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ECONOMIC NEWSLETTER

SPEKTRA FINANCIAL SERVICES

FLASH CRASH, WHAT FLASH CRASH?

Historically, August has been the worst calendar month for investors based on global stock market returns. August 2024 seemed poised to continue this trend, with the US Stock market down 6% in the first three days of trading. Despite the early pullback, both local and markets rebounded strongly, finishing the month in positive territory.

Global equities had a tough start to the month of August, falling 6% in the first three trading days. The "Flash Crash" was largely a factor of the unwinding of global carry trades in Japan coupled with a soft US jobs report along with several lower-than-expected earnings reports emanating from the US market. Despite the early jitters, the market bounced back strongly to deliver another positive month for global equities with the MSCI World Index up 2.7% for the month in USD, and up 17% year-to-date.

The weak U.S. jobs report, which showed an unexpected rise in the unemployment rate to 4.3%, spurred early risk aversion. This marked a 0.5% increase over three months, a pattern historically indicative of impending U.S. recessions. Additionally, risk aversion was fueled by the Japanese central bank's unexpected decision to raise interest rates and slow quantitative easing, threatening the long-standing low-cost funding from the yen. The potential fading of cheap yen borrowing pressured trades reliant on such funding, including high-yielding emerging market loans and crowded equity market positions. Nonetheless, investors overcame these fears, supported by U.S. inflation data showing a 2.9% year-over-year increase, which suggested moderating price growth and boosted expectations for accelerated monetary easing.

The deteriorating U.S. employment figures and moderating inflation increased expectations for the U.S. Federal Reserve to cut rates by 1% across the remaining three meetings in 2024. This anticipation helped lower the U.S. 10-year government bond yield below 4% per annum, enhancing global bond performance, with the Bloomberg Bond Index rising 2.4% in August and showing a 1.9% gain year-to-date. The prospect of lower U.S. interest rates also weakened the U.S. dollar, with the U.S. Dollar Index dropping 2.3% in August, wiping out most of its gains for the year, which now stands at just 0.4%.

LOCAL MARKETS MARCH ON

Locally, South African equities continued to perform well post-election, with the FTSE/JSE Capped SWIX Index up 1.3% month-over-month.

Despite a 10% decline in mining stocks, which detracted 2.3% from the monthly index performance, stocks linked to the domestic economy rose by 6% month-over-month, driven by improved sentiment towards local investments and having surged 26% over the past three months. Standout domestic performers included Mr Price, up 12% month-over-month, and ABSA, up 10% despite releasing expectedly disappointing results.

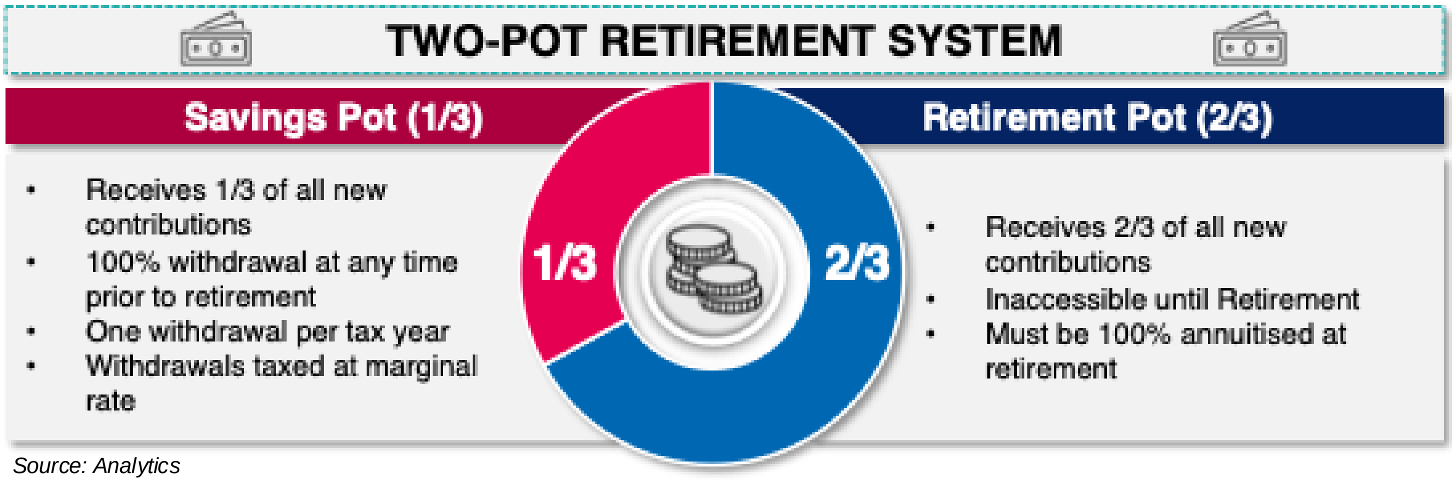
However, the worst-performing miners were in the precious metals sector, with gold miners down 11% and platinum miners down 18% in August. This underperformance occurred even as gold prices rose 2.3% in USD terms.

South Africa's 10-year government bond yield declined in line with global trends, ending August at 10.6% per annum, a significant drop from over 12% before the elections. Recent inflation data increased the likelihood that the South African Reserve Bank would follow other major central banks in cutting rates.

Core inflation in South Africa rose by 4.3% year-over-year in July, below both the midpoint of the central bank's target range and market expectations of 4.5%. The South African rand faced pressure early in the month, falling 1.7% against the U.S. dollar due to hawkish moves by the Japanese central bank, which triggered a reversal of carry trades reliant on low yen funding. Nevertheless, the rand recovered to end August 2.2% higher against the dollar, aided by a generally weaker U.S. dollar.

THE TWO-POT RETIREMENT SYSTEM GOES LIVE

From 1 September 2024 the new two-pot retirement system went live in South Africa, dividing all new contributions to retirement funds into two components, as shown in the infographic below: A third of the funds will be allocated to a savings component, which members can access once per year before retirement. The remaining two-thirds will be allocated to a retirement component, which cannot be accessed until retirement and must be used to purchase a retirement income product at that time. Existing retirement savings will be moved into a vested component, which will continue to be treated the same way as before 1 September 2024; however, no further contributions will be allowed to this component.



Source: Analytics

The two-pot system will alter how fund members access their retirement assets and aims to achieve two main objectives:

1. To enable fund members who have not yet retired to access a portion of their retirement savings during times of significant financial hardship.

2. To ensure the long-term preservation of retirement assets until members reach retirement age.

Investment Implications of the Two-Pot System

This system has the potential to create positive outcomes for retirement fund members by allowing those in need to access funds while promoting greater preservation due to the restricted access to the retirement component. Having access to part of your retirement investment without needing to resign can be beneficial in times of need. However, it's crucial to remember that the primary goal of your retirement investment is to provide income when you retire. While the savings component allows some access, it's important not to consider it as a discretionary savings account. Every time investors withdraw from the savings component, they decrease the amount available for retirement income. Moreover, these withdrawals will be subject to taxation, which could increase your tax bracket depending on your income and the amount withdrawn.