Monthly market commentary

Dezemba

United States

There was no Santa rally waiting for investors under the Christmas tree this December. US markets ended 2024 on a four-day pullback that erased over $1 trillion in mega cap valuations after the Fed's December meeting, while delivering on a much-anticipated third consecutive rate cut, saw quarterly forecasts from Fed members that painted a more hawkish picture than investors were anticipating. The average Fed member now only anticipates 50 basis points worth of rate cuts in 2025, with markets not expecting the first cut until June.

The NASDAQ eked out a small gain of 0.56%, aided by big tech, while the S&P 500 retreated by 2.39% for the month.

Despite the lack of Christmas cheer, the year was overall a stellar one for US equities. The S&P 500 hit 57 all-time highs in 2024 and notched gains of 25% for the year making 2024 the second-consecutive year of 20%+ gains for the index. The Magnificent Seven ended 2024 collectively 48.5% higher, including a 171.25% gain by Nvidia.

On the bond side, the hawkish tone struck at the December meeting saw a spike in bond yields, with the US ten-year ending the month (and thus the year) at 4.6%, the highest year-end mark for that rate since 2006. The spike in borrowing rates supported the US dollar, which was stronger against most major currencies for a second consecutive month.

Finally, turning to US economic data, November CPI rose 2.7% year-over-year in line with expectations. US GDP growth for the third quarter on the other hand surprised to the upside and was revised higher to 3.1% annualised (previously 2.8%), where economists had expected the forecast GDP would remain unrevised.

Europe

European markets also missed out on a Santa rally this year, recording a late-year sell-off, as investors worried about high valuations and the potential implications of a second Trump presidency. The Euro Stoxx 600 was down 0.43% for the month but ended the year with total gains of 9.62%.

December was a busy month for central banks in Europe with Switzerland cutting by 50 basis points, while Sweden's Riksbank trimmed its benchmark rate by 25 basis points. Norway and Britain's central banks meanwhile left their rates unchanged during their December meetings. The ECB announced a 25 basis point cut, its fourth cut for the year, taking the benchmark rate to 3%.

On the inflation front, the eurozone headline inflation reading for November came in at 2.2% compared to October's 2.0%. The UK also saw inflation rise in November to 2.6%, its highest level in eight months.

Asia-pacific

Emerging market shares fared better than the developed markets in December (MSCI EM -0.12% vs MSCI World -2.57%) but significantly underperformed for the full year (MSCI EM +7.97% vs MSCI World +19.22%). Chinese equities were the key to the emerging markets' December outperformance with the Hang Seng Index up 3.29% for the month, as the Chinese government continued to announce stimulus measures aimed at boosting lacklustre economic growth. The Hang Seng Index despite its initial woes at the beginning of the year, notched impressive returns of 22.90% for 2024.

December was also kind to Japan's benchmark Nikkei Index with returns of 4.52% for the month. The index recorded total returns of 21.27% for the year.

Japan's inflation also rose, slightly more than expected, in November, indicating a sustained uptick that could push the BoJ into raising rates early in 2025. November's CPI grew 2.9% year-over-year. At its last meeting of 2024, the BOJ kept rates unchanged as policymakers remained cautious over the country's economic outlook.

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South Africa

The JSE was down for a third consecutive month in December. The All-Share Index was down 0.29% for the month but saw total returns of 13.48% for 2024. The rand weakened by 4.2% against the US dollar in December, ending the year at R18.85, slightly weaker than its R18.70 opening level. Also disappointing this month were the third quarter GDP figures, the South African economy grew at 0.3% annualised for the third quarter of 2024, below the 1.1% estimate. The reading was in line with second quarter GDP growth.

Inflation picked up slightly going towards the end of the year with November's CPI reading of 2.9% up from the low point in the inflation cycle of 2.8% reached in October. A slower pace of deceleration in fuel inflation drove the modest uptick in headline inflation which remained below the SARB target range of 3-6%. A decline in food inflation) partially offset the upward pressure exerted by fuel prices.

The month ahead

Americans have plenty of economic data and survey releases this month, including December CPI, University of Michigan Sentiment as well as jobs data like the change in nonfarm payrolls and the unemployment rate which will be closely watched this Friday. Capping off the month is the FOMC meeting and the Fed rate decision. In terms of non-economic events this month, the biggest is undoubtedly President-elect Trump's inauguration on the 20th.

Chinese 4th quarter GDP growth will be released on the 17th when we will learn whether the sharp ramp up in policy stimulus since late September provided the push needed for economic growth to reach the governments target of around 5% for 2024.

Locally, we'll be watching for the December inflation print and the SARB's rate decision at the end of the month.

Quote of the month:

"January looks forward to the New Year and back to the old year. He sees both past and future."
- M.L. Stedman

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