M&G Insights

Market Observations Namibia Q4 2024

January 2025

M&G Investments

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%.

In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

US

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending,

Source: M&G Investments, Bloomberg, data to 31 December 2024 and slightly better than the second quarter's 3.0% growth.

While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

EU

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected. Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

UK

Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected. Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates. In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget. The FTSE 100 ended the quarter down 6.8% but posted a 7.7% gain for the year.

China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter. The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US$).

Commodities

Commodities also stayed true to form with volatile moves across the board and faced another challenging month of negative returns for the quarter. Notably, nickel, palladium and copper suffered losses of around 11%. After strong performance in recent months, gold retraced some of its gains this quarter with -1.3% due to US dollar strength but still ended the year with close to a 27% return. Brent crude gained 3.6% for the quarter.

South Africa

South Africa's consumer price index (CPI) rose by 2.9% y/y in November, up from 2.8% y/y in October. Despite this slight inflation increase, the South African Reserve Bank (SARB) Monetary Policy Committee reduced the policy rate by 25 basis points to 7.75% in November.

The country's third quarter GDP contracted by 0.3%, primarily due to a decline in agricultural output, following a revised 0.3% growth in the second quarter.

Local equity and bond markets saw slight declines, with the biggest impact coming from the weakening of the rand. Despite a solid annual return of 13.4%, the FTSE JSE All Share Index fell 2.1% in the fourth quarter. On a sector level, industrials posted modest returns of 0.2%, while financials (-1.2%) and resources (-10.1%) dragged on performance for the quarter (all in rand). South African listed property posted a 0.4% loss in the fourth quarter, but still delivered strong annual returns of nearly 30%.

The FTSE All Bond Index (ALBI) returned 0.4% for the quarter, while inflation-linked bonds (ILBs) returned 0.8%. Notably, South African bonds finished the year with a robust 17% gain, while ILBs returned 7.8% (both in rand). Throughout the year, the nominal bond market experienced significant volatility, with the 10-year bond yield peaking at 12.50% in April before strengthening to around 10.30% by year-end. The yield curve also bull-flattened in 2024, with long-term bond yields falling more sharply than shorter-term ones. The ILB curve flattened slightly, coming off an already flat basis at the start of the year. SA cash gained 2.0% for the quarter (in rand).

Namibia

Political changes and central bank actions were key themes for Namibia during the quarter, reflecting a broader global narrative.

Namibians went to the polls in November and elected the country's first female President-elect, Netumbo Nandi-Ndaitwah, who secured 57% of the vote. In her victory speech following the election, Nandi-Ndaitwah expressed her intention to implement "radical shifts" to address the country's high poverty and unemployment levels. She hinted at potential breaks from SWAPO's previous policies, signalling change on the horizon.

Despite claims from opposition parties alleging voter suppression and election irregularities, Nandi-Ndaitwah dismissed the allegations, with the electoral commission confirming that the election was free and fair. Nandi-Ndaitwah is set to assume office in March 2025. Meanwhile, the continuity of SWAPO's governance reassures investors, especially in Namibia's energy sector, who value political stability. Interim President Nangolo Mbumba continues to lead the country in the interim.

On the economic front, Bank of Namibia (BoN) Governor Johannes !Gawaxab announced a 25-basis-point reduction in the repo rate, lowering it to 7%. This decision, made during the Monetary Policy Committee's (MPC) final meeting of 2024, aims to stimulate economic growth while maintaining the peg between the Namibian Dollar and the South African Rand. The MPC's decision followed a thorough evaluation of both domestic and global economic conditions. The committee also considered the policy rate differential with the South African Reserve Bank, with the intention of narrowing the gap in the medium term. Additionally, the MPC expressed its support for the government's growth-oriented fiscal policy, emphasising its commitment to investments that promote economic stability.

The BoN also introduced enhanced supervisory measures to strengthen Namibia's banking sector, focusing on improving governance and risk management practices. These measures underscore the importance of maintaining a stable and resilient banking sector, with an emphasis on proactive risk detection.

In terms of economic growth, Namibia's GDP grew by 2.8% in Q3 2024, slightly down from 3.1% in the same period in 2023. Positive contributions to growth came from the health and wholesale sectors, while mining, quarrying, agriculture, and forestry were hindered, mainly due to ongoing regional droughts.

Against this backdrop, the NSX Overall Index fell by 4.4% in the fourth quarter. Sector-wise, resources (-7.7%), financials (-5%), and industrials (-0.9%) detracted from the index's performance. However, the NSX Local Index performed better, gaining 2.8%. Despite this dip in the fourth quarter, Namibian markets showed resilience, finishing the year on a strong note. The NSX Overall Index saw a robust 15.9% increase, and the NSX Local Index gained 10%. Positive returns were driven by the financial (18.5%), industrial (17.1%), and resources (7.7%) sectors.

Fixed income showed a slightly better performance compared to equities. The IJG All Bond Index rose by 0.6%, while the IJG Money Market Index increased by 2.0%. Namibian bonds performed well over the year, delivering a return of 14.1%, while Namibian cash yielded 8.5%, all in Namibian dollars.

Currency

The rand and the Namibian dollar (with its rand peg) weakened against the US dollar (9.5%), British pound (2.3%), and euro (1.8%) during the quarter. The strength of the US dollar was driven by a post-election rally and strong economic performance, particularly relative to the UK and other developed economies.