Truffle Asset Management

Economic Commentary

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A fast-evolving global landscape

2025 is shaping up to be a year of significant transformation as shifting policies and geopolitical decisions are being felt across major economies. From the United States' evolving trade stance to Europe's strategic realignments, China's economic ambitions, and South Africa's political recalibrations, we are facing significant change.

Trump is reshaping US trade and foreign policy

The initial post-election rally in the US has lost momentum as the market attempts to digest the deluge of new Trump policies. At the heart of market turbulence are on-again, off-again tariffs, which have created an unpredictable environment for corporate America. With companies stockpiling goods in anticipation of trade restrictions, the U.S. trade deficit surged in January, exposing the fragile balance between protectionism and economic stability.

While many initially believed Trump’s tariff threats were mere bargaining tools, sentiment has shifted. There is growing recognition that his administration may fully implement these policies in an effort to reduce trade deficits and bolster national security. Central to this strategy is the onshoring of manufacturing, a move that aligns with his broader economic agenda.

In the short term, tariffs act as an inflationary force, effectively taxing consumers, lowering spending, and dampening GDP growth. January’s decline in personal expenditure highlights this dynamic, as inflation expectations weigh on household budgets. Despite these challenges, growth forecasts for the U.S. remain at a solid 2% for 2025, while the market now anticipates at least three interest rate cuts over the course of the year.

Historically, Trump would reverse course if the US equity market corrected too sharply. It remains to be seen whether equity markets will once again serve as a guardrail for his policy decisions. In the long term, prolonged trade uncertainty could discourage investment, both domestically and globally, threatening sustained US economic growth.

The Eurozone’s watershed moment

Across the Atlantic, the Eurozone is experiencing a pivotal shift, driven by the US’s adversarial approach towards them. With American security guarantees now uncertain, European nations are taking matters into their own hands.

Germany has already responded with a radical fiscal pivot, introducing open-ended defence spending to strengthen its military and provide support to Ukraine. Additionally, the country has outlined a €500 billion special fund dedicated to infrastructure investment, signalling a broader shift toward greater fiscal autonomy.

These developments have fuelled a significant rotation of investment from U.S. markets to

Europe, with defence, construction, and banking sectors rallying strongly. The recalibration of geopolitical alignments is reshaping economic dynamics, positioning the Eurozone for a more independent future.

China's renewed focus on innovation

In China, the government has set an ambitious 2025 growth target of 5% while allowing its budget deficit to rise to 4% of GDP—one of the highest levels in recent history. Encouragingly, boosting domestic consumption has emerged as the government's top priority.

Markets have in the meantime responded positively to President Xi Jinping's newfound embrace of the technology and private sectors. The rapid adoption of artificial intelligence in China has been driven by breakthroughs such as DeepSeek's advancements in AI technology. This innovation has drawn attention to the large valuation gap between U.S. and Chinese tech companies, with the latter recently meaningfully outperforming their American counterparts.

Geopolitically, the trade war with the U.S. continues to escalate. China recently retaliated to Trump's tariffs on Chinese products by introducing additional tariffs on U.S. agricultural goods. While U.S. policy remains a source of uncertainty, many well-capitalised Chinese firms continue to trade at reasonable valuations, offering attractive investment opportunities.

South Africa's political and economic balancing act

South Africa has entered a new political phase, with coalition governance taking centre stage. The complexity of this new system became evident when the Government of National Unity (GNU) struggled to pass its Budget, resulting in an unprecedented delay until 12 March. While Budget delays are common in coalition politics globally, this was a first for South Africa, underscoring the checks and balances of the GNU.

As Budget negotiations unfold, the key question is how competing priorities—fiscal discipline, social spending, and accelerated reforms—will be reconciled. At the same time, diplomatic tensions between the U.S. and South Africa have escalated, adding another layer of uncertainty to the nation's geopolitical standing.

Our economic projections remain cautiously optimistic with South Africa's GDP expected to recover to 1.8% in 2025. However, consumer confidence appears muted, despite a declining Rand oil price, further two-pot retirement fund withdrawals, a resilient currency, and falling interest rates. Structural reform continues to make progress.

Given the numerous potential scenarios at play over the next few months, portfolios are being structured with a high margin of safety. We expect South African equity performance to be supported by attractive dividend yields and earnings recoveries from a low base. Within equities, offshore-based companies present more compelling valuations, leading to strategic portfolio rotations from locally focused stocks that performed well in 2024 to global peers that struggled last year.

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