M&G Insights

Market Overview: August 2024

September 2024

M&G Investments

Market overview

August was a month of contrasts for global markets, marked by significant volatility and a pronounced recovery in the latter half. The month had a turbulent start, driven by escalating concerns about a potential US recession and the unwinding of carry trades, which led to sharp selloffs in various asset classes. However, by month-end, markets had largely rebounded, albeit with a few notable exceptions.

In the US, fears of a recession gained traction early in the month as unemployment data came in higher than expected, and non-farm payrolls fell short of market predictions. This led to heightened concerns, triggering the Sahm recession indicator, which prompted a broad sell-off in equities. Investors sought refuge in US Treasuries, leading to a notable decline in 10-year yields. The trend towards risk aversion was further evidenced by gold's continued upward momentum. By month-end, the equity market had mostly recovered its losses, bolstered by comments from Fed Chair Jerome Powell at Jackson Hole, which suggested that rate cuts might be on the horizon if inflation continued its downward path. The Fed held interest rates steady in the 5.25%-5.50% range at the July meeting. US inflation fell below 3% year-on-year (y/y) in July for the first time in more than three years, and upwardly revised US Q2 GDP from 2.8% to 3%. In the UK, the BOE cut rates to 5% from 5.25% in a widely expected move.

On the other side of the globe, Japan's decision to hike rates by 15bps on the last day of July sparked significant volatility in both local equities and high-carry currencies. The Nikkei 225 Index experienced sharp declines early in August but recovered somewhat by month-end. Similar volatility was observed in Korea's KOSPI Index. Hong Kong's Hang Seng Index returned 4.1% while continued worries over the country's gloomy economic outlook remained.

In South Africa, inflation dropped more than forecasted to a three-year low of 4.6% y/y in July, nearing the SARB's mid-point target and cementing analysts' expectations for an interest rate cut at the September meeting, which would be the first cut in four years. Data suggests that Q3 GDP growth may show an economic rebound amid a better-than-anticipated energy supply.

Global market performance

Global equities continued to deliver strong performance with the MSCI All Country World Index (ACWI) returning 2.5% in July (in US$). Developed markets outperformed emerging markets, with the MSCI World Index delivering 2.6% and the MSCI Emerging Markets Index posting 1.6%. Global bonds also performed well, with the Bloomberg Global Aggregate Bond Index returning 2.4% (in US$).

Local market performance

In South Africa, the equity market continued to build on the strong gains achieved in recent months. The FTSE/JSE All Share Index delivered 1.4% in August (in rands), with Financials returning 5.3% and Industrials 4.0%. Resource stocks dragged on performance (-9.7%), influenced by disappointing results from major mining companies. Listed Property emerged as the standout performer, with the FTSE/JSE All Property Index gaining 8.4%.

Source: M&G Investments, Bloomberg, data to 31 August 2024

The local bond market reflected broader positive sentiment, with the FTSE/JSE All Bond Index gaining 2.4%, and inflation-linked bonds (the Composite ILB Index) rising by 2.2%. South African bonds continue to offer good relative value but concerns about the rapid movements since the GNU election outcome remain.
US dollar weakness and rand resilience saw the local currency end the month below the R18/US$ level it had previously tested, while remaining stable against the euro and pound sterling.

Overall, August was a month of recovery following early turbulence, with local markets showing resilience and continuing to offer potential opportunities for investors. As always, we encourage a cautious and selective approach in navigating these uncertain market conditions.

Source: M&G Investments, Bloomberg, data to 31 August 2024