SIB Standard Investment Bank

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GLOBAL MARKETS COMMENTARY

2024 MANSAX MARKETS REVIEW & 2025 OUTLOOK

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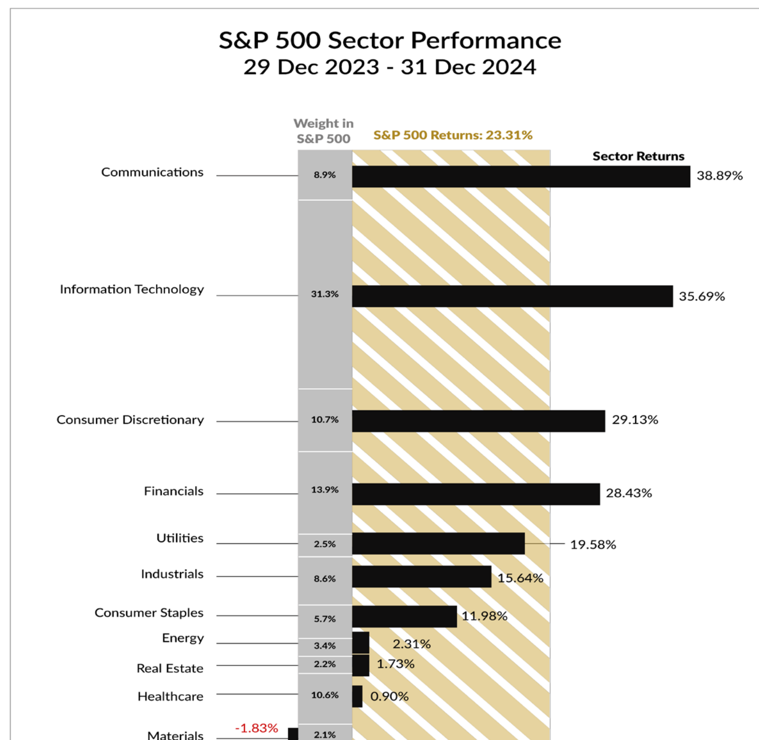
Full Bull

Much like the year before - heading into 2024, many strategists doubted the market's ability to keep moving higher after a strong 2023. Inflation was still high, the market was very top-heavy with most gains coming from the Magnificent Seven contingent of big tech stocks and the Federal Reserve had not yet indicated it would cut interest rates. Estimates for the broader benchmark S&P 500 ranged from 4,200 to 5,400. Those turned out to be wrong, and the S&P 500 ended the year at 5,881 after topping 6,000 numerous times and making 57 all-time highs during the year. As we look back on 2024, a year marked by significant global events and market fluctuations, we see resilience and adaptability at the forefront. From historic elections and geopolitical tensions to groundbreaking advancements in technology, this year has underscored the dynamic and ever-evolving nature of our world and the global economy.

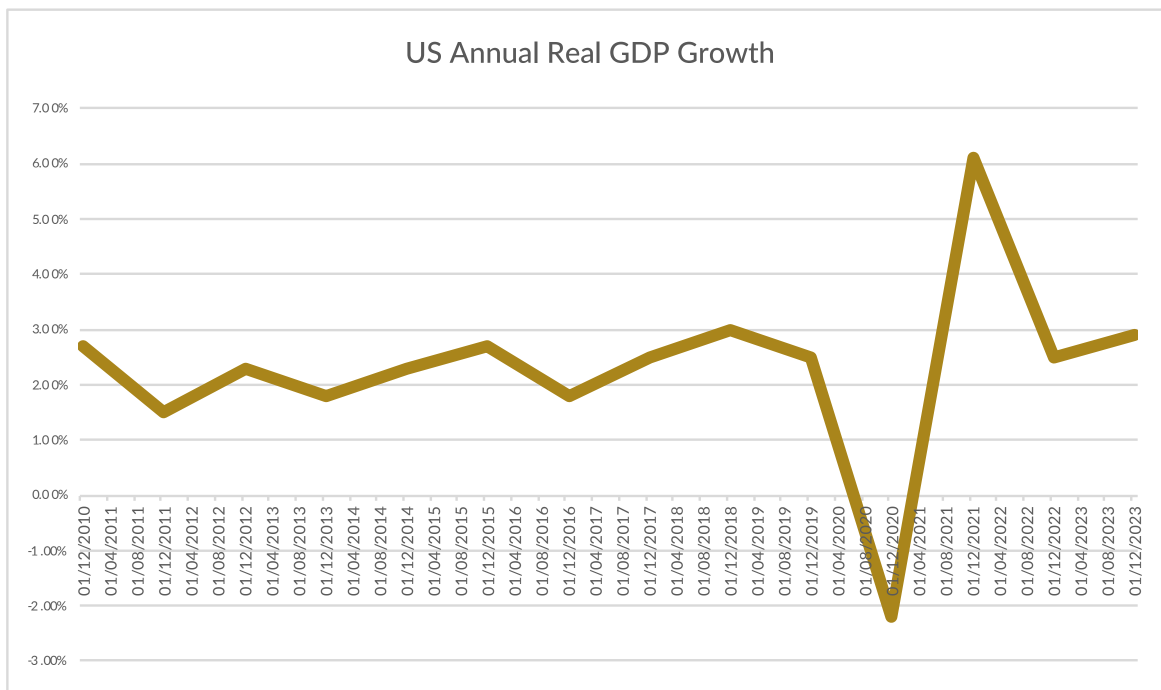
'Magnificent Seven' stocks rose 48% while the other 493 stocks in the S&P 500 rose just 10%

In many ways, 2024 played like a dubbed recording of 2023. The U.S. economy remained resilient, outgrowing other major developed countries, and mega-cap tech stocks led the S&P 500 to dominate global markets yet again. The 'Magnificent Seven' stocks rose 48% while the other 493 stocks in the S&P 500 rose just 10%. The S&P 500's 23.3% return, marked a second consecutive year of +20% returns – a feat that has only occurred seven times in the last 70 years.



The S&P 500's 23.3% return, marked a second consecutive year of +20% returns; Source: TradingView; S&P Global

US Economic data showed strong GDP growth (+2.7% YoY), low unemployment (4.1%), increased consumer spending (+3.7%), and falling inflation (+2.7% YoY) removed any recession fears lingering from the 2022-2023 rate hiking cycle (+525bps). Corporate profits accompanied the rising economic tide with S&P 500 earnings growing 9.5% in 2024. Accordingly, Ten of 11 large-cap sectors finished higher in 2024 including four gaining more than 30%. The top performers were Communications (+38.9%), Technology (35.7%), Financials (+28.4%), and Consumer Discretionary (+29.1%). At the other end of the performance spectrum were Materials (-1.8%), Healthcare (+0.9%), and Real Estate (1.7%).



The US Economic data showed strong GDP growth (+2.7% YoY), low unemployment (4.1%), increased consumer spending (+3.7%), and falling inflation

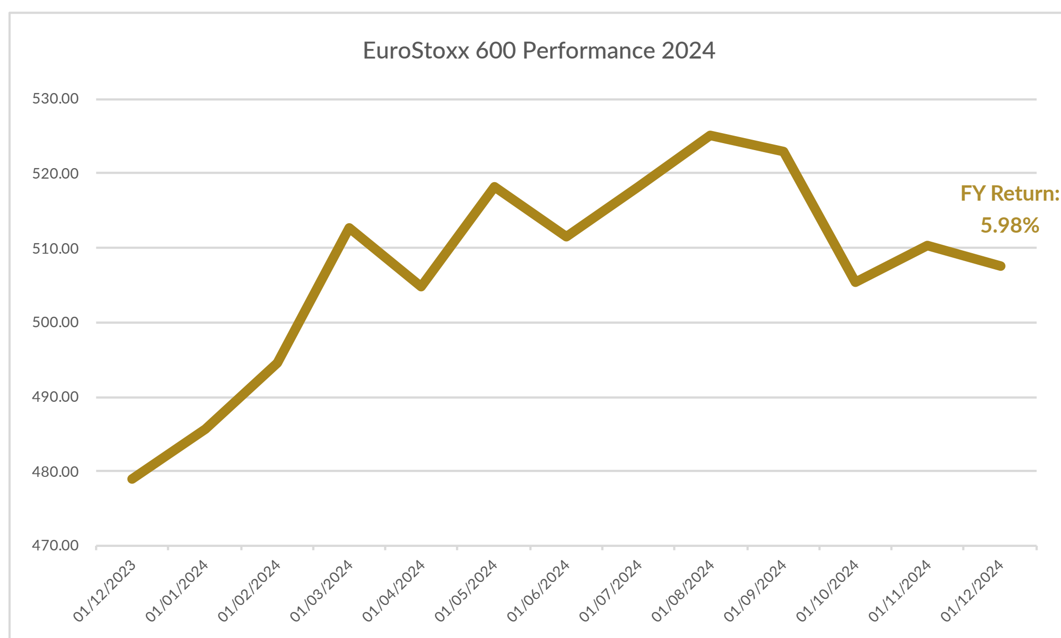
It was a roller coaster year for rates and timing the start of the rate cut cycle. At the start of 2024, markets were pricing seven 25bp rate cuts by year end. Over the next four months into early May, the hawkish repricing of rates led to markets pricing just one 25 bp rate cut by year end. As the summer came, softening economic data swung the pendulum back towards a dovish repricing of rates and while inflation had yet to reach the Federal Reserve's 2% threshold, its declining trend provided the FOMC enough cover to pivot from its restrictive policy with three rate cuts totalling 100bps over the final three meetings in 2024.

At the November FOMC, Chair Powell said the presidential election will have no effect on monetary policy decisions and accordingly the uptrend in rates stalled over the next four weeks. Animal spirits were in high gear all month following the resounding sweep of republicans in the elections. Market breadth was strong with all eleven large and small-cap sectors finishing higher, and both the S&P 500 (+5.9%) and the Russell 2000 (+11%) had their best monthly performance in 2024.

The Federal Reserve's reaction function changed in a hawkish direction at the December FOMC, where Chair Powell emphasized a greater balance between inflation and labour relative to the prior meetings concern for softening economic data (i.e. labour). Powell also noted some members were starting to incorporate economic effects of the incoming Trump administration (i.e. inflation). While the Fed's projections included marginal changes for 2025 GDP and Unemployment, its outlook on inflation and the Fed Funds Rate was more pronounced implying just two 25bp rate cuts in 2025 from the prior projection of four. Equities responded accordingly by reversing sharply lower in December, where eight of eleven large-cap sectors finished in the red. Once again, one of the few pockets of strength came from the Magnificent Seven Index which gained in December.

Eurozone

Eurozone economic momentum weakened significantly over 2024. The manufacturing sector was particularly hard hit by high energy costs, damaging regulation and lack of export demand. Compounding these challenges was increased competition from Chinese firms benefiting from state subsidies in numerous areas, particularly in the automotive industry. The divergence between the old continent and the rest of the word widened further amid political crisis in the two largest economies in the eurozone, France and Germany, where fiscal pressures and the rise of populist right-wing parties created a political divide. The economic weakness, real interest rates remaining well above inflation - despite the ECB's four rate cuts - and a limited exposure to AI hindered European equities, resulting in the EuroStoxx 600 Index generating a comparatively subpar return of 5.98%.



Economic weakness, real interest rates remaining well above inflation and a limited exposure to AI hindered European equities, resulting in the EuroStoxx 600 Index generating a comparatively subpar return of 5.98%.

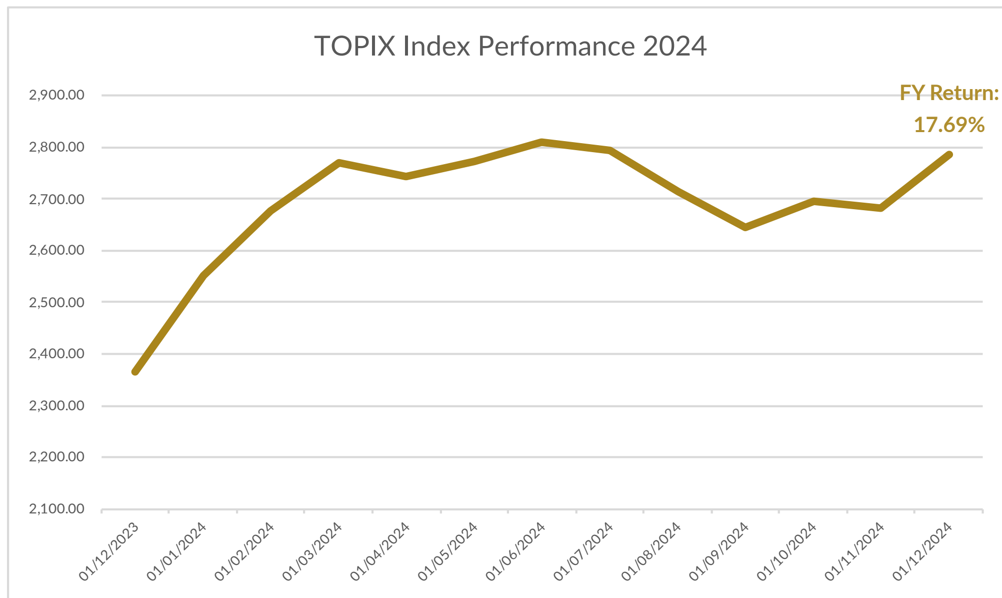
The Eurozone economy has barely experienced growth since 2023, facing a range of cyclical and structural challenges. For 2025, there is a potential for an upswing, as falling inflation and lower interest rates could help revive corporate investment spending and consumer confidence. Stronger real disposable income and easier financing conditions should encourage growth in consumption. However, potential US tariffs and their retaliation pose a downside risk, particularly for the auto sector. The forecasted negative impact on growth is around half a percentage point. Germany is particularly exposed to this risk and could face additional uncertainty from possible snap elections.

The census expectation is for the European Central Bank to cut rates quickly to 2%, followed by gradual easing to 1.5% by the end of 2025. More aggressive tariffs could provoke additional and accelerated easing, although the Central Bank will need to monitor any currency weakness against the dollar.

UK equities fared slightly better to their continental counterparts with the FTSE 100 index returning 7.11%, as the economy recovered from its 2023 lows. This cyclical rebound was initially boosted by optimism following the election. However, The UK Autumn Budget announced by Chancellor Rachel Reeves stirred a mixed response from financial markets, reflecting both cautious optimism and heightened concern over fiscal sustainability. The larger-than-expected cost increases unveiled in the Budget could be weighing on the jobs market as companies adjust to the increase in employer National Insurance contributions and National Living Wage, both due to come into effect in April. This would likely result in higher prices leaving the Bank of England in a difficult position as Industry hiring data for November suggested demand for UK staff had been unusually weak in the run-up to the busy Christmas period. This exacerbated the pounds depreciation against the dollar, reflecting investor anxiety.

Asian Markets

The Japanese equity market experienced gains during the fourth quarter to close out a strong year overall, with the TOPIX Index increasing by 17.69% in yen terms throughout the year. Developments in the US and their impact on financial markets, particularly the currency market, drove the Japanese equity market. Overall, the resumption of yen weakness towards the end of 2024 bolstered the earnings outlook for large-cap exporters, allowing the market to finish the year on a high note. The implications of a potential "Trump 2.0" presidency remain uncertain; however, the market appears reasonably well-prepared for the new regime. At the very least, the robust US economy has provided support to the Japanese equity market as The Bank of Japan (BOJ) decided not to raise interest rates at its December policy meeting, with BOJ Governor Ueda adopting a less hawkish stance compared to his speech in July. Macroeconomic developments have not been sufficiently robust to stimulate domestic demand; however, we observe a solid pace of improvement in business sentiment.

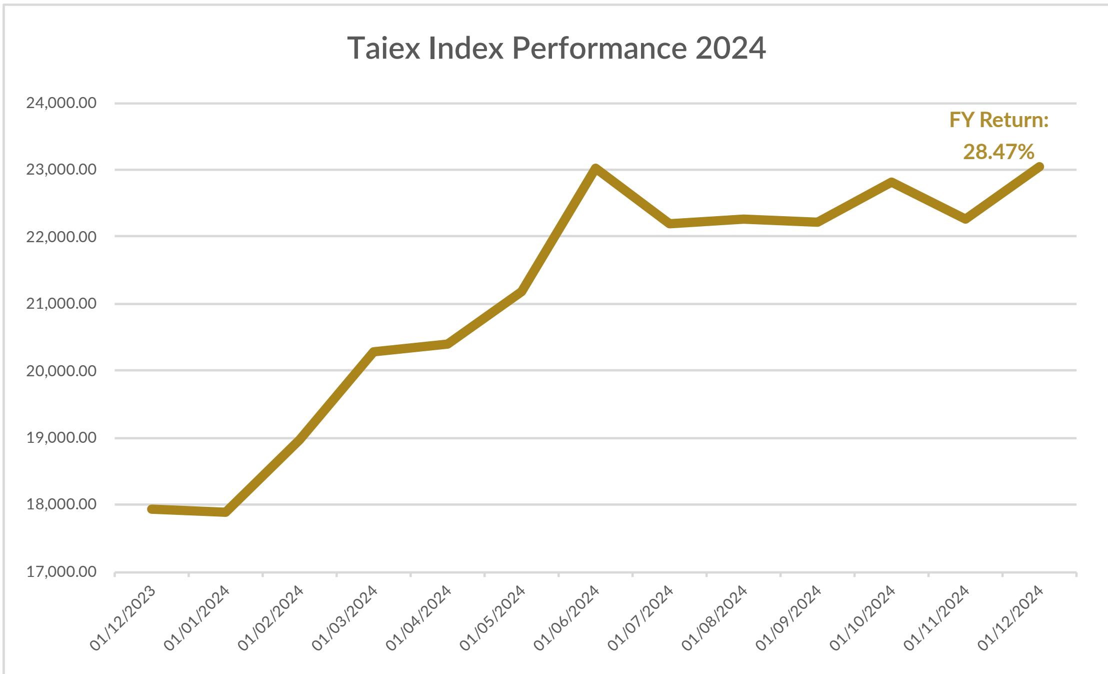


The Japanese equity market experienced gains during the fourth quarter to close out a strong year overall, with the TOPIX Index increasing by 17.69% in yen terms throughout the year.

During the last quarter, the majority of Japanese companies reported semi-annual earnings results, which were mixed across various sectors. News of consolidation among two large automakers (Nissan & Honda), along with Toyota Motor announcing a target 20% return on equity (ROE), indicated potential shifts in corporate strategies. Share buybacks continued to surge, with companies announcing additional buybacks generally enjoying favourable market reactions.

Beyond Japan, Chinese activity remained weak as the country grappled with falling property prices and weak consumer confidence. Investors were initially unimpressed with the policy response from regulators. However, September's more cohesive policy announcements appeared to convince markets that 2025 would finally see the significant stimulus required to reignite the economy and Chinese equities rallied in the second half of the year. However, this optimism appeared to be short-lived as the prospect of a second Trump presidency raised the risk of heightened tensions over trade and technology with the CSI 300 closing out the year with a 14.7% gain.

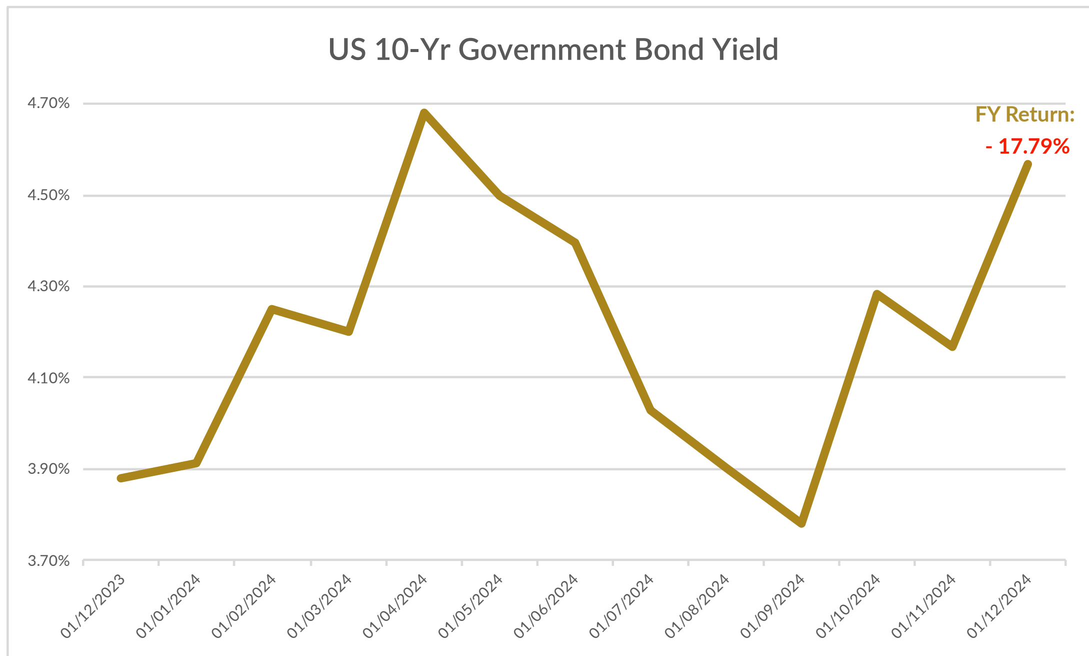
Elsewhere in Asia, Singapore seemed to be the biggest beneficiary to a Trump 2.0 presidency as overseas investors seeking exposure to the region were attracted by Singapore's political stability and relative neutrality. Taiwan's equity market, meanwhile, was the best-performing major Asian market in 2024, as it houses the world's leading manufacturers and suppliers which produce hardware essential for AI applications. That made its economy and equity market one of the top beneficiaries of this year's AI boom. The Taiex index jumped over 28.5% in 2024 despite a decline towards the end of the year amidst investor fears over potential tariffs following Donald Trump's re-election as US President in November. Despite the potential headwinds, Its economy is set to power on in 2025, with its central bank recently raising its gross domestic product growth forecast to 4.25% from 3.82% earlier. That would more than triple 2023's growth.



The Taiex index jumped over 28.5% in 2024 despite a decline towards the end of the year amidst

Fixed Income

While growth in the equity markets was fairly consistent this year, the same can't be said for the bond market. The bond market in 2024 faced significant challenges with persistently high yields. The 10-year yields on German, French and U.S. government bonds increased by 34, 60 and 70 basis points, respectively, reflecting concerns over inflation and fiscal deficits. Treasury yields experienced volatility throughout the year, driven by strong U.S. economic data but tempered by labour market concerns in the latter half. Despite the Federal Reserve cutting rates by 50bps and 25bps in successive meetings since September, yields rose, and the yield curve steepened, highlighting a divergence between market and Fed expectations.



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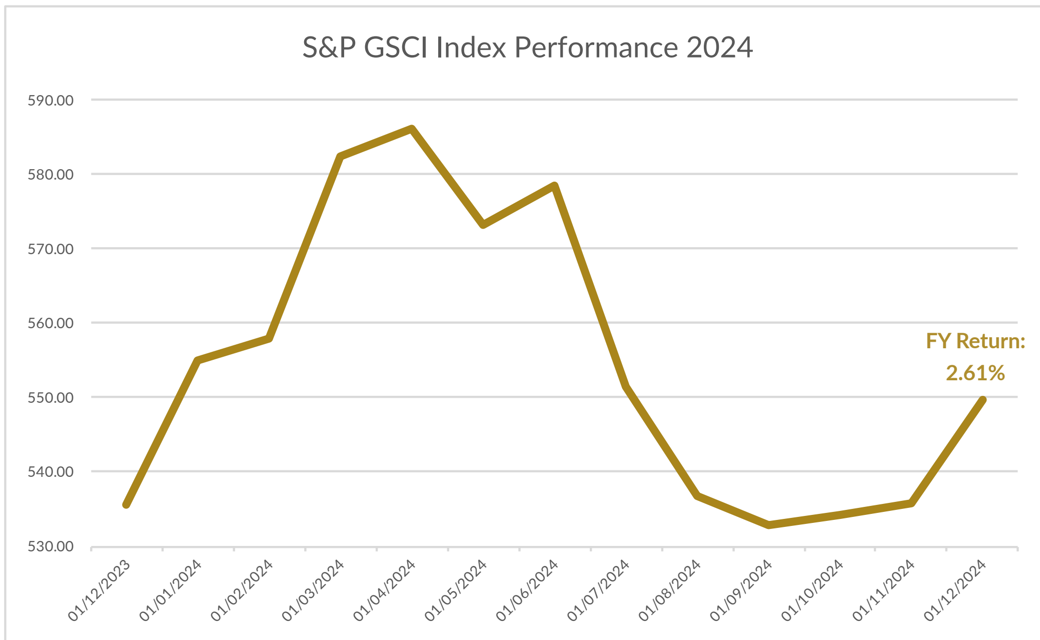
Market sentiment shifted after a Republican electoral sweep fuelled optimism about economic growth but raised inflation concerns. The Fed tried to tame these expectations, signalling that future rate cuts may be slower due to persistent inflation concerns arising from forthcoming Trump tariffs, but this nothing to slow the sell-off in US bonds. In Europe, the ECB began its easing program amid economic uncertainty, with Germany's weak performance and political issues in France weighing on the outlook.

Despite attempts by the Fed tried to tame optimism about economic growth, the sell-off in US bonds did not slow down

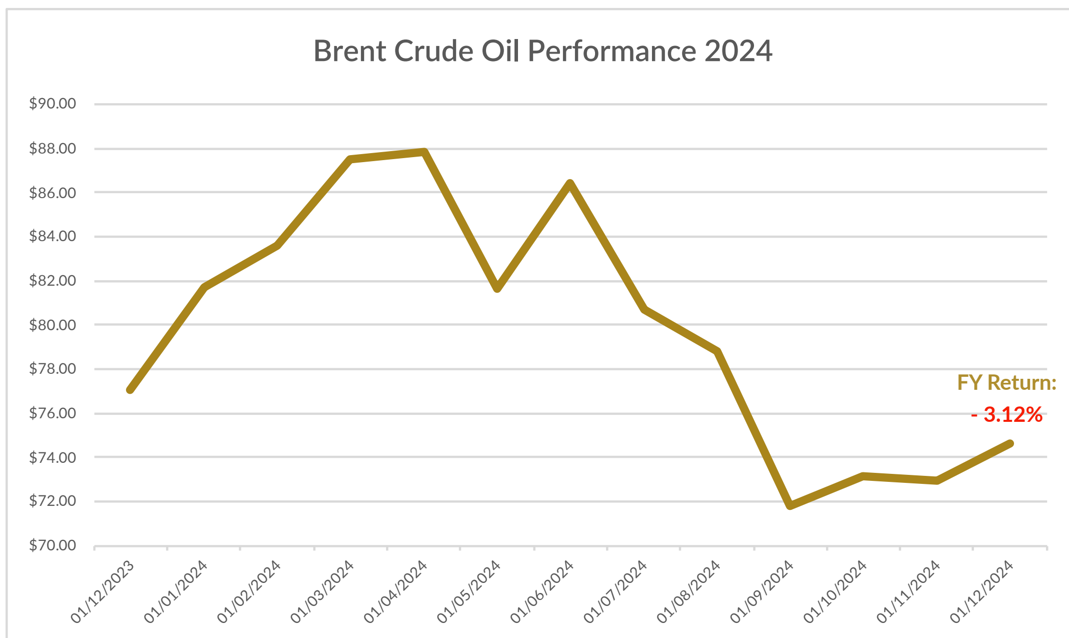
Commodities

The S&P GSCI Index ended the year on a positive note rounding out a mixed year for commodities as the index only gained 2.61% during 2024.



The S&P GSCI Index only gained 2.61% in 2024

Benchmark Brent crude oil prices averaged $80 per barrel in 2024, $2 less than in 2023. Intraday prices stayed within a $24 range, between $68 and $92, which was the narrowest trading range since 2019. Adjusting the trading range for inflation, last year was the narrowest since 2003. Strong global growth in production of oil and slower demand growth put downward pressure on prices, while heightened geopolitical risks and voluntary production restrictions among OPEC+ members supported them. These offsetting factors kept oil prices within a narrow range. Despite a rollercoaster ride in 2024, Natural gas ended with a dramatic 44% annual increase — their best performance since 2021. An exceptionally cold December in the United States and Europe pushed up demand for heating.



Brent crude oil prices averaged $80 per barrel in 2024, $2 less than in 2023

Unlike industrial metals which had a mixed year, precious metals glittered throughout 2024 as Gold posted its biggest gain in 14 years with a 27% surge. This impressive performance was fuelled by US monetary easing, persistent geopolitical risks, and central bank buying sprees. Despite a slight dip after the US presidential election, gold outshone all other metals.

Within the agricultural space, there were some dramatic price movements over the year. Coffee and cocoa prices were the star performers, while Wheat, cotton and sugar prices were sharply lower. The sharp increase in Cocoa (+178%) was driven by concerns over poor weather conditions in West Africa, compounded by strong seasonal demand. Global cocoa production is estimated to have declined by 14 percent in the last year. Similarly, Coffee – which gained +70% in 2024 - remains highly sensitive to global supply risks as production levels are still short of 2021 levels. While improved weather in East Asia has eased some pressure on Robusta prices, Brazil's Arabica production faces significant shortfalls for both the current and, potentially, the next season.

Natural gas ended 2024 with a dramatic 44% annual increase; Gold outshone all other metals to deliver 27% surge in 2024; Coffee (+70%) and cocoa (+178%) prices rose drastically while wheat, cotton and sugar prices were sharply lower.

Nairobi Securities Exchange

NSE Q4 Performance

- NSE 25: +17.4%q/q
- N10: +15.8%q/q
- NASI: 15.3%q/q
- NSE 20: +13.2%q/q

The bourse printed double-digit growth in 4Q2024 with NSE 25 registering the strongest growth of 17.4% QoQ. The NASI, N10, and NSE 20 grew 15.3%, 15.8%, and 13.2%, respectively in a QoQ basis. Worth noting, November was the only month in the quarter to register negative q/q returns – diluting the rallies in October and December.

Market activity for 4Q2024 stood at USD 223.23m – largely driven by USD 175.85m block trades on Bamburi, in line with the takeover offer from Amson's to acquire 100% of Bamburi shareholding. Shy of the block trade, the banking and telecommunication sectors accounted for c. 72.4% of the period's turnover.

From a 2024 vantage point, the bourse posted a 34.1% YoY recovery on the back of strong 1Q2024 and 4Q2024 performance – c. 22.8% QoQ and c.15.3% QoQ, respectively. The banking and the telecommunication sectors, which jointly account for c. 80% of the overall market cap, did the heavy lifting with strong double-digit capital returns. The former rose by c. 45% in the year with the latter at c.23%. Bullish sentiments in the construction and energy sector had a play in the 2024 performance.

With the consensus outlook for global and local macroeconomics positive, we expect to see a narrowing of the opportunity cost exposure in frontier equity markets that may result in an influx in foreign investor activity presenting a case for a bull run in 2025. Further, as taps of high returns in the fixed-income asset class in Kenya close, we foresee local investors reallocating capital towards the equities as they chase alpha. From a valuation point of view, metrics are set to benefit from the positive outlook, implying higher fair value estimates and an overall turn of investor sentiments to a bullish and optimistic outlook.

Looking Ahead

As we move into 2025, we are encouraged by opportunities in both the equity and fixed income markets but caution that this is not a time to get greedy, particularly when it comes to stocks. The past two years have been exceptional for stock performance, but history reminds us of the importance of setting realistic expectations. Since 1950, the average bull market for the S&P 500 has lasted five and a half years. The dot-com bubble that ended in 2000 was the longest, lasting more than 12 years and resulting in a staggering 582% gain. Incidentally, the shortest bull was the one that ended in 2022, which lasted less than two years and was done as it became clear the Federal Reserve would need to fight rising inflation with higher rates.

In the absence of a recession, the odds that a two-year-old bull market gets to three are quite good.

It may seem obvious, but for the stock market gains to continue, the economy needs to stay resilient, and that means the US needs to sidestep a recession again in 2025. Historical data suggests the third year of a bull market can be solid, printing average gains of about 5%. In the absence of a recession, the odds that a two-year-old bull market gets to three are quite good. The bulls that didn't make it through a third year were ended by recessions, an overly aggressive Fed, or, in the case of 1987, excessive speculation. With US GDP growth expectations in 2025 at 2%, it seems only an external shock could jolt the economy significantly lower.

The composition of 2024 performance also looks very different from 2023, when the "tech-plus" sectors led the charge. A mid-year sector rotation and overall market broadening in 2024 cut the return contribution of the top-seven S&P 500 stocks (the "Magnificent 7") from 60% in the first half to 23% in the second half through December. We see continued broadening presenting attractive stock selection opportunities as the market rewards a larger swath of fundamentally sound stocks.
Stocks have seen a surge in volatility since Fed chairman Jerome Powell issued a somewhat hawkish interest rate cut at the central bank's FOMC meeting in December 2024. But it's important to note that the Fed is still dovish. The base case remains two cuts in 2025 as inflation comes down further, which should be good for stocks. While rate cut expectations for 2025 have moved lower, the Fed is still in the midst of a cutting cycle. And absent a recession, the S&P 500 has historically delivered solid returns after the start of a Fed-cutting cycle. The S&P 500 has produced modest gains of 5.5%, on average, during the 12 months following the initial cut of a Fed cycle, with gains typically double that in the absence of a recession. This isn't the first time markets have experienced volatile trading due to a recalibration of interest rate expectations. Heading into 2024, markets were expecting more than six interest rate cuts from the Fed. They only delivered three rate cuts, including a 50-basis point jumbo cut. The stock market ultimately did just fine.

Back in the good old days, politics was an afterthought—investors really only needed to worry about earnings, economic data, and interest rates. But the thing about the old days, they are exactly that – the old days. The impact of Washington on financial markets has rarely been quite as profound as in the current climate. The quick and decisive election result removed a key uncertainty that had been hanging over the market. The rally that followed could have legs into the start of 2025, as the prospect of tax cuts and deregulation across key industries lends support. History augurs well, with a long-term record of positive returns in the first year of a Presidential term.

The outlook is not without risks. Clarity in some areas is offset by uncertainty in others. For one thing, new policies around trade and immigration could be inflationary across time. More broadly, there are undertones of consternation over the prospect for future inflation. These concerns are not without merit. In a study by Strategas Asset Management, they observed that over the course of 2,100 years of history across 24 countries, there were 62 inflationary periods. Of which, only 8 occurrences (or 13%) saw only one wave of price surges. Additionally, they also noted that those second waves of price surges occurred an average of 30 months after the first peak. As we are seemingly approaching 30 months from peak inflation in 2022, it may be premature to say rising inflation is well & truly behind us.

The treasury bond market seems to believe trade policy changes under the upcoming administration would be the catalyst to this second wave. The current weighted-average tariff on all US imports is currently 2%. That could rise as high as 17%, under the plan outlined by Donald Trump on the campaign trail. However, from past experience, we think the president-elect should be taken seriously but not literally. In his first term, he used the threat of tariffs to get new trade deals with Mexico and Canada. He also equates stock market returns with economic success. If equities fall because high tariffs seem likely, the new administration could well soften its stance.

As we reflect on the past two years of exceptional market performance, it's important to recognize that the powerful rally over the last two years has left stocks looking increasingly expensive. The S&P 500 closed the year at 21.9 times its projected earnings over the next 12 months, above its historical average of 18.5 times. Some analysts argue that the hefty presence of fast-growing tech stocks in today's market justifies a richer multiple than in the past. But many still worry the market looks pricey. By itself, a lofty price tag is unlikely to stop the rally. But it could be a potential reason for S&P 500 returns to normalize toward the annual average of around 10% since inception in 1957. The high valuations heighten the importance of corporate earnings growth to stock performance with expectations amongst analysts at a lofty 15% growth for S&P 500 companies in 2025, up from a 9.5% growth during 2024. Corporate earnings are ultimately the driving force behind rising stock prices in the long term, so it should be no surprise that we will continue watching for continued earnings strength in the new year.

Last but not least, the Federal Reserve has signalled a cautious approach for 2025, with expectations of only two interest rate cuts. This could keep short-term rates higher than initially anticipated, benefiting savers but potentially limiting economic momentum. Meanwhile, inflation concerns have nudged yields upward as investors demand higher compensation for perceived risks around inflation and government deficits. With US yields likely to remain within a narrow range of ±0.5% from current levels, the expected returns for bonds are attractive. Current yields are close to their highest levels in a decade and downside risks are limited in this environment so we are likely to see capital flows into money market funds outpace the flows into equity funds as investors lock-in these yields.

So, could equities three-peat in 2025? Investors have been generously rewarded by U.S. stocks over the past two years. What comes next? We enter 2025 optimistic yet balanced in our outlook, cognizant that two years of big gains and a broadening market suggests a lot of good news is priced into a growing number of stocks. At the same time, we are still seeing enough appreciation potential across individual companies to maintain a constructive, risk-on stance. Across asset classes, sectors and geographies, we believe nimbleness and selectivity will be important to navigating markets in the coming year. The Year of the Snake is upon us and many market risks lie ahead for us to slither through and if change will be a hallmark of 2025, a thoughtful balance between optimism and rationality will be pivotal as we navigate the vagaries and opportunities ahead to meet our client's long-term investment goals.

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