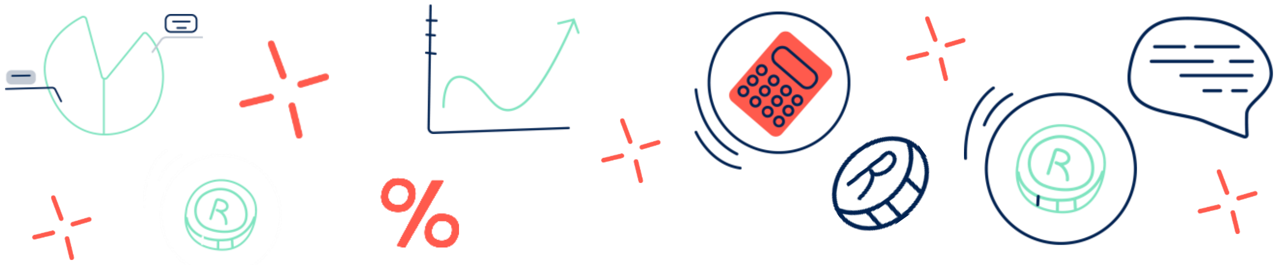
Truffle Asset Management

Economic Commentary
November 2024



Trump 2.0

Donald Trump's presidential victory for a second term and the Republican's gain of Congress in early November drove a US equity market rally over the month. The market was cheered by Trump's campaign promises to cut taxes which would support upgrades to the immediate US earnings outlook. However, Trump's proposed tax cuts, additional trade tariffs, and immigration clampdowns would likely be medium-term inflationary, giving the US Fed reason to slow the pace of interest rate cuts in 2025.

The US bond market responded to the increased inflationary outlook. US real rates moved up to 1.9% and the market has started to price in a shallower cutting cycle of just 80 bps in 2025 from previous expectations of 175 bps.

While the policy direction is broadly clear, the timing and extent of these changes remains unknown. Proposed tariffs may appear draconian but could also be negotiating tools. Trump's stance on substantial tariffs appears to be broader than China, having threatened 25% tariffs on Mexico and Canada as well.

Tariff increases also create risk for the EU region. Europe, as a manufacturing and export hub, will need to rely on a strong European consumer to mitigate some of this headwind to GDP growth. With inflation and energy prices falling, rate cutting in Europe has begun and further reductions of 150bps in 2025 are expected.

Overall, the US economy remains strong with the latest Atlanta Fed's GDPNow model estimating GDP growth of 3.3% for Q4, whilst unemployment remains low at 4.2%.

Despite clarity around political leadership in the US, uncertainty is set to continue in 2025 as the global impact of Trump 2.0 and the far-reaching impact of policy changes will begin to unfold. Beyond trade policies, there are other factors such as an end to the Ukraine-Russia war and the instability in the Middle East which could significantly impact the global economy in the short to medium term.

China preparing for change

China remains sluggish and the Chinese consumer weak. The economy continues to export deflation with the latest PPI print at - 2.5%.

The impact of significantly higher tariffs on exports to the US and China-US trade policy changes remains uncertain although would probably weaken their currency. However, China has had more time to position than ahead of Trump's previous presidential term, and efforts include increased trade with the rest of the world. China's announcement of a ban on exports to the US of several critical metals used in high-tech and military applications was also a retaliatory shot across the bow. Local measures will hopefully mitigate pressure from America. The Politburo has recently shifted the monetary policy stance for the first time since 2011 and will now adopt a "moderately loose" monetary policy in 2025. More importantly, they have signaled further fiscal support is in the pipeline, the degree of which will likely be guided by the extent of tariffs from the US. Hopefully these fiscal measures, which bode well for stocks that are China dependent, will boost consumption to escape the debt-deflation loop. The quantum and nature of stimulus over 2025 does however remain uncertain.

South Africa ending the year stronger

We continue to see recovery in pockets of the SA economy. Whilst Q3 GDP disappointed as a result of agricultural contraction, household consumption expenditure and gross fixed capital formation expanded. SA's economy should also feel the boost of lower inflation and inflationary pressure remains benign at this stage. SA retailers (primarily Pepkor and Mr Price) printed positive double-digit revenue growth for October and November. This is likely driven by consumers spending their available savings from the introduction of the Two-Pot retirement system. Trading updates from SA Banks signaled that credit loss ratios are improving. Also encouraging was S&P's revision of South Africa's outlook to positive, reflecting their view that improved political stability and steps to reform will boost private investment and GDP growth.

Emerging markets, including South Africa, lost momentum in November following Trump's victory. Africa will need to prepare for Trump-led policy change and locally the GNU is trying to emphasise economic diplomacy. Hopefully the US will seek to improve relations with the ex-China Global South and renew the AGOA agreement.

We remain optimistic for SA GDP recovery in 2025 which will continue to be supported by an improved political landscape, cyclical factors and on-going growth-supportive reforms.

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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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