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It's never easy predicting who the winners and losers are going to be. But, based on the rapid adoption of AI technology, it seems logical that companies producing or supporting the growth of AI will benefit enormously.

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2024: WILL THE MAGNIFICENT SEVEN CONTINUE TO SHINE?

By Ruan Breed, Financial Advisor, Brenthurst Wealth George & Stellenbosch

The past few years have dealt rather harsh lessons to investors who have been driven by fear rather than reason. Going back to the start of the pandemic in 2020, global markets (led by the big US indices) have buffeted investors as markets have fallen precipitously and risen wildly in quick order.

To recap: 2020 started with a 30% sell-off in markets at the start of the pandemic, only for major indices to recover by October that same year. This bullish sentiment continued in 2021 when the S&P 500 rose 27%, the Nasdaq reached an all-time high and the Dow Jones returned more than 18%.

However, any euphoria was wiped out in 2022 as interest rates started climbing in response to post-pandemic inflation. The S&P 500 lost 20% that year, with the Nasdaq falling nearly one-third and the Dow Jones declining by 9%. And then came 2023: S&P 500 +24%; Nasdaq +43%; Dow Jones +13%.

S&P500 (\$)



JHB (HQ)	+27 (0) 11 799 8100
JHB (SANDTON)	+27 (0) 10 035 1391
PTA	+27 (0) 12 347 8240
CAPE TOWN	+27 (0) 21 418 1236
BELLVILLE	+27 (0) 21 914 9646
CLAREMONT	+27 (0) 21 100 3901
STELLENBOSCH	+27 (0) 21 882 8706
PAARL (VAL DE VIE)	+27 (0) 21 100 3901
GEORGE	+27 (0) 44 050 6057
MAURITIUS	+ 230 5843 5215

NASDAQ (\$)



If ever you've wanted to experience a rollercoaster in two graphs, then you can tick that off your bucket list.

WHERE TO IN 2024?

The amazing turnaround in fortunes last year has been ascribed to the latest collective name given to stocks that are the current market darlings. **LET ME INTRODUCE YOU TO THE MAGNIFICENT 7:**



These giants of the S&P 500 produced returns in 2023 ranging from 50% to 240%, putting them amongst the top-performing stocks of the year. These stocks carry an extremely heavy weighting in the index, thus driving the S&P 500's growth last year.

These dollar-denominated returns are especially mouth-watering for South African investors who would have benefited even further because the rand depreciated by roughly 10% over the same period.

It's impossible to ignore the heavy tech slant of the members of the Magnificent 7, so it's only reasonable to expect that they'll continue to grow strongly this coming year. Right?



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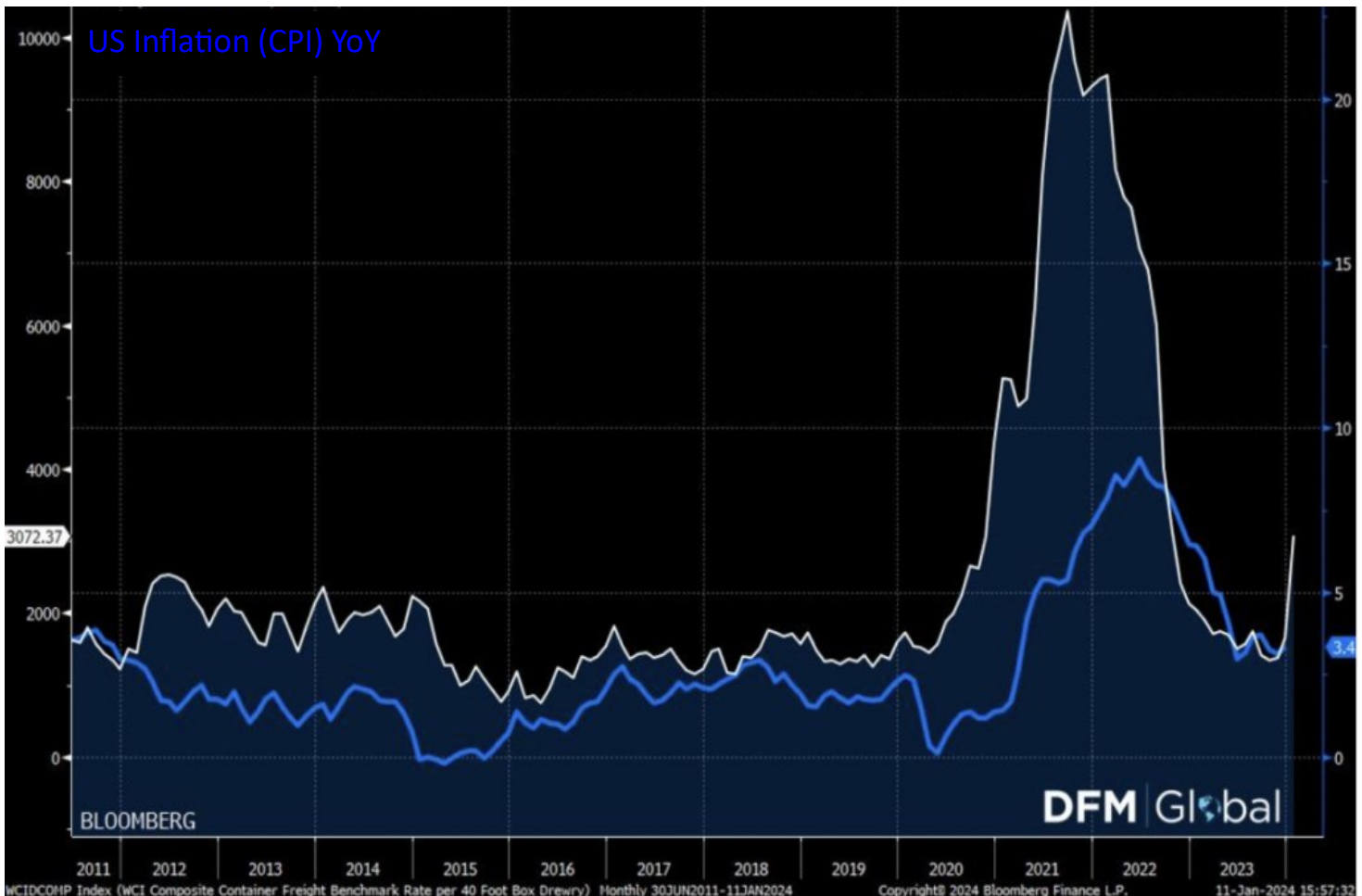
STICKY INFLATION

Some analysts, after reviewing recent CPI figures and interest rate expectations, are now saying: Not so fast on the bullish outlook.

The US CPI numbers released in the second week of January 2024 were slightly higher than expected, at 3.4% vs the predicted 3.2%. Why is this a problem? The expectation at the end of last year was that the US Fed would start cutting rates somewhat aggressively this year, some thought, because inflation was retreating.

WCI COMPOSITE CONTAINER FREIGHT BENCHMARK RATE PER 40 FOOT BOX DREWRY

Monthly Data since WCI Composite Inception 30 June 2011



So, rates might not be cut as aggressively as expected, nor as soon as had been hoped.

MARKET IMPLICATIONS

If this happens, there will be consequences for stock markets because they typically reflect the earnings expectations of the listed equities. If rates remain high, it could mean that revenue could be lower than projected at the end of 2023 when inflation expectations differed.

Consequently, markets might run hot, which could lead to certain sectors becoming overvalued, especially on the tech and artificial intelligence (AI) side. Many of these stocks have enjoyed stratospheric growth on the back of the AI-hype cycle, with many in the 'Magnificent 7' fuelled by this euphoria.

It's never easy predicting who the winners and losers are going to be. But, based on the rapid adoption of AI technology, it seems logical that companies producing or supporting the growth of AI will benefit enormously.

However, I believe it's important to look beyond these darlings of the market to other value stocks that have shown the ability to deliver returns over the long term.

DIVERSIFICATION IS KEY

The reason you should be looking at other stocks is not only to find those that will profit when rates and inflation start to come down. Your reason for considering other options comes down to the simple investment principle of diversifying your risk and opportunities.

The best way to do that is to sit with your advisor to find those stocks, indices or funds that allow you to spread your risk while simultaneously unlocking new opportunities. You might do this as part of your annual portfolio review, or if you've recently had a windfall or reached a milestone in your life that demands that you relook and reconsider your options.

I look forward to reviewing the events that unfold in 2024 at the end of the year. Mainly because it's easier to look back than trying to make sense of an uncertain future. The best we can do amid this uncertainty is to diversify our risk while keeping an eye firmly on the long-term goal.

Unlike last year, 2024 might not be dazzled by the Magnificent 7, but then again, it might. We just never know in advance. So, I wish you well in the year ahead and implore you to make informed, rather than rash, decisions.

Whenever you're in doubt, rather reach out to a trusted or qualified advisor who can hopefully help guide your investment decisions in extremely trying times.

ADVISOR PROFILE: Ruan Breed, Financial Advisor, Brenthurst at George & Stellenbosch

BCOM. FIN SCIENCE | CIMA ADV DIP MA | PGDIP INVESTMENT PLANNING



Ruan joined Brenthurst Wealth, a leading financial services company in South Africa, as an advisor/paraplanner in 2021. Before that, he gained valuable experience in the tax and advisory industry at Crowe Tax and Advisory Services in Stellenbosch. He earned a BCom (Financial Sciences) degree from the University of Pretoria and a Postgraduate Diploma in Investment Planning from the University of the Free State. He is also pursuing his CGMA designation from CIMA (Chartered Institute for Management Accountants), a prestigious financial qualification based in the UK.

Ruan is a Wealth Manager at Brenthurst Wealth in the Stellenbosch and George office and provides expert advice on all investment matters, including portfolio management, retirement planning, estate planning and tax optimisation.

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