Sygnals

Chart of the month: Adjusting our outlook for the red sweep

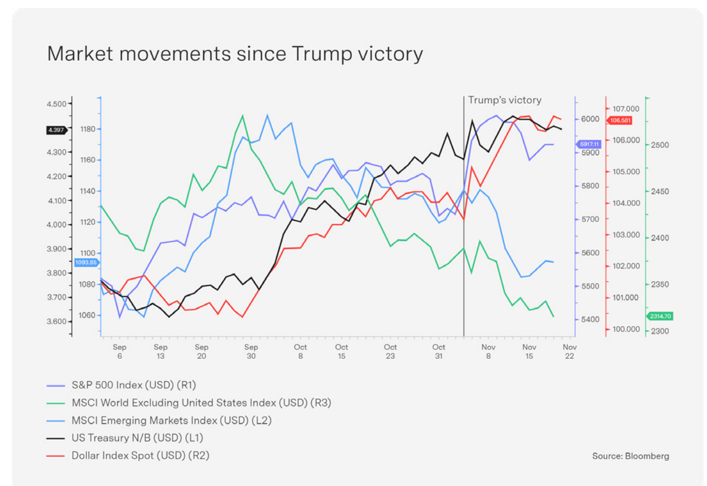
Kyle Hulett
Co-Head: Investments

Markets reacted predictably to the recent "red sweep" in the US elections, with US equities, the dollar and bond yields experiencing significant gains. In contrast, non-US equity markets and currencies faced challenges.

The possibility of Donald Trump implementing corporate tax cuts and deregulation in his second term as US president is particularly advantageous for US equities. Deregulation is expected to stimulate entrepreneurship, increase labour productivity and lower inflation, while tax reductions could enhance corporate earnings and growth prospects. Conversely, Trump's proposed tariffs could adversely affect global markets, stunting growth. A reactionary trend to fiscal easing is likely to emerge globally, especially in China, as countries respond to tariffs, although they are unlikely to fully mitigate their impact. Consequently, our increased equity exposure is focused on US markets, leading to an overweight position in US equities relative to other developed and emerging markets. Both the US and China, as the world's largest economies, now have substantial capacity to enhance their economies through fiscal measures, creating an environment that favours equities over bonds due to anticipated robust economic growth and resurgence in inflation, prompting us to make a tactical shift in investments from bonds to equities.

The Biden administration has two months to shore up its policies. So far, President Biden has authorised Ukraine to utilise American long-range missiles for strikes deep within Russia following Russia's deployment of North Korean troops against Ukraine, and he has met with China's President Xi at the Asia-Pacific Economic Cooperation summit in Peru. Domestically, Biden wants Medicare and Medicaid to cover weight-loss drugs and, in what would be a historic antitrust crackdown, the Justice Department wants Google to sell off its Chrome browser.

All eyes remain on the US to see what policies Trump will impose on the rest of the world next year. It will not be easy for Trump, who in 2016 inherited an economy with very low inflation, a cheap stock market and small budget deficits but was still not able to achieve his aims in his first tenure as US manufacturing output stagnated, the trade deficit widened, the dollar strengthened and China's market nearly doubled. His starting point will be much more difficult this time around – in 2024, the economy is already running above trend, the budget deficit is around 7% of gross domestic product (GDP) and the valuation of the S&P 500 Index is close to its highest level in 25 years. The world is more prepared this time – but so is Trump.



Trumponomics and South Africa: Much ado about nothing?

Haroon Bhorat
Chair: Investment Committee

With Donald Trump's victory in the recent US election to become the 47th president of the United States, attention in South Africa has naturally turned to the implications for the local economy. A few reality checks before we analyse the potential impact of a second Trump presidency on the South African economy: Firstly, we should not overstate the role of the US president in driving and shaping economic outcomes, both within the US and beyond.

The graphic below reveals the danger of deriving causality between President and economic outcomes – the Dow Jones performed very well during Trump's first presidency – and even better under Biden. If we extend this analysis to the Obama period, we could argue that this Trump stock run was a lagged effect of an upward trend in the Dow Jones that started under the Obama years. Fed interest rate movements have had very little to do with the actions of the Trump and Biden presidencies and are much more a function of external events sparked by the Covid-19 pandemic. A key lesson – at least for me – is never to overstate the role of a US president in driving GDP growth, stock price movements and other macro variables. While presidential actions are relevant to the economy, they are seldom the most significant determinant. By extension, the US president has a marginal effect on the direction of change in the world economy, including South Africa. US presidential terms are but one factor driving stock prices, economic growth, interest rates and so on in any economy.

That said, however, it is worth examining the key policy planks of the Trump presidency and considering their potential contagion effects on the South African economy. The double promise of higher tariffs and lower taxes loom large in the Trump arsenal. Under Trump's first presidency, import tariffs increased on average from 2.6% to 16.6% on 12 043 products, covering 13% of annual US imports. While the hikes disproportionately affected China, they were also imposed on the EU, Mexico and Canada, sparking something of a global trade war. It remains unclear by how much tariffs will increase now, although Trump's election campaigning had top-end tariffs at anywhere between 60–100% for Chinese imports. All else being equal, steep increases will lead to rising US inflation and an appreciating dollar. Should the Fed cut rates in response, this would cause rand weakness and possibly South African inflation. But these big leaps of causality discount other determining variables, and it is unclear whether Trump will push through tariff adjustments of the scale he has promised. There are seriously negative economic consequences to consider, including retaliatory tariffs. And if he does raise tariffs further, the scale and the composition matter. Will they affect some product lines more than others, some economies more than others? The timing is also critical. Will he be able to push these through quickly with the full support of his party?

Many other macroeconomic variables and shocks (climate shocks, political uncertainty, etc.) affect local inflation and rand strength, so the exact effects of a Trump II tariff adjustment are very difficult to predict. In Economics, there is seldom a truly "fully identified" or one-to-one causal relationship between two variables.

Trump will likely extend tax cuts beyond 2025 and make a strong play to deepen them. But these cuts have not paid for themselves, and should they be deepened, the US will probably face higher deficits and hence a more focused monetary regime, as US inflation may threaten. This would put the US in a rising interest rate regime again, with all the consequences for South Africa and the global economy we witnessed over the last few years. Deficits will be resisted by Trump's own party, and the Republican-controlled Senate will not want to push through deeper cuts if they are very costly to the US fiscus. An extension of the existing regime is more likely, with some possible tweaks that are not too deficit-enhancing and create no new speedbumps on the monetary regime's path to a soft landing.

The most direct threat to South Africa's growth prospects lies in two key areas. Firstly, through our political actions on the global stage. South Africa's close relationship with Russia and our relatively neutral stance on the war in Ukraine may be viewed positively by Trump, who clearly wants a deal done as soon as possible.

And while we have taken Israel to the International Court of Justice on charges of genocide, it is unlikely that this decision will be used as a rod for our back by the US. Trump may in fact view South Africa as critical to his anti-China strategy on the continent.

Second is our participation in the African Growth and Opportunity Act (AGOA). Some key facts: South African exports under the agreement have totalled about US$2 billion on average over the last few years – but these exports constitute only about 20% of our total exports to the US. The overwhelming majority of SA exports to the US are not AGOA-related, and a recent Brookings study estimates that should AGOA not be renewed, South Africa's total exports to the US would at worst fall by about 2.7%, resulting in a GDP decline of just 0.06%. A word of caution, however: The knock-on effects of a loss of trading status – either through South Africa being viewed as too developed or simply due to political economy factors – on business confidence and foreign investor sentiment should not be overlooked. This could be the true negative effect of losing our AGOA status. While difficult to predict, past voting patterns in the US Senate suggest that South Africa will remain part of a renewed AGOA.

In conclusion, while a second Trump presidency may create some ripples in the global economic landscape, its direct impact on South Africa's economy is likely to be more muted than dramatic headlines might suggest. The key Trump-related variables to watch will be trade policy adjustments, particularly regarding tariffs, the evolution of diplomatic relations, especially concerning AGOA and the US fiscal deficit. However, as history has shown, South Africa's economic trajectory will continue to be shaped by a complex interplay of domestic policies, global market forces, and our own strategic choices in navigating international partnerships.

Federal rate to US GDP and Dow Jones price, by US president

Source: FRED (https://fred.stlouisfed.org/series/GDP; https://fred.stlouisfed.org/series/FEDFUNDS); Wall Street Journal (https://www.wsj.com/market-data/quotes/index/DJIA/historical-prices) and own calculations.

Top-performing Sygnia funds

Anrich de Jager
Head: Fixed Income

Given the red sweep and promises of lower taxes and deregulation, US-focused funds are the top-performing funds for the month.

1-month absolute performance

Rank	1 month	Return
1	Sygnia Life Berkshire Hathaway Portfolio	9.6%
2	Sygnia Itrix MSCI US ETF	8.1%
3	Sygnia Itrix S&P 500 ETF	7.8%
4	Sygnia Itrix FANG.AI Actively Managed ETF	6.9%
5	Sygnia Itrix 4th Industrial Revolution Global Equity Actively Managed ETF	6.9%

*Returns are to 28 November

Except for SA property, it is also all US over 12 months.

12-month absolute performance

Rank	12 month	Return
1	Sygnia Listed Property Index Fund	39.3%
2	Sygnia FANG.AI Equity Fund	38.2%
3	Sygnia Itrix FANG.AI Actively Managed ETF	36.9%
4	Sygnia 4th Industrial Revolution Global Equity Fund	30.8%
5	Sygnia Life Berkshire Hathaway Portfolio	27.7%

*Returns are to 28 November

US: Economic data Trumped

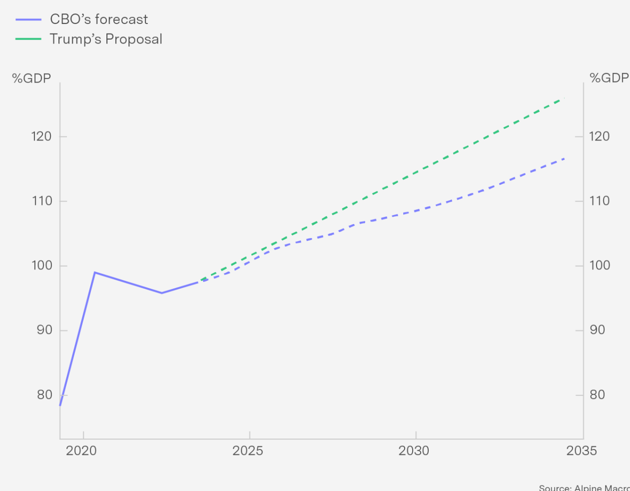
Anton Swanepoel
Head: Multi-Asset

The market is looking forward and trying to predict the impact of Trump's policies in his second term. Historically, major tax cuts have always created bigger budget deficits. If the tax cuts of the 2018 Tax Cuts and Jobs Act are extended beyond the end of next year, the Penn Wharton Budget Model suggests that Trump's campaign policy proposals would add 14 percentage points to the US debt-to-GDP ratio over the next decade. Growth-driven inflation is usually good for equities, but the Federal Reserve will end the party if inflation expectations become unhinged.

Fed chairman Jerome Powell is trying to force markets to look at current fundamentals and said that "In the near term, the election will have no effects on our policy decisions." Growth remains robust and the US unemployment rate remained at 4.1%, below the Fed's long-run equilibrium unemployment rate of 4.2%.

The Institute of Supply Management's services purchasing managers' index (PMI) for October rose to an above-expected level of 56, and October retail sales showed upward revisions, continuing a strong trend. Inflation is hot, with the US October core consumer price index (CPI) rising to 3.3%, well above the 2% target. Powell cut 25 bps, and the market is predicting another cut in December. This may not materialise, however, as Powell remarked that "the economy is not sending any signals that we need to be in a hurry to lower rates."

US debt under Trump's proposals



Source: Alpine Macro

European Union: A shift to the right helped by Trump

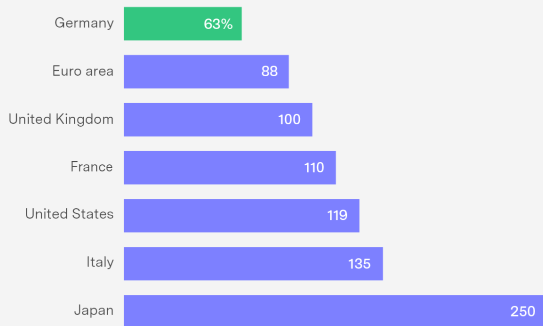
Bashaarit Khan
Portfolio Manager

Trump's strategy for peace appears to involve pressuring Ukraine into a deal by threatening to withhold US funding while simultaneously compelling Russia to the negotiating table through promises of increased support for Ukraine or the imposition of more sanctions. A likely condition for any peace agreement would require Ukraine to concede territories it has lost to Russia. The European Union (EU) will have to shoulder the financial burden to prevent further Russian aggression, which is a significant factor in the recent decision to hold early elections in Germany.

The "snap" German election will only be held on 23 February, but the polls show that Friedrich Merz and the centre-right CDU/CSU alliance is leading with over 30% support, positioning them favourably to reclaim the chancellery after narrowly losing to the Social Democrats three years ago. The CDU/CSU has shifted to the right and is advocating increased spending in defence and security and has expressed strong support for augmented aid to Ukraine, viewing it as an investment in Germany's own security. Additionally, they propose lowering taxes, which could stimulate local economic growth. This underscores the shifting dynamics in Europe, as leaders navigate the implications of Trump's presidency on international relations and military support for Ukraine. The new EU parliament moved away from centrist consensus following its elections in June, with EU centre-right lawmakers increasingly teaming up with the far right to reduce the focus on climate change and push for stricter curbs on immigration.

Germany has lots of room to increase debt

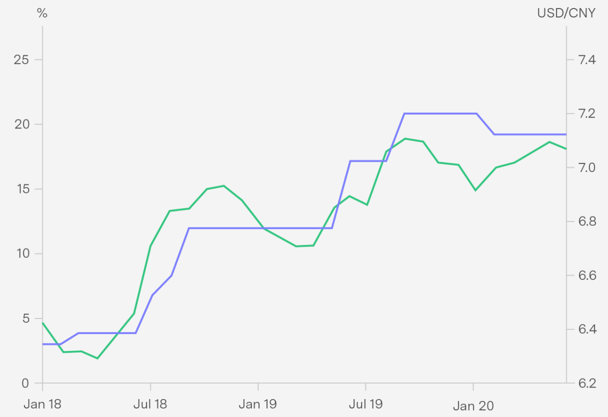
Debt-to-GDP



Source: Bloomberg

US tariff hike and CNY depreciation

US tariffs on Chinese exports
USD/CNY (RHS)



Source: JPMorgan

China: Fourfold response to Trump

Wynand Kok
Passive Portfolio Manager

China's response to Trump's tariffs in his first term was three-pronged: retaliatory tariffs, currency depreciation and geographical diversification of exports. The USD/CNY depreciated 13% over the period, moving up from 6.3 in April 2018 to 7.11 in September 2019. On exports, China largely offset the impact of lower US exports by increasing its market share in non-US markets. China's share in tariffed US imports declined from 22% to 13.5%. However, China's share in global exports rose from 12.6%, peaking at 16.6% in Q2 2020.

China is likely to look to those three tools again and also to stimulate local demand. China unveiled a CNY10tn (USD1.4tn) program to resolve its local government debt crisis, and Finance Minister Lan Fo'an pledged to adopt a "more forceful" fiscal policy next year and "actively" use the room for higher official deficit – a sign that bolder steps may await. Local authorities that have relied on land sales for revenue have struggled to service liabilities in recent years as the property crisis wiped out demand for new building. Officials say the outstanding value of so-called hidden debt was CNY14.3tn at the end of 2023, although the International Monetary Fund put that figure at about CNY60tn.

October data show tentative improvements in China's domestic growth. Retail sales growth jumped, beating market expectations for the second consecutive month, most likely due to the consumer goods trade-in programme and the early start of the "Double 11" shopping festival. Services production index growth was at its fastest pace this year and industrial production remained robust. And importantly, year-on-year Chinese floor space sold has finally turned positive, a good indicator for a stabilising property market.

Outlook: Intricately tied to Trump

Iain Anderson
Co-Head: Investments

The global economic outlook is intricately tied to the foreign policy decisions of Donald Trump, particularly regarding ongoing conflicts in Ukraine and Israel and trade relations with China. The ramifications of his policies are expected to be significant, especially given the historical context of the 2018–2019 trade war, where early indicators from the manufacturing PMI suggested a cautious shift in behaviour across Asia and Europe. A divergence between the US and the rest of the world has already been observed, reflecting growing concerns about a potential trade war. While fiscal easing in various regions may attempt to bolster domestic economies against negative impacts, it is unlikely to fully counterbalance these effects.

Our base case scenario is a prolonged period of higher growth and inflation, primarily driven by the US economy, where easing financial conditions, a robust labour market and strong wealth gains have allowed household balance sheets to remain strong and have supported consumer spending.

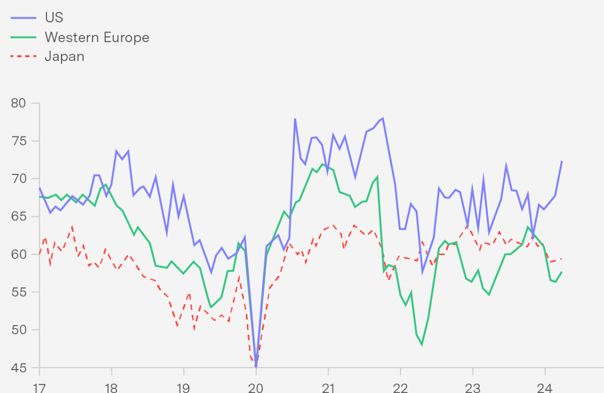
European growth is expected to be dented by weaker sentiment. While the Fed and Bank of England are likely to limit rate easing, the European Central Bank and Sweden's Riksbank are likely to lower rates to below 2% in response to a shift to demand-side weakness.

In South Africa, improvements in investor confidence are anticipated due to the end of load shedding and potential reforms under the government of national unity (GNU). A favourable sentiment boost may also arise from the positive review of sovereign credit ratings by S&P Global Ratings. SA's core inflation came in on target at 3.9%, down from the previous month, allowing the South African Reserve Bank (SARB) to cut rates by a further 25 bps.

Risks remain, however:

- Strong growth could lead to persistent US inflation, prompting aggressive Fed actions that could trigger a recession by 2026.
- Escalating trade wars could prompt significant retaliatory tariffs, diminishing investor confidence and causing a recession in 2025.

- A geopolitical event could cause a recession. Vladimir Putin has signed a decree allowing Russia to launch nuclear weapons, and the International Criminal Court has issued an arrest warrant for Prime Minister Benjamin Netanyahu for crimes against humanity and war crimes.



Key indicators

		1 mo.	3 mos.	6 mos.	1 yr.	2 yrs.	3 yrs.	5 yrs.	10 yrs.
J203T	FTSE/JSE All Share Index	-0.9%	2.1%	12.0%	16.0%	10.2%	10.5%	13.0%	9.0%
J200T	FTSE/JSE Top 40 Index	-1.6%	0.9%	9.6%	13.0%	9.0%	9.9%	13.1%	9.1%
J210T	FTSE/JSE Resources 10 Index	-6.7%	-0.9%	-8.9%	-2.7%	-10.3%	-2.2%	8.7%	6.7%
J211T	FTSE/JSE Industrials 25 index	0.0%	2.3%	9.9%	14.9%	15.8%	10.0%	13.5%	8.7%
J212T	FTSE/JSE Financials 15 Index	0.3%	2.1%	29.9%	30.2%	19.4%	21.8%	11.3%	7.9%
J403T	FTSE/JSE SWIX Index	-0.9%	2.1%	12.0%	16.7%	9.3%	10.0%	10.4%	7.2%
J433T	FTSE/JSE Capped SWIX Index	-0.9%	2.1%	12.1%	17.1%	9.2%	10.3%	11.0%	7.0%
J303T	FTSE/JSE CAPI Index	-0.9%	2.1%	12.1%	16.2%	9.7%	10.5%	13.2%	9.0%
J253T	FTSE/JSE SA Listed Property Index	1.7%	3.7%	24.2%	41.2%	19.6%	15.3%	4.5%	3.2%
ALBI	JSE All Bond Composite Index	3.1%	4.7%	17.2%	19.3%	13.9%	11.4%	10.0%	8.5%
STeFI	STeFI Index	0.6%	2.0%	4.1%	8.5%	8.2%	7.1%	6.1%	6.6%
	MSCI World Index in SA Rands	6.9%	6.2%	6.7%	22.2%	24.1%	13.3%	17.3%	15.6%
	Rand/US Dollar Exchange Rate	2.2%	1.7%	-4.1%	-4.7%	3.1%	4.1%	4.3%	5.0%
	Rand/Euro Exchange Rate	-0.6%	-2.9%	-6.7%	-7.7%	4.4%	1.9%	3.4%	3.3%
	Rand/Pound Exchange Rate	1.0%	-1.6%	-4.2%	-4.3%	6.5%	2.7%	3.9%	2.9%
	Headline CPI	-0.1%	0.1%	0.8%	2.8%	4.4%	5.4%	4.9%	4.9%
	PPI	-0.7%	-1.3%	-1.7%	-0.7%	2.5%	6.8%	6.2%	5.7%