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Economic Commentary

Truffle Asset Management

AUTHOR: SAUL MILLER & NICOLE AGAR, PORTFOLIO MANAGERS

AI demand holds

AI demand remains firm, but markets are questioning the scale and funding of hyperscaler capex. In South Africa, an improving fiscal outlook and a likely ratings upgrade support cautious optimism.



AI demand holds firm as the market questions the scale and durability of capex

US 10-year Treasury yields fell 35bps to 4.93% over the month, despite higher fuel prices and a still-robust economy, which would normally push yields higher. Investors transitioned into safer assets, such as Treasury yields, as equity markets grew concerned about the scale and funding of AI capital expenditure.

Demand for AI compute remains strong. Chipmakers continue to raise future revenue guidance as the wider AI industry remains supply constrained for the next few years. The hyperscalers reported substantial growth in AI revenues and importantly, recent results generally showed strong earnings from their core businesses, from which their AI capex is funded. The market remains extremely focused on hyperscaler free-cashflow and funding in terms of debt, equity and leases is becoming more of a pressure point.

The recent midterm elections flag a new issue for the AI trade. In the data-centre hub states, such as Texas and Georgia, voters backed sceptical Democrats. This meaningfully raises the "anti-data centre" protest. How this plays out is unclear, but the possibility of a slowdown in data centre construction could impact the tech hardware suppliers, particularly the chipmakers. Near-term, the hyperscalers could benefit from slower capex, which would ease the pressure on free cashflow but would also cap the capacity hyperscalers can bring online.



South Africa: Grounds for cautious optimism

The Medium-Term Budget Policy Statement (MTBPS) pointed to an improving fiscal position. Debt-to-GDP peaked at 74.6% in 2025/26 and is forecast to fall below 70% by 2032/33. South Africa continues to run primary surpluses, with the 2026/27 primary surplus expected to increase from 1.6% currently to 2.8% in 2029/30. A review by the credit rating agencies is imminent, and we think a one-notch upgrade is likely. That would move South Africa closer to investment grade and support local bonds.

The outcome of the local elections will shape domestic equity sentiment, with a reasonable chance of DA-ANC coalitions forming in key Gauteng metros and being favourably received.

Positioning our funds

The US and Iran are still no closer to a resolution. European gas prices have also started to rise sharply ahead of winter, adding to the burden on consumers. Even so, we expect energy prices to ease in the medium term, with confidence in this view increasing the further we look out. Lower energy prices should bring down bond yields and to a lesser extent weaken the dollar. Both would support commodities which should in turn benefit the miners and domestically exposed companies held in the portfolio.

Over the last month, we took profits on dual-listed shares like Anheuser Busch that performed well. We added to financials exposure through Momentum, First Rand and Discovery. Despite recent underperformance from Naspers and Prosus, we maintain a significant exposure, given Tencent's compelling valuation and prospects.

Author (s)



Saul Miller | Portfolio Manager & Analyst

M.Bus.Sci; Fellow of the Faculty of Actuaries (FFA)

Saul joined the Truffle team in 2016 and, with over two decades of investment experience, plays a key role as one of Truffle's senior portfolio managers. Saul spent more than 10 years working for RMB Asset Management, managing a range of equity and balanced funds that won numerous unit trust industry awards. Saul then moved to Argon Asset Management, where he was Head of Equity for over four years. During this period, the firm's equity assets under management grew rapidly from around R8 billion to over R20 billion, and investment performance comfortably exceeded benchmark returns. He was also responsible for implementing Argon's equity investment philosophy and process.



Nicole Agar | Portfolio Manager & Analyst

CA(SA)

Nicole joined the Truffle team in 2015 and adds broad and deep experience to the portfolio management team. Nicole discovered her love for investments while working in merchant banking in London for three years after completing articles at PWC. On her return to South Africa in 1997, Nicole joined RMB Asset Management, where she held various investment roles, including those of senior equity analyst and portfolio manager. During this time, various unit trust funds which she co-managed won Raging Bull and Standard & Poor's awards. She remained with RMB Asset Management, which later became Momentum Asset Management, until 2015, when her final position was Deputy Head of Equity Research.

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info@truffle.co.za | +11 035 7337 | truffle.co.za

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