MENTENOVA

ECONOMIC OVERVIEW

QUARTER 4, 2024

CONTENTS

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EXECUTIVE SUMMARY

The year 2024 was marked by shifts in both the global and South African economies. Developments such as the start of monetary easing and strong corporate earnings, against the backdrop of geopolitical uncertainty, including ongoing conflicts and pivotal elections, shaped a year of robust yet volatile investment performance.

The final quarter of 2024 saw varied performance across asset classes, influenced by Donald Trump's re-election, which induced optimism among investors but policy uncertainty surrounding tariff hikes and tax cuts and fewer anticipated rate cuts by the Federal Reserve Bank (Fed) in 2025 (revised from four to two cuts), among key concerns. Equity performance benefited from strong corporate earnings, easing inflation and government stimulus in developed and emerging markets in the third quarter of 2024. However, geopolitical events, trade dynamics and political turmoil birthed volatility in many emerging markets in the fourth quarter of 2024.

Developed markets fell by 0.1% for the fourth quarter, evidenced by the MSCI World, with notable regional divergence; the S&P 500 gained 2.4%, supported by Republican wins but moderated by Fed rate revisions; the STOXX 600 declined by 2.6%, reflecting weak economic momentum; and the Nikkei 225 rose by 5.4%, driven by a weaker yen and post-deflation excitement. Emerging market equities declined by 7.8% as per the MSCI EM Index, weighed down by losses in Korea (-7.4%) and India (-8.2%) due to trade policy concerns and political instability. Chinese equities declined 1.7% in the fourth quarter (a significant detraction from positive momentum seen in the third quarter) off the back of concerns over the longevity of its policy stimulus to boost economic growth. South Africa’s FTSE/JSE All Share Index dropped by 2.1%, impacted by waning momentum from government initiatives. The MSCI Growth Index rose by 3.8%, supported by US optimism around tax cuts and deregulation, outperforming the MSCI Value Index (-4.1%). Rate-sensitive sectors underperformed, with the MSCI US REIT Index down 6.1% and MSCI World Small Cap Index down 2.5%.

Government bond markets experienced volatility, with the FTSE World Government Bond Index returning -5.4% for the quarter. Inflation-linked bonds fared worse, as seen in the Bloomberg Global Inflation Linked Index (-6.7%). The Bloomberg Commodity Index delivered -0.4% as the manufacturing slowdown in China hurt metals like nickel (-12.6%) and copper (-10.8%) in the fourth quarter. Gold returned -0.4% for the quarter, while crude oil gained 4.0%, driven by late-quarter demand. The South African rand weakened significantly against major currencies, returning -9.1% against the US dollar, which gained 7.6% (Dollar Spot Index), and returning -2.0% against the pound and -1.3% against the Euro, but traded flat against the yen.

US equities led most of the performance in 2024, with the S&P 500 printing 25.0%, followed by Japanese equities at 21.3% and South African and European equities at 13.4% and 8.8%, respectively. Developed markets performed strongly in 2024, as demonstrated by the MSCI World Index (19.2%), which was approximately 10% better than the MSCI EM Index for emerging market equities. Markets seemed to correlate prior to the US elections, but diverged afterwards. This was evidenced by emerging market equities facing a lacklustre fourth quarter, recording a -7.8% return, which was impacted by tariff discussions following the Republican Party's victory.

Developed market equities stood out in the wake of strong corporate earnings, evidenced by record highs in the Dow Jones Industrial Average, S&P 500 and Nasdaq Composite Indexes. Concentration within the Magnificent 7 (M7) stocks boded well for developed indices – which now make up roughly 35% of the top 500 US-listed equities – as the Bloomberg M7 Index returned 67.3% for the year. Elon Musk also contributed to the strong quarter, as his and Trump’s pro-crypto stance bolted Bitcoin past the US$100,000 mark, along with double-digit price returns in electrical vehicle giant, Tesla.

Initial market reactions from the Republican sweep may have been speculative in nature, as we still need to see what the new administration’s policies are and how they will be implemented. It is believed that tariff hikes, tax cuts, deregulation and deportation are at the core of Trump’s agenda and that the second term will deliver solid economic growth, but with the potential for heightened inflation by widening fiscal deficits according to Alpine Macro research. According to Bloomberg Economics, the US economy is expected to grow by 2.5%

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quarter on quarter in the fourth quarter of 2024 and by 2.4% in the first quarter of 2025, in the wake of sustained economic momentum, but to slow to a rate of 1.8% at the end of 2025. Evidence suggests that faster economic growth combined with heightened inflation risks will reinstate slower and shallower rate cuts in early 2025 and a normalising policy only later in 2025. This is also supported by the Fed which cut its policy rate by 25 basis points for the third consecutive time in December, with forward rate agreements (FRAs) pricing in only two 25 basis point cuts in 2025.

Monetary easing is set to continue globally into 2025, although at a slower pace, according to Bloomberg Economics, which estimates advanced-world interest rates to drop just 72 basis points, which is lower than in 2024. This tells a story of both current inflationary pressures and those created by the Trump administration. There were several rate cuts in 2024. Switzerland started the cycle in March, followed by the European Central Bank in June, and the Bank of England and the Fed in September, with the South African Reserve Bank (SARB) following suit. Inflation has been successfully reduced in many countries, with the US, Eurozone and South Africa printing 2.7%, 2.2% and 2.9% year on year, respectively, at the end of November 2024, compared to 3.1%, 2.4% and 5.5% year on year, respectively, at the end of November 2023. This cultivated a more consumer-friendly environment in 2024 (which is set to ease into 2025) and aided the global economic growth forecast at 3.2% year on year in 2024 (Barclays).

The SARB's interest rate trajectory differed from that of the Fed in 2024. It is expected to, however, mirror the Fed's proposed two rate cuts in 2025 – as priced in by the FRAs at the end of December, bringing the repo rate down to 7.25%. South Africa consequently had a fortuitous year managing its inflation, infrastructure and policy reforms. The market and economy performed moderately well, with most asset classes delivering a positive performance. Equities were up 13.4%, bonds were up 17.7% and property was up 29.9%. The USD/ZAR was slightly weaker than the US dollar in 2024, reaching a low of R17.10 in the third quarter, before weakening to R18.84 by the end of December.

The outcomes of the coalition government, reforms pertaining to Operation Vulindlela (280 days without loadshedding) and an injection of capital resulting from the two-pot system (totalling R35 billion in November) contributed to improved sentiment in South Africa in 2024, evidenced by S&P's revised Credit Outlook to Positive. The growth rate contracted by 0.3% quarter on quarter in the third quarter of 2024, but is forecast to rise to 0.9% quarter on quarter in the fourth quarter of 2024, and from 0.6% year on year for 2024, to 2.2% year on year for 2025, according to ABSA. Some of the key developments that bode well for growth in 2025 are a young and growing population, improvements in governance structures and government accountability, lower inflation and real interest rates, and improvements in the foreign exchange rate. Collaboration between the public and private sector also brings optimism to infrastructure development, this along with increased budgets and support from Infrastructure SA enables the commencement of projects that aim to reform electricity, water, communication, and tourism within South Africa.

The Medium-Term Budget Policy Statement also outlines constructive measures to sustain momentum into 2025, but South Africa faces waning fiscal projections, concerns over a coalition collapse, and trade disputes, which may complicate government agendas to deliver sustainable economic growth. South Africa's economic prospects are also closely tied to China, one of its largest trading partners and BRICS confidant. However, China's shift to a consumer-focused economy and ongoing trade tensions with the West pose risks to South Africa's resource sector and global trade stability. Escalating tensions, particularly over Taiwan, could also disrupt trade and supply chains impacting economic growth in turn.

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MARKET OVERVIEW: NAVIGATING A BEARISH QUARTER

The final quarter of 2024 showed divergence across asset classes, piggybacking on the re-election of Donald Trump as US president. The announcement of his presidency triggered contentment among risk investors and major uncertainties in policy outlook, with the possible imposition of tariffs and a reduction in taxes weighing on emerging markets (EMs). Furthermore, the Federal Reserve Bank (Fed) revised its expectations of rate cuts in 2025, as September's Fed Dot-plot graph indicated four rate cuts. However, the latest graph published in December anticipated two rate cuts in 2025. Equity performance was attributed to corporate earnings exceeding market expectations, cooling inflation prints with major central banks reducing borrowing rates, and an enthusiastically received government stimulus in countries such as China bolstering domestic demand over the quarter. Notably, South Korea experienced volatility in the wake of President Yoon declaring martial law in early December, which was abruptly reversed on the basis of votes by lawmakers in the country's parliament immediately after the announcement.

The developed equity market, the MSCI World Index, delivered a muted return over the quarter (down 0.1%). This was largely attributed to the mixed returns of the underlying countries. The European markets continued to experience weak economic momentum as the STOXX 600 declined by 2.6%, underperforming against the S&P 500 gains of 2.4% over the quarter resulting from a clean sweep by the Republican party in the 47th US election. This saw the US equity market soar throughout November but then dwindle in the face of the Fed's announced revisions to interest rate cuts for the year ahead. In Japan, the markets experienced strong gains over the quarter (up 5.4%), feeding off the prolonged excitement at the end of the deflation era coupled with a weaker yen, which presented an attractive opportunity for foreign investors.

The MSCI World Index's counterpart, the MSCI Emerging Market Index, underperformed significantly over the quarter and was down 7.8%, underpinned by significant detraction across Asian markets. China, Korea and India experienced sharp declines in the quarter – down 1.7%, 7.4% and 8.2%, respectively. This was attributed to November's market performance following the announcement of Donald Trump's election victory. This elevated concerns about trade and technology due to the uncertain policy outlook regarding the imposition of tariffs in these regions. Korea's performance was underpinned by political turmoil and weakened investor sentiment (which may continue to drive a higher risk premium over the short to medium terms) as the impeached president resisted arrest. Locally, the FTSE/JSE All Share Index delivered negative gains over the quarter (down 2.1%), which stripped momentum from the market-supportive Government of National Unity (GNU),.

Over the quarter, the MSCI Growth Index gained 3.8% outperforming the MSCI World Value Index which was down 4.1%. This outperformance was largely attributed to a robust US economy and strong market optimism. The impending re-election of Trump amplified this positive sentiment, particularly given anticipated policies such as tax cuts and deregulation, which are expected to boost US economic growth. The rate-sensitive sectors such as real estate and small-cap stocks experienced declines over the quarter, with the MSCI World Small Cap Index down 2.5%, the MSCI US REIT Index down 6.1% and the local SAPY Index down by a muted -0.8%.

On the other side of the coin, the fixed-income market was not immune to volatility over the quarter, as seen in notable sell-offs in major government bond markets in October, resulting from uncertainty over US inflation policy once Trump is back in office. The FTSE World Government Bond Index delivered -5.4% over the quarter, with performance compromised in October and December in particular, returning -3.5% and -2.3%, respectively. The Bloomberg Global Inflation Linked Index took a dive over the quarter, returning -6.7%.

The commodity market suffered severely over the quarter, evidenced by nickel and copper falling by a shocking 12.6% and 10.8%, respectively, due to a decline in demand in manufacturing countries such as China. Gold delivered a muted return of -0.4%, attributable to uncertainty over the direction of US fiscal policy. The only commodity that experienced gains over the quarter was crude oil (up 4.0%), reaching highs at the end of December 2024. The Bloomberg Commodity Index returned a shallow -0.4% over the quarter.

For the quarter, the foreign exchange market saw the ZAR depreciate against most major currencies. For example, the rand depreciated by 9.1% against the dollar, attributable to dollar strength in the face of Trump's successful presidential bid, which saw the Dollar Spot Index gain 7.6% over the quarter. The rand also depreciated against the pound and euro by 2.0% and 1.3%, respectively, and traded flat with the yen.

Figure 1: Performance of major asset classes and indices in local currency terms

31 December 2024 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)
FTSE/JSE ALSI Total Return	-0.3%	-2.1%	13.4%	13.4%	8.7%	12.2%	9.0%
FTSE/JSE Capped SWIX Total Return	-0.3%	-2.1%	13.4%	13.4%	8.5%	10.3%	6.9%
S&P 500 Total Return	-2.4%	2.4%	25.0%	25.0%	8.9%	14.5%	13.1%
STOXX 600 Total Return	-0.5%	-2.6%	8.8%	8.8%	4.0%	6.6%	6.8%
Nikkei 225 Total Return	4.5%	5.4%	21.3%	21.3%	13.8%	13.2%	10.7%
MSCI World Total Return	-2.6%	-0.1%	19.2%	19.2%	6.9%	11.7%	10.5%
MSCI ACWI Total Return	-2.3%	-0.9%	18.0%	18.0%	5.9%	10.6%	9.8%
MSCI EM Total Return	-0.1%	-7.8%	8.1%	8.1%	-1.5%	2.1%	4.0%
MSCI World Value Index	-5.7%	-4.1%	12.3%	12.3%	6.0%	7.8%	7.5%
MSCI World Growth Index	0.4%	3.8%	26.2%	26.2%	7.1%	14.9%	13.2%
MSCI World Small Cap Index	-5.9%	-2.5%	8.6%	8.6%	1.1%	6.9%	8.0%
FTSE UK Series FTSE All Share TR	-1.2%	-0.4%	9.5%	9.5%	5.8%	4.8%	6.2%
MSCI AC Asia Ex. Japan Index	0.2%	-7.4%	12.5%	12.5%	-1.2%	2.9%	4.9%
MSCI Europe Excluding United Kingdom Index	-0.4%	-3.6%	7.7%	7.7%	4.0%	7.6%	8.0%
Shanghai Shenzhen CSI 300 Index	0.6%	-1.7%	18.2%	18.2%	-4.9%	1.5%	3.3%
Korea Stock Exchange KOSPI Index	-2.2%	-7.4%	-8.4%	-8.4%	-5.4%	3.7%	4.2%
Taiwan Stock Exchange Weighted Index	3.6%	3.8%	31.7%	31.7%	12.0%	17.7%	13.5%
NSE Nifty 50 Index	-2.0%	-8.2%	10.2%	10.2%	12.4%	15.8%	12.6%
Ibovespa Brasil Sao Paulo Stock Exchange Index	-4.3%	-8.7%	-10.4%	-10.4%	4.7%	0.8%	9.2%
Nasdaq-100 Index	0.5%	4.9%	25.9%	25.9%	9.7%	20.2%	18.5%
Bloomberg Magnificent 7 Total Return Index	6.3%	15.9%	67.3%	67.3%	23.7%	44.6%	
Bloomberg US Large Cap ex Magnificent 7 Total Return Index	-5.2%	-0.4%	16.5%	16.5%	5.5%	10.1%	
Dow Jones Industrial Average TR	-5.1%	0.9%	15.0%	15.0%	7.6%	10.6%	11.6%
STEFI	0.7%	2.0%	8.5%	8.5%	7.2%	6.2%	6.7%
ALBI	-0.3%	0.4%	17.2%	17.2%	10.3%	9.6%	8.7%
IGOV	0.8%	0.8%	7.7%	7.7%	6.3%	7.6%	5.3%
WGBI	-2.3%	-5.4%	-2.9%	-2.9%	-5.8%	-3.1%	-0.6%
Bloomberg Global Inflation-Linked Total Return Index	-3.1%	-6.7%	-3.7%	-3.7%	-7.8%	-1.9%	0.1%
Bloomberg US Agg Total Return	-1.6%	-3.1%	1.3%	1.3%	-2.4%	-0.3%	1.3%
Bloomberg EuroAgg Total Return Index	-1.0%	0.1%	2.6%	2.6%	-3.1%	-1.6%	0.3%
Bloomberg Global Agg Corporate Total Return Index	-2.0%	-4.0%	1.1%	1.1%	-2.6%	-0.2%	1.6%
Bloomberg US Corporate High Yield Total Return Index	-0.4%	0.2%	8.2%	8.2%	2.9%	4.2%	5.2%
Bloomberg Pan-European High Yield Total Return Index	0.7%	2.0%	9.1%	9.1%	3.0%	3.0%	3.9%
J.P. Morgan EMBI Global Core Hedged EUR	-1.8%	-2.8%	4.4%	4.4%	-3.7%	-2.1%	1.0%
SAPY Total Return	0.4%	-0.8%	29.0%	29.0%	12.6%	5.1%	3.1%
MSCI US REIT Total Return	-7.4%	-6.1%	8.8%	8.8%	-2.3%	4.3%	5.7%
S&P Global Property Total Return	-5.9%	-8.9%	3.5%	3.5%	-4.3%	-0.1%	3.3%
STOXX 600 Real Estate Total Return	-5.1%	-11.3%	-3.0%	-3.0%	-11.1%	-5.5%	0.3%
FTSE EPRA Nareit Global REITs TR Index	-7.2%	-8.9%	2.8%	2.8%	-4.6%	0.7%	3.5%
Crude Oil	2.3%	4.0%	-3.1%	-3.1%	-1.4%	2.5%	2.7%
Aluminium	-1.6%	-2.3%	7.0%	7.0%	-3.1%	7.1%	3.3%
Copper	-2.7%	-10.8%	2.4%	2.4%	-3.4%	7.3%	3.4%
Gold	-0.7%	-0.4%	27.2%	27.2%	12.8%	11.6%	8.3%
Platinum	-4.5%	-7.6%	-8.5%	-8.5%	-2.2%	-1.3%	-2.8%
Nickel	-3.7%	-12.6%	-7.9%	-7.9%	-10.2%	1.6%	0.0%
Palladium	-7.2%	-9.0%	-17.1%	-17.1%	-21.8%	-14.0%	1.4%
Iron Ore	-2.0%	-7.4%	-27.7%	-27.7%	-5.8%	2.1%	3.2%
Bloomberg Commodity Index Total Return	1.0%	-0.4%	5.4%	5.4%	4.1%	6.8%	1.3%
USDZAR	4.4%	9.1%	2.6%	2.6%	5.7%	6.1%	5.0%
GBPZAR	2.4%	2.0%	1.2%	1.2%	3.0%	4.9%	2.7%
EURZAR	2.1%	1.3%	-3.4%	-3.4%	2.5%	4.4%	3.4%
JPYZAR	-0.6%	-0.3%	-7.6%	-7.6%	-4.7%	-1.5%	2.2%
Dollar Index Spot	2.6%	7.6%	7.1%	7.1%	4.3%	2.4%	1.9%

Source: Bloomberg

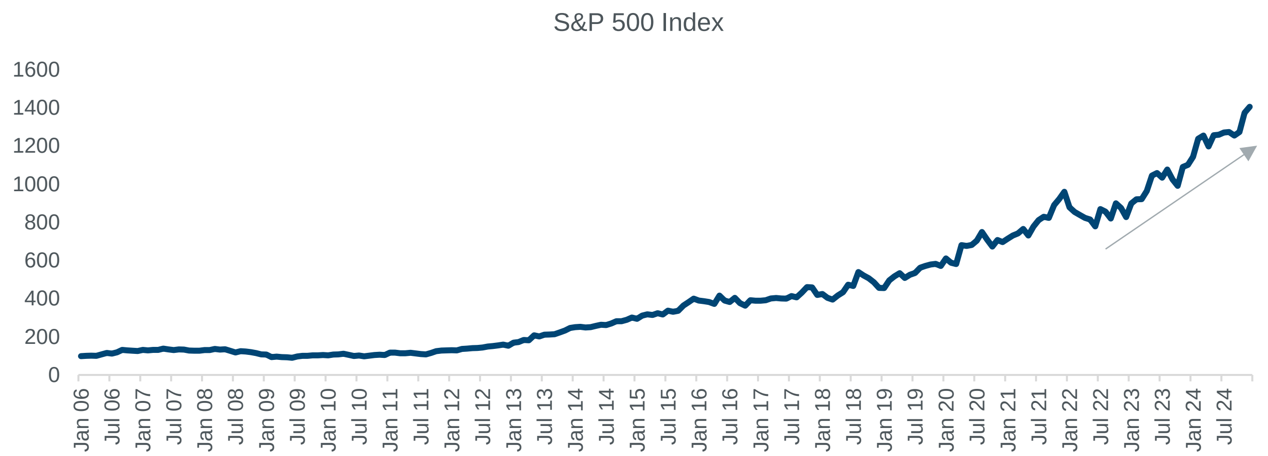
TRUMP'S SECOND TERM: GLOBAL ECONOMIC IMPLICATIONS AND MARKET OUTLOOK FOR 2025

Pre-Election Market Dynamics and Immediate Market Reaction

The outcome of the 2024 US presidential election, which saw Donald Trump secure a second term, was largely anticipated by financial markets. However, the strong performance of key indices leading up to the election was driven by multiple factors, not only Trump's expected victory. The S&P 500 had risen 69% from its 2022 lows, with a significant portion of this increase occurring in 2024, reflecting a combination of economic recovery, strong corporate earnings growth (particularly in technology and AI sectors), accommodative monetary policy and technological advances. While these broad factors were the primary drivers, some investor optimism about potential pro-growth policies during the second Trump term contributed to improved market sentiment.

Following Trump's successful election outcome in November 2024, the S&P 500 experienced notable fluctuations. In November, the index rose by approximately 5.7%, marking its best monthly performance of the year. However, December saw a reversal of this trend, with the S&P 500 declining by about -2.5%. This downturn can be attributed to several factors, including inflationary pressures, profit-taking after the strong November rally, concerns about the specifics and timing of Trump's proposed economic policies, renewed fears of trade conflicts (particularly with China), year-end portfolio rebalancing by institutional investors, and valuation concerns raised by some analysts.

Figure 2: S&P growth of 69% since its 2022 lows



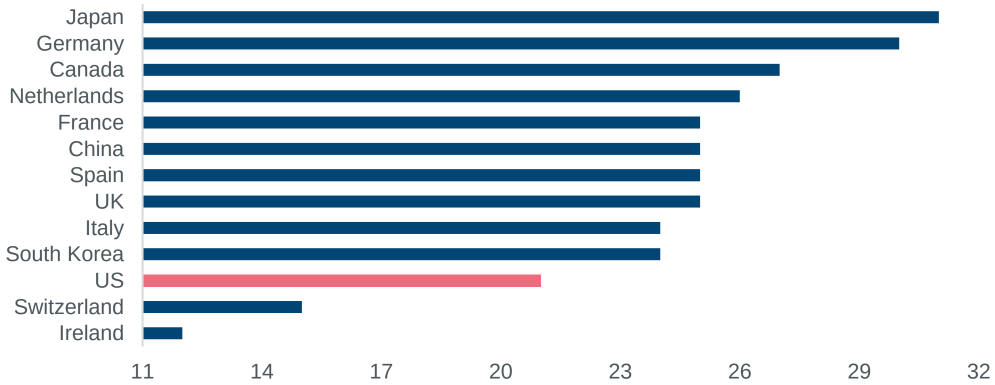
Source: Bloomberg

Trump's Proposed Policy Changes

Corporate Tax Cuts and a Deregulation Focus

A key element of Trump's economic plan going forward is to lower the corporate tax rate from 21% to 15% for domestic manufacturers and potentially for the entire corporate sector. The US corporate tax rate is already one of the lowest in the developed world, so lowering it even further could trigger a global race to the bottom for the most attractive rates. While lowering the corporate tax rate could boost business investment and profits in the near term, *Alpine Macro* notes that the resulting decline in tax revenues may increase fiscal deficits and debt, potentially putting upward pressure on interest rates and inflation.

Figure 3: Corporate tax rates of developed markets (%)



Source: Alpine Macro

Research has shown that there are varying impacts of tax cuts over the short, medium and long terms. Tax cuts impact government finances and economic performance differently, depending on the type of tax and context. According to the Congressional Research Service (CRS), immediate revenue losses typically result from income tax cuts, increasing short-term deficits, unless offset by spending reductions or alternative revenues. Corporate tax cuts, as analysed by the Wharton Budget Model, can encourage capital investment and productivity, but their effect on GDP growth and revenue recovery varies, and they are often insufficient to offset fiscal deficits in the medium term. Payroll tax cuts or credits, aimed at lower-income earners, tend to have higher fiscal multipliers as they boost immediate consumption. Conversely, cuts benefiting higher-income households or corporations often lead to savings rather than spending, limiting short-term economic stimulation. The Congressional Budget Office (CBO) reports that tax cuts generally increase public debt if not paired with spending adjustments, as seen with the Tax Cuts and Jobs Act (TCJA) of 2017, which modestly boosted growth while adding significantly to federal debt. These findings underscore the nuanced fiscal and economic effects of tax policy choices.

Trump's administration is also expected to focus on deregulation, particularly in sectors such as financial services, fossil fuels and AI applications. These measures, combined with the tax cuts, are projected to stimulate US economic growth, with some analysts forecasting growth to climb by as much as 3%.

Figure 4: Budgetary impact of the extension of the 2017 Tax Cuts and Jobs Act (US$ billions)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025-2029	Total 2025-2034
The 2017 tax act's changes to the individual Income tax provisions are extended												
Increase in Primary Deficit (JCT's estimate)	6	147	368	355	364	374	387	403	419	434	1239	3256
Increase in Net Interest Outlays	*	3	12	24	35	48	62	77	94	111	74	467
The 2017 tax act's higher estate and gift tax exemptions are extended												
Increase in Primary Deficit (JCT's estimate)	1	3	15	17	18	20	21	22	24	25	55	167
Increase in Net Interest Outlays	*	*	*	1	2	2	3	4	5	6	3	22
The 2017 tax act's changes to the tax treatment of investment costs are extended												
Increase in Primary Deficit (JCT's estimate)	74	48	58	54	39	29	23	19	17	17	273	378
Increase in Net Interest Outlays	2	4	6	8	9	10	12	13	14	15	28	91
Certain business tax provisions altered by the 2017 tax act are maintained												
Increase in Primary Deficit (JCT's estimate)	0	11	19	19	19	19	20	20	20	21	68	172
Increase in Net Interest Outlays	0	*	1	1	2	3	3	4	5	6	4	25
Addendum												
Primary Deficit in CBO's Baseline	821	687	591	622	671	676	726	808	875	929	3392	7405
Net Interest Outlays in CBO's Baseline	951	1005	1049	1105	1170	1241	1328	1430	1527	1628	5280	12435

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation (JCT)

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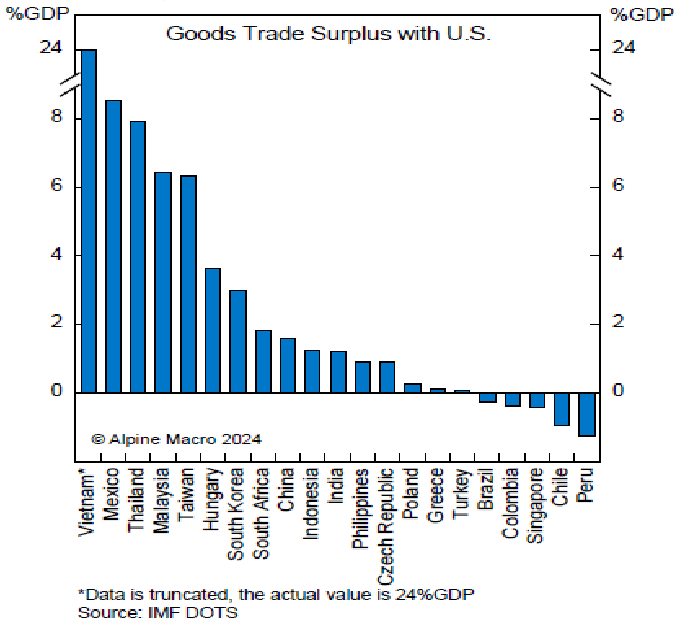
Trade Policies

Trump's trade policies are expected to remain confrontational, targeting both allies and rivals – particularly countries with significant trade surpluses with the US. Recently, Trump floated the idea of imposing 25% tariffs on goods from Mexico and Canada – two of the US's closest trading partners – and an additional 10% tariff on goods from China. This approach underscores his strategy of using tariffs as a negotiating tool in other battles, such as pressuring Mexico to curb the flow of fentanyl into the US. However, imposing tariffs on Mexico and Canada could be a complex undertaking, as manufacturing supply chains, especially in the automotive sector, are deeply integrated across North America, with components crossing borders multiple times before they end up in final assembly. His proposed measures reflect a continuation of Trump's tough stance on trade, which is aimed at achieving broad policy objectives while risking economic stability.

Figure 5: US trade surpluses and deficits with major trading partners



Source: Alpine Macro

Impact on South Africa and Emerging Markets

The implications of Trump's second term for EMs, including South Africa, are multifaceted. EM assets face a complex landscape under the Trump administration. Headline volatility and potential trade tensions could weigh on these markets, while US economic growth, driven by Trump's policies, may indirectly boost demand for EM exports. However, the resulting stronger dollar and fewer rate cuts by the Fed could amplify the cost of servicing dollar-denominated debt, reducing the relative attractiveness of EM currencies. South Africa's position in BRICS may have a mitigating effect, providing opportunities for stronger regional trade and geopolitical leverage amid shifts in US policy. Notwithstanding these benefits for South Africa, heightened global trade uncertainties and the likelihood of the Trump administration viewing the alliance with suspicion pose challenges to EM economies.

Potential Pushback Against Trump Policies

While the Trump tariff threats are likely intended as negotiation tactics to extract favourable trade terms, they still carry the potential to unsettle global markets and disrupt supply chains in the short term. If implemented, these tariffs could lead to higher consumer prices and provoke retaliatory measures from key trading partners, escalating trade tensions. However, significant pushback is expected from US corporations with global supply chains and from within Trump's own party, particularly fiscal conservatives concerned about the broader economic impact. Moreover, legal challenges, public opinion and economic realities could constrain extreme protectionist measures, moderating their long-term impact.

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Conclusion

Trump's proposed policies are likely to have significant impacts across various asset classes in 2025. Regarding equities, his pro-growth policies, including tax cuts and deregulation, could provide a boost, particularly for US stocks in the near term. However, the threat of tariffs and trade tensions creates uncertainty that may limit upside, especially for sectors and companies heavily reliant on global trade. EM equities could face pressure from potential trade conflicts but may benefit if global growth broadens as expected.

In the case of fixed income, Trump's policies could exert upward pressure on yields. The combination of fiscal stimulus through tax cuts and potential inflationary pressures from tariffs may lead to higher inflation expectations and bond yields. This could result in challenges for government bonds, particularly longer-duration issues. Corporate bonds, especially of the high-yield variety, may benefit from a strong economic backdrop, but spreads are already tight, limiting potential gains. Regarding currencies, Trump's policies are likely to support the US dollar in the near term, working against EM currencies, in particular. However, if global growth broadens and trade tensions ease, the dollar may soften later in the year. Commodities may see diverging trends, with potential support for some sectors from infrastructure spending, but there could be headwinds for others due to trade tensions and a potentially stronger dollar.

Table 1: Likely impact of Trump’s policies on asset classes

Asset Class	Likely Impact	Rationale
US equities	Positive	Tax cuts and deregulation could boost corporate profits
Emerging market equities	Mixed	A potential negative impact is trade tensions, but a potential positive impact is global growth due to stronger trade deals in the wake of less reliance on the US market
US treasuries	Negative	Rising inflation expectations and increased issuance could push yields higher
Corporate bonds	Positive	Economic growth and tax cuts could improve corporate credit quality
US dollar	Strong near-term, potential weakening later	Policy uncertainty and strong US growth could support the dollar initially, but this could soften as growth improves outside the US
Commodities	Mixed	There could be a boost from infrastructure spending, but trade tensions could impact demand

This outlook suggests a complex landscape for investors, with opportunities and risks across various asset classes. The actual impact will depend on the specific policies implemented and global economic conditions.

GLOBAL MACROECONOMIC OVERVIEW FOR Q4 2024

Global Macroeconomics: Where Are We Headed?

The global economy navigated a challenging yet eventful period over the past quarter, reflecting a nuanced balance between growth opportunities and emerging risks. Key economic indicators gave mixed signals, as global equity markets initially rallied to record highs before facing sell-offs triggered by stronger-than-expected US economic data. Persistent inflationary pressures and geopolitical uncertainty, including the re-election of Donald Trump, further compounded market volatility. Despite these headwinds, global inflation trends began to moderate, and central banks took notable policy steps to support growth, with interest rate cuts in the US, UK, Eurozone and South Africa.

The quarter marked a steady but subdued phase of global economic growth, with GDP forecasts revised to 3.2% for the year – well below the pre-pandemic average of 3.7%. A "soft landing" scenario has emerged, characterised by resilience in key regions but with clear signs of deviation among major economies. The US maintained strong momentum, with growth exceeding its expected potential at 2.6%, supported by robust consumer spending and productivity improvements. However, early signs of labour market cooling and elevated costs suggest a slowdown in 2025. In the Eurozone, progress was modest, with the region edging out of its manufacturing recession but still grappling with weak business confidence, particularly in Germany. Meanwhile, China's economic struggles persisted as property market challenges and subdued domestic demand hindered growth, making the 5% target unlikely, despite stimulus measures. On a brighter note, countries with strong domestic demand, like India and Brazil, and those benefiting from the global tech cycle emerged as key contributors to global growth, while trade outside the tech sector remained lacklustre.

Labour market trends echoed the broader economic narrative, reflecting both resilience and underlying fragilities. In the US, unemployment stabilised at just above 4.0%, but a gradual cooling in hiring activity raised concerns about consumer confidence and spending in the period ahead. The Eurozone's labour market showed slight improvement, with unemployment at 6.3%, although outcomes were uneven, particularly in manufacturing-heavy countries like Germany. Emerging markets presented a mixed picture – while Japan continued to maintain exceptionally low unemployment at 2.4%, South Africa's unemployment remained alarmingly high at 32.1%. Globally, service sectors demonstrated remarkable resilience, buoyed by sustained demand, but risks linked to geopolitical tensions and policy uncertainties remain pronounced. Looking ahead, easing inflation and monetary policies in key markets are likely to provide some support for economic activity, but global growth prospects will be shaped by how effectively these downside risks are managed.

Figure 6: Real GDP growth and forecasts (YOY%)

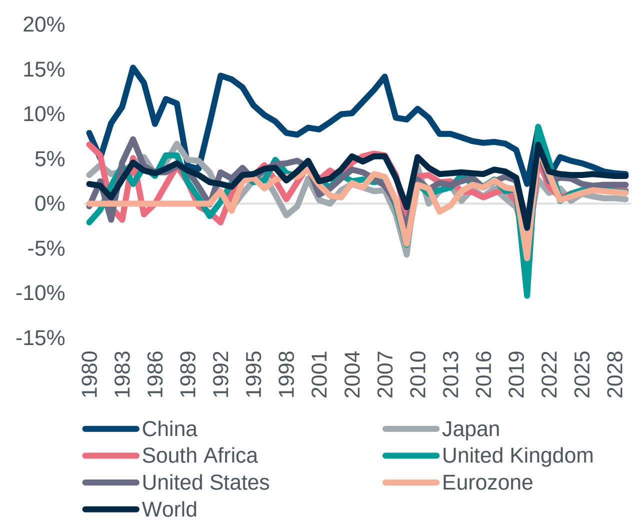
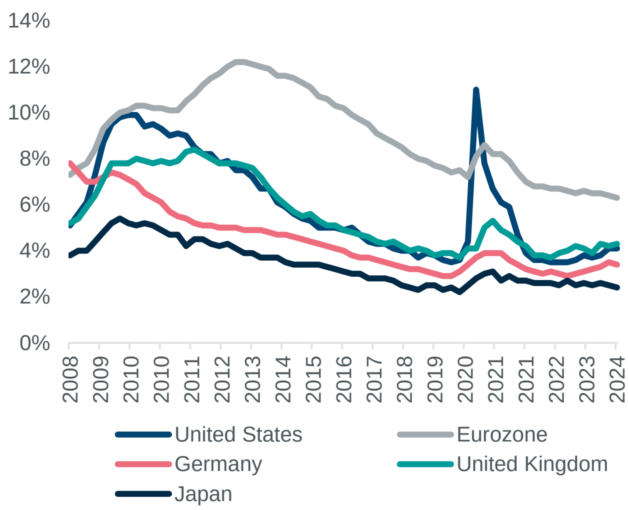


Figure 7: Unemployment rates (%)



Source: IMF, Bloomberg

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Diverging Global Economic Trends: Q4 2024 PMI Analysis

The fourth quarter of 2024 presented a mixed economic picture, with global Purchasing Managers' Index (PMI) data reflecting divergent trends between developed and emerging markets. The global Manufacturing PMI hovered close to the neutral mark, ending December at 49.6. This signalled contractionary conditions for much of the quarter, though with periodic signs of improvement. EMs remained resilient, with their manufacturing PMI consistently above the 50 threshold and peaking at 51.6 in November, driven by robust activity in countries like China and India. Conversely, developed markets grappled with persistent weakness as their manufacturing PMI weakened to below 50 throughout the period, with notable declines in the Eurozone and Germany where industrial activity faced significant headwinds. Global services remained a key growth driver, with the global Services PMI averaging above 53 for the quarter, underpinned by strength in the US and selected EMs, like India, which posted consistently high figures above 56.

The global Services PMI and the composite PMI (combining the services and manufacturing sectors) painted a more optimistic picture, with the global Services PMI consistently above 53 and the composite PMI rising above 52, highlighting the strength of the services sector as a primary growth driver. The US remained a key contributor to this trend, with its composite PMI steadily rising to 55.4 in December, indicating robust consumer spending and business activity. Similarly, India's composite PMI remained elevated, reflecting strong domestic demand and expanding economic activity. The Eurozone, however, showed signs of weakness, with its composite PMI dipping below 50 in November, driven by a contraction in both manufacturing and services. These diverging trends underscore a global economy in transition. The strength of the services sector globally signals a shift in growth drivers from goods to services, supported by resilient labour markets and consumer spending. However, the continued contraction in manufacturing in advanced economies raises concerns about the broader economic outlook, especially as tight monetary policies, geopolitical tensions and subdued global trade weigh on industrial production. This divergence suggests a delicate balancing act for policymakers, as they navigate the need to sustain growth while managing inflationary pressures and structural headwinds.

Figure 8: Composite PMI

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Global Composite PMI	52.5	52.8	52	52.3	52.4	52.6
Global Services PMI	53.3	53.8	52.9	53.1	53.1	53.8
Developed Markets	52.7	53.2	52.3	52.3		
Emerging Markets	52.4	52.1	51.1	52.5	52.8	52.4
Eurozone	50.2	51	49.6	50	48.3	49.6
France	49.1	53.1	48.6	48.1	45.9	47.5
Germany	49.1	48.4	47.5	48.6	47.2	48
Italy	50.3	50.8	49.7	51	47.7	49.7
Spain	53.4	53.5	56.3	55.2	53.2	56.8
Ireland	52.2	52.6	52.1	52.6	55.2	52.1
Australia	49.9	51.7	49.6	50.2	50.2	50.2
Sweden	52.5	52.8	49.7	53		
U.K.	52.8	53.8	52.6	51.8	50.5	50.4
U.S.	54.3	54.6	54	54.1	54.9	55.4
Japan	52.5	52.9	52	49.6	50.1	50.5
China	51.2	51.2	50.3	51.9	52.3	51.4
India	60.7	60.7	58.3	59.1	58.6	59.2
Brazil	56	52.9	55.2	55.2	53.5	51.5
Russia	51.9	52.1	49.4	50.9	52.6	51.1

Figure 9: Manufacturing PMI

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Global Manufacturing PMI	49.7	49.6	48.7	49.4	50	49.6
Developed Markets	48.8	48.3	47.5	48.1		
Emerging Markets	50.7	50.8	49.8	50.6	51.6	50.9
Eurozone	45.8	45.8	45	46	45.2	45.1
European Union	45.9	46	45.3	46.3	45.5	45.3
Germany	43.2	42.4	40.6	43	43	42.5
Italy	47.4	49.4	48.3	46.9	44.5	46.2
Spain	51	50.5	53	54.5	53.1	53.3
Greece	53.2	52.9	50.3	51.2	50.9	53.2
Ireland	50.1	50.4	49.4	51.5	49.9	49.1
Australia	47.5	48.5	46.7	47.3	49.4	47.8
Sweden	49.2	52.7	51.3	53.1	53.8	52.4
U.K.	52.1	52.5	51.5	49.9	48	47
U.S.	49.6	47.9	47.3	48.5	49.7	49.4
Japan	49.1	49.8	49.7	49.2	49	49.6
China	49.8	50.4	49.3	50.3	51.5	50.5
Indonesia	49.3	48.9	49.2	49.2	49.6	51.2
South Korea	51.4	51.9	48.3	48.3	50.6	49
Taiwan	52.9	51.5	50.8	50.2	51.5	52.7
India	58.1	57.5	56.5	57.5	56.5	56.4
Brazil	54	50.4	53.2	52.9	52.3	50.4
Mexico	49.6	48.5	47.3	48.4	49.9	49.8
Russia	53.6	52.1	49.5	50.6	51.3	50.8
South Africa	52.4	43.6	52.8	52.6	48.1	

Source: Bloomberg

Central Bank Policy Uncertainty: Policy Pivoting and Stickier Inflation

In the fourth quarter of 2024, inflation trends revealed a broad-based easing across major economies, although the pace of moderation varied. In the US, inflation continued its gradual decline, reaching 2.7% in November, up from 2.6% in October; this reflected the lagged impact of earlier monetary tightening. Similarly, the Eurozone's inflation edged up slightly to 2.4% in December from 2.2% and 2.0% in October, supported by a stabilisation in energy prices and easing of supply chain pressures. In South Africa, inflation showed some resilience, increasing marginally to 2.9% in November from 2.8% in October, though it had moderated significantly from elevated levels earlier in the year. Japan's inflation stabilised at 2.9% in November, largely driven by imported cost pressures, while China's inflation remained subdued at 0.2%, reflecting weaker consumer demand and ongoing deflationary risks.

Global interest rates mirrored these inflation trends, with central banks adjusting policy rates to align with inflationary pressures and economic stability. The US Federal Reserve lowered its policy rate to 4.50% by

December, signalling confidence in managing inflation without stifling economic momentum. Similarly, the European Central Bank reduced rates to 3.15% in December, aiming to support economic activity amid contained inflation. The Bank of England maintained its rate at 4.75% in November and December, reflecting a measured response to moderating price pressures. In South Africa, the Reserve Bank reduced its rate to 7.75% in December, signalling a cautious shift as inflation receded, though rates remain elevated to mitigate external risks. In contrast, Japan and China held rates steady at 0.25% and 3.10%, respectively, focusing on addressing domestic challenges, particularly sustaining inflation (Japan) and stimulating demand (China).

The central banks' responses highlight a dynamic but cautious approach to navigating a complex global environment. Developed economies like the US and Eurozone have leaned toward accommodative policies as inflation nears target levels, while emerging markets such as South Africa remain vigilant in the face of external vulnerabilities. Japan and China continue to chart unique paths, with Japan using its ultra-low rates to support its inflation target and China prioritising economic stabilisation amid subdued price pressures. Overall, these policy adjustments reflect a global commitment to fostering economic resilience while addressing region-specific challenges.

Figure 10: Annual inflation rate (YOY)

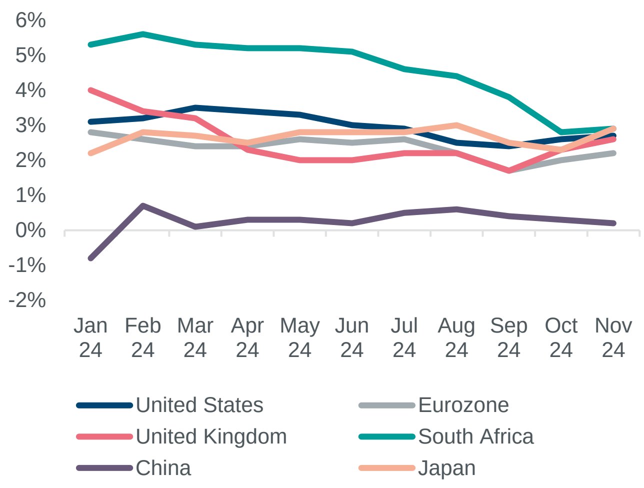
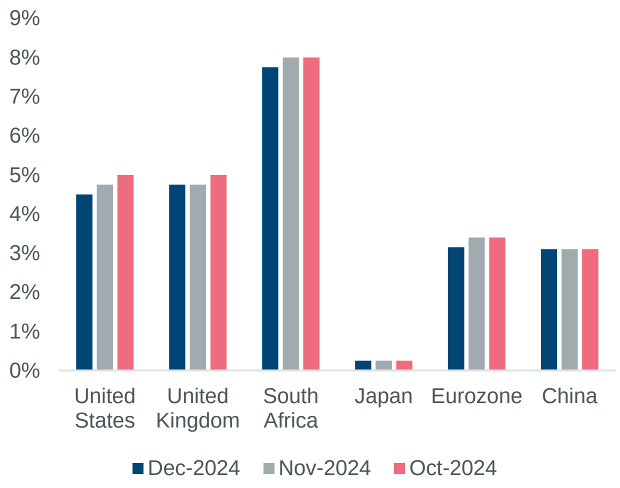


Figure 11: Annual interest rate

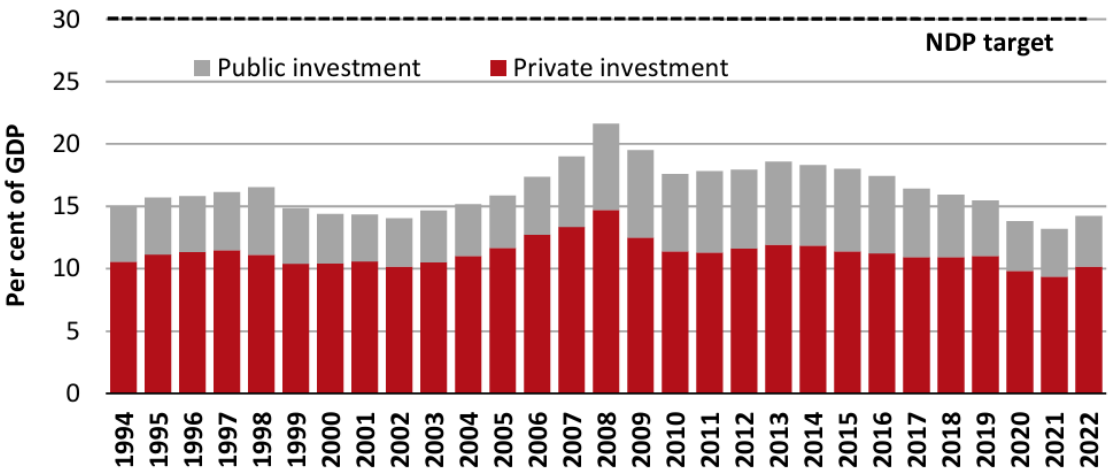


Source: Bloomberg

INFRASTRUCTURE: KEY TO SA'S GROWTH AND DEVELOPMENT

South Africa's growth engine has stalled over the past decade, impacted by persistent loadshedding, the global pandemic, devastating floods in KwaZulu-Natal and widespread corruption. Immediate corrective measures are essential. A significant step forward was the creation of the Infrastructure Fund, a joint initiative designed to pool private- and public-sector capital for infrastructure development. Infrastructure has been severely underfunded in recent years, where the target has been set at 30% of GDP by 2030. To facilitate this initiative, Infrastructure SA was appointed to collaborate with the Fund on projects exceeding R1 billion, serving as the central coordinating body for all infrastructure efforts. Currently, Infrastructure SA is preparing 31 projects, including schools in the Northern and Eastern Cape and four hospitals in Mpumalanga and the Free State.

Figure 12: Public- and private-sector capital investment as a share of GDP, 1994–2022*



Source: Reserve Bank
Note:* All GDP data in this figure is recalculated in line with Statistics South Africa's 2021 rebasing and benchmarking exercise. It is therefore not directly comparable with GDP data from earlier budget documentation.

In October 2020, President Cyril Ramaphosa launched Operation Vulindlela, a collaborative initiative between the Presidency and the National Treasury to drive structural reforms and support economic recovery. These reforms aim to reshape the economy by reducing input costs, removing barriers to entry and fostering competition. By improving efficiency and lowering costs, these measures enhance economic competitiveness and create new opportunities for investment. The reforms will also focus specifically on key areas critical to sustained growth and development.

Diverse Opportunities Relating to Infrastructure

Infrastructure refers to assets focused on developing, constructing and maintaining physical assets, technological structures and systems that provide essential utilities, and services or facilities for the economy, businesses and the public. Previously, the Infrastructure Development Act No. 23 of 2014 defined infrastructure as installations, structures, facilities, systems, services or processes linked to strategic integrated projects. These projects, outlined in Schedule 1 of the Act, include national and international airports, educational institutions, electricity transmission and distribution networks, healthcare facilities, mines, ports, public roads, railways, sewage works, sanitation systems, and more. Some of the latest developments across various sub-categories are discussed below.

Electricity Sector: some good news

Two significant developments are reshaping South Africa's electricity sector. First, the amendment of regulations for independent power producers will bring transformative changes. Currently, any generation project above 1 MW requires a licence, with the process involved being both complex and time-consuming, often taking years. Under the new policy, companies and power producers can build projects without applying for a licence, provided they comply with the grid code to ensure safety and standards.

Second, the shift to renewable energy is critical, as reliance on coal-powered electricity from Eskom is unsustainable in a world increasingly focused on clean energy. Data from Operation Vulindlela suggests that 22,500 MW of private-sector renewable projects are in the pipeline, representing an estimated investment of R390 billion.

South Africa is not alone in its power shortage. According to Schroders, global electricity demand is expected to grow substantially over the next two decades.

Figure 13: Global electricity demand and electricity demand per capita

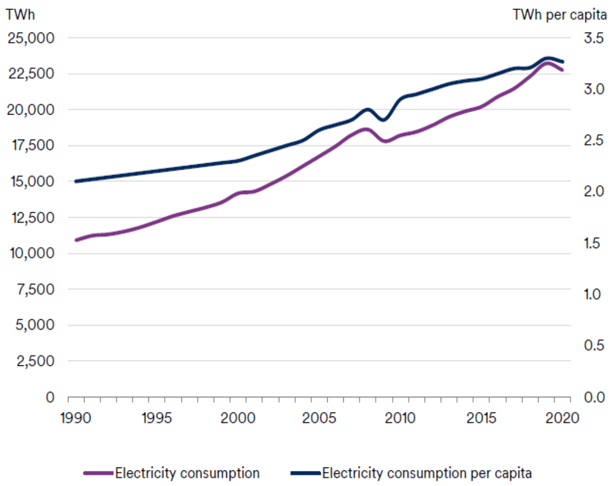
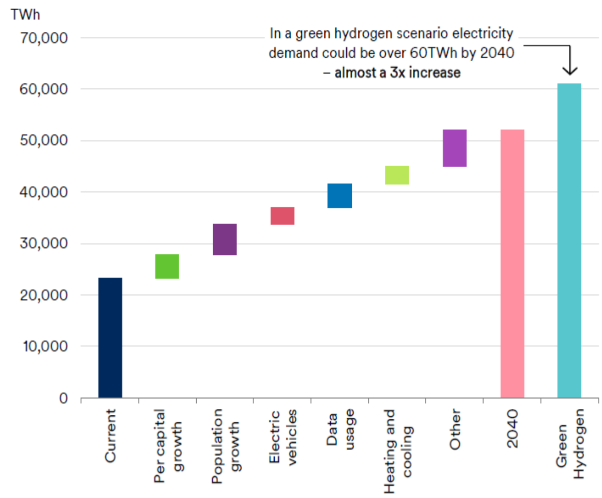


Figure 14: Expected increase in global electricity demand



Source: IEA, World Bank, Shroders (31 October 2023)

Water Sector: an even bigger (existential) problem

Water scarcity remains an ever-growing concern for South Africa, a semi-arid country where much of its territory relies on summer rainfall. As shown in the maps below, South Africa is one of the nations that faces serious water challenges.

Figure 15: Global water scarcity risk – 2020

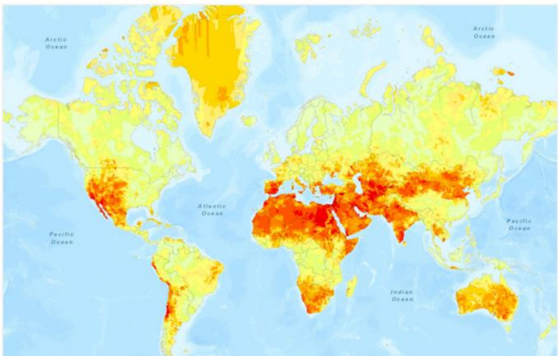
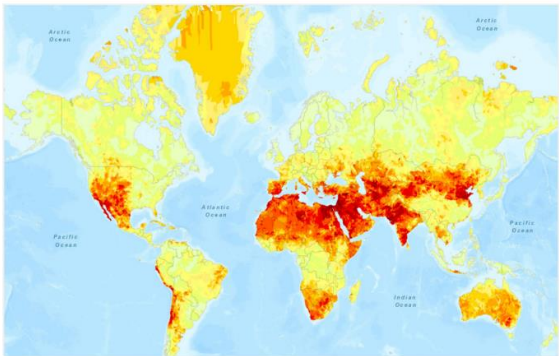
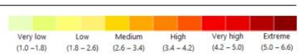


Figure 16: Global water scarcity risk – 2050



Source: WWF Water Risk Filter, Leaflet | Powered by Esri | HERE, Garmin, FAO, NOAA, EPA, AAFC, NRCan, Greve et al (2018) Kummu et al (2017)



To address bulk water supply challenges, the government has prioritised 11 projects across seven provinces, with a total value of approximately R139 billion. These projects aim to hold municipalities and water boards accountable for water quality and pricing. Additionally, the reinstatement of the Blue Drop, Green Drop and No Drop water quality monitoring systems will ensure better management and protection of South Africa's vital water resources.

Digital Communication Sector: digital disruption goes beyond AI and could drive the next wave of global productivity growth that SA doesn't want to miss

Transforming digital communication infrastructure is key to fostering development and inclusivity. The government is focused on rolling out broadband in underserved areas and migrating to a digital television signal, paving the way for 4G and 5G networks. These advances are expected to create new jobs and improve global market access for South Africa, boosting competitiveness.

Transportation: the blood vessels of a well-functioning economy

South Africa's transportation sector faces significant challenges, particularly in ports and railways. Port bottlenecks and inefficiencies have hindered trade, largely due to the lack of accountability within Transnet National Ports Authority (TNPA) and Transnet Port Terminals (TPT), which serve as both operators and owners of many terminals. Separating these roles could lead to greater accountability and improved performance.

Transnet, burdened with over R130 billion in debt – half of it linked to state capture – has struggled to invest in upgrades and maintenance. This has resulted in sluggish exports of key natural resources and increased reliance on road freight, further damaging the country's roads. Allowing private operators access to freight rail infrastructure through an access fee will enable a more efficient transportation system and reduce the strain on roads.

Visa Regime: infrastructure goes beyond bricks and mortar

South Africa's tourism sector, which contributes around 9% to GDP, has underperformed compared to the global average of 10%. To revitalise this sector, infrastructure improvements must be complemented by policies such as the visa waiver system. By removing visa requirements for selected countries, South Africa can attract more tourists, boosting the tourism sector and potentially delivering a positive surprise to GDP growth in 2025.

In conclusion, infrastructure development is essential for South Africa's economic recovery. It stimulates GDP growth while delivering key socioeconomic benefits. Large-scale infrastructure projects create jobs, requiring both skilled and unskilled labour, which can help address the country's high unemployment rate. Additionally, well-developed infrastructure attracts foreign direct investment by improving business efficiency and connectivity.

Over time, investments in infrastructure contribute to poverty reduction by creating economic opportunities, improving access to essential services and fostering inclusive growth. Infrastructure development is vital, not just for economic recovery but also for achieving South Africa's broader social objectives.

While infrastructure investments are often less familiar to traditional investors, they offer unique opportunities for diversification and long-term value creation. Assets such as roads, ports, railways and bridges are critical for driving growth and improving quality of life. As South Africa addresses its infrastructure challenges, the long-term potential of investments presents a compelling case for both public- and private-sector involvement in shaping a sustainable and prosperous future.

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REIGNITED HOPE AND OPTIMISM: TO GNU AND BEYOND

Pre- and Post-Gnu Effect on SA Markets

With the year of elections behind us, it is critical to assess and contrast how the South African election results have affected the country's markets in 2024. Prior to the elections and the formation of the GNU, the South African financial market was characterised by heightened market sensitivity influenced by inflation, rate-cut expectations and geopolitical tensions. The SA pre-election season, particularly the first month and three months prior, indicated that the market had been pricing in the end of the rate-hiking cycle. During this period, the rand strengthened on the back of the Fed's rate-cut outlook while the US dollar weakened against other major currencies. The majority of SA asset classes delivered positive returns into the election, due to a healthy global risk appetite.

The rand depreciated following the unexpected results of the SA election, which saw the ANC lose its majority for the first time. This was mostly due to the extent to which the ANC had lost and also the possible coalition partners that the party might choose. However, the formation of the GNU calmed these market jitters, with both domestic and foreign investors responding favourably to the start of the GNU era. South Africa experienced positive results in the wake of the GNU formations, which included rate reductions, a property rally, a boost in SA equity and bonds, and the S&P revising South Africa's outlook to positive – all of which are signs of increased political stability.

Despite the positive outlook, the rating agency seems to be less optimistic about Treasury stating that the recent Medium-Term Budget Policy Statement (MTBPS) gave a weaker fiscal projection, including a consolidated deficit of 5.0% of GDP, which is wider than the 4.5% deficit forecast in February 2024. However, S&P also acknowledged that South Africa's growth prospects have improved under the GNU due to the implementation of structural reforms and the continued commitment to fiscal consolidation. From the fiscal budget to the households budget, the long-awaited two-pot system – which became effective on 1 September 2024 – saw an 'unprecedented and steady increase' in tax directive applications for withdrawals from taxpayers' savings withdrawal components, according to the South African Revenue Service (SARS). This is a reflection of the economic challenges facing South Africans. These withdrawals provide a sense of relief to cash-strapped households. They could also boost consumer confidence and drive an increase in spending, which is expected to be positive for domestic retailers. Banks could in turn benefit from withdrawals under the two-pot system as clients could use them to pay down their debts and alleviate their financial burdens. While the two-pot system is good news for South African households and is a short-term economic stimulus, it still raises concerns about long-term investment funding in the country. The hope is that South Africa will take lessons from other countries that have implemented the two-pot retirement system.

The GNU formation has been favourably received by local and global investors and has created political stability, as evidenced by well-performing asset classes. However, because of differing political ideologies among the parties, the GNU faces a number of risks, and political instability could return should the arrangement fall apart. The true test of the effectiveness of the GNU will be its ability to stimulate sufficient economic growth to generate jobs. Yet tackling unemployment is a long-term strategy and can only happen if the GNU is strong enough to withstand political differences. If the GNU faces collapse, South Africa could see the return of political instability, which means a high risk premium on South African assets, investor pessimism, increased economic challenges and disgruntled citizens.

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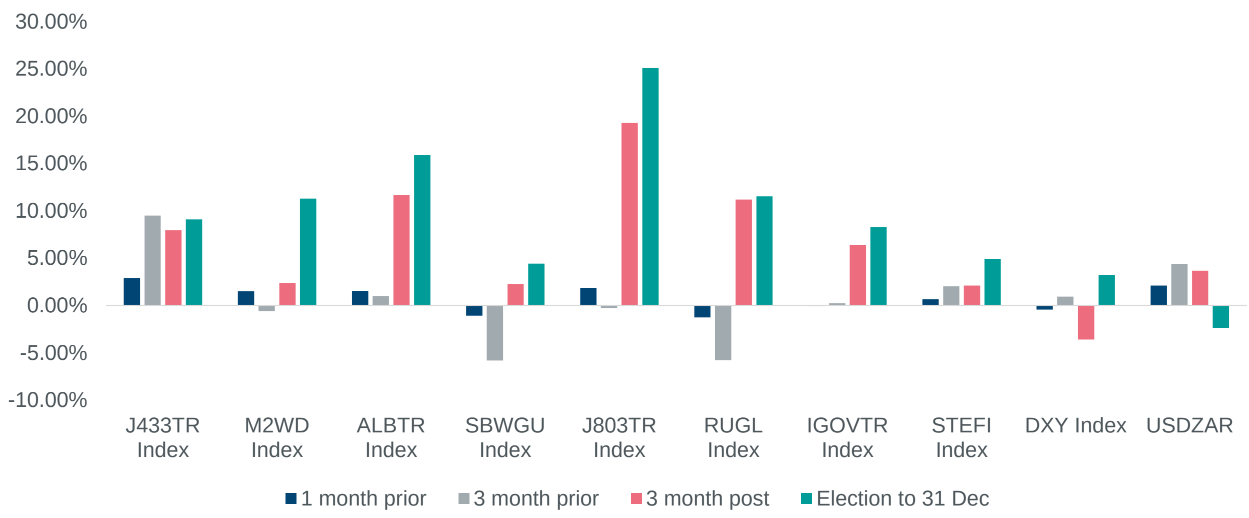
Figure 17: Asset class performance pre- and post-SA elections in ZAR



Source: Bloomberg
Note: Positive currency performance indicates the appreciation, while negative currency performance indicates the depreciation.

China's Trade Conflicts and their Impact on the Global Economy

China is currently being battered by significant economic headwinds. Factors such as an aging population, a looming property crisis, high corporate debt levels and US sanctions are contributing to a deteriorating economic environment. In response, the Chinese government has implemented various stimulus measures to boost domestic demand and restore consumer confidence. The September stimulus announcement was well received by the markets, evidenced by a rally in the Chinese equity market. However, investors reacted with scepticism as they were wary of the long-term sustainability of such interventions, and the markets subsequently detracted. In November, the government approved an US$840 billion plan to refinance its debt, which it believed would help boost the country’s slow economic growth. This will be rolled out over three years and will be done through the issuance of a special bond. These efforts by the Chinese government are needed to stimulate growth in its economy and could filter into the global economy, which in turn would benefit SA immensely.

SA’s economic prospects are dependent on China’s economic growth, as China is one of our largest trade partners. However, China’s shift from an industrial economy to a consumer-focused one also means potential headwinds for SA’s resource sector which benefits from China’s demand for precious minerals. China’s economic shift is in response to its trade tensions with the West, particularly the US and the European Union, and its quest to build an economy that is more self-sustaining and less dependent on Western nations. The West, in turn, is actively working to mitigate China's growing dominance through various means. The potential risks surrounding China's influence over the global economy are considerable. Should tensions escalate into a more profound conflict, particularly regarding Taiwan, the ramifications could extend beyond trade disputes into military confrontations involving major powers like the US. Such a scenario poses significant threats, not only to regional stability but also to global supply chains and economic growth.

Figure 18: GDP growth: SA vs major trading partners

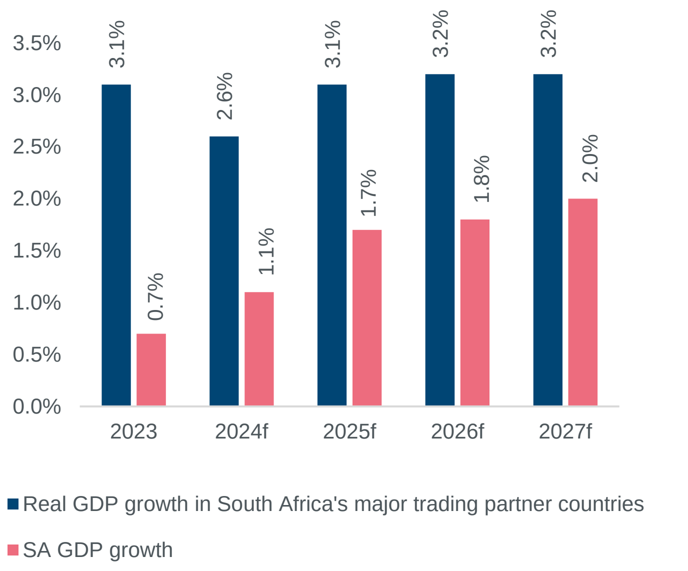
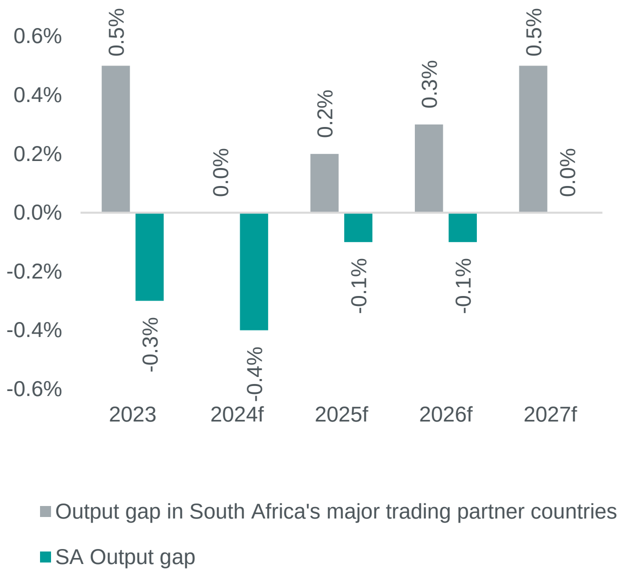


Figure 19: Output Gap: SA vs major trading partners



Source: South African Reserve Bank

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