## Are SA Equities Really Underperforming? – Market Commentary

South African ("SA") equities continued to decline in February. For the year-to-date, SA is -9.6% behind Emerging Markets ("EM"s), and -9.7% in absolute USD terms. The local market is also -15.2% behind Developed Markets ("DM"s) represented by the MSCI World Index.

SA's performance relative to EMs and DMs is the subject of this month's market commentary. We suggest, notwithstanding the poor performance for the year-to-date, that SA equity returns have been quite close to EMs historically. This is in spite of negative sentiment in SA due to mounting social, infrastructure and economic problems.

While the negative performance in the first 2 months of 2024 represents genuine underperformance, this is still not inconsistent with historical trends. Being led by Resources, we suggest the declines may rather represent global investor expectations of developments with the global economy to come.

Outside of SA global markets continued their upward march. This trend began in November 2023 when the US Fed first indicated the possibility of coming rate cuts.

The US has been a top performer, returning +7.0% year-to-date vs +5.5% for the MSCI World. The Nasdaq has performed marginally better at +7.4%, and Growth has strongly outperformed Value at +8.2% vs +2.7%.

The various market returns are summarised in Table 1 below.

***Table 1. South African and global equity returns (USD) for February 2024****

| | Feb-24 | YTD 2024 |
|---|---|---|
| FTSE/JSE ALSI (ZAR) | -2.4% | -5.3% |
| FTSE/JSE ALSI (USD) | -5.4% | -9.7% |
| MSCI World | 4.2% | 5.5% |
| MSCI EM | 4.8% | -0.1% |
| MSCI Value | 2.4% | 2.7% |
| MSCI Growth | 6.0% | 8.2% |
| S&P 500 | 5.3% | 7.0% |
| Nasdaq 100 | 5.4% | 7.4% |

*Total return indices, Source: Factset

There is no shortage of negative sentiment in South Africa ("SA") these days as the country's social, economic and infrastructure problems mount. A depreciating currency has reinforced this perception and with it an equity market that has been unexciting. ZAR equity price returns were -0.9% in 2022, and +5.3% in 2023, the latter below money market yields. The new year has started on a further negative note with -3.0% in January and a further -2.4% in February.

A relatively prominent financial adviser has been calling for 100% offshore allocation on account of the country's difficulties for some time. The returns set out above would appear to be proving him right. So is SA a lost cause and should SA equities be abandoned?

We think not quite and present a somewhat different perspective here. More specifically we do not deny the returns have been unexciting, but we demonstrate that the reasons, perhaps surprisingly, seem to have little to do with South Africa itself. Put a different way, we suggest that South Africa is not unique in Emerging Markets ("EM"s).

**Prices are not set domestically**

Domestic-origin capital is puny in comparison to global capital flows. We suggest that our market prices (and the exchange rate) are not set by SA participants but by global institutional investors. In this sense it is better to consider how the SA equity market has performed

- relative to Emerging Markets, and
- in USD

**So how does SA compare to Emerging Markets?**

SA is part of the MSCI EM Index, albeit comprising less than 3%.

Chart 1 below compares the FTSE/JSE All Share Index in USD and the MSCI EM Index over 3 years.

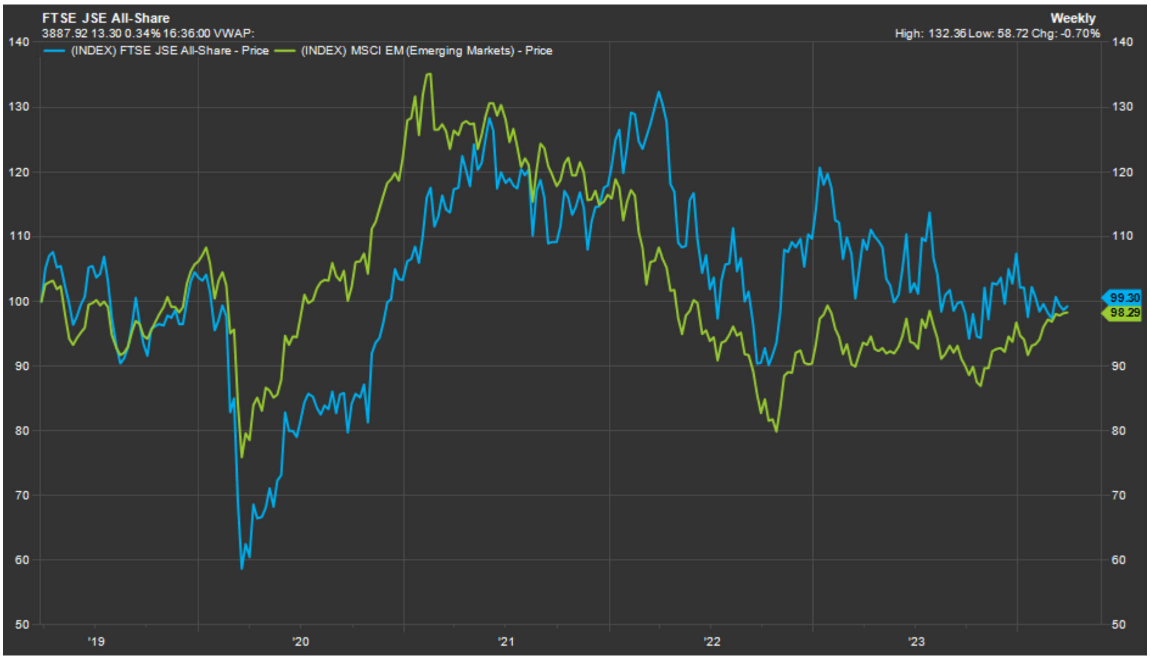
**Chart 1. FTSE/JSE All Share vs MSCI EM (USD) over 3 years**


Source: Factset

Per Chart 1 above, SA has mildly outperformed EMs, by less than 8%, over the period. It also exhibits somewhat greater volatility and has followed the EM Index down, then flat since early 2023.

Chart 2 below further compares the two indices over 5 years and demonstrates much closer performance.

**Chart 2. FTSE/JSE All Share vs MSCI EM (USD) over 5 years**

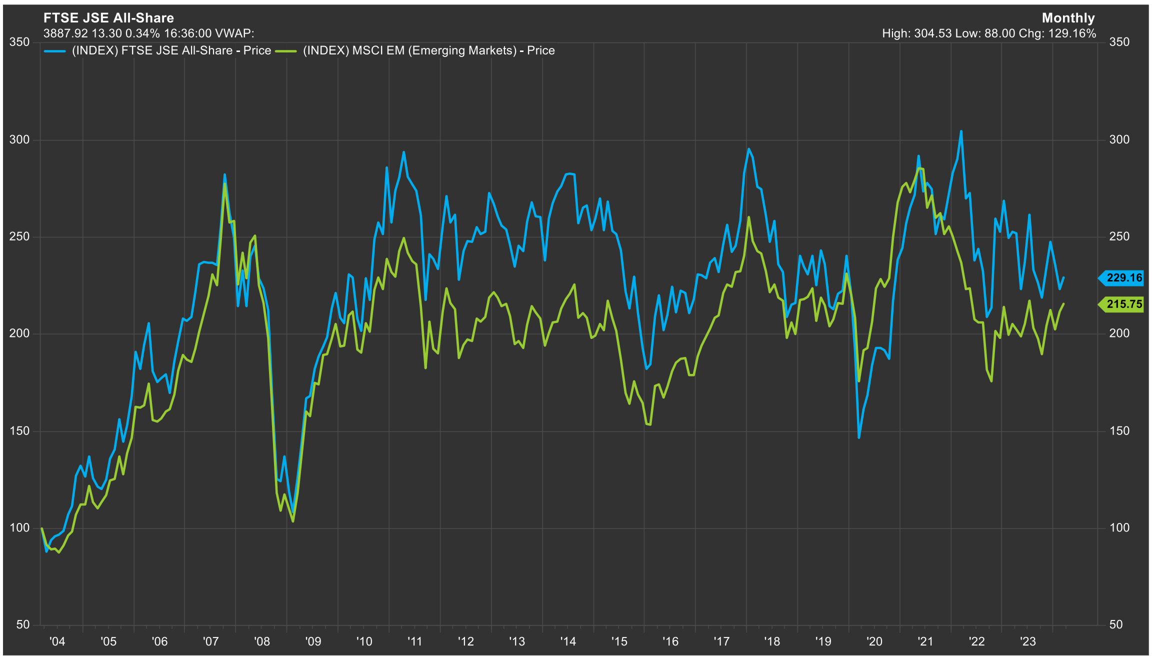



Source: Factset

The correlation is even more visible over 5 years and the ALSI has almost precisely matched the MSCI EM Index in USD terms. Note also the sharper Covid decline.

A similar pattern emerges over the long term. Chart 3 presents the comparison over 20 years.

**Chart 3. FTSE/JSE All Share vs MSCI EM (USD) over 20 years**

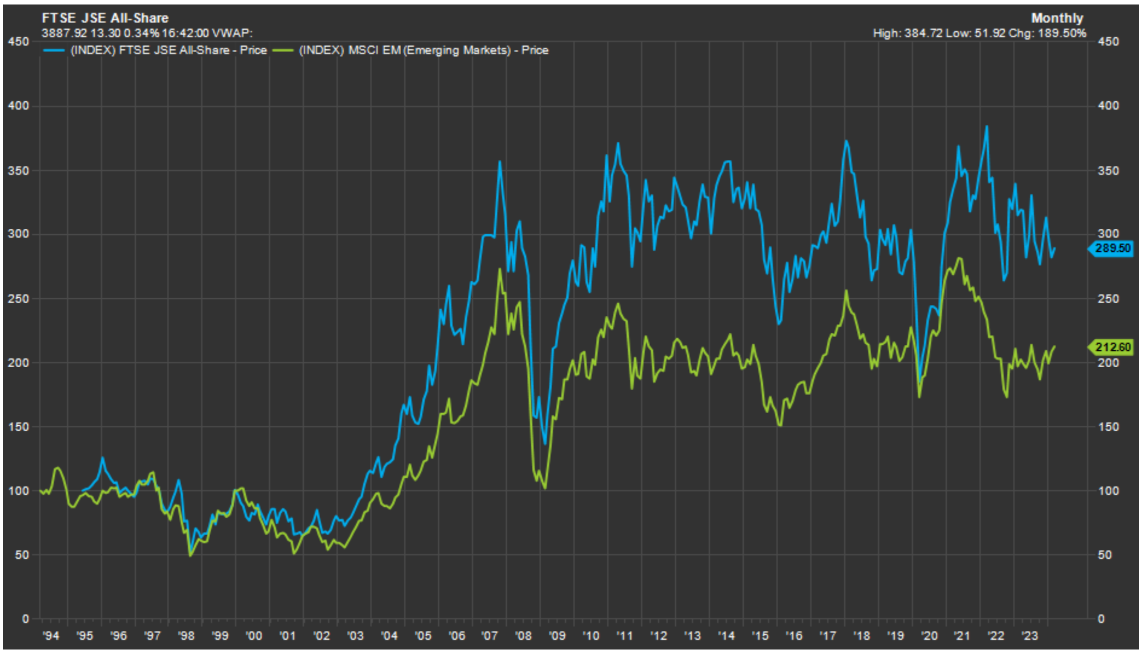



Source: Factset

Once again, over 20 years, SA has mild outperformance, but is broadly matched. The conclusion to draw from Chart 3 above, however, is less about SA vs EMs but that following a steep runup to 2008, EMs (and SA) have effectively returned 0% in price only USD terms over the long term since the Financial Crisis. This is not a complete surprise and discussed further below.

Finally, and for completeness, we present a 30-year comparison in Chart 4 below.

**Chart 4. FTSE/JSE All Share vs MSCI EM (USD) over 30 years**




Source: Factset

Over this last period of consideration SA has outperformed EMs more substantially however this is a little theoretical. All we can conclude from this latter chart is that SA was outperforming EMs in the first 10 years of the 30-year period.

**So what is the conclusion?**

The conclusion is that SA itself has not been poor, but EMs have been poor. SA is very much part of the EM set of markets and has not deviated materially, including recently.

**Why have EMs performed poorly?**

As a general dynamic EMs tend to produce inputs used by Developed Markets ("DM"s). In this sense EMs should perform well when DMs perform well. Indeed at times EMs could be considered as leveraged exposure to DMs. This was the case in the runup to 2008 as global growth consumed resources, and periodically since. The 0% interest rates largely maintained in DMs since the Financial Crisis up to the Covid Crisis, however, attest to the difficulties in demand management in developed economies. So it is no surprise EMs have been unexciting on aggregate.

Chart 5 below compares the MSCI World (DMs) and the MSCI EM Indices over 30 years.

**Chart 5. MSCI World vs MSCI EM Indices over 30 years**


Source: Factset

Per Chart 5, it is interesting to note the EM underperformance initially in the runup to the dotcom boom in 2000. Conceivably this boom required comparatively little resources. In contrast, growth from 2003 to 2007 was driven by real estate so it is easy to make the association to EMs. And since 2008, especially since 2016, one could once again make an argument for a Tech-driven rally in DMs, in the US in particular, with comparatively lesser demand for EM inputs.

The preceding paragraph is one suggested broad explanation. We are aware there are others.

**What about SA's underperformance this year?**

The SA market's performance so far in 2024 represents genuine underperformance i.e. relative to the MSCI EM Index. This could be random, since, per the charts above, it is comparatively limited and does not place the local market out of line with historical trends. Some might no doubt point to the coming elections as a reason for this, but we are inclined not to look for domestic reasons. In keeping with the global theme, we once again suggest something else. We have demonstrated that global capital takes a global view and concerns itself with global problems. We also note that the declines in the local market this year have been led by Resources shares.

As a final note we therefore suggest that global capital seems less concerned with domestic electricity supply, or perhaps no more concerned than with other EMs. It is possible instead that amid the US rate cut expectation euphoria our Resource-heavy market's movement in 2024 is a warning shot of problems in the global economy to come.