The Monthly Bulletin

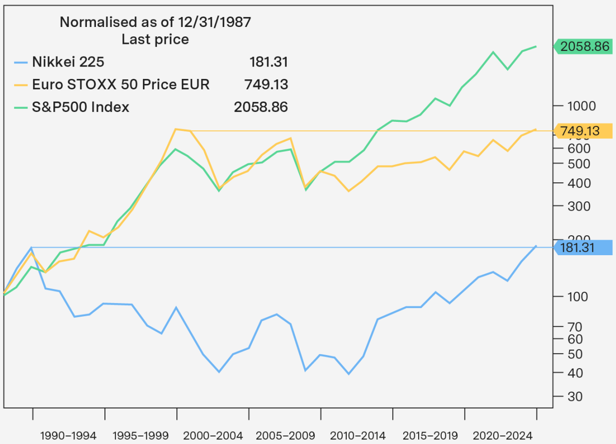
SygniaSygnals

March 2024

Chart of the month – Japan and Europe reach the highs of 1989 and 1999 respectively

By Kyle Hulett
Co-Head: Investments

Japan reaches a new high after 33 years, Europe after 23 years



Source: Bloomberg

- The MSCI World Index hit a new high in February. The developed economies are officially in a bull market, which has worked well for the fund's positioning. This was driven by the US, which reached new all-time highs. Meanwhile, more than three decades after its previous high, the Japanese Nikkei 225 Index finally breached its 1989 high, and Europe's STOXX 50 Index is only now matching its 1999 high (see Chart 1). What has driven markets to these new highs? Global economic barometers remain distorted by the Covid era, with the global manufacturing purchasing managers' index (PMI) only in January scaling the wall of worry (back) to the non-recessionary 50 level after 16 months of contraction.

- The PMI indicates that activity has stabilised. The improvement was driven by the US' economic growth recovery in 2023 as the rest of the world slowed: US annual import growth turned positive in November last year for the first time in nine months, but other major regions continue to struggle.

- Similarly, while US gross domestic product (GDP) expanded by 3.3% in Q4 2023, the eurozone economy stagnated, and both Japan and the UK slipped into a recession in H2 2023.

- The Chinese economy continues to face low consumer confidence due to its struggling property market.

- However, GDP is backward-looking and markets are driven by changes in expectation, as best illustrated by the Citigroup Economic Surprise Indices. Consistent upside surprises in the US in 2023 are clear, driving world trade and growth.

- The eurozone and Japan have only recently shown green shoots, while China continues to flirt around the neutral level. While the economic surprise indices support the developed economies bull market, markets are looking very stretched in the short term.

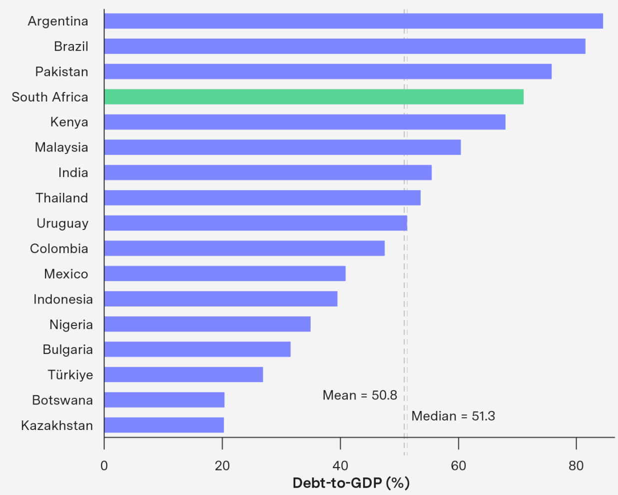
Bills to pay – Debt dynamics in South Africa

By Haroon Bhorat
Chair: Investment Committee

- The release of the 2024 Budget has refocused attention on South Africa's persistent national debt challenges. Ongoing debt servicing costs constitute close to 21 cents of every rand of revenue in the current budget framework and are, on aggregate, the second-largest item after education. A decade ago this interest burden stood at only 11 cents for every rand of revenue.

- These rising costs are due to an escalating interest environment, struggling economic growth and, of course, wastage and corruption in government. A comparison with other middle income countries shows that South Africa's debt levels are significantly elevated. We are some 20 percentage points above the mean and median of the debt-to-GDP ratios in the sample below, in the unfortunate company of other struggling nations such as Argentina and Pakistan.

Debt-to-GDP ratios, latest year: By country



Source: IMF (2024)

- In this context, it is really worth emphasising a few key aspects of the Budget within a broader macroeconomic context: Firstly, the National Treasury inherited a fiscus struggling with a low economic growth environment – both globally induced but also as a function of collapsing complementary infrastructure essential for output expansion. Secondly, the National Treasury's debt position evolved over much of a decade under the populist regime of President Zuma, laced with state capture and the looting of state-owned enterprises. The vestiges of this regime find their macroeconomic expression in the debt obligations and deficit figure reflected in the current Budget.

Top-performing Sygnia funds

By Steven Empedocles
Head: Indexation

- China had a remarkable recovery in February, but from a low base, driven by government policies aimed at banning short selling and restricting quant funds. This is not necessarily a sustainable fix to the economy, but China is pulling all the levers. This drove emerging markets higher in the month. Berkshire Hathaway continued to do well, with CEO Warren Buffett's annual newsletter showing a strong all-round financial performance – it is a great read. Nvidia's outstanding results renewed the bull market in AI, FANG stocks and developed markets in general as the company saw revenue growth of 265% for the quarter; it expects revenue to more than double in the next twelve months.

1-month absolute performance

Rank	1 month	Return
1	Sygnia Itrix New China Sectors ETF	12.6%
2	Sygnia Life Berkshire Hathaway Portfolio	11.1%
3	Sygnia Itrix MSCI Emerging Markets 50 ETF	8.8%
4	Sygnia FAANG Plus Equity Fund Class A	8.6%
5	Sygnia Itrix Eurostoxx 50 ETF	8.5%

- The weak rand and strong global markets drove the one-month numbers and continue to reflect in the 12-month numbers, with funds driven by US exceptionalism over the 12-month period.

12-month absolute performance

Rank	12 month	Return
1	Sygnia FAANG Plus Equity Fund	80.1%
2	Sygnia Life Berkshire Hathaway Portfolio	41.1%
3	Sygnia Itrix MSCI US ETF	34.5%
4	Sygnia Itrix S&P 500 ETF	34.3%
5	Sygnia Itrix MSCI Japan ETF	29.9%

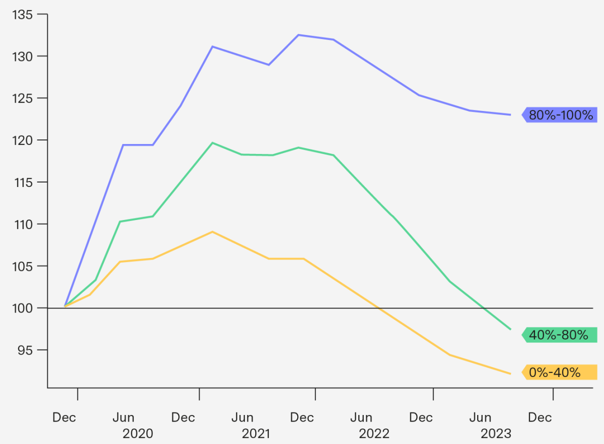
US consumer starting to run out of cash

By Mish-Al Bassadien
Senior Portfolio Analyst

- The stronger-than-expected January US consumer price index (CPI) report was in line with our higher-for-longer thesis, and the market has moved from pricing in seven rate cuts in 2024 to only three cuts, in line with the Fed's projection. The start date of the cuts has been pushed back from March to June. A key driver of the strong inflation number appears to be shelter costs, driven by a large monthly increase in the volatile "lodging away from home" category, which includes hotels. Rentals of primary residences, meanwhile, increased by 0.4%, matching the December monthly increase. Core inflation excluding shelter is running at 2.2% year on year, and indicators of rent growth remain subdued, which should reflect in lower shelter inflation in the future. In addition, US January retail sales fell more than expected in their weakest monthly rate since March last year, and the Conference Board Consumer Confidence Index fell more than expected, showing that the consumer is slowing down. The US continues to import disinflation through cheaper goods. Thus, dynamics remain consistent despite the hotter-than-anticipated inflation release, with core inflation trending to the Fed's target. Markets are stretched in the short term, but we remain bullish on the US because: i) financial conditions have eased in anticipation of rate cuts; ii) household wealth remains elevated; iii) housing is stable with signs of renewal; and iv) manufacturing has stabilised and shows signs of renewal.
- Warning signs are flashing, however, particularly around the US consumer, which drove US exceptionalism in 2023. Credit card and auto loan defaults have risen, and households have largely run out of excess savings. In real terms, excess bank deposits for the bottom 80% of households (by income percentile) – which account for 60% of consumption – are lower than they were before Covid (see Chart 3). Alpine Macro estimates that only $300 million of the Covid excess savings stockpile remains, against a peak of over $2 trillion. The household savings rate is already low by historical standards, and there are limited signs that consumers are willing to take on more credit at the current interest rate.
- On the political side, Former President Donald Trump made it four in a row, defeating Nikki Haley in her home state to win the South Carolina primary. A Biden-Trump rematch on 5 November looks certain. Not only would this be the first presidential rematch in more than half a century, but unfavorability ratings for both candidates are at unprecedented highs for this stage of the race: 86% of voters find Biden too old to run and 77% think the same of Trump. Mid-February polls show an extremely close race, with Trump narrowly leading Biden by 1 ppt. Geopolitical risks remain elevated. In the aftermath of Russian opposition leader Alexei Navalny's death, the Biden administration unveiled a sanctions package, with President Biden blaming Putin and calling him a "crazy SOB."

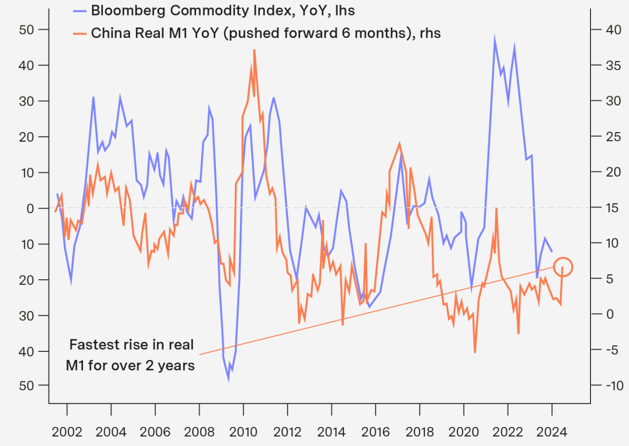
US households below the 80th income percentile have run out of cash

US real deposits and Money Market Fund shares by household income percentile:



Source: BCA

China real money supply hits a two-year high, supporting commodity prices



Source: Bloomberg

China – Exporting via Mexico

By Anton Swanepoel
Portfolio Manager

- China is restructuring its manufacturing operations to avoid US tariffs. The value of Chinese auto parts made in Mexico and exported to the US reached $1.1 billion in 2023, up 15% over the previous year. Tesla plans to build its cheaper next-generation electric vehicle at its Mexico plant, helped by $153 million in Mexican government incentives. Thirty-three Chinese auto-parts makers were registered in Mexico last year, and the Tesla plant will use Chinese parts manufactured in Mexico.
- China's increased manufacturing presence in Mexico comes as its direct exports to the US have fallen to their lowest level since 2010. Tesla CEO Elon Musk warned of Chinese carmakers that "if there are no trade barriers established, they will pretty much demolish most other car companies in the world. They're extremely good."
- Loan growth in China fell to a record low of 10.4% year-on-year in January, its lowest since 2003. The slowdown indicates sluggish credit-demand growth despite net new social financing having beaten market expectations. The CNY 6.50 trillion increase in aggregate financing marked a significant rise from December's CNY 1.94 trillion. In addition, real M1 money supply grew at its fastest rate in two years, which will support commodity prices (see Chart 4). However, this green-shoot recovery will prevent a bazooka stimulus. While China did cut its five-year-loan prime rate by 25 bps, its biggest cut ever, we expect the Chinese economy to continue to muddle along. The latest measures have focused on the stock market, with a ban on short selling, a crackdown on quant-driven funds, and China's state-backed funds buying $57 billion worth of Chinese equity ETFS this year according to UBS, with more likely to come.

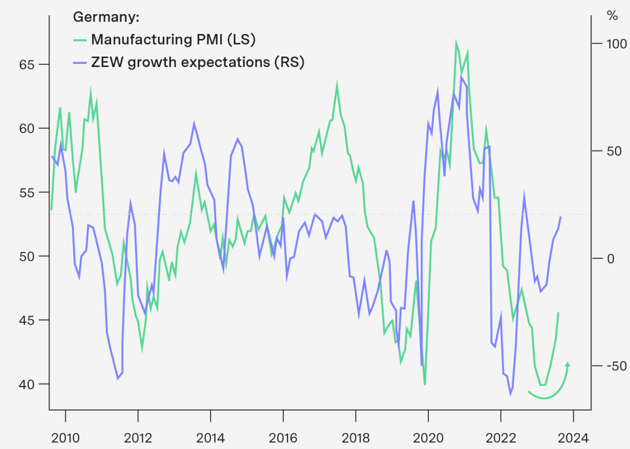
"If there are no trade barriers established, they will pretty much demolish most other car companies in the world. They're extremely good."

Outlook – Rest of the world showing green shoots

By Iain Anderson
Co-Head: Investments

- Despite the EU, UK and Japan all bordering on recessions, forward-looking indicators show a mild manufacturing improvement.

German expectations index pointing to a revival in growth



Source: BCA

- The ZEW expectations component – a leading indicator of the eurozone manufacturing PMI – is pointing to a recovery (see Chart 5). Similarly, the new orders-to-inventories ratio of Sweden's manufacturing PMI, which usually provides an advanced view on global trade, is rebounding. Economic surprises in the US, Europe and Japan are positive. It is not clear to what extent any recovery in the rest of the world will be held back by a US slowdown.
- Our strategic views remain unchanged. The cyclical trend in equities is up over the next six months and the Fed pivot rally is not over. Odds of a severe US recession in 2024 remain low, but economic acceleration is also unlikely. China continues to export disinflation, shelter inflation is likely to fall in the US and oil prices are likely to remain contained, with non-OPEC supply increasing more than expected to outpace oil-demand growth. The Fed has room to cut rates. On the flip side, the odds of inflation being significantly higher than expected and delaying rate cuts are greater than before but are unlikely to derail the picture unless a geopolitical event increases inflation through higher energy or transport costs. Geopolitical risks remain high, with the Russia/Ukraine war nearing its third year and tensions in the Red Sea remaining elevated. Sweden's newly approved NATO membership may exacerbate tensions.
- South Africa's National Treasury announced plans in the Budget to use half of its R500 billion contingency reserves to reduce the debt to 75.3% of GDP in 2025–2026 – better than the 77.7% previously predicted. Taxes will be raised by R15 billion, mostly by not adjusting the personal income tax brackets for inflation. The Covid social relief of distress grant has been extended for two years. Most noticeably lacking were any structural reforms or supply-side initiatives to encourage growth. Not surprisingly, the International Monetary Fund predicts that South Africa's debt-to-GDP will rise and believes that SA has limited fiscal space. We remain cautious on SA.

Key indicators

		1 mo.	3 mos.	6 mos.	1 yr.	2 yrs.	3 yrs.	5 yrs.	10 yrs.
J203T	**FTSE/JSE All Share Index**	-2.4%	-3.4%	-1.3%	-2.9%	1.6%	7.5%	9.3%	7.9%
J200T	**FTSE/JSE Top 40 Index**	-2.5%	-4.6%	-2.8%	-4.2%	1.2%	7.1%	9.8%	7.9%
J210T	**FTSE/JSE Resources 10 Index**	-7.2%	-13.8%	-11.8%	-20.4%	-19.3%	-3.9%	7.3%	3.2%
J211T	**FTSE/JSE Industrials 25 index**	-0.6%	-1.5%	-0.8%	-0.2%	10.8%	7.7%	10.8%	8.6%
J212T	**FTSE/JSE Financials 15 Index**	-0.8%	1.6%	3.9%	10.0%	9.8%	17.6%	5.0%	7.8%
J403T	**FTSE/JSE SWIX Index**	-2.2%	-2.5%	-0.4%	-2.1%	0.9%	5.4%	6.6%	6.6%
J433T	**FTSE/JSE Capped SWIX Index**	-2.3%	-2.3%	-0.3%	-2.0%	0.9%	7.8%	7.0%	6.4%
J303T	**FTSE/JSE CAPI Index**	-2.5%	-3.3%	-1.3%	-3.1%	1.2%	8.5%	9.4%	8.0%
J253T	**FTSE/JSE SA Listed Property Index**	0.8%	15.3%	17.1%	17.6%	11.2%	14.8%	0.6%	3.7%
ALBI	**JSE All Bond Composite Index**	-0.6%	1.6%	5.7%	7.6%	6.3%	7.2%	7.8%	8.1%
STeFI	**STeFI Index**	0.7%	2.1%	4.2%	8.3%	7.0%	5.9%	6.0%	6.5%
	MSCI World Index in SA Rands	7.5%	12.3%	14.3%	31.0%	20.1%	17.7%	18.9%	15.6%
	Rand/US Dollar Exchange Rate	3.1%	1.2%	1.3%	4.5%	11.4%	8.2%	6.4%	6.0%
	Rand/Euro Exchange Rate	2.8%	0.4%	1.0%	6.6%	9.4%	4.1%	5.3%	3.4%
	Rand/Pound Exchange Rate	2.5%	1.2%	1.1%	9.2%	8.2%	4.6%	5.4%	3.0%
	Headline CPI	0.1%	0.0%	1.8%	5.3%	6.1%	6.0%	5.1%	5.1%
	PPI	0.1%	-1.1%	2.4%	4.7%	8.6%	9.1%	7.1%	6.1%