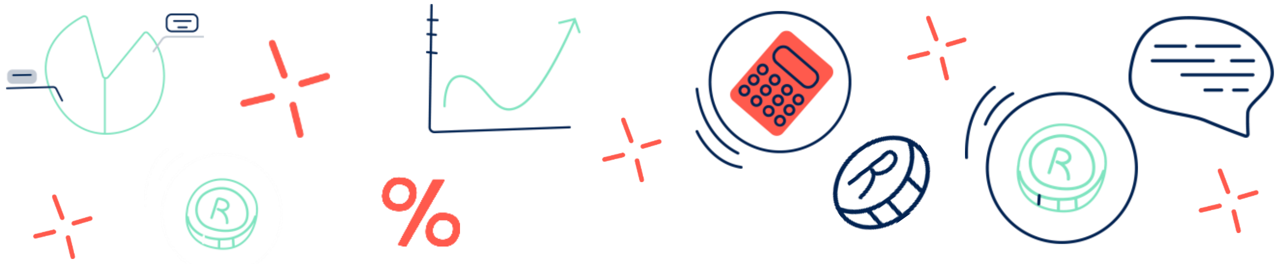
Truffle Asset Management

Economic Commentary
October 2024



US remains resilient amidst election uncertainty

The US economy continues to show robust growth as inflation remains under control. US GDP growth of 2.8% for Q3 was largely driven by consumption growth of 3.7%. Although unemployment remains low at 4.1%, the labour market is cooling.

Markets were volatile in October given heightened uncertainty around the potential implications of a policy shift post the US presidential election. A Trump victory has key implications for global and US markets. Trump's second term in office will potentially bring higher tariffs, lower taxes and greater clampdowns on immigration, all inflationary factors and likely to increase an already high US budget deficit. This environment is negative for bonds and in fact a likely driver of the recent spike in US bond yields. The 10-year real yield moved back above 2% despite a softer labour market and lower inflation. The impact of a Trump win on US equities depends on the extent to which fiscal stimulus outweighs the negative impact of higher bond rates.

While the degree to which Trump's policies will be implemented is uncertain, as things stand, the changes would be especially negative for China and to a lesser extent Europe and other Emerging Markets.

Chinese markets retreat following September's stimulus euphoria

In October, the Chinese stock market pulled back from the initial euphoria sparked by the stimulus package proposed last month. Markets continue to assess China's ability to deliver sustainable growth given the pressure on the real estate market and low consumer confidence. Further stimulus measures may be proposed by the NPC Standing Committee in early November, and should significant tariffs be imposed by the US under Trump's leadership; the quantum of stimulus may also be increased. However, barring a more infrastructure-focused or significantly higher quantum than initially indicated, we are not expecting further stimulus to drive a meaningful and sustained impact on commodity markets.

South Africa's growth is highly dependent on delivery

The recent, and first GNU, Medium-Term Budget speech proved marginally disappointing with future reform delivery remaining critical to unlocking South Africa's growth potential. Small shortfalls in tax receipts and increased spending resulted in the forecast budget deficit of 5% for FY 2024/25 exceeding market consensus expectations of 4.5%. National Treasury do however expect the primary surplus of 0.4% of GDP to continue rising to 1.4% in 2 years while an already high Debt to GDP ratio has been revised up by 0.2% to 75.5% for the 2025/26 year.

Ultimately, delivery on the reform agenda remains key for a sustainable turnaround of South Africa's fortunes. Positive developments in October included the establishment by SA government of financing vehicles enabling Public Private Partnerships to tackle infrastructure projects. However, changes to legislation are still required for private sector participation to progress, especially in relation to rail logistics and the turnaround of Transnet. Key services like water also require urgent attention.

Over the short term and as noted last month, several factors should help drive SA GDP growth closer to 2% in 2025. Interest rate cuts and two-pot withdrawals will relieve consumers, and the domestic economy also stands to benefit from the cessation of load shedding, a higher number of tourists and lower oil imports in terms of volumes and prices.

Absent a significant commodity cycle, further increases in valuations will depend on the necessary economic reform to drive economic activity and growth as noted above. Nonetheless, even at current valuations, the combination of dividends and double-digit earnings growth should deliver strong returns from the domestic equity market over the medium term.

South Africa is not immune to global shifts resulting from the US election and Trump's victory is likely to initially dampen an improved local outlook. The US dollar will potentially strengthen over the short term with Emerging Market indices underperforming. While it will take time to establish the longer-term impact of a Trump-led US on the local economy, the need for reform to address significant idiosyncratic risk remains critical.

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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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