Truffle Asset Management

Economic Commentary
April 2024

The US economy remains resilient, four months into 2024. April did, however, bring further moderation to interest rate expectations and a summer US rate cut now appears unlikely with the expected number of cuts towards the end of the year now dropping to just one or two (from seven a few months ago).

Emerging Markets outperformed Developed in April as EM equities and commodity prices strengthened. Metal prices benefitted from a turnaround in the manufacturing sector and reasonable economic data from China. SA equities, especially resources, were well supported despite political jitters as we entered election month.

US labour trending down, slowly

The US economic environment remains supportive of corporate earnings and many companies beat expectations in the first quarter earnings season. However, the market punished missed estimates resulting in meaningful price declines for these counters and indicative of the optimism priced into the US markets.

The US economy added approximately 175,000 jobs in April, below an expected 243,000 and the lowest since late 2023. Hourly wage growth also slowed by 0.2% MoM in April to 3.9% - its lowest level since 2021. Weaker April data is good news for inflation coming under control, however it will require a broader and more meaningful economic slowdown for the Fed to implement any rate reductions. However, the current Fed narrative also suggests no rate hikes. This is a net positive for the equity market over the short term.

Historically, cooling labour market data has typically preceded a recession and highlights the medium-term risks to what otherwise appears to be a strong economy and stock market.

Eurozone ready for summer rate cuts

While persistent inflation remains a key risk globally, a less inflationary environment in the Eurozone and UK indicates potential summer rate cuts by the ECB. This coupled with a continued rebound in global manufacturing supports the European market. EPS growth in the region is muted for this year, however better prospects have driven earnings upgrades especially in the resources and financials sectors.

South Africa poised for election outcome

Election uncertainty is running high as we approach 29 May. Foreigners have been reluctant to enter the market until the dust has settled while locally inertia remains amidst the political uncertainty. Our base case remains for a centrist election outcome with an ANC-led coalition government driving policy continuity over the short term.

A month of no load-shedding in South Africa lifted sentiment and most macro-economic data points either ticked up or stabilised, although overall the economic cycle remains depressed. Manufacturing was stronger (April PMI of 54 vs March of 49.2), and vehicle sales had a solid month as new car sales rose 2% and passenger car sales by 6%. However, SA consumers remain under significant pressure in a protracted higher interest rate environment and as interest rates were once again left on hold in April we are seeing evidence of an embattled consumer.

Positively, both reduced loadshedding levels and a turnaround in Transnet, albeit at a slow pace, will provide some underpin for economic growth. Strong commodities (metal prices) also support the local resources sector. While a recovery in China and stronger manufacturing benefit commodities, the eventual copper deficits over the coming year, driven by production challenges and weaker supply, represent a key driver behind the Billiton bid for Anglo American This will also be positive for Glencore going forward.

Overall, SA equity valuations remain reasonable as prices reflect both global and local risks and we remain focused on companies trading on generous valuations and with good dividend yields. The easing of political uncertainty post May's election date could support an unlock of value for the many companies trading at a discount and would mean more investment opportunities across the SA market.

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Morningstar Awards were awarded to Truffle Asset Management (Pty) Ltd on 23 March 2022, 22 March 2023, and on 14 March 2024. Details available on request.

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