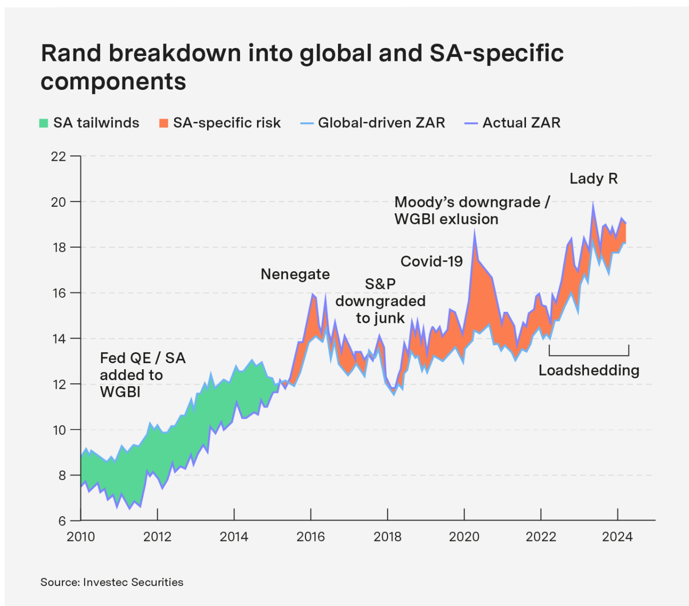
The Monthly Bulletin

SygniaSygnals

April 2024

Chart of the month – Elections and currencies

By Kyle Hulett
Co-Head: Investments

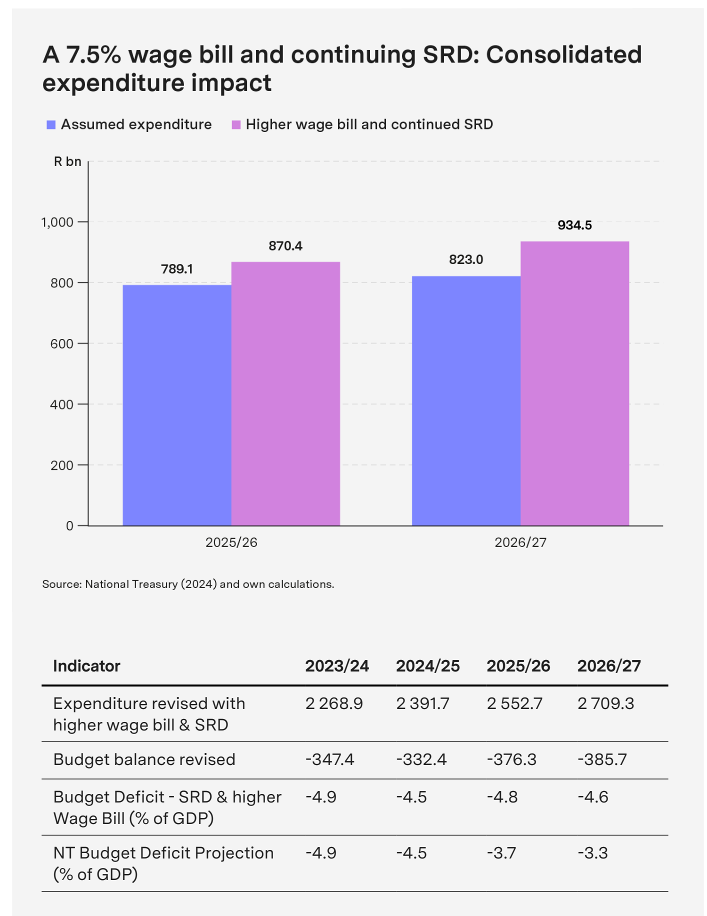


As US and SA elections loom, we review their impact on currencies. The dollar, the reserve currency of the world, is driven primarily by global interest rate differentials, secondly by global growth differentials and then at varying times and by varying degrees by global risk appetite. Right now, the US elections are affecting the dollar, with the dollar strengthening as Donald Trump's probability of winning increases. Trump is seen to be far more focused on US growth at the expense of the rest of the world, while Democrats are more cognisant of their NATO partners. Trump's foreign policy is also more likely to result in escalating tensions, which would see a return to the risk-off environment – so the dollar would strengthen on both more US exceptionalism and the higher probability of global geopolitical incidents. A Trump presidency would increase the risk of unexpected outcomes in all major regions, but the main potential for a policy shift is on Ukraine, where Trump is likely to cut off all aid. With Biden currently leading by 1%, this election is closely contested. Meanwhile, the Biden administration has implemented far fewer anti-trust enforcements than is typical for Democrats, and we may yet see an attack on US corporate greed as part of Biden's election campaign.

Looking at South Africa, three outcomes seem most likely. In the first, the ANC wins between 45% and 55% of the vote; if needed, it can form a coalition with one or a few of the smaller political parties. This is our base case and would be a status quo event – the ZAR would likely strengthen, possibly to R18, as the worst-case scenario fails to take place (Investec models show the rand has a R1 risk premium built in (see Chart)). In the second scenario, the ANC gets 40% to 45% of the vote and forms a coalition with the Multi-Party Charter or the DA. This could see a big SA rally on the back of escalated reforms, with the rand possibly strengthening to R17. And in our final outcome, the ANC gets close to or less than 40% of the vote and forms a coalition with the EFF and/or MK parties, causing the rand to sell off dramatically to over R21 as more radical economic policies are put into place.

Are the Budget deficit projections reliable?

By Haroon Bhorat
Chair: Investment Committee



Indicator	2023/24	2024/25	2025/26	2026/27
Expenditure revised with higher wage bill & SRD	2 268.9	2 391.7	2 552.7	2 709.3
Budget balance revised	-347.4	-332.4	-376.3	-385.7
Budget Deficit - SRD & higher Wage Bill (% of GDP)	-4.9	-4.5	-4.8	-4.6
NT Budget Deficit Projection (% of GDP)	-4.9	-4.5	-3.7	-3.3

While the recent Budget from National Treasury was received with much relief from the markets for its adherence to macro conservatism, the outer year deficits are worryingly dependent on political economy concerns in two areas. In the case of the social relief of distress grant (SRD) of R370 per month, government has not budgeted for it to increase beyond March 2025, though history and political economy dynamics in South Africa suggest otherwise. Secondly, and perhaps more importantly, the public sector wage bill adjustment pencilled in

for the two outer years of the MTEF is an annual adjustment of 4.5% per year. The largest public sector unions in South Africa – Nehawu, Popcru, Denisa and Sapu – have not agreed to these adjustments, however, and I cannot find a credible reason for the wage bill not to exceed the 4.5% adjustment.

The chart before illustrates the implications for the national budget deficit, all else being equal, should public sector wages be adjusted by a more likely 7.5% per annum and the SRD continue into 2026/27. In this scenario, national expenditure estimates are close to R950 bn by 2026/27 on these two items. In turn, the deficit-to-GDP ratio remains elevated throughout the period and does not drop below 4.5%, peaking at 4.8% in the 2025/26 year. Ultimately, reneging on the public sector wage bill commitment and the SRD will cause South Africa's deficit-to-GDP ratio to rise from the assumed 3.3% to 4.6% by fiscal year 2026/27. This is a deficit target to keep an eye on!

Top-performing Sygnia funds

By Nikita Hadskins
Portfolio Analyst

Returns in March were more evenly distributed than in January and February. SA equities finally had a decent bounce on the back of the strengthening rand and rallying resources, with the Top 40 Index in second place. The new Sygnia Transnational Fund, which has replaced the Sygnia SWIX Fund, continues its excellent track record, coming in in fourth place with a 2.6% return. This fund provides exposure to JSE-listed companies with strong offshore revenues and has outperformed the SWIX by 3.8% since its conversion four months ago.

1-month absolute performance

Rank	1 month	Return
1	Sygnia Itrix S&P 500 ETF	3.1%
2	Sygnia Top 40 Index Fund	2.9%
3	Sygnia Itrix FTSE100 ETF	2.6%
4	Sygnia Transnational Equities Fund	2.6%
5	Sygnia Itrix Eurostoxx50 ETF	2.6%

One-year returns continue to reflect US exceptionalism: artificial intelligence has driven US global tech stocks higher and Berkshire Hathaway has rallied on strong insurance results. The top four positions are held by US-aligned funds, with Japan at number five.

12-month absolute performance

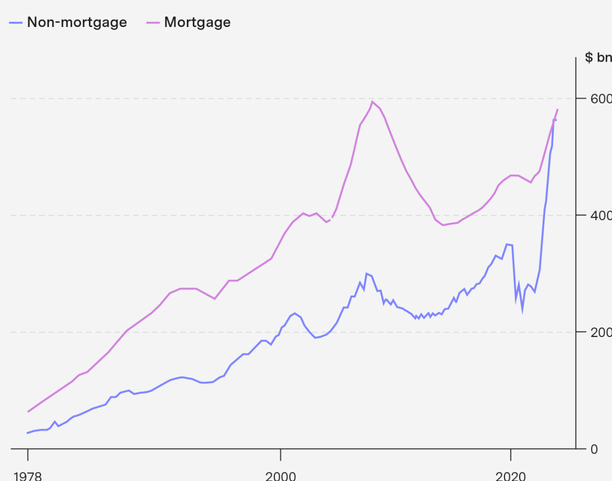
Rank	12 month	Return
1	Sygnia FANG.AI Equity Fund Class A	65.1%
2	Sygnia Life Berkshire Hathaway Portfolio	42.2%
3	Sygnia Itrix S&P 500 ETF	39.7%
4	Sygnia Itrix MSCI US ETF	37.1%
5	Sygnia Itrix MSCI Japan ETF	34.3%

US – Economic growth has started to slow, but the Fed needs to balance inflation

By Chanté Burger
Portfolio Manager

- The US unemployment rate increased unexpectedly from 3.7% to 3.9%, its highest rate in two years, while average hourly earnings fell, suggesting decelerating wage growth pressures. Similarly, the latest JOLTS data show the quits rate has continued to decline, and the employment components of the ISM manufacturing and services purchasing managers indices both contracted in February. The jobs data are consistent with a gradually softening labour market.
- Retail sales rose 0.6% month-on-month in February, below consensus. With consumer Covid savings depleted, the US consumer is under pressure. Money and credit growth are weak, delinquency rates are rising for non-mortgage debt and banks have continued to tighten lending standards. Non-mortgage debt payments have surged (Chart) and for the first time on record, interest payments on non-mortgage debts are as high as mortgage interest payments. This will constrain consumer spending and confidence.

Interest payments by US households



Source: Bloomberg

- Office real estate is a major risk. At nearly 20%, office market vacancy is at its highest since the data series began in 1979. The share of delinquent loans in commercial real estate collateralised loan obligations surged fourfold in January, to 8.6%.
- This suggests the Fed should cut interest rates sooner, but inflation has picked up slightly. Prices paid to US producers rose in February by the most in six months, driven by higher fuel and food costs, and the US core consumer price index came in slightly hotter than expected at 3.8%, though this was down from January's 3.9%.
- Fortunately, this is unlikely to change the Fed's plans to cut interest rates in June. Fed Chair Jerome Powell made dovish comments at his semi-annual testimony to the Senate Banking

Committee, adopting the language of European Central Bank President Christine Lagarde in his statement that inflation is "not far" from where it needs to be for the Fed to start cutting interest rates. In addition, the Fed lowered the bar to allow policy easing by raising expected core personal consumption expenditure for 2024 up to 2.6%, while still projecting three cuts this year.

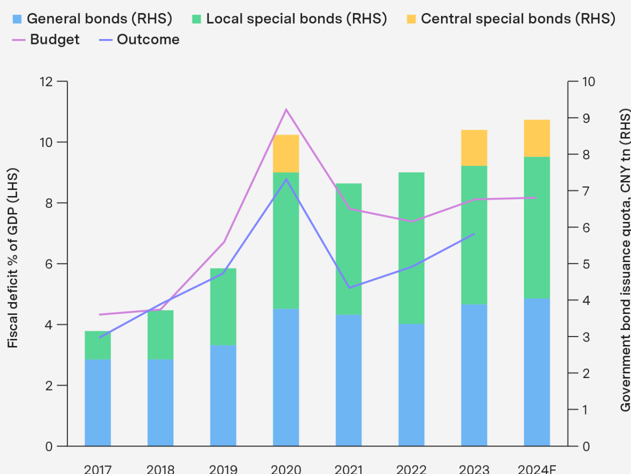
- Inflation could actually fall faster than these expectations. Chinese export prices are still falling, suggesting that the US will continue to import disinflation. Both the Zillow and New Tenant rent indices suggest lower owners' equivalent rent, and the US has lost nearly 2 million full-time jobs over the last three months, suggesting payroll growth has been driven by part-time jobs.

China: Ambitious 5% growth targets for 2024

By Anrich de Jager
Head: Fixed Income

- Premier Li Qiang announced at the March National People's Congress that China will target economic growth at around 5% for 2024. Despite a higher base, this matches 2023's target of around 5%, but it will require more stimulus to lift confidence in an economy already constrained by a property slump and entrenched deflation. Premier Qiang himself acknowledged that "It is not easy for us to realise these targets ... We need policy support and joint efforts from all fronts." The budget is likely to boost GDP by 0.6 ppt in 2024 after the broad deficit, which combines the general public budget and government funds budget.
- China's economic performance year to date reflects robust gains in manufacturing output and capital investment against a tepid recovery in consumer spending. According to China's National Bureau of Statistics, Chinese exports increased 32.6% from a year earlier in the first two months of this year, to 15.9m tonnes. However, the adjustment in China's real estate sector is not over, and the property market is likely to contract for the fourth year in a row.
- While supply-side stimulus and a boost in export demand has helped, consumer demand continues to face headwinds from falling property prices.

Broad budget deficit rises in 2024



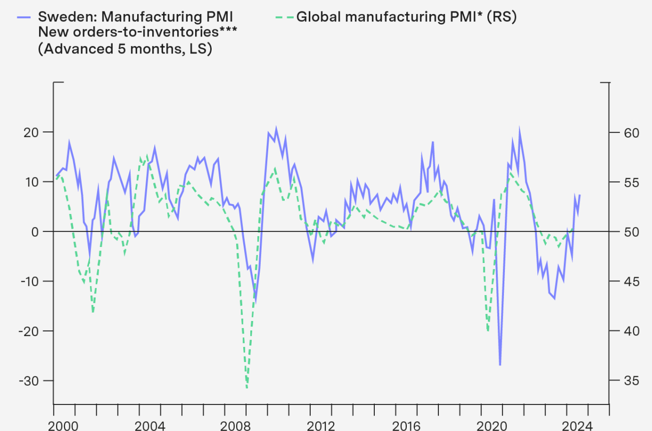
Source: Standard Chartered

Outlook – Soft landing still the base case, but risks have risen

By Iain Anderson
Co-Head: Investments

- The Bank of Japan ended eight years of negative policy rates with its first hike in 17 years! The central bank set a new policy rate range of between 0% and 0.1%, shifting from -0.1% short-term interest.
- China requires significant macro policy easing, which is unlikely. The struggling property market is thus likely to continue to dominate the outlook, with supressed consumer confidence and export prices contributing to global disinflation.
- Despite Chinese stagnation, manufacturing green shoots are evident in the rest of the world. Taiwan's trade figures point to an improvement in global trade, and the Swedish krona's appreciation suggests global growth is improving (Chart).
- US exceptionalism is supported by its energy independence. In 2023, the US produced 28% more oil than Russia and 33% more than Saudi Arabia, according to the US Energy Information Administration. While the effects of monetary tightening may test economic resilience, a recession is unlikely due to potential monetary easing, increased productivity, and strong household balance sheets. The Fed is likely to cut rates three times this year.
- Increased economic growth or geopolitical oil spikes could raise inflation expectations. Recent Ukrainian drone attacks on Russian oil facilities resulted in a 7% shutdown of Russia's refining capacity, contributing to rising crude oil prices this month. Vladimir Putin's expected victory in Russia's presidential election was certain, as opposition candidates were barred from running. Climate change also poses an inflation risk, with record-breaking global sea surface temperatures fueling concerns of extreme weather patterns. Any major weather event could disrupt supply chains and lead to higher inflation.
- We maintain an overweight position in US equities for now. The dollar may weaken due to narrower interest rate differentials or a rest of world growth recovery, but US elections and China weakness are likely to keep the dollar strong.

Sweden leads global manufacturing by five months



Source: BCA
* Source: S&P Global
** Source: National Institute of Economic Research, Sweden; shown truncated at 50.
*** Source: Swedbank and SILF; shown smoothed except for last data point.

Key indicators

		1 mo.	3 mos.	6 mos.	1 yr.	2 yrs.	3 yrs.	5 yrs.	10 yrs.
J203T	**FTSE/JSE All Share Index**	3.2%	-2.2%	4.5%	1.5%	3.2%	8.1%	9.7%	8.1%
J200T	**FTSE/JSE Top 40 Index**	3.8%	-2.3%	4.1%	0.3%	3.5%	8.0%	10.2%	8.2%
J210T	**FTSE/JSE Resources 10 Index**	15.4%	0.8%	0.8%	-10.7%	-12.4%	0.3%	9.4%	4.7%
J211T	**FTSE/JSE Industrials 25 index**	2.9%	0.9%	6.8%	3.3%	15.2%	8.2%	10.6%	8.8%
J212T	**FTSE/JSE Financials 15 Index**	-3.5%	-7.1%	4.3%	12.7%	1.9%	15.8%	5.3%	6.7%
J403T	**FTSE/JSE SWIX Index**	2.9%	-2.2%	5.7%	2.7%	1.7%	5.3%	7.0%	6.6%
J433T	**FTSE/JSE Capped SWIX Index**	2.9%	-2.3%	5.7%	2.9%	1.5%	7.5%	7.6%	6.4%
J303T	**FTSE/JSE CAPI Index**	3.2%	-2.3%	4.5%	1.5%	2.7%	9.0%	10.0%	8.1%
J253T	**FTSE/JSE SA Listed Property Index**	-1.0%	3.8%	20.9%	20.5%	7.9%	13.9%	0.7%	3.1%
ALBI	**JSE All Bond Composite Index**	-1.9%	-1.8%	6.2%	4.2%	5.0%	7.4%	7.0%	7.7%
STeFI	**STeFI Index**	0.6%	2.0%	4.1%	8.3%	7.1%	6.0%	6.0%	6.5%
	MSCI World Index in SA rands	1.9%	12.7%	22.3%	33.9%	22.9%	18.1%	18.5%	16.0%
	Rand/US dollar exchange rate	-1.3%	3.5%	0.5%	6.7%	13.8%	8.6%	5.7%	6.0%
	Rand/euro exchange rate	-1.5%	1.2%	2.5%	6.1%	12.2%	5.6%	4.9%	3.5%
	Rand/pound exchange rate	-1.4%	2.6%	4.0%	9.0%	11.5%	5.5%	5.1%	3.1%
	Headline CPI	1.0%	1.1%	2.5%	5.6%	6.3%	6.1%	5.1%	5.1%
	PPI	0.5%	0.0%	1.9%	4.5%	8.3%	9.0%	7.1%	6.1%