



Prosperity

October 2024

- Economic and Market Overview
- Global Equities
- Local Equities

Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE

The initial market response to the US election outcome was a rally in the dollar and US equities, and rising US bond yields, but a Trump win was broadly anticipated. Unlike in 2016, Trump's policies – tariffs, immigration restrictions, tax cuts, and deregulation – are familiar to markets, with tariffs likely to disrupt business while tax cuts and deregulation could be beneficial. These cuts, however, will increase borrowing, adding pressure on bond yields and potentially limiting future Fed rate cuts. In response, the dollar may strengthen, affecting emerging market currencies. Trump's presidency will bring geopolitical shifts, especially with tougher stances on China, Ukraine-Russia negotiations, and support for Israel. Investors should expect more volatility, as Trump's policies may change quickly, yet historically, US markets have performed well regardless of the president's party. The key is to remain invested for the long term and not react impulsively to short-term market noise.

The US economy, once feared to be on the cusp of recession, is showing resilience, with recent data reflecting 2.8% growth in the third quarter. Although the labour market has softened slightly from a year ago, it continues to add jobs, contributing to rising household incomes. Solid company profitability also reduces the likelihood of layoffs, which supports consumer spending, though growth may be slow.

While service inflation in the US has recently plateaued, declines in other areas may allow the Federal Reserve to continue with rate cuts in upcoming policy meetings. However, markets have scaled back overall expectations for rate cuts in the wake of resilient economic data.

In Europe, Germany is the weak link, with its manufacturing-heavy economy struggling due to the loss of cheap Russian gas and competition from Chinese automakers. Elsewhere in Europe, economies have benefited from solid service-sector growth, particularly tourism. Nonetheless, soft overall economic conditions and easing inflation led the European Central Bank to cut rates again at its October meeting, with further cuts expected.

China's economy is also under pressure, facing low consumer confidence, a collapsing property market and high debt. Policymakers have recognised that they cannot rely on exports alone, given global demand limits on Chinese goods. The People's Bank of China responded by cutting interest rates and launched initiatives to boost bank lending. Notably, they launched a facility to provide loans to asset managers, banks and insurance companies to purchase shares, and to listed companies for share buybacks. Additional measures aim to

support property developers in completing sold but unfinished units and to ease some property market restrictions.

Lower interest rates can provide some support, but just as you can lead a horse to water but cannot force it to drink, the central bank cannot compel people to borrow and spend. Furthermore, a banking system burdened with bad loans may struggle to channel monetary policy effectively. Fiscal policy, on the other hand, has a stronger chance to stimulate growth by directly targeting specific areas, such as helping over-leveraged entities manage debt. The Finance Minister has pledged more fiscal spending, though details are yet to be released. While both fiscal and monetary policy can stabilise the downturn, true progress will require structural reforms, which are still lacking. Consequently, China's long-term growth outlook remains subdued.

In summary, despite differences across countries and sectors, the global economy is expanding at a steady, if modest, pace. The International Monetary Fund forecasts global growth of around 3% per year over the medium term, slightly below the long-term average. Unless there is a significant productivity boost from new technologies like artificial intelligence, high global debt levels and ageing populations will weigh on growth. However, with inflation easing and interest rates declining, the macroeconomic backdrop for markets remains constructive.

South Africa's macroeconomic backdrop has also improved considerably. After years of poor sentiment, local households and companies are daring to feel more optimistic. The government of national unity (GNU) has already had some successes, notably at Home Affairs. While the improvement in electricity supply predates the formation of the GNU, it is a huge boost to confidence. Electricity has been the economy's main headwind for several years but is turning into a tailwind as billions in private sector investments are unlocked. Similar investment is now needed in rail, ports and other infrastructure.

The Medium-Term Budget Policy Statement (MTBPS) highlighted a commitment to gradual debt reduction through fiscal restraint, even though this year's deficit is wider than expected. While fiscal consolidation means short-term pain as government spending is squeezed, it should ultimately reduce macro risk and help lower borrowing costs as investors demand a smaller premium to lend to the government. The MTBPS also emphasised measures to lift South Africa's pedestrian growth rate. This includes a second phase for Operation Vulindlela (a joint Treasury-Presidency unit addressing specific growth obstacles), and a new framework to facilitate more private investment in infrastructure.

In September, inflation declined further, with headline inflation falling to 3.8% year-on-year. Core inflation, excluding food, fuel and energy prices, held steady at 4.1%, below the Reserve Bank's 4.5% objective. While the SARB continues to advocate for a lower inflation target, the official target remains 3% - 6%, with the SARB aiming for the mid-point. Its own forecasts suggest that inflation will be around the midpoint of the range over the medium term, paving the way for further rate cuts. Together with an improved supply-side performance (notably electricity), lower inflation and lower interest rates should support stronger economic growth over the medium term.

MARKET UPDATE

Most major global markets, including the JSE, closed October in the red, with the MSCI World down 2% month-on-month. Profit-taking and geopolitical tensions earlier in the month led to a rough start for US markets, which rebounded mid-month as investors took advantage of lower prices. However, company earnings, uncertainty over the Fed's approach to rate cuts, and heightened pre-election volatility triggered another downturn in the final week of October. The S&P 500 fell 1% over the month, the Dow lost 1.3%, and despite reaching an all-time high 25 October, the Nasdaq closed October 0.5% lower. In the UK, the FTSE-100 posted a second consecutive monthly decline (-1.5%).

In Asian markets, the Shanghai Composite dropped 1.7%, the Hang Seng fell 3.9%, while Japan's Nikkei was one of the few major indices to finish the month higher (+3.1%).

Locally, overall sentiment toward JSE-listed equities remained positive for most of October, but turned negative alongside the global markets' retreat late in the month. The JSE All Share Index ended October 1.3% lower, with the Indi-25 dropping 3.1% and the Fini-15 losing 1.6%. Supported by higher commodity prices, the Resi-10 gained 2.3% in October.

The rand weakened 1.9% against the US dollar. After three consecutive monthly declines, Brent crude rose 1.9%, and the platinum price was up 1.3% in October. The gold price crossed the US\$2 700/oz level on 18 October, ending the month at US\$2 743/oz.

GLOBAL EQUITIES



Accenture

Global consulting firm, Accenture's full-year 2024 results aligned with management's guidance, with both revenue and adjusted earnings per share growing by 2%. The group's performance was driven mainly by Managed Services (previously Outsourcing), while Consulting revenue growth was affected by lower discretionary expenditure across North America and Europe, the Middle East and Africa (EMEA). Despite the pressure on reported earnings, Accenture generated US\$8.6bn in free cash flow and increased its fourth quarter dividend by 15% to US\$1.48 per share.

By industry, Communications, Media and Technology revenue declined by 4% and Financial Services revenue declined by 3%. Products and Resources saw modest revenue growth of 2% and 4%, respectively. Health and Public Service was the standout performer in the group, with revenue growth of 10%. The company returned US\$7.8bn to shareholders in FY 2024, exceeding its US\$7.7bn commitment, with US\$3.2bn in dividends and US\$4.5bn in share buybacks. For FY 2025, Accenture plans to return US\$8.3bn to shareholders and expects adjusted EPS to grow by 5% - 8% as the business gradually recovers.

Demand for Accenture's business services, including migration to the cloud, digital security and access to their specialised IT skills, remains robust, as evidenced in resilient new bookings growth (+14% in FY 2024). The stability of the group's balance sheet (net cash position) and their commitment to returning cash to shareholders has not wavered despite tumultuous macroeconomic conditions. We view the slowdown in revenue and earnings growth as a cyclical deceleration following strong growth during the COVID-19 pandemic. While management has not noted a significant improvement in the current macroeconomic environment, they remain optimistic about medium-term growth drivers, including generative-AI and Public Services digital transformation. The depth, breadth and quality of Accenture's competence in IT is a key competitive advantage. Our investment case, predicated on the group's favourable positioning within the IT service landscape, remains intact.



Visa Inc.

Visa delivered strong full-year 2024 results that exceeded management's guidance. With minimal impact from the pandemic and the Russia-Ukraine conflict, the group achieved solid growth

across its key markets. Management observed stable consumer spending patterns across most regions, which bodes well for the group. Payment volumes rose by 8% over the year, consistent with recent quarterly growth. Cross-border volumes, which drive higher-margin international transaction revenues, remained strong at 15%, despite a normalisation in international travel.

Group revenue grew 10% to US\$35.9bn, largely in-line with analysts' expectations of US\$35.8bn. This growth was driven by rising payment volumes, strong cross-border activity and processed transactions. Furthermore, Visa benefited from better-than-expected value-added service revenue and lower incentives paid to banks. Net income reached US\$19.7bn or US\$9.73 per share – up 14% and 17%, respectively. Excluding litigation provisions and currency fluctuations, Visa's earnings per share rose 15%, aligning with our long-term growth expectations of mid-teen annual earnings growth. During the year, the company repurchased US\$16.7bn worth of shares at an average price of US\$266.97 per share, with US\$13.1bn still authorised for buybacks.

Looking ahead, if consumer spending remains stable across Visa's key regions, management expect high single-digit revenue growth for 2025. Expenses are forecast to be well contained, growing below 10%, and supporting higher margins. Over the medium term, we expect Visa's earnings to grow in the mid-double digits.

LOCAL EQUITIES



Capitec

Capitec, South Africa's largest bank by retail customers, reported a strong set of interim results, with both headline earnings and dividend per share up by 36%. Personal Banking led the way, with strong headline earnings growth (+48%) driven by lower credit impairments and increased value-added services income. Business Banking, however, reported a 12% decline in headline earnings as the group continued to invest and compete for market share. Capitec's return on equity (ROE) improved meaningfully from 23% to 29%, though management remains focused on returning to the long-term target of 25%.

Capitec remains optimistic on the outlook for growth and driving further penetration of their products and services into the local market. Management highlighted that they have become a data-driven company, utilising more than two trillion data points to inform interactions with their nearly 23 million client base. Key areas for growth into FY 2025 include: increasing retail digital banking penetration; the Business Bank will aim to expand their digital capabilities to clients utilising the new platform to initiate the client take-on and then have relationship-based interactions for additional, more complex products, Business Banking will

also look to expand into the less formal domestic economy; and Capitec Life will continue to build out their offering.

Longer term, Capitec's 98%-owned fintech loan provider, AvaFin, offers offshore growth optionality. The business is closely aligned with Capitec's client-centric retail business philosophy and appears well positioned for growth, however, is unlikely to be a meaningful contributor to Capitec's results over the short term.

Pairing the bank's growth opportunities with management's track record, an existing efficient operational base and leading digital platform, we believe Capitec can continue to grow earnings at rates above peers and remain deserving of a premium in the market.



Within a challenging operating environment, Clicks Group reported a solid set of 2024 full-year results, with diluted headline earnings per share (HEPS) up 14.3% over the period. Group revenue rose 9.2% and operating margin strengthened by 50bps to 9.2%, exceeding its medium-term target, which has now increased to 9% -10%. The results were largely driven by robust demand in beauty and personal care segments and private label, the ongoing success of the Clicks Clubcard loyalty programme and the group's expansion efforts. Over the past year, 51 new stores and 9 pharmacies were opened. The number of pharmacy openings were below target, affected by the pause on licenses being issued (as a result of the now-resolved Unicorn Pharmaceutical matter), which has recommenced and will support Clicks' expansion strategy.

Looking ahead, the consumer environment, while still constrained, is expected to improve, supported by an improving macro environment. Clicks is well positioned to defend and capture its share of wallet, with effective promotions and expansion of higher margin, private labels. Clicks will also continue to focus on expanding its footprint and enhancing its existing stores and infrastructure as it aims to reach its target of 1 200 Clicks stores.

Clicks' differentiated portfolio, geared towards providing value and convenience, underpinned by a strong loyalty programme, provides a defensible investment opportunity well positioned to capture growth in the improving (yet constrained) trading environment. Our fair value relative to the share price offers upside, aligned to our positive outlook on the group.

CONTACT US

CAPE TOWN

PINELANDS

TEL: 021 524 4678

ADDRESS: Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | PO Box 207, Cape Town, 8000

EMAIL: privateclients@omwealth.co.za

STELLENBOSCH

TEL: 021 861 5300

ADDRESS: 97 La Gratitude, Dorp Street, Stellenbosch, 7600

EMAIL: privateclients@omwealth.co.za

NEWLANDS

TEL: 021 524 4678

ADDRESS: 22 Kildare Street, Newlands, 7700

EMAIL: privateclients@omwealth.co.za

JOHANNESBURG

TEL: 011 245 3805

ADDRESS: 1 Mutual Place, 107 Rivonia Road, Sandton, Johannesburg, 2196

EMAIL: privateclients@omwealth.co.za

PRETORIA

TEL: 012 369 7236

ADDRESS: 43 Ingersol Road, 3rd Floor, Podium at Menlyn, Lynnwood Glen, 0081

EMAIL: privateclients@omwealth.co.za

KWAZULU NATAL

KLOOF

TEL: 031 767 7300

ADDRESS: 74 Old Main Road, Unit 7, Kloof, KwaZulu-Natal

EMAIL: privateclients@omwealth.co.za

Private Clients
by  Old Mutual Wealth

Private Clients by Old Mutual Wealth (Private Clients) is a division of Old Mutual Wealth Trust Company (Pty) Ltd ("OMWTC"), a licensed Financial Services Provider, Reg No: 1925/002721/07. Private Clients is authorised to provide financial services on the OMWTC licence.

To report unethical behaviour, call the Anonymous Reporting line 0800 222 117, email toahotline@tip-offs.com or visit www.tip-offs.com.

Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | Tel: +27 (0)21 524 4678 | Email: privateclients@omwealth.co.za

This document is for information purposes only and does not constitute financial advice in any way or form. It is important to consult a financial planner to receive financial advice before acting on any information contained herein. Old Mutual Wealth and its directors, officers and employees shall not be responsible and disclaims all liability for any loss, damage (whether direct, indirect, special or consequential) and/or expense of any nature whatsoever, which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of, or reliance upon any information contained in this document.