

## The Clarity of Hindsight

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Every December, veteran financial journalist John Authers writes about a fictional investment manager, Hindsight Capital LLC, which as its name suggests, knows exactly what will happen during the course of the coming year, and positions its portfolios accordingly on 1 January. Authers explains which trades would have been most profitable for Hindsight Capital and why, and it is always worth a read.

Taking a leaf from his book, let's look at some of the biggest hits and misses of 2024, grouped under three broad themes: the US, China and South Africa. Importantly, let's see what we can learn from them. Next week, we'll turn our thoughts fully to the year ahead.

### *The Trump trades*

Let's start with the most notable trade, and the one for which you had to wait the longest to see the results. The US election only took place in November and was one of the last of a long list of elections taking place globally. The Republican sweep of the White House and Congress means Donald Trump should be able to implement much of his agenda of tax cuts, tariff hikes and immigration restrictions.

It should be noted, however that divisions have already emerged in Trump's camp. Firstly, a group of hardline fiscal conservatives rebelled against measures to keep the government open and raise the debt ceiling (budget chaos is likely to be an ongoing feature of US politics). Secondly, some nasty mudslinging occurred between what might be called the tech billionaire wing of Team Trump, (notably Elon Musk) who favour skilled immigration and the grassroots wing which is strongly nativist. While both episodes have blown over, they highlight that politics is never straightforward or predictable, since there are always competing interest groups, even within seemingly tight parties or movements.

The US central bank, the Federal Reserve, cut its policy rate from 5.5% to 4.5% in the second half of the year, including a 25 basis points reduction at the December policy meeting. However, this meeting saw its (unofficial) forecast, the so-called dot plot, marking up interest rate and inflation expectations for 2025. This is partly because officials are starting to incorporate expected Trump policies in their estimates. This runs counter to what Chair Powell noted in the November meeting, when he warned against speculating on what those policies and their impact might be. Ultimately, Fed officials are in the same boat as the rest of us. We only know the outlines of what Trump wants to achieve, not the details of what will actually happen and when.

The upshot, however, is that market expectations for rate cuts have been scaled back substantially, while the benchmark 10-year Treasury rose to end the year at 4.5%. It has continued rising in the first days of January, especially after Friday's strong employment report.

The higher-for-longer rates outlook in the US contrasts with other major economies. The soft Eurozone economy implies further rate cuts by the European Central Bank, weighing on the euro, as does political uncertainty in Germany and France. China's economy is also in need of lower rates and more stimulus. The trade-weighted US dollar gained 7% in 2024, the best calendar year in a decade, and has continued rising in the first days of 2025.

### **Chart 1: Trade-weighted US dollar index**

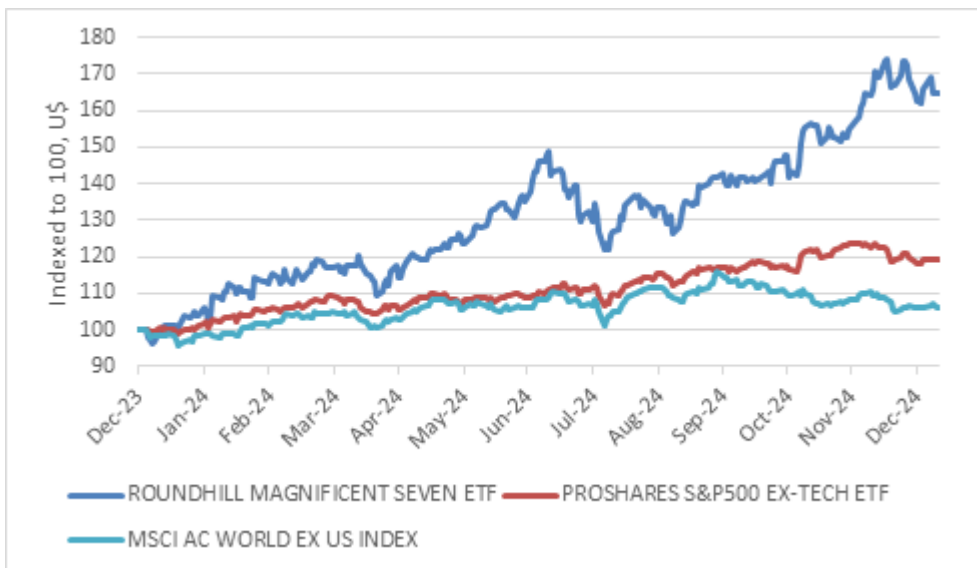


**Source: LSEG Datastream**

*Heaven for the Mag Seven*

Within the US stock market, it was another barnstormer for the megacap tech companies, including Musk’s Tesla. These are sometimes known as the Magnificent Seven, also including Apple, Microsoft, Amazon, Google parent Alphabet, Facebook owner Meta, and Nvidia. The latter’s unbelievable rise is entirely due to expectations that the artificial intelligence boom will continue, but it is also a factor in the outperformance of the others.

**Chart 2: Magnificent Seven and the rest**



**Source: LSEG Datastream**

The concentration of the US market is now at multi-decade high levels, with the top 10 shares making up around 40% of market capitalisation. It is often forgotten that many other markets are more concentrated than this, including the JSE, where the top 10 constitute 43% of the All Share Index. However, it is unusual by the standards of the world’s largest market.

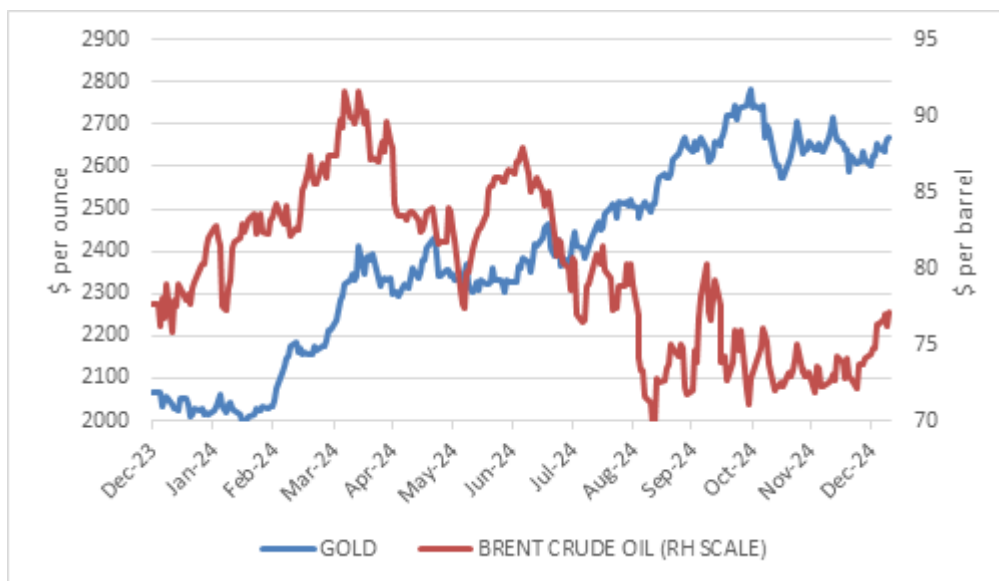
Concentration is not as big a risk as valuation, however. Even though the US should arguably trade at a premium to other markets based on the superior profitability of its companies (which increasingly includes top firms from other countries that shun their domestic stock markets in favour of a US listing), the extent of this premium is extreme. The US appears to be priced for perfection, trading at 21.4 times expected forward earnings, compared to only 13 times for the rest of the world.

Of course, this doesn't tell us anything about the near-term outlook for stocks – the momentum and short-term fundamentals certainly favour the US – but point to potentially disappointing longer-term returns from US equities.

#### *Opposites attract: Oil and gold*

Gold's 26% gain makes 2024 one of the best years for the yellow metal since 1971, when President Nixon decoupled the dollar from gold. It is not entirely clear why. Gold has historically had an inverse relationship with real interest rates. Since gold pays no interest, the opportunity cost of holding it increases as rates rise. However, 2024 did not see a big reduction in real rates. The uncertain geopolitical environment therefore must be a candidate explanation. The main thing is that, jumping in after gold has rallied with the hope of making a short-term gain risks disappointment (the same can be said of Bitcoin, which also had a fantastic year in 2024).

**Chart 3: Gold and oil in dollars**



**Source: LSEG Datastream**

Notably, the uncertain geopolitical environment did not support oil on a sustained basis. Escalations in the wars in the Middle East and Ukraine caused volatility, but Brent crude oil closed 2024 at \$74 a barrel, lower than where it started, though it has gained so far in 2025.

#### *No China cheer*

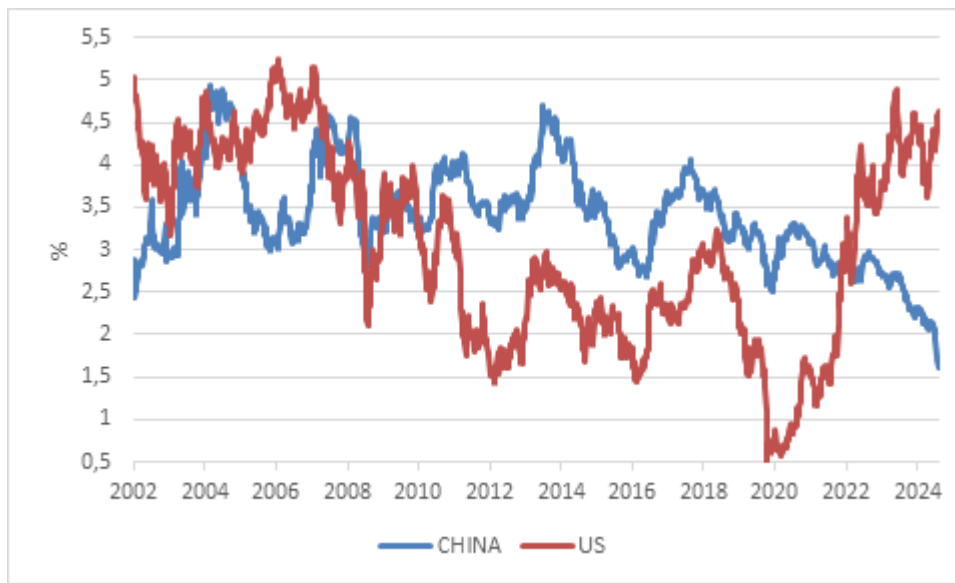
One of the main reasons for the muted oil price last year was disappointing demand from China, which also weighed on industrial metals such as iron ore.

Electric vehicle (EV) penetration is rising faster in China than in any other market, with sales of new EV and hybrid vehicles now exceeding traditional internal combustion engines. However, the other factor is simply a sluggish Chinese economy.

Chinese government bond yields have fallen to record low levels, even though yields have been rising in other countries. Since bond yields move in opposite directions to the price, it was good year for Chinese bond investors. However, the falling yield reflects depressed expectations for future Chinese inflation and interest rates.

Investors are still waiting for Beijing to announce stimulus measures and economic reforms that can meaningfully alter the growth trajectory and combat deflation, rather than papering over the cracks. A big question for 2025 is whether they are forthcoming.

**Chart 4: 10-year government bond yields**



**Source: LSEG Datastream**

#### *The tide turns*

South Africans started 2024 with apprehension. Apart from basking in the afterglow of winning the 2023 Rugby World Cup, there was little reason to smile as the country still strained under the impact of electricity disruption, while political uncertainty increased ahead of key national elections. At the end of 2024, however, the mood was very different. Loadshedding seems a thing of the past (unlikely, but it will never be as severe again as in 2022 and 2023), thanks to a massive increase in private production and operational improvements at Eskom. Though the ANC performed much worse than expected in the election, it immediately accepted the results and started coalition talks. A centrist government of national unity (GNU) was formed, and it has prioritised growth-boosting structural economic reforms and ongoing gradual fiscal consolidation.

Progress has been made with electricity, and a relaxed visa regime for skilled workers, while Transnet quietly published its Rail Network Statement a few days before Christmas, paving the way for private players to run trains on its tracks. As with Eskom, the century-old rail monopoly is now coming to an end. Much work still lies ahead for the GNU, however, and new crises keep emerging, notably the state of Johannesburg, the country's economic hub. But for the first time in years, there is genuine reason to feel more optimistic about South Africa.

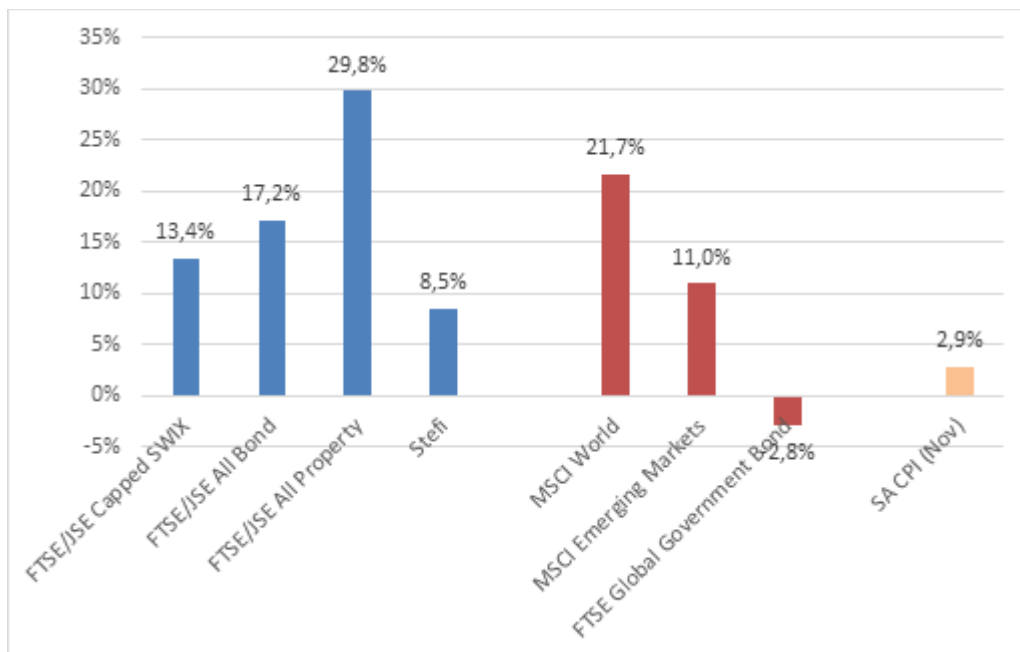
Lower inflation helps too, and also paves the way for further interest rate cuts. Inflation was below the Reserve Bank's 3% to 6% target range in October and November, although probably temporarily. The Reserve Bank cut rates twice in 2024 and will probably cut two or three times again this year. The domestic inflation outlook is benign, but the Reserve Bank will keep a close eye on the trajectory for US rates. Reserve Bank

officials will probably view the sudden weakness of the rand in December and early January as vindicating their gradual approach in an uncertain global environment.

Despite falling 4% in December, the rand ended the year as one of the best performing currencies against a globally strong US dollar, losing only 3%. Even though it broke through R19 to the dollar on Friday, this decline was in line with other currencies.

In a nutshell, South African asset classes had a good year across the board in 2024. In rand terms, the FTSE/JSE Capped Swix Index returned 13% and the JSE All Bond Index delivered 17%, a double-digit return in real terms. Listed property was the star domestic asset class. Coming from depressed post-Covid levels, it surged 30% during 2024.

**Chart 5: Asset class returns in 2024 in rand**



**Source: LSEG Datastream**

#### *Patience still a virtue*

The patience of South African investors has been severely tested in recent years, but it paid off in 2024. It is a reminder that long-term returns are always made up of a few really good years, interspersed with bad and boring ones. One has to sit through the latter to benefit from the former.

The good news is that valuations are still reasonable across domestic asset classes, which together with improvements in economic fundamentals, bode well for future returns. In other words, while there are many esoteric market strategies that delivered excess returns in 2024 (as discussed in Auther's note), Hindsight Capital would not have done badly at all by simply investing in a stock-standard South African balanced fund.

That doesn't mean that 2025 will be another stellar year. We simply don't know. The thing about hindsight is that it makes everything seem obvious, when in fact in the moment the uncertainty can be enormous. Looking back, history always looks like a linear progression of events, but in fact it is a giant tree, with branches sprouting off in all directions. That we've ended up at the end of a particular twig on a particular branch is not inevitable. At the end of 2025, it will again be easy to say "we should've known" but at its dawn much is unknown and unknowable. It always feels trite to say this, but it

remains true: the best approach is being patient, appropriately diversified and sticking to the long-term plan.