

SA Inc in Reverse – Market Commentary

The start of the year was strong for global markets, and global developed markets in particular, ex-US. The MSCI World Index (developed markets only) returned +3.5%, while the MSCI World ex-USA Index returned +5.0%.

Emerging Markets underperformed at +1.8%, but South Africa outperformed at +3.4% in USD on a strong Gold price as well as such as Richemont and MTN.

The US market, the S&P 500, returned +2.8% vs the Nasdaq at +2.3%, both behind the MSCI World.

Perhaps somewhat surprisingly, Value outperformed Growth with the MSCI Value Index returning +4.5% vs the MSCI Growth Index +2.6%.

Table 1 below summarises the various market returns.

Table 1. South African and global equity returns (USD) for January 2025*

	Jan-25	YTD 2025
FTSE/JSE ALSI (ZAR)	2.3%	2.3%
FTSE/JSE ALSI (USD)	3.4%	3.4%
MSCI World	3.5%	3.5%
MSCI EM	1.8%	1.8%
MSCI Value	4.5%	4.5%
MSCI Growth	2.6%	2.6%
S&P 500	2.8%	2.8%
Nasdaq 100	2.3%	2.3%

*Total return indices, Source: Factset

The SA market started 2024 by underperforming the MSCI Emerging Markets Index. As is now well-known this was followed by some strong outperformance after the formation of the GNU.

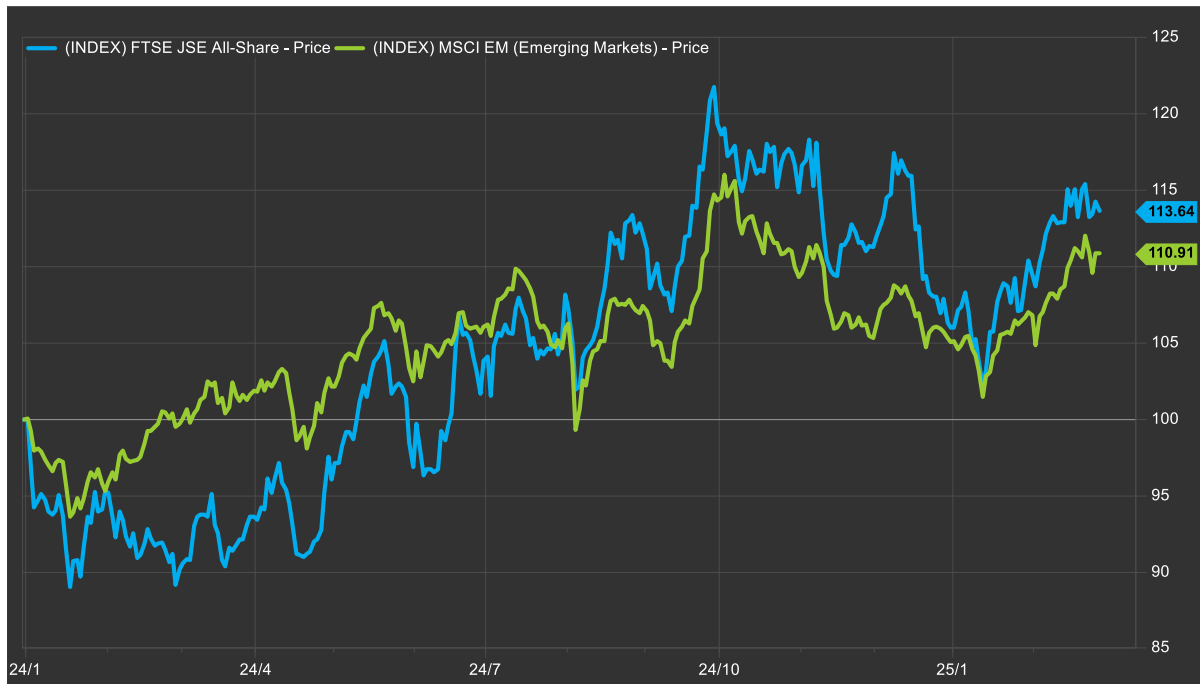
A first point to note in this commentary is that notwithstanding the initial underperformance and subsequent strong performance, the end-return for the year was only slightly ahead of the MSCI. In particular, in USD terms, the SA return appears to be driven quite closely by the aggregate Emerging Markets return per Chart 1 below. So on balance the SA market ended 2024 not materially outperforming.

Within the ALSI however, as we know, the SA Inc shares materially re-rated. Some Value commentators had suggested the steep re-rating was due to SA Inc counters being so cheap for so long with sub-10 PEs, evidence that sooner or later fundamentals matter in Value investing.

Fundamentals do matter, however, and this is the subject of this commentary. At the time we were not at all convinced and reached a different conclusion. The rally appeared broad and indiscriminate i.e. if a share was SA Inc it was re-rating at least +30% in local currency. A poster child was perhaps Mr Price, a local retailer, whose share price re-rated nearly +90%.

The volatility in Mr Price is illustrated in Chart 2 below.

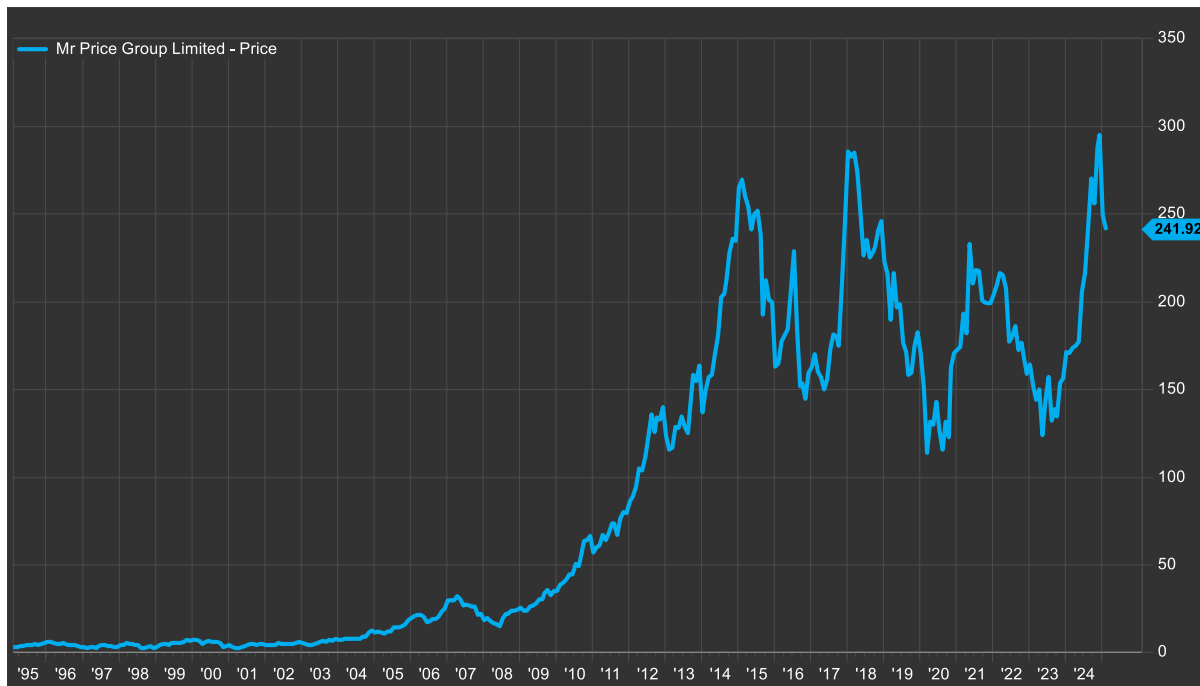
Chart 1. ALSI vs MSCI Emerging Markets in USD



Source: Factset

If nothing else the Mr Price chart below shows the struggles the company has had in convincing investors since 2015 (or perhaps the struggles investors have had convincing themselves). We fear the pattern will continue.

Chart 2. Mr Price share price chart



Source: Factset

Was SA Inc Value?

On our numbers some SA Inc shares were value, others were not. On the whole, as mentioned, it didn't matter as the SA Inc shares went up sharply wholesale. Funds with the view that SA was cheap performed very well. We took the view that the rally, if not justified by valuation, must be sentiment-driven.

Is the rally sustainable?

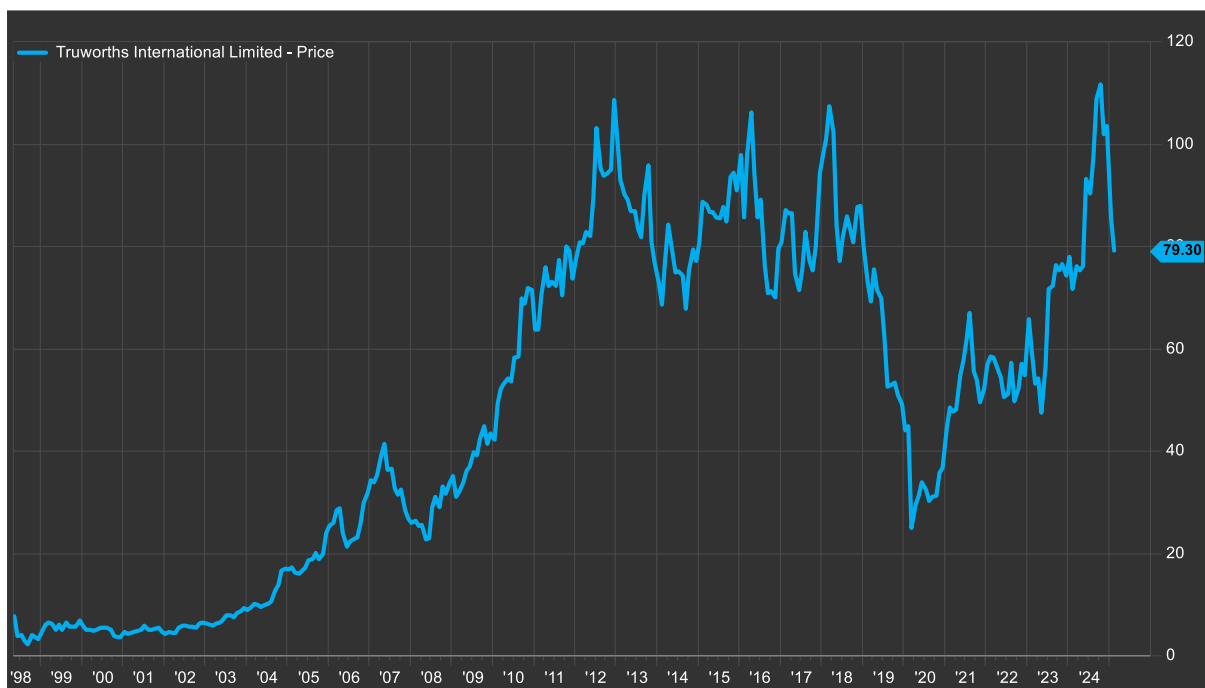
Again, this is the point of this commentary. At the time we wrote that we do not see strong earnings growth ahead for many SA Inc companies, therefore we expect prices to moderate again as companies report their results.

Truworths is another SA Inc retailer whose share price, presented in Chart 3 below, went up nearly +50% in 2024. Early in 2025 at the time of writing it has reported underwhelming results with muted revenue and negative earnings growth.

The result has been a -25% slide in the share price since the beginning of the year. Truworths has now given back all of its SA Inc gains.

Incidentally its long term price chart is not unlike Mr Price ...

Chart 3. Truworths share price



Source: Factset

Next we present several SA Inc sector returns for January:

Retail	-12.3%
Construction	-10.4%
Insurers	-5.6%
Banks	-2.2%
Property	-2.3%

As far as stock market cycles go this one appears to be relatively short but long enough to make funds heavily exposed to SA Inc superb.

What next?

Of course, we all know what has happened. Of importance is what is still to come. We present our humble views, for what they are worth. We have, in fact, presented these in past commentaries.

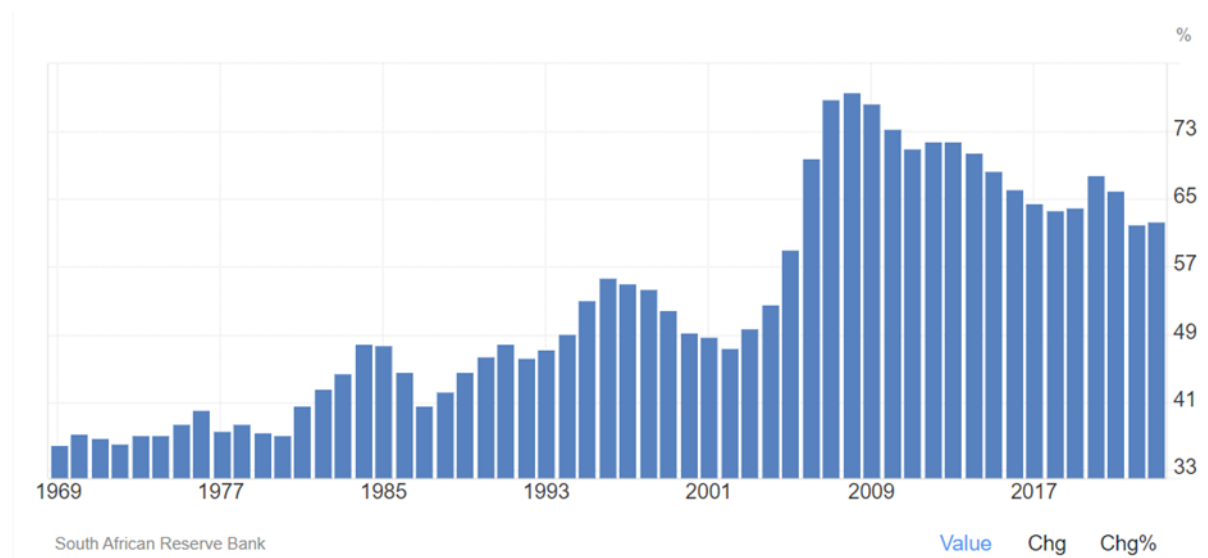
We have never been optimistic on the GNU. The loss of the ANC’s hold on power is welcome but we fear a repeat of developments on local government level i.e. unstable coalition government. Perhaps this week’s failed budget is an example (the reasons nevertheless equally welcome).

We see a greater tailwind from less electricity supply disruption and a prospect of lower rates.

Overall however the main driver has nothing to do with Government, or Eskom, though perhaps more with interest rates. As we have pointed out in past commentaries, we believe SA is still experiencing overhang from the financial crisis and a slow, multi-year deleveraging.

Chart 4 below sets out household debt to income with the clear buildup in leverage to 2008.

Chart 4. Household debt to income



Perhaps the starkest chart of all is Chart 5 below. Growth in bank credit lending or extension is the surest sign of activity in the economy. There is clear cyclicity historically, but very visibly broken, and at recessionary levels since 2008 to today.

Our view is that on aggregate economically things will not sustainably improve until the level of leverage becomes manageable.

Chart 5. Bank credit extension

