Truffle Asset Management

Economic Commentary

January 2024

More of the same

The economic themes of 2023 have carried into 2024 with the US economy remaining strong and China's outlook still uncertain. US markets gained in January on positive sentiment with the S&P 500 reaching record highs while China's weak equity market performance dragged on Emerging Market returns.

Locally, continued pressure on consumers and Rand weakness detracted from any new year enthusiasm with mining stocks and locally exposed businesses dragging on equity market performance.

US economy off to a strong start

The US economy maintained strength into 2024 with January unemployment data and the pace of wage growth surprising to the upside. This was despite certain leading indicators still pointing to a slowdown in US employment including higher job openings and quit rates. Headline US inflation for December was slightly higher than expected, and by month end, optimism around near-term rate cuts had waned.

Market sentiment driven by stronger than expected economic data points pushed up bond yields as rates will likely remain elevated for longer. The buoyant economy coupled with positive earnings surprises has continued to drive upward momentum in the S&P500 Index which is trading on a 20.5 Forward PE.

China limping into 2024

Chinese economic data has shown some pockets of improvement however, it remains to be seen if this is sustainable and sufficient to buoy the Chinese market. Improved consumer sentiment is critical for a sustained turnaround in the Chinese economy and the protracted introduction of new stimulus measures from Chinese government appears to be having little impact at this stage.

The propping up of the stock market by the government is unlikely to provide anything but temporary support and Chinese stock markets remain optically cheap.

While China struggles to make a comeback, Japanese markets surged, driven by additional positive sentiment around Japan's structural and policy changes.

South Africa lacking momentum

South African consumers remain under pressure specifically notable in weakened consumer durable and non-durable expenditure with car registrations dropping to levels last seen three years ago. The potential for interest rate cuts later in the year may provide some relief, however with the US pushing rate cuts further out, a prolonged period of higher local rates is likely.

Positively, from a fiscal perspective, the trade surplus has held up well with imports under pressure from weak demand and strong tourism inflows. The outcome of upcoming elections is critical for SA's outlook although current polling suggests the result will be a coalition with the status quo being maintained. There is a risk of populist parties gaining more traction than expected which would bode poorly for the long-term outlook and may negatively impact markets.

Despite a fairly lackluster outlook for the SA economy and political landscape, there remain some reasonably cheap investment opportunities in the Financials sector and selective Industrials. Some offshore exposed businesses are also trading on reasonable valuations and offer diversification away from domestic challenges.

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

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