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M&G Insights

Market Overview Namibia – January 2025

February 2025

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Market overview

Despite heightened uncertainty, global markets showed resilience in January, with most finishing the month in positive territory. Key themes shaping markets included US trade policies, inflation concerns, central bank actions, as well as developments in geopolitics and artificial intelligence (AI).

Market volatility was sparked by headlines regarding US politics and potential policy changes. Trump's second term had a chaotic start, with markets moving as participants try to assess the impact of regulations on asset prices and the broader economy. Trade policy discussions, particularly around tariffs, fuelled concerns about global inflation and triggered a sharp rise in global bond yields. A ceasefire deal between Gaza and Israel in the latter half of the month improved sentiment and contributed to a rebound in global bond markets.

China, Canada, and Mexico were at the forefront of tariff changes, with markets closely watching their impact on oil production, and AI acceleration. Inflation dynamics, particularly in the US, also remained in focus as consumer price inflation reached 2.9% y/y in December, driven by rising energy prices. Despite the Federal Reserve's decision to hold interest rates steady in January, uncertainty around Trump's policies and global inflation trends led to fluctuations in stock markets.

On the global economic front, growth outside the US has been sluggish, with Germany in recession for two consecutive years, and France and the UK experiencing only modest growth. Inflationary pressures persist, and expectations for interest rate cuts have been tempered in most regions. In contrast, China's economic growth is slowing, and deflationary pressures continue to weigh on its economy.

Central banks worldwide, including the European Central Bank (ECB) and South African Reserve Bank (SARB), have signalled or implemented rate cuts in response to weak economic growth. The SARB's rate cut is likely to be the last for the near future as we enter a "higher-for-longer" inflationary phase while awaiting the impact of US policy changes. Meanwhile, the Bank of Japan raised rates by 25bps, a move that strengthened the yen, signalling confidence in continued wage growth and the end of deflationary pressures in the country.

A major shock at the end of the month came with DeepSeek's AI progress announcement, triggering a massive sell-off in US tech stocks. Nvidia's stock dropped 17%, erasing nearly US$600bn in market capitalisation, marking the largest one-day loss for a single company. This raised concerns about overcapitalisation in US tech development and the growing competitiveness of Chinese companies in AI.

Global market performance

Global markets generally saw positive performance throughout the month. Global equities continued to rally, delivering 3.4% in January as measured by the MSCI All Country World Index (ACWI). The strong performance, fuelled by AI-driven hype, continued despite the intra-day volatility and sell-off in US AI-related shares triggered by DeepSeek. Quarterly earnings reports from US banks provided some optimism in the financial sector, with Citigroup, Goldman Sachs, and JP Morgan posting strong double-digit returns.

Source: M&G Investments, Bloomberg, data to 31 January 2025

Developed markets (MSCI World Index) rose by 3.5% for the month, outperforming emerging markets (MSCI Emerging Market Index) with 1.8%.

Global bonds, as measured by the Bloomberg Global Aggregate Bond Index, returned 0.6%, and global property, as represented by the EPRA NAREIT Global Property Index, rose by 1.6% (all figures in US dollars).

Notably, US equities experienced their second consecutive year of gains above 20%. The S&P 500 ended 2024 up 26%, marking a two-year total return of 53%.

South African market performance

South African equities, as measured by the FTSE/JSE All Share Index, recovered from early losses to return 2.3% for the month in rand terms and 3.4% in US dollar terms. Resources delivered an outstanding performance, gaining nearly 18% after two months of negative returns, while Industrials rose by 0.5%. However, Financials weighed on overall performance with a decline of 2.9%, and Listed Property (FTSE/JSE All Property Index) also struggled, falling 3%.

A key market event was the US announcement that Tencent would be added to the Department of Defense blacklist, causing a significant sell-off in the stock. Naspers and Prosus shares followed, dropping over 10% in a single day. The company responded with a share repurchase program, and after an announcement of engagement with authorities, the stock prices recovered most of their losses by month-end.

Precious metals rallied, particularly gold counters, which benefitted from a strong gold price. Diversified resource companies lagged their platinum and gold counterparts, showing flat returns for the month

The FTSE/JSE All Bond Index returned 0.4%, outperforming the Bloomberg Global Aggregate Bond Index, which declined 0.6% in rands. The yield curve steepened, with the R209 bond ending the month slightly higher than at the start of the year. The short-dated R186 bond yield fell slightly, and the R2035 bond, a proxy for the SA 10-year, ended the month at a yield of 10.385%, close to its starting point of 10.31%.

Inflation-linked bonds saw a small negative move for the month, down 0.3%. The I2025 bond matured at the end of January, leading to changes in the yield curve, which is now slightly steeper than at the end of last year but still relatively flat.

South African cash, measured by the STeFI Composite, returned 0.7%.

The rand regained ground against all major currencies, strengthening 1.2% against both the US dollar and the euro, and 2.2% against the British pound.

Namibian market performance

The NSX Overall Index posted a decline of -1.5% for the period. Meanwhile, the IJG All Bond Index returned 0.8%, and inflation-linked bonds, as represented by the IJG Inflation-Linked Bond Index, delivered a modest return of 0.4%. Namibian cash, measured by the IJG Money Market Index, saw a return of 0.6%.

In economic news, Namibia's trade balance recorded a deficit of N$119 million in December 2024, marking a notable improvement from the N$5.5 billion deficit in November 2024.

In response to Namibia's severe drought, the Ministry of Agriculture, Water and Land Reform is fast-tracking drought relief efforts. These initiatives focus on supporting livestock, improving rural water access, and tackling sanitation issues to help mitigate the drought's immediate effects and protect livelihoods.

The European Union, the United Nations Development Programme (UNDP) Namibia, and the Anti-Corruption Commission have launched the 'Good Governance Project 2025-2029' in Namibia. EU Ambassador Ana-Beatriz Martins signed a contribution agreement with UNDP and government officials to support this initiative.

Source: M&G Investments, Bloomberg, data to 31 January 2025

Opposition party, the Independent Patriots for Change (IPC), supported by other parties, challenged the results of Namibia's controversial elections in court on 15 January 2025. They are asking the Supreme Court to set aside the presidential election outcome, which was won by Swapo's Netumbo Nandi-Ndaitwah, and order a new election. Additionally, they seek for the Electoral Court to invalidate the national assembly election results, where Swapo also won.

Source: M&G Investments, Bloomberg, data to 31 January 2025