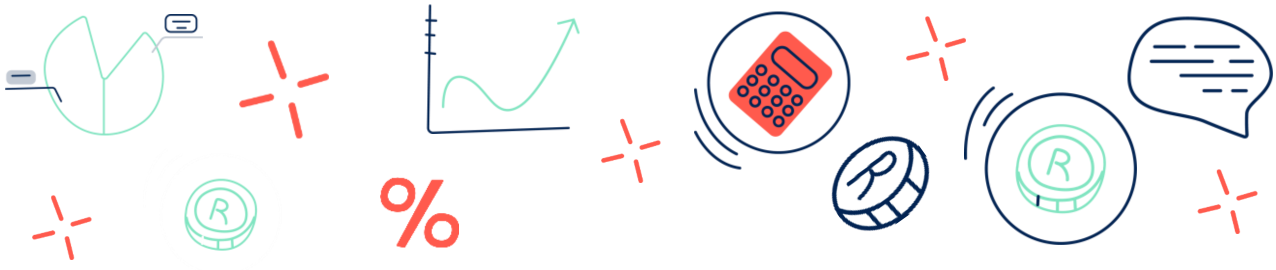
Truffle Asset Management

Economic Commentary
February 2024



Persistent resilience

Trends across the main economic regions accelerated in February, particularly in the US where employment data was again resilient. China showed signs of recovery with better-than-expected export data in January and February; however, the outlook remains uncertain. Back home, continued infrastructure challenges and heightened uncertainty ahead of elections weighed on sentiment in South Africa and the annual Budget speech did little to shift the current muted outlook. The local market is clearly looking for delivery.

US markets soared, achieving new record highs, again largely driven by a small concentration of companies exposed to the AI theme. China’s equity market finally rose again, lifting EM performance while Europe and UK equity markets delivered weak performance as company earnings disappointed.

The US is still hiring

US economic data provided proof of ongoing strength in February as 275,000 new jobs were added to the economy exceeding analysts’ expectations. However, wage growth which had previously been outpacing inflation appears to be slowing in February. Inflation, at 3.1% in January, although trending lower, remains well above the US Fed’s 2% target. This suggests expected rate cuts will be implemented “later rather than sooner”.

US earnings season continued into February with many reported company earnings exceeding analyst consensus expectations. This drove another market rally and the S&P 500 was up over 5% for the month. US valuations remain elevated, however there are specific opportunities within certain sectors.

Faded market enthusiasm around the pace of rate cuts drove US bond yields higher over the month while the view that rates will be higher for longer supported US Dollar strength.

Chinese New Year spirit

The Chinese economy has remained relatively sluggish over the last year however, newly released trade data shows the world’s second largest economy might be recovering with exports in January and February sharply up. It's still too early to gauge if this is a temporary surge or a sign of recovery, particularly given the weak outlook on demand for goods, poor consumer confidence and continued geopolitical tensions.

Chinese equity markets rallied significantly after the local new year and off the back of new interventions from the Chinese government to support the equity market.

Japanese equity markets also rose despite weaker economic growth in the region as the Japanese market continued to gain confidence following business friendly policy changes.

South Africa lacking activity and action

Economic activity was once again subdued in February and although data showed retail sales lifted year on year to end December, this was off a low (loadshedding) base. Inflation proved sticky and while food inflation is lower than a peak of 14%, it remains high at 7,7% weighing heavily on consumer wallets. Again, we note that the potential for interest rate cuts later in the year may provide some relief, however with the US stalling rate cuts, a prolonged period of higher local rates is likely.

The annual SA Budget speech did little to change sentiment as a slow economy continues to weigh on the revenue line. Furthermore, more plans with few proof points to support implementation did little to drive a shift in outlook. Positively, loadshedding is slowly improving, evident in comparative figures for the first two months of 2023. And container congestion in Durban port is easing, opening up economic activity. Poor logistics remains a significant challenge to South Africa's growth outlook and the announcement of new leadership at Transnet provided markets with a confidence boost. The appointment of Michelle Phillip's as Transnet's new CEO demonstrates a commitment to driving the SOE's recovery plan.

SA's economic outlook remains subdued and the political landscape uncertain creating significant risk to investors. However, despite the need for sustained action to reform failing infrastructure, there are some reasonably cheap investment opportunities. Certain offshore exposed businesses are also trading on reasonable valuations and offer diversification away from domestic challenges.

Disclaimer

Truffle Asset Management (Pty) Ltd is a registered Financial Services Provider (FSP Number: 36484). Registered for Categories I and II. This document does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation, and is only intended for the use by the original recipient/addressee. If further distributed by the recipient, the recipient will be responsible to ensure that such distribution does not breach any local investment legislation or regulation.

Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments. Opinions expressed are current opinions as of the date appearing in this material only. The information is confidential and intended solely for the use of Truffle's client's and prospective clients, and other specific addressees. It is not to be reproduced or distributed to any other person except to the client's professional advisers.

While information obtained is from sources we believe to be up to date and reliable, Truffle does not guarantee the accuracy or completeness thereof. Truffle does not accept any liability for inaccurate or incomplete information contained, or for the correctness of any opinions expressed. Past performance is not an indication of future performance. on the outcomes of many variables, including a potential US recession, sustainability of Chinese growth and capital investment, European energy demand and, importantly, the path of monetary policy by Central Banks. The uncertain macro environment continues to fuel financial market uncertainty

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

Contact

Get in touch with us

Telephone numbers
Johannesburg Office: +27 (0)11 325 0030
Cape Town Office: +27 (0)21 007 0532

Email addresses
General queries: info@truffle.co.za
Institutional services: institutional@truffle.co.za