favourite to win, his odds have dropped from 60% to around 55% according to betting markets. The change from Biden to Harris is unlikely to significantly alter Democratic policies. Conversely, a Trump administration could mean lower taxes but higher import tariffs, potentially driving inflation and limiting the Federal Reserve's ability to cut interest rates.

MIXED INTEREST RATE DECISIONS IN ASIA

During the month of July the People's Bank of China lowered its seven-day reverse repo rate, a key short-term policy rate, by 10 basis points to 1.7%. Following this, Chinese banks reduced their one- and five-year loan prime rates by 10 basis points to 3.35% and 3.85%, respectively, making mortgages and other loans more affordable for consumers. Subsequently, the central bank further cut its medium-term lending facility (MLF) rate by 20 basis points to 2.3%, marking the first reduction since August 2023. These rate cuts underscore the government's efforts to bolster economic growth after China's GDP fell short of market expectations in Q2 2024. Additional economic indicators, such as retail sales, industrial production, and property investment, also point to ongoing weaknesses in the Chinese economy.

Conversely, the Bank of Japan elected to raise its benchmark interest rate to 0.25% and announced plans to halve its monthly bond purchases, signalling a significant shift towards tighter monetary policy. The BoJ increased its overnight interest rate to around 0.25% from the previous range of zero to 0.1%, the highest level since the 2008 global financial crisis. As the US Federal Reserve prepares to move in the opposite direction and start cutting rates in the second half of the year, the BoJ's policy shift will narrow the interest rate gap across the Pacific, which has been contributing to the yen's weakness.

ON THE LOCAL FRONT

South Africa's headline inflation rate eased slightly in June to 5.1% year-over-year, down from 5.2% in May, while the PPI inflation (used to measure inflation from the perspective of costs to industry or producers of products) saw its first monthly decline since December. The South African Reserve Bank maintained the repo rate at a 15-year high of 8.25% for the seventh consecutive meeting. However, two of the six Monetary Policy Committee members favoured a 25 basis point cut, providing guidance that the rate-cutting cycle could start in September.