Sygnals

Chart of the month: Market volatility rises with increased geopolitical uncertainty

Kyle Hulett
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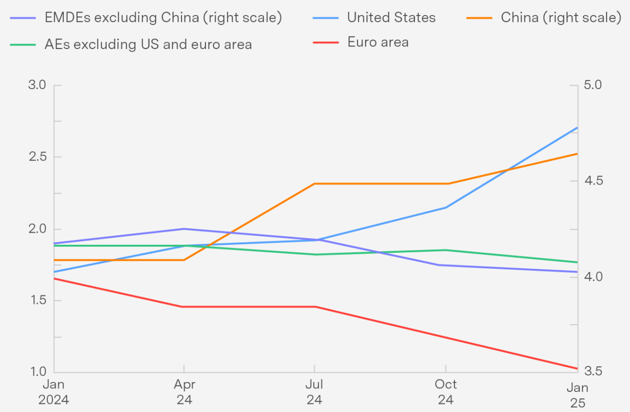
2024 was a pivotal year in global politics, characterised by significant electoral shifts across many nations as voters expressed their desire for alternatives to established political parties and leadership. The Financial Times reported that for the first time in over a century, every developed country's governing party facing elections lost vote share, reflecting widespread dissatisfaction with the status quo. The Labour Party ended 14 years of Conservative Party governance in the United Kingdom and Republicans regained control of the White House in the United States (US). In South Africa, the African National Congress (ANC) lost its majority for the first time since apartheid. The Democratic Party in South Korea gained a majority and Prime Minister Narendra Modi's party lost its majority in India. Germany faces an early election in February after the collapse of the governing coalition, and Canadian Prime Minister Justin Trudeau in January announced his intention to resign.

Politicians have increasingly been compelled to respond to populist demands to gain power. As governments become more involved in economic interventions, political volatility is leading to increased economic instability. Trump's strategy of "Making America great again" is heavily dependent on tariffs, and market volatility rose in January 2025 on uncertainties about these. Initial proposals included a 10–20% broad global tariff, 60% tariffs on China and 25% tariffs on Canada and Mexico. Relief came when Trump indicated that he would adopt a targeted approach to trade-policy adjustments. However, on the 1st of February he imposed a 25% levy on Canadian and Mexican imports and 10% on Chinese imports, to come into effect on 4th February, while promising a similar move later for the European Union. Canadian Prime Minister Justin Trudeau declared Canada would impose retaliatory tariffs and Mexico vowed to respond with similar measures. Markets plunged on the news and the dollar strengthened.

The escalated geopolitical risks were confirmed in the January 2025 International Monetary Fund (IMF) World Economic Outlook (WEO) update, indicating "growth on divergent paths amid elevated policy uncertainty".

Global growth is projected at 3.3% in 2025 and 2026, below the 20-year average of 3.7%. The forecast for 2025 is broadly unchanged from the October 2024 WEO, primarily because an upward revision in the US and China has offset downward revisions in other major economies.

Change in 2025 growth forecasts over the last year



* Note: The x-axis shows the months the World Economic Outlook is published.
AEs = advanced economies; EMDEs = emerging market and developing economies.

Source: IMF

Key economic matters for South Africa in 2025

Haroon Bhorat
Chair: Investment Committee

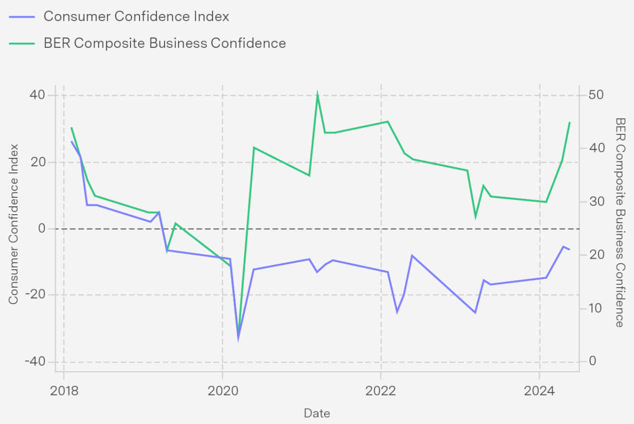
What can we expect for the South African economy in 2025? First up are the baseline gross domestic product (GDP) projections for South Africa for 2025, which range from a low of 1.3% from the World Bank to an upper bound of 1.7% (from the International Monetary Fund, no less).

The forecast mean of 1.6% GDP growth for 2025 suggests at least a 40% improvement in GDP growth relative to the anemic 2024 figure. So what is this higher projected GDP growth derived from? First and foremost, it seems that the worst of our energy crisis is behind us, at least for the short-term. At the time of writing, we had breached 300 consecutive days without loadshedding. This is the big driver of the 2025 GDP forecast.

Other factors remain key, however. These include the 2024 national elections, which kept the ANC in government as part of a government of national unity (GNU) that has kept the populists out and the pragmatists (so-called "constitutionalists") in. Economically, the GNU has been much more open to private sector involvement in the economy. The stealthy evolution of this privatisation (referred to amorphously as "concessional arrangements") is evident in two key areas. First, the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) is in essence an attempt to privatise energy supply in South Africa and has been a significant boon to total domestic investment (estimated at close to 5%) that will be ongoing into 2025. Second, amidst a ratings downgrade by S&P on the back of a R2.2 billion reported loss, Transnet has effectively called time on its monopoly of the country's rail infrastructure and has significantly reassessed private sector operation in terminals and related maritime infrastructure. Ultimately, 2025 promises to be a year in which most of the South African economy's logistical backbone is outsourced to the private sector. The scale, efficiency and price gains expected from this logistics privatisation are key to 2025's projected growth upturn.

There has been a tremendous reset in the South African economy under President Ramaphosa's watch. Analysts will view this period as a key structural inflection point for the South African economy, reflecting a fundamental widening of the private sector's role in all sectors of the domestic economy and positively affecting business confidence. The BER composite business confidence index has risen to its highest levels since the first quarter of 2022 – and its second-highest level in seven years (Chart).

BER Business and Consumer Confidence Index: Q1 2018 - Q4 2024



Source: Bureau for Economic Research, Data accessed at https://www.ber.ac.za

Of course, given the nature of all economies, challenges remain! For the immediate 2025 period, these are evident in the graph of the BER consumer confidence index. While subjective, the data nevertheless suggest that South African households are under significant stress. The cumulative effect of job losses during Covid pandemic and low growth rates as the economy struggles with supply-side issues has resulted in elevated household debt levels and rising levels of economic distress.

Not surprisingly, this has led the consumer confidence index to lag business confidence, and this highly constrained South African household serves as a key headwind for 2025 for many consumer-facing businesses.

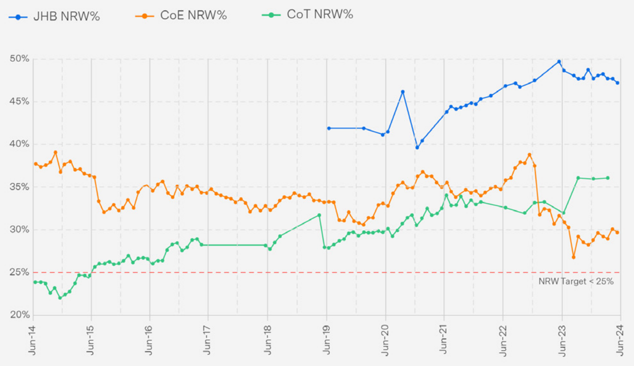
Despite this Ramaphosa-inspired period of privatisation and the end of load shedding, 2025 is also in danger of being marked as the year of excessive water-shedding. Given the significant under-investment, lack of technical expertise, non-collection of water bills and endemic corruption, water may be the new energy in 2025. Figure 2 shows that fully 45% of all water revenue due by the City of Johannesburg to water boards remains uncollected, while the non-collection rates for Ekurhuleni and Tshwane are over 30%. Cabinet has already flagged this as a significant issue for 2025, passing responsibility for this to the highly effective Operation Vulindlela team in the Presidency. Not surprisingly, they have turned to the private sector for assistance.

Apart from the usual currency volatility, stock and bond market performance and similar indicators, two key macro factors stand out for 2025. First, the upcoming Budget must adhere to the fiscal consolidation plan whereby the projected 4.5% deficit-to-GDP ratio for this financial year declines next year to 3.7%. A key determinant here is the public sector wage bill, where the assumed settlement of 4.5% has already been rejected by unions. A higher public sector wage bill may put pressure on the projected deficit decline, even amidst continuing under-performance on the revenue side. National Treasury's (NT's) proposal for a fiscal deficit rule may thus become a much more important policy decision for 2025. A second looming concern is the possibility of the South African Reserve Bank (SARB) and NT revising the inflation target range. SARB may propose a reduction from the current 3–6% range to anchor inflationary expectations at lower price levels. While the NT and SARB will decide on this together, a much narrower range promises a much more aggressive monetary policy and would reduce the probability of rate cuts for 2025.

Finally, we cannot ignore that as a small, open economy, South Africa's economic fortunes in 2025 are very much shaped by growth outcomes and policy decisions in the US and, increasingly, China. All forecasts suggest fewer rate cuts in 2025 by the Fed, as a higher Trump-induced US tariff regime will bring increased inflation. Wage inflation from having fewer low-skilled immigrants available is also a possibility. In China, the paucity of investment-driven growth as the property market stagnates and the economy reluctantly considers switching to a consumption-growth model will also mitigate against growth in key South African resource and manufacturing sectors.

Global headwinds are omnipresent and, while they may not spoil the 1.6% growth party, they certainly may prevent any chance of overshooting this modest target.

Non-Revenue Water: Johannesburg, Ekurhuleni & Tshwane: 2014-2024



Source: Introduction To The Dashboard For A Water Secure Gauteng, September 2024

Top-performing Sygnia funds

Steven Empedocles
Head: Indexation

- There was a solid rebound from the European stock markets, driven by strong luxury results. This propelled the Sygnia EU ETF into the top 5 as well as the Transnational Fund, which has a 10% holding in Richemont.
- US technology stocks had a poor month following the release of the Chinese app DeepSeek's R1 AI model. Nvidia share fell 17%, wiping out $589 billion, the biggest market-cap loss for a single stock ever. The R1 model matched and even surpassed OpenAI's o1 reasoning model at apparently a fraction of the training cost while running on less-advanced chips. While this caught the market by surprise, it is unlikely to disrupt the $630bn AI capex planned in the US over the next three years.

1-month absolute performance

Rank	1 month	Return
1	Sygnia Itrix Eurostoxx50 ETF	6.2%
2	Sygnia Transnational Equities Fund	6.1%
3	Sygnia Itrix Health Innovation Actively Managed ETF	3.5%
4	Sygnia Health Innovation Global Equity Fund	3.2%
5	Sygnia Top 40 Index Fund	2.6%

*Returns are to 30 January

The top five positions over 12 months are still dominated by US funds as US exceptionalism continues to be driven by strong fiscal support, including tax cuts and deregulation.

12-month absolute performance

Rank	12 month	Return
1	Sygnia Itrix FANG.AI Actively Managed ETF	41.8%
2	Sygnia FANG.AI Equity Fund	37.8%
3	Sygnia Itrix MSCI Emerging Markets 50 ETF	27.4%
4	Sygnia 4th Industrial Revolution Global Equity Fund	27.0%
5	Sygnia Itrix MSCI US ETF	25.0%

*Returns are to 30 January

US: The US is booming, but sticky inflation remains a risk

Karabo Moremi
Portfolio Analyst

US markets have faced pressure since the December Federal Open Market Committee meeting, where Fed Chair Jay Powell indicated that progress on reducing inflation had stalled.

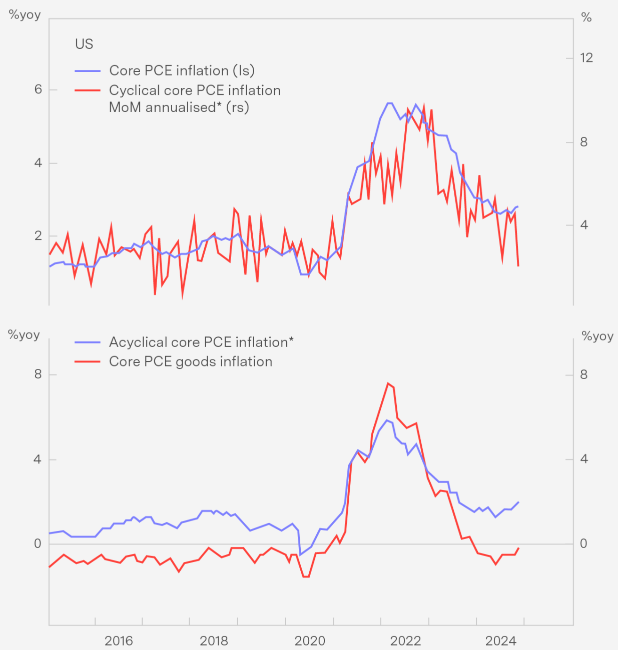
At this meeting, the Fed raised its core personal consumption expenditures (PCE) forecast to 2.5% year-on-year (y/y) for Q4 2025 and removed two anticipated rate cuts for this year. January's economic data reinforced this view, showing a booming US economy.

The anticipated Trump tariffs and stronger-than-expected economic growth have driven the dollar and bond yields higher. Slow growth made recession 2024's primary concern, but inflation is now viewed by markets as the biggest risk for 2025. Despite Trump stating at Davos, "I'll demand that interest rates drop immediately", the Fed kept interest rates unchanged in January. While the Fed is not expected to cut any time soon, escalating inflation causing policy tightening is unlikely for now as:

- Despite the Michigan Survey 5–10 year inflation expectations rising to their highest level since 1996, part of the increase is linked to rising oil prices, which are likely to reverse given Trump's focus on increasing oil production.
- Growth is likely to soften, as mortgage applications have dropped to a 10-year low and US bankruptcies have reached a 14-year high.
- Core consumer price index (CPI) readings came in below expectations, with supercore services rising just 0.21%, marking their lowest increase since July.
- While shelter inflation continues to be sticky, the annual rise in real-time rent prices has fallen sharply to just 1%.
- The strong dollar and weak Chinese growth reduced import inflation.
- As seen in January, any mention of tariffs weakens that target country's currency, which mostly offsets inflationary impact.

However, the US economy is operating above its long-run potential, with a narrow output gap and stable job creation contributing to rising household wealth. The risk persists that inflation could stay sticky.

Core inflation is likely to soften given soft rental increases and falling Chinese export prices



Source: San Francisco Fed / Alpine Macro

China: Hits 5% GDP growth target, but US tariffs threaten future growth

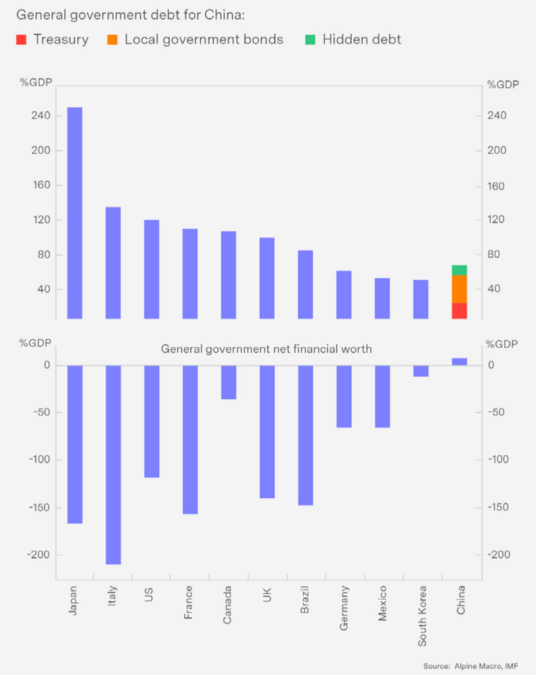
Isabella Zagato
Investment Product Specialist

China's economy expanded at 5% in 2024, slower than in 2023 but in line with Beijing's target of 5% growth. Data showed a robust end to the year, with 6.2% y/y expansion in December's industrial production and retail sales expanding by 3.7% y/y – both above consensus. After three consecutive years of decline, Chinese home sales began to show signs of recovery in December 2024, suggesting a potential stabilisation in the property market. Beijing has adopted stronger countercyclical measures, including:

- Monetary policy: The Politburo, led by President Xi Jinping, has decided to implement a "moderately loose" monetary policy for 2025. This marks a return to supportive monetary strategies not seen since the Great Financial Crisis (2008–2010).
- Fiscal policy: China has set a growth target of approximately 5% for the upcoming year and plans to raise the budget deficit to 4% of GDP, its highest level since 1994. Despite concerns about high debt levels, China maintains substantial fiscal capacity. Its total public sector debt stands at 68% of GDP, which is low relative to other major economies. Additionally, the government possesses significant financial assets, resulting in a positive net financial worth.
- DeepSeek R1 could be a game changer for Chinese companies, being the first major AI model to announce support for Huawei's chips and offering an alternative to Nvidia's GPU-centric ecosystem.

The implementation of these measures should result in strong growth. However, the looming threat of increased tariffs from the US is likely to keep investor confidence fragile in the short term.

China has a lot of fiscal room to ease



Oil: Biden's sanctions and Trump's national emergency

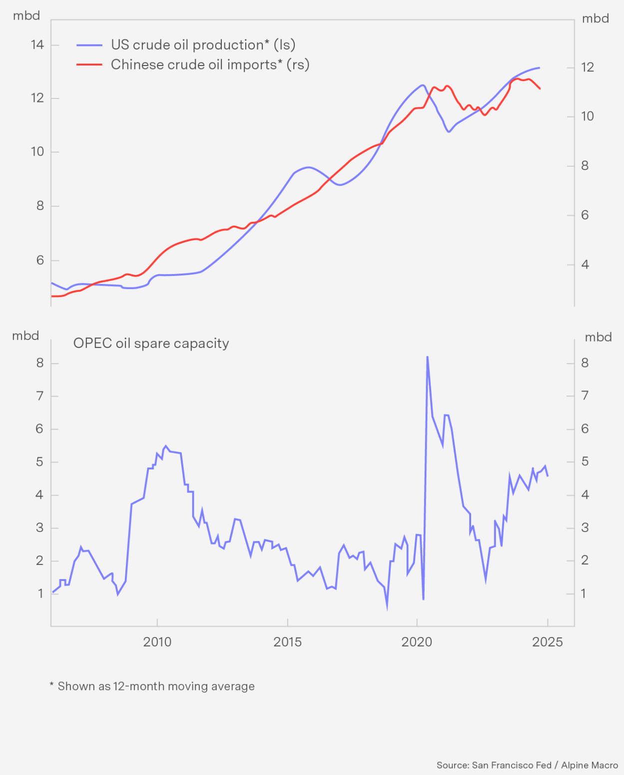
Mish-Al Bassadien
Portfolio Manager

Oil rose in early January as the US Department of the Treasury announced several new sanctions on the Russian energy sector. They represent one of the most comprehensive measures taken against Russia's energy sector under Biden's leadership, targeting major oil producers, vessels and entities involved in the Russian oil trade.

Oil prices fell after Trump's inauguration and his declaration of a US energy emergency – "We sit on the most oil and natural gas of any nation on Earth, and we're going to use it." Not only did Trump remove the US from the Paris Climate Accords, but his "Unleash American energy" executive order restarted licensing for liquefied natural gas terminals and revoked measures that effectively blocked drilling in most US coastal waters. Trump plans to increase US domestic oil production by 3 million barrels a day.

Longer term, the global oil market is tending towards excess supply. Chinese demand remains soft and US output is at record highs, and the OPEC cartel has plenty of excess capacity.

Oil likely to see lower demand and higher supply



Outlook

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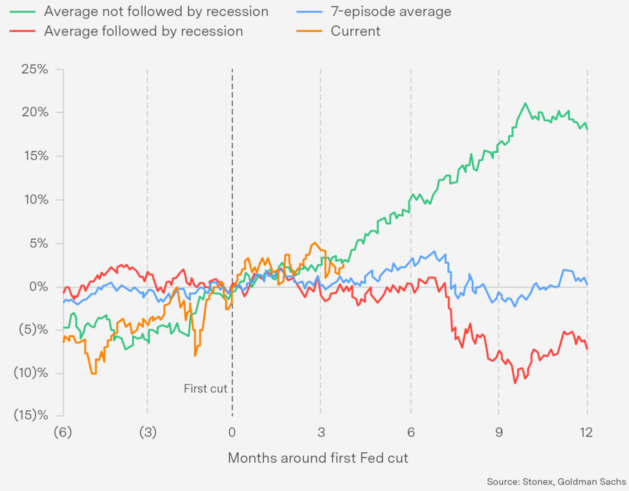
Co-Head: Investments

Our base case turns more cautious, despite anticipating strong US earnings growth alongside slowly declining inflation. The US economy is expected to see a rise in sentiment due to prospects for easing regulatory and tax policies. The primary risk to this outlook has shifted from US recession concerns to the potential for reaccelerating inflation because of tariffs and supply side disruptions, which could prompt the Fed to implement aggressive rate hikes. We remain underweight the US tech sector, as monetisation of AI strategies remain unclear in the short term.

Global volatility is likely to remain elevated until it becomes clear that Trump's policies will not lead to higher inflation and interest rates. Non-US business sentiment will be constrained by the looming threat of a trade war in the coming months. A downturn in the global economy due to tariffs could negatively impact the US economy. Despite a multi-stage ceasefire deal between Israel and Hamas after 15 months of conflict, escalating geopolitical tensions continue to pose a concern.

Upside growth risk exists from bazooka Chinese or European fiscal stimulus to counter tariffs. Historically, global equities tend to perform well after an initial rate cut by the Fed, especially if the economy avoids recession in the subsequent year.

Stock market performance post the first rate cut



Key indicators

		1 mo.	3 mos.	6 mos.	1 yr.	2 yrs.	3 yrs.	5 yrs.	10 yrs.
J203T	FTSE/JSE All Share Index	2.3%	1.1%	5.6%	19.6%	7.9%	9.2%	13.1%	8.9%
J200T	FTSE/JSE Top 40 Index	3.3%	0.9%	4.4%	18.4%	6.5%	8.7%	13.2%	9.1%
J210T	FTSE/JSE Resources 10 Index	17.9%	3.4%	-0.7%	16.2%	-7.0%	-1.8%	10.3%	8.3%
J211T	FTSE/JSE Industrials 25 index	1.1%	3.6%	10.2%	20.1%	10.7%	11.0%	13.3%	8.6%
J212T	FTSE/JSE Financials 15 Index	-2.7%	-3.8%	3.4%	21.9%	17.7%	15.4%	11.6%	7.0%
J403T	FTSE/JSE SWIX Index	2.3%	1.1%	5.6%	19.5%	8.1%	8.3%	10.4%	6.9%
J433T	FTSE/JSE Capped SWIX Index	2.6%	1.3%	5.7%	19.7%	8.3%	8.6%	11.4%	6.8%
J303T	FTSE/JSE CAPI Index	2.6%	1.3%	5.7%	19.8%	7.7%	9.1%	13.5%	9.0%
J253T	FTSE/JSE SA Listed Property Index	-2.3%	-0.3%	10.1%	21.0%	18.4%	12.8%	5.2%	2.1%
ALBI	JSE All Bond Composite Index	0.4%	3.1%	7.3%	16.9%	12.0%	10.1%	9.4%	8.0%
STeFI	STeFI Index	0.7%	2.0%	4.1%	8.4%	8.3%	7.3%	6.2%	6.7%
	MSCI World Index in SA Rands	2.4%	11.4%	10.9%	21.9%	23.5%	16.7%	17.1%	15.9%
	Rand/US Dollar Exchange Rate	-1.1%	5.6%	2.6%	0.4%	3.5%	6.5%	4.5%	4.8%
	Rand/Euro Exchange Rate	-0.7%	1.1%	-1.4%	-3.9%	1.3%	3.8%	3.1%	4.0%
	Rand/Pound Exchange Rate	-1.8%	2.1%	-0.7%	-2.1%	4.0%	3.8%	3.2%	2.9%
	Headline CPI	0.1%	0.0%	0.6%	3.0%	4.1%	5.1%	4.8%	4.9%
	PPI	-0.7%	-1.3%	-1.7%	-0.7%	2.5%	6.8%	6.2%	5.7%