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Economic Commentary

Truffle Asset Management

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Politics and Policy

- **US** political pressure is reshaping the US economic outlook and lifting the risk of higher bond yields.
- **Europe** is showing early signs of recovery, but lasting momentum depends on cutting red tape and deepening integration.
- **Chinese** equities are climbing despite weak data, supported by policy efforts to trim excess capacity and lift consumption.
- **South Africa**, meanwhile, continues to struggle with structural hurdles, though better terms of trade and lower bond yields offer some relief.

Politicisation of monetary policy lifts risks for bond yields

Current economic data suggests that the US economy is losing momentum, with consumption growth particularly subdued. Nevertheless, profit growth expectations remain robust, with upward revisions continuing even though the full impact of tariffs has yet to materialise.

While labour supply has been constrained by lower participation rates and immigration, slowing labour demand is expected to push unemployment higher, creating room for the Federal Reserve to cut rates. The key risk for U.S. markets remains a right-tail risk in long-term yields, driven by an unsustainable debt trajectory and mounting government pressure on the Fed to ease policy. Any attempt by the government to strong-arm the Fed into lowering rates beyond what markets view as prudent will likely be met with higher inflation expectations and a steepening of the yield curve.

Europe: Can efficiency improve?

The European manufacturing PMI has shifted into expansionary territory, supported by rising capital expenditure. The momentum is underpinned by the shift away from austerity, low real interest rates, and a healthy banking system with the capacity to lend. The key question is whether Europe can meaningfully reduce regulatory burdens and improve integration to sustain this recovery sufficiently.

China: Market strength amidst economic weakness

Despite ongoing weakness in economic data and housing prices, Chinese equities have strengthened. This may well be due to the government’s focus on cutting industrial overcapacity, which bodes well for future profitability. Policy initiatives to boost consumption (such as increasing minimum wages) should also provide incremental benefits.

South Africa: Structural challenges, cyclical support

The South African economy continues to face entrenched structural challenges, including weak fixed investment, deteriorating municipalities, and corruption. Current earnings from retailers and subdued credit growth highlight lacklustre consumer spending. Nonetheless, there are tentative positives: rail and port volume throughput has improved at the margin, although it remains far from sufficient.

Encouragingly, Transnet appears committed to collaborating with the private sector, though meaningful progress remains at least two years away. On a cyclical level, favourable terms of trade will provide some fiscal relief, and together with lower bond rates, should support domestically exposed equities.

In this environment, our equity positioning remains focused on companies that are less dependent on domestic economic growth. We prefer Financial stocks, where valuations already discount a continued weak economic environment.

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Iain Power has served as CIO of Truffle Asset Management since 2010, leading the investment team across multi-asset and equity strategies. With over 30 years of industry experience, he is known for his deep market insight and disciplined, valuation-driven approach. Iain is widely regarded as a leading voice on investment strategy, market dynamics, and risk management.

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Saul Miller is a senior portfolio manager at Truffle Asset Management with 27 years of industry experience. Since joining Truffle in 2016, he has played a key role in managing equity and balanced strategies. Saul is known for his strong analytical skill, consistent outperformance, and deep understanding of fundamental equity investing.

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