



MY TIME
TO INVEST

MARKET OVERVIEW JULY 2024

ECONOMIC AND MARKET OVERVIEW

In South Africa, the suspension of load-shedding continues, marking more than 130 consecutive days (at the time of writing) of uninterrupted power supply since 26 March 2024. This includes 94 days of constant supply throughout the winter period.

African Reserve Bank (SARB) referred to it in his monetary policy committee (MPC) statement on 18 July: "Over the medium term, we expect somewhat faster growth, supported by a more reliable electricity supply and improving logistics, among other factors."

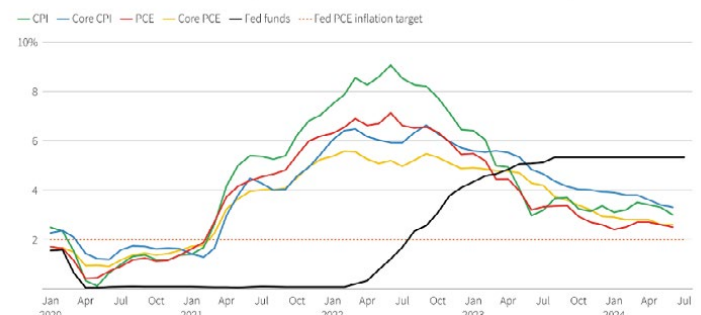
In the same meeting, SARB decided to keep the repo rate unchanged at 8.25%. Four members preferred no change, and two preferred a reduction of 25 basis points. This is against a backdrop of improving inflation numbers but disappointing economic growth in South Africa.

The Bank of England cut interest rates towards the end of the month, down from a 16-year high. The narrow vote in favour of a cut (5-4) saw rates lowered by 25 basis points to 5%. "We need to make sure inflation stays low and be careful not to cut interest rates too quickly or by too much," Governor Andrew Bailey said in a statement. The UK's consumer price inflation returned to the central bank's 2% target in May and remained there in June. It had hit a more than 40-year high of 11.1% in October 2022.

Meanwhile, the US Federal Reserve voted to keep its benchmark interest rate steady in the 5.25-5.5% range. However, its chair, Jerome Powell, said rates could be cut as soon as September if the US economy follows its expected path. "If we were to see inflation moving down ... more or less in line with expectations, growth remains reasonably strong, and the labour market remains consistent with current conditions, then I think a rate cut could be on the table at the September meeting," he said.

Rates and inflation

The Federal Reserve has raised its policy interest rate by 5.25 percentage points since March 2022. It is now substantially above all main U.S. inflation measures, most notably versus the PCE Index used by the Fed to set its inflation target.



Note: CPI = Consumer Price Index; PCE = Personal Consumption Expenditures Price Index; Core = excluding food and energy; Fed funds = Fed policy rate
Source: Federal Reserve (funds rate and target); Bureau of Labor Statistics (CPI); Bureau of Economic Analysis (PCE); inflation rates are annual

Source: Reuters

In other parts of the world, South Korean inflation increased in July, rising 2.6% from the same month a year earlier, having hit an 11-month low in June at 2.4%. Canada's gross domestic product likely rose 2.2% in the second quarter of 2024, according to data from Statistics Canada, exceeding the Bank of Canada forecast. Lastly, the Bank of Japan increased interest rates to their highest levels since 2008, with its short-term policy rate now sitting at 0.25%, having previously been at 0-0.1%.

In a year where large parts of the world are heading (or have headed to) the polling booths, a loose alliance of leftist parties has won the most seats in French legislative elections after a second round of voting. While the coalition has managed to keep France's far-right away from power in the elections, no single political party or alliance of parties won a clear majority. That raised hopes in the president's camp that — despite losing to a left-wing coalition in a legislative election earlier this summer — Macron's party could still emerge as a kingmaker and even have a chance to lead France's next government. For the moment they are far more likely to focus on the Olympic

MARKET PERFORMANCE

Global equities added another 1.6% in US dollar terms but there were signs that the end of this very concentrated rally, may be in sight. Visio Capital reports that economic growth is likely to soften, and equity valuations appear, in aggregate, somewhat stretched. Global bonds (1.8%) gained a bit more than their riskier counterparts as more central banks are likely to cut policy rates in the near term as inflation around the globe moderates further.

Local assets performed better than their global counterparts with equities (3.9%) outperforming both the broad developed market and emerging market indices. South African equities benefited from a strong performance in interest rate sensitive sectors such as consumer staples (up 7.2%), banks (up 6.1%) and other financials (up 5.2%). Bonds did not rest on its laurels either, as the All Bond index gained 4% during July. This strong rally in bonds seems to have now fully incorporated the positive election outcome and will probably need some evidence of delivery by the new government before contributing to further rallies.

The rand strengthened a little further after its strong run in June, gaining about 0.4% in July. However, this was more so a result of US dollar weakness as the greenback retreated against both the euro and the Pound Sterling.

Gold gained more than 4% in July, while Brent Oil reversed its June gains by giving up more than 6% in US Dollar terms during the month.

MARKET INDICES¹

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(All returns in Rand except where otherwise indicated)	3 months	12 months	5 years ²
SA equities (JSE All Share Index)	9.2%	9.0%	12.0%
SA property (S&P SA Reit Index)	12.4%	4.4%	-1.3%
SA bonds (SA All Bond Index)	10.2%	15.6%	8.8%
SA cash (STeFI)	2.1%	8.5%	6.1%
Global developed equities (MSCI World Index)	4.9%	21.6%	18.4%
Emerging market equities (MSCI Emerging Markets Index)	1.4%	9.1%	9.1%
Global bonds (Bloomberg Barclays Global Aggregate)	0.7%	5.4%	3.6%
Rand/dollar ³	-3.4%	2.3%	5.1%
Rand/sterling	-0.9%	2.1%	6.1%
Rand/euro	-2.3%	0.4%	4.5%
Gold Price (USD)	5.9%	23.1%	11.2%
Oil Price (Brent Crude, USD)	-8.1%	5.7%	4.4%

1. Source: Factset

2. All performance numbers in excess of 12 months are annualized

3. A negative number means fewer rands are being paid per US dollar, so it implies a strengthening of the rand.

Gold gained more than

4%

DID YOU KNOW?

Working with the machines

In recent times so much has been written about the rise of artificial intelligence (AI) and its struggle with human intelligence at “being the best” or “taking over”. What may be far more relevant is not whether one is better than the other but rather how best the two can work together to make better decisions.

The case of Air France Flight 447 suggests that the right question is not whether humans or AI is better. In fact, the consequences of asking the wrong questions are disastrous.

Some readers may remember the tragic accident on 1 June 2009 when the flight from Rio De Janeiro, Brazil to Paris, France crashed into the Atlantic Ocean. The crash was caused by inconsistent airspeed readings that led to an aerodynamic stall caused by pilot error. The technology on this Airbus A330 was at the leading edge of artificial intelligence and could, under ideal circumstances, fly the plane all the way from departure to arrival. Except circumstances were not ideal and the combination of humans and AI could not deal with errors in airspeed measurement equipment. The rest, sadly, is history.

The main part of the fuselage which contained the flight data and cockpit voice recorders (the so-called black boxes) were only recovered nearly two years later. The final report following the analysis of the recorded information highlighted the role of both technical failure and human error. Each of these decision systems (humans and AI) depended on the other more than they should have.

Since the sad events of June 2009 many more studies have considered the interaction between human and artificial intelligence when it comes to decision making. In one such study by Fabrizio Dell’Acqua of Harvard Business School, recruiters worked with either “lower-quality” or “higher-quality” AI to pick potential candidates out of a bunch of Curriculum Vitae submitted for job applications. The interesting conclusion was that recruiters who worked with lower-quality AI (and knew this) made better decisions than those who knew they worked with higher-quality AI and therefore were more likely to leave the decision making to the machines.

The author states that “(a)s AI performance improves, human overseers face greater incentives to delegate. If the AI appears too high quality, workers are at risk of “falling asleep at the wheel” and mindlessly following its recommendations without deliberation. In such settings, maximizing combined human/AI performance requires trading off the quality of AI against the potential adverse impact on human effort.”

One of the features of machine learning is that the quality of learning matches the quality of data. So, when confronted with a situation that it has not encountered before (i.e. it was not in the data) the results can be disastrous as was the case with AF447.

The world of investments has its own complexities and vagaries which in many instances differ from those in aerospace engineering or human resource management. It is, however, likely that, as it stands, machines (in aggregate) are no better (or worse) than humans in making investment decisions. And as we have learnt above, machines cannot prevent disasters when left to its own devices.

It is when these two worlds come together, and when humans understand what AI can and cannot do, that decision making is likely to improve and as a result investment outcomes too.

So, what do our cyber colleagues think about this? When we asked an AI chatbot whether it will replace human jobs the answer was that “AI may replace some human tasks, but it won’t replace humans that work with AI.”

Sources: Cautionary Tales (Podcast) by Tim Harford; Falling Asleep at the Wheel: Human/AI Collaboration in a Field Experiment on HR Recruiters by Fabrizio Dell’Acqua, Laboratory for Innovation Science, Harvard Business School; Microsoft Copilot

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