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May Economic Commentary

Truffle Asset Management

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A stalemate, for now

The US-Iran conflict continues to grind on without a clear resolution in sight. Yet, despite the prolonged standoff, oil markets have been less disruptive than many had feared. A combination of higher-than-expected inventory levels, lower levels of demand, and China's willingness to reduce oil imports has cushioned the blow. In the US, inflation-adjusted petrol prices remain close to their ten-year median, a remarkably contained outcome given the circumstances.

Oil: contained for now, but the clock is ticking

The conflict has settled into a messy stalemate. Neither a decisive escalation nor a peace deal has materialised, and oil prices remain elevated but not at recession-inducing levels. Notwithstanding the poor forecast track record of oil experts, projections suggest that if the Straight is not opened within the next two months, a spike in oil prices will be unavoidable.

Although the short-term outlook is highly uncertain, we are cautiously optimistic over the longer term. Most of the global community, including most of the American public, is strongly in favour of a cessation of hostilities. The US also appears to be softening its position on nuclear-related demands, which opens a potential pathway to a negotiated settlement. Against this backdrop, we are positioning portfolios to benefit from an eventual reopening of the Strait.

United States: resilient, but cracks are forming

The US economy remains on a firm footing, underpinned by robust technology capital expenditure that continues to drive both economic activity and corporate earnings growth. While consumer pressures are building, the labour market remains strong, and elevated equity markets are providing a meaningful wealth buffer — albeit one concentrated in the upper tiers of the income distribution. The K-shaped economy continues to deepen.

The long-anticipated SpaceX IPO has finally been announced, with Anthropic expected to follow shortly. These are likely to be among the largest listings in market history. While the initial placements are relatively modest and are unlikely to flood the market with supply, history suggests that blockbuster IPOs frequently precede market peaks. Future secondary offerings once these companies are listed could also create meaningful price pressure. Separately, Alphabet has launched a rights issue to fund its own capital expenditure requirements, adding to the supply of equity in the technology sector.

Memory semiconductors warrant particular attention. The shortage of memory chip supply is well documented and justifies elevated profitability and market valuations for the sector.

However, South Korean memory giant Samsung now generates sufficient earnings to rank it among the five most profitable companies globally, with its competitor SK Hynix not far.

South Africa: inflation and the consumer under pressure

South African headline inflation rose to 4.0% in April from 3.1% the prior month, and inflation expectations as priced by the bond market remain elevated. The South African Reserve Bank projects inflation to remain above target, at 3.7%, through 2027, making further interest rate increases a credible possibility. This places additional pressure on an already strained consumer.

The deterioration in consumer spending is increasingly evident in the earnings updates from listed retailers, where share prices have continued to weaken. Looking further ahead, food inflation poses a growing risk. The probability of a significant El Niño event in the second half of the year has risen, with potential knock-on effects for agricultural output and food prices. Online gambling and the expansion of Chinese e-commerce platforms continue to claim a larger share of discretionary consumer spending, adding a structural headwind to traditional retailers.

Against this backdrop, we have maintained a relatively concentrated exposure to a limited number of defensive retailers, reflecting our caution on the broader sector. We continue to find greater earnings certainty in the financial sector, where banking earnings are being supported by solid corporate credit growth both domestically and across the rest of Africa.

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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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