

Prosperity

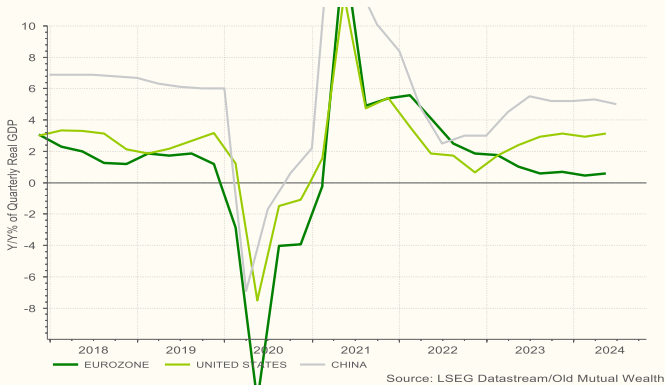
July 2024

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Private Clients
by  Old Mutual Wealth

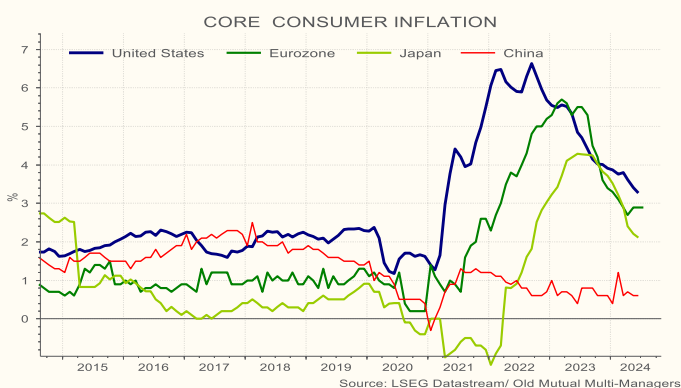
ECONOMIC UPDATE

Backward looking data continues to show a resilient global economy, led by the US, where second quarter real GDP was 3% higher than a year ago. Consumer spending has been solid, supported by annual jobs growth of around 2% and wage growth of around 4%.



Growth in the eurozone economy is sluggish but positive, with real GDP growing 0.6% year-on-year in the second quarter. China's headline economic growth rate is still the envy of most other countries at 4.7% year-on-year in the second quarter, but this is low by Chinese standards and puts Beijing's 5% growth target at risk. While the Chinese manufacturing and export machine is still humming, domestic demand remains depressed, partly due to the overhang of the burst property bubble. As a result, inflation remains very low, with core inflation (excluding food and fuel) running below 1% for most of the past three years. Authorities in Beijing have responded with several policy interventions, including further modest interest rate cuts during the month and measures to prop up the property sector. But there has been neither the large-scale fiscal injection that some have called for, nor structural reforms aimed at boosting household consumption.

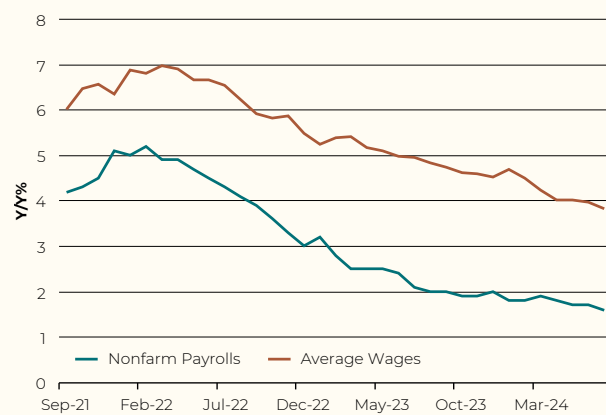
Elsewhere in the world, interest rates are also falling, but mostly because inflation is declining to acceptable levels, not because economic growth has been particularly disappointing. Thirteen central banks cut rates in July, with only Japan, Russia and Nigeria hiking. The Bank of Japan's move was notable, because there are still question marks over the durability of inflation and economic growth in Japan. The rate increase is therefore seen as an attempt to prop up the very weak yen, which had fallen to 34-year lows against the dollar.



In the US, the Federal Reserve kept rates on hold at its July policy meeting, but paved the way for a September cut. It acknowledged that further progress had been made in reducing inflation to its 2% target and that it will pay increasing attention to the other part of its dual mandate, ensuring full employment.

The labour market has cooled in recent months, which means it poses less upside inflation risk. However, investors are increasingly concerned that it could go from cooling to cold. If slowing growth in job creation turns to outright job losses, it would undercut consumer spending, which in turn could lead to further job losses. Therefore, while global equity markets ended July on a high note, the first few days of August saw a sharp sell-off as concerns grew that the Fed has delayed rate cuts for too long.

US employment and wage growth



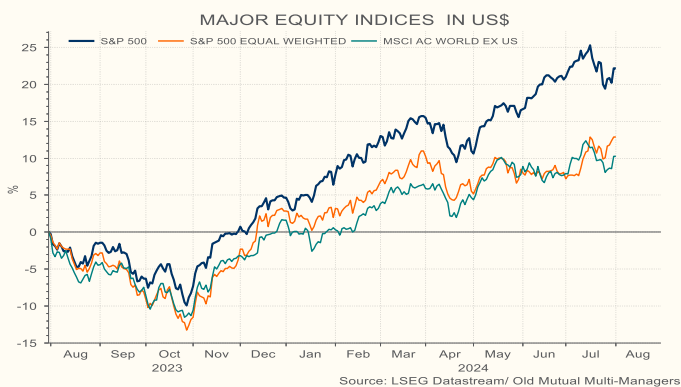
Bear in mind that a large part of the easing happens not because of what the Fed does with its short-term interest rate, but where the market believes it is heading. In other words, bond yields across the curve have already priced in the coming interest rate cuts. This already lowers borrowing and refinancing costs for a range of borrowers.

As Fed rate cuts become more likely, it also gives more room for other central banks to ease policy without fearing currency weakness.

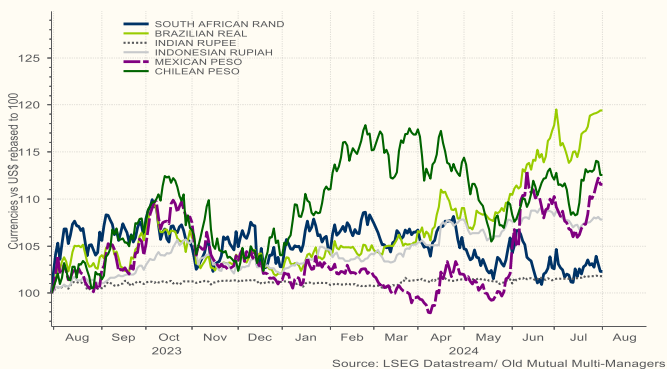
In SA, the Reserve Bank's Monetary Policy Committee (MPC) left the repo rate unchanged at its July meeting. This is despite the SARB forecasting that inflation will hit its 4.5% objective next year and mostly stay on target thereafter. Backward-looking inflation data also continues to improve. Consumer inflation declined to 5.1% year-on-year in June, from 5.2% in May. Core inflation, excluding volatile food and fuel prices, declined to 4.5%, in line with the Reserve Bank's objective.

This suggests that the MPC will be able to cut rates in September and November, the last two meetings for the year, and a few times next year. This will not only provide some relief to households and borrowers, but also support the valuations of interest-rate sensitive assets, including bonds, property and several domestic equity sectors.

MARKET UPDATE



July was mixed for global markets, with the MSCI World up 1.8%. The US' Dow Jones outperformed, sealing the month up 4.4%, and the S&P 500 was up 1.1% MoM. After a strong run by the Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) in the previous months, they cooled off in July, which saw the tech-heavy Nasdaq retreating 0.8%. The UK's FTSE-100 ended July 2.5% higher. Asian markets struggled, with the Shanghai Composite (-1%), Hang Seng (-2.1%) and Nikkei (-1.2%) all ending the month lower.



On the local front, the JSE All Share Index broke above the key 82 000 level in mid-July and ended the month at a record high, with a 3.8% monthly gain. Resources (+5.7%) were the best performers, closely followed by Financials (+5.1%). Industrials returned a more muted 1.6% in July. The rand declined 0.1% against the US dollar during the month, closing at R18.27/US\$. The gold price ended the month 5.2% higher at US\$2 448.10/oz. Brent crude declined 6.6% in July, and platinum fell by 1.8%.

GLOBAL EQUITIES



Atlas Copco

Global industrial manufacturer, Atlas Copco reported a lacklustre set of second quarter 2024 results, falling short of consensus estimates. Underpinned by a weaker-than-expected Industrials and Power performance, revenue grew by 3%, largely aided by key acquisitions during the period. Despite increased acquisition and R&D costs and an unfavourable sales mix weighing on margins, profit after tax benefited from an R&D tax incentive and increased by 10%. Orders, an indication of future revenue growth, fell organically by 1% primarily due to lower demand from the automotive industry and for power and flow equipment. However, this decline was absorbed by acquisitions, resulting in overall order levels remaining unchanged. Looking ahead, management expect customer activity to remain steady.

Net debt to equity improved to 22% (from 37%) and cash increased by around SEK0.55bn due to lower inventory. Atlas Copco has a strong balance sheet with minimal net debt and healthy cash flow, placing the group in a good position to navigate a potential market downturn.



Givaudan

Global flavour and fragrance ingredient market leader, Givaudan reported an excellent interim 2024 result that exceeded both revenue and income growth expectations. Like-for-like sales grew by 12.5%, gross margin improved by 310bps to 44.1% and operating income was 24.4% higher. Performance was strong across both developed and emerging markets, with double-digit like-for-like sales growth in Latin America (+31.5%), Asia Pacific (+11.4%) and Europe, Middle East and Africa (+11.4%). North America reported more muted sales growth of 5.9% (like-for-like), however, this represents a decent recovery as sales declined by 10% in the comparable period.

Management remained confident in the group's ability to achieve its five-year strategy ending in 2025, with investors eagerly awaiting the group's new five-year strategy to 2030, which is expected to be announced later this year.



DanaHER

Healthcare group, DanaHER Corporation reported an improved set of 2024 interim results. While the reported numbers for the period were mostly negative when compared to the comparable

period in 2023, there were signs of improvement across segments and a positive outlook for the remainder of the financial year. This outlook supported the positive share price reaction post results and eased investor concerns around the biotechnology industry's normalisation after the pandemic tailwinds. Revenue for the group declined 2.9% during the period to US\$5.7bn. The group's biotechnology segment (which provides bioproduction tools for drug makers) was the laggard, with a 7% decline in organic revenue. Despite the lower volumes, group margins expanded during the period, a result of good cost control by the group. Adjusted earnings per share for the period were US\$1.72 compared to US\$1.73 in the prior year. Despite this marginal change in earnings, it is worth noting that both revenue and earnings per share were ahead of management's guidance and analyst expectations.

Two additional highlights in the results were DanaHER's free cash flow as well as the group's strong balance sheet. Free cash flow conversion during the period was an impressive 129%, which was a continuation of a trend we have seen in DanaHER, where cash generation exceeds reported accounting earnings. The group's net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) declined to below two times, which allowed the group to carry out a US\$5bn share repurchase. This was the largest buy-back programme the company has carried out in over a decade. Beyond the current year, we expect DanaHER to return to normal growth patterns, which include earnings increases of low double-digits and cash conversion ahead of reported earnings.



LVMH

Global Luxury goods conglomerate, LVMH's 2024 interim results reflected the weak demand being experienced across the industry. Organic sales rose 2%, driven by Sephora in Selective Retail as well as Perfume and Cosmetics. Sales across the group's flagship brands in Fashion & Leather Goods, Watches & Jewellery and Wines & Spirits came under pressure. Profitability contracted as the group continued to maintain capacity across all divisions, driving a 15% decline in net profit to EUR7.6bn.

Geographically, Japan remained the strongest region for luxury sales. Organic sales growth in Japan exceeded expectations, growing by 44% over the first half. Growth in China disappointed and drove a contraction in the group's sales in Asia (-10%). Sales in the US grew 2%, while European sales slowed dramatically to just 3% from a double-digit run rate in the comparable period.

Management was hesitant to comment on the outlook, citing poor visibility. However, they indicated that they would continue to invest in their brands, sales, marketing and runway shows while maintaining responsible inventory levels. Cash flow remained robust, with operating free cash flow increasing by more than 70% following reduced investments in property relative to the prior period. As such, the group maintained its interim dividend at EUR5.50 per share.



Alphabet

Alphabet had a strong second quarter, driven by demand for cloud computing and its search engine's advertising revenue. Gross revenue (+14% year-on-year to US\$84.7bn) beat consensus estimates as strong performance in Search and Google Cloud offset YouTube, Network and other revenue streams including subscriptions, platforms, and devices. Operating income was US\$27.4bn, with good margin expansion from 29% to 32%. While diluted earnings per share grew 31% year-on-year to US\$1.89, the market reacted negatively to the results on the back of YouTube's lower-than-expected revenue of US\$8.7bn and the group's higher capex of US\$13.2bn, which was spent on computing power and AI.

Looking ahead, costs will need to be managed as AI-integration and product rollouts continue. Management is confident in its ability to expand margins as they focus on reengineering the cost base. Revenue is expected to grow, but at slightly slower than historic growth rates. Advertising, with the support of AI-integration, will continue to be a meaningful driver of growth, however, competitive dynamics will need to be monitored. Anat Ashkenazi will join the company as its new CFO on 31 July. She has spent almost 23 years at Eli Lilly and Co. Ruth Porat, Alphabet's current and most long-standing CFO will stay on as President and Chief Investment Officer.



Nestlé

Nestlé reported organic sales growth of 2.1% for the first half of 2024, with 0.1% real internal growth (RIG) – volume and mix - and 2% pricing. The company saw a significant rebound in RIG during the second quarter, driven by coffee and PetCare categories, as well as improvements in previously underperforming areas such as North America, frozen food and Nestlé Health Science. The company increased marketing investments for its billionaire brands, which account for 70% of sales and delivered 3.2% organic growth. Nestlé also stepped up its product launch intensity, completing around 15% more innovation and renovation launches compared to 2023.

Despite the positive RIG momentum, Nestlé faced pricing challenges, leading to a revision of their full-year guidance. The company now expects organic sales growth of at least 3% for 2024, with underlying earnings per share in constant currency increasing at a mid-single-digit rate. The underlying trading operating profit margin reached 17.4% for the first half, an increase of 30 basis points on a reported basis. Gross profit margin improved by 160 basis points, allowing for increased investments in growth initiatives. However,

Nestlé anticipates a more challenging pricing environment in the second half of the year, with increased competition and higher price elasticity among consumers.



Honeywell

Honeywell reported a solid set of second quarter results that exceeded expectations. Over the period, adjusted earnings per share rose 8% to US\$2.49, revenue increased by 5% to US\$9.57bn and segment margin rose to 23%. Organic revenue was 4% higher, driven by late-cycle business growth (16% growth in Aerospace and 3% growth in Energy and Sustainability Solutions). Organic revenue growth was achieved in all segments except Industrial Automation, which contracted by 8% primarily driven by weaker volumes in warehouse and workflow solutions. Segment margin (-10 basis points year on year) was impacted by a contraction of margins across all segments besides Energy and Sustainability Solutions, which expanded by 200 basis points to 25.2%.

Operating cash flow and free cash flow were flat year-on-year, reaching US\$1.4bn and US\$1.1bn, respectively. The US\$5bn acquisition of Access Solutions to support its Building Automations business model, was concluded in the quarter and two additional acquisitions were announced – CAES Systems and Air Products LNG process technology and equipment business – totalling US\$2.7bn, to enhance its defence technology capabilities and expand its energy portfolio. The market reacted negatively to management's downward revision of guidance from US\$10.15 - US\$10.45 to US\$10.05 - US\$10.25 as the higher sales and organic growth guidance is offset by lower a lower segment margin.



L'Oréal

Global beauty leader, L'Oréal reported resilient half-year performance and was able to grow market share despite a challenging demand environment. Sales rose 7.3% on a like-for-like basis to EUR22.1bn, driven by sustained double-digit growth momentum in Dermatological Beauty (+16.4%). Sales in Professional (+5.7%) and Consumer Products (+8.9%) remained robust, but there were signs of weakness in the Professional Division as sales growth slowed to 0.9% in the second quarter. Gross margin expanded by 50bps to 74.8% as both volumes and prices rose over the period. Investments in product innovation, beauty technology tools and related launches drove an increase in operating expenses. Despite this, operating profit grew 8% with operating margin expansion of 10bps to 20.8%.

L'Oréal continued to benefit from strong demand in both developed and emerging markets, with double-digit like-for-like growth in Europe (+11.1%); South Asia Pacific, Middle East, North Africa, and Sub-Saharan Africa (+15.2%); and Latin America (+14.2%). North America also reported a resilient performance, with like-for-like sales growth of 7.8%. However, the group did not escape the impact of sustained market weakness in Mainland China with North Asia, where like-for-like sales declined by 1.7% as the weakness in Luxe was partially offset by growth in Dermatological Beauty.

Capitalising on the recent market weakness, the board has set up a share buyback programme of EUR500 million allocated to acquire a maximum of two million shares during the second half of 2024. Management remain confident that the group's broad and diverse portfolio will continue to allow them to outperform the global beauty market for FY 2024.

S&P Global

S&P Global

Financial information services provider and credit rating agency, S&P Global reported strong second quarter results that were ahead of analyst expectations. Revenue for the period rose 15% to US\$3.6bn, while earnings per share (US\$4.04) were ahead of the average analyst forecast of US\$3.65. The second quarter was a continuation of the trend we have seen since the beginning of 2023, where all the group's segments benefited from higher market returns. In addition to positive equity market returns, the significant increase in bond issuance drove the better-than-expected performance and led management to upgrade their outlook for the remainder of the year.

Given the importance of debt issuance trends for S&P Global, management provided updated commentary on the outlook for the debt market. Compared to the start of the year, management are now forecasting 20% higher bond issuance for this year. This increase is driven by a wide range of bond issuers becoming increasingly comfortable with the interest rate outlook, which is resulting in more debt being issued by governments and companies. In total, over US\$12tr in corporate debt is expected to be refinanced over the next five years. This should continue to provide a tailwind for the group, given that it has one of the largest global ratings agencies.

LOCAL EQUITIES



Anglo American

Despite prices falling by 10% in its basket of commodities, Anglo American posted solid first half performance that was largely driven by its optimisation efforts in its copper and iron ore businesses. Alongside this, good cost control (with unit costs down 4%) led to EBITDA of US\$5bn, which is 3% lower than the first half of 2023. Operational excellence remains a core focus, so it is pleasing to see Anglo's operational result coming in better than anticipated. Production was broadly flat compared to the first half of 2023. Anglo is progressing well with its plans as it moves through lower grade mining phases at both copper plants, Los Bronces and Quellaveco. The company's financial results were impacted by an impairment of Woodsmith (England based polyhalite fertiliser mine) given a production slowdown and delay.

Despite challenges, Anglo American demonstrated resilience in some areas. The Group's underlying EBITDA margin improved to 33% from 31% in the previous year, driven by cost reductions and purchase of concentrate normalisation. The company's ongoing focus on cost control and cash generation has positioned it well for strategy execution. Net debt increased slightly to US\$11.1bn, up by US\$500m from December 2023, representing a gearing of 26%. The net debt to EBITDA ratio remained stable at 1.1x, well within the company's target range.

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