



FG ASSET MANAGEMENT

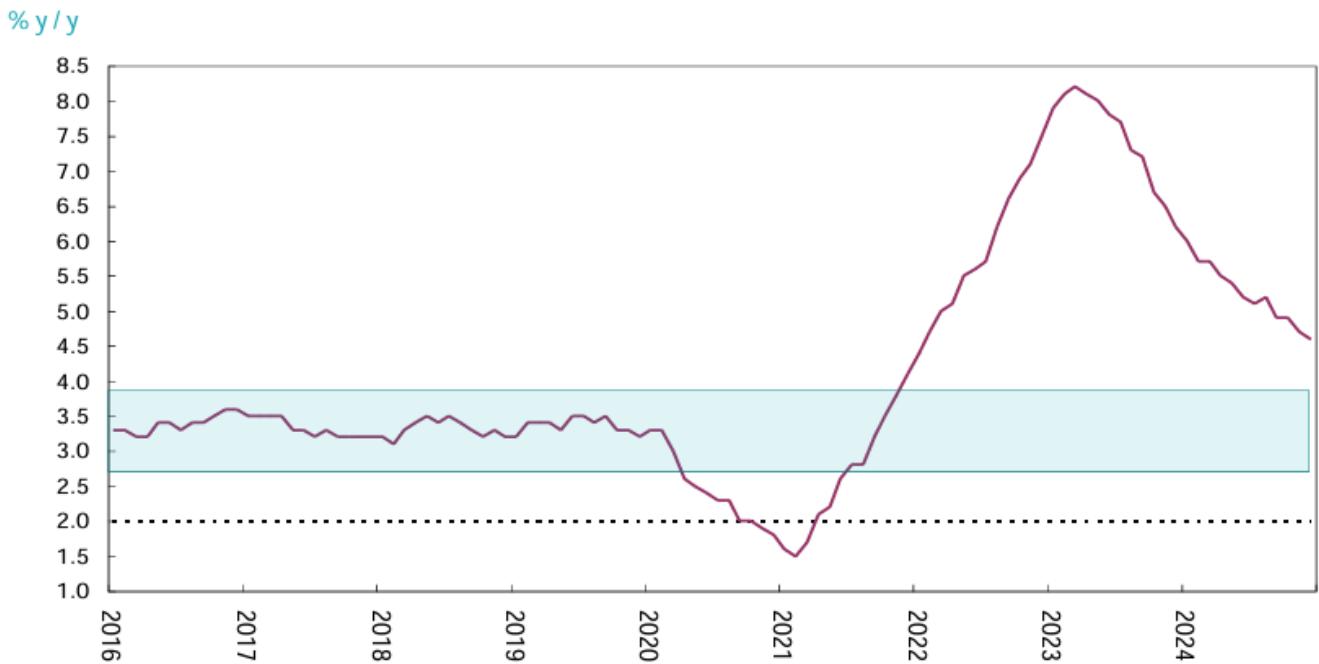
ECONOMIC EXPRESS

JANUARY 2025

January was positive for growth assets as concerns over immediate trade disruptions faded and inflation fears subsequently eased. Positive returns in local equities were predominantly propped up by a rebound within the resources sector. Overall, the uncertainty over US policies kept market participants on their toes and will continue to be a source of volatility for markets going forward.

The new US president, Donald Trump, was inaugurated on the 20 January. In the lead up to him officially taking office, market participants were bracing themselves for the promised sweeping tariffs to be implemented. The expectation over the new tariffs pushed bond yields higher as concerns grew for the higher duties to drive inflation higher. As the month progressed the absence of any actual implementation allowed positive sentiment to creep back in.

The US inflation release also helped ease fears over the return of elevated prices. Headline inflation came out in line with expectations as it showed that prices increased 2.9% from a year earlier. Inflation continues to predominantly be coming from the services sector, specifically shelter inflation which makes up 33% of the weight. Inflation contributions from the goods and energy subsectors are negligible. Core inflation positively surprised the markets as it fell to 3.2%, the lowest level in six months.

Figure 1: US consumer inflation: shelter subsector

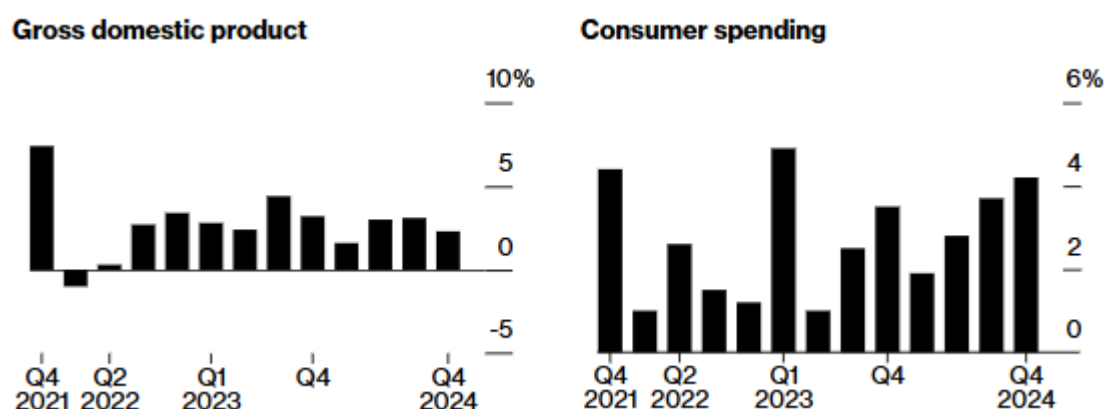
Source: STANLIB Asset Management (2016 to 2024)

The US Federal Reserve (Fed) kept the Fed funds interest rate unchanged at the 4.25% to 4.5% range. It was the first pause since the Fed started cutting rates in September where they have reduced the interest rates by 1% in total. The Fed reiterated that they see the current state of the economy as stable both from a growth and employment perspective. The Fed limited their forward guidance given the current uncertain environment specifically with regards to US government policies.

The fourth quarter's GDP growth data for the US was released at the end of the month, showing that the US economy had expanded by 2.3% from the previous quarter on an annualised basis. The growth remained solid; however, it was lower than expectations and the third quarter's growth. Strong consumer spending continues to drive the positive growth, with faster consumer spending in both goods and services. The decline in inventories and fixed investment activity detracted from growth in the last quarter.



Figure 2: US Gross Domestic product and consumer spending (QoQ%):



Source: Bureau of Economic Analysis, Bloomberg (2021 to 2024)

Local inflation increased marginally to 3% from 2.9%, lower than the market's expectations for 3.2%. Given that inflation remains firmly within the lower end of the SARB's 3% to 6% target range, the release reinforced the market's expectations for a rate cut at the end of the month. Core inflation also positively surprised as it fell 0.1% to 3.6% on an annual basis, the lowest level since February 2022. The lower core inflation was driven by slower rental inflation.

At the end of the month the SARB (South African Reserve Bank) reduced interest rates by 0.25% to 7.5%. It was the third consecutive rate cut since the rate cutting cycle started in September last year. The inflation forecast for the next year was revised lower to 3.9%, while the forecast for the subsequent two years remained unchanged around the 4.5% inflation target mid-point. Despite the lower inflation forecast, the market perceived the meeting as hawkish given the decision to cut the repo rate was not unanimous, with two of the six MPC (Monetary Policy Committee) members voting to keep interest rates unchanged. The committee see risks to their inflation outlook to have increased specifically as a result of the uncertainty with regards to the tariff policies from the United States.

The unexpected announcement of the return of load shedding on the last day of the month pushed local bond yields higher and weighed on the rand. It has been suspended since the end of March last year and had to be reinstated as Eskom said that it had depleted its reserves because of some of the plants having malfunctioned. Fortunately, the load shedding was short lived at Eskom managed to fix the problem.



Index	Asset Class	JANUARY 2025
STEFI Composite Index	Local Cash	0.66%
FTSE/JSE All Bond (Total Return)	Local Bonds	0.44%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-2.34%
FTSE/JSE Africa All Share (Total Return)	Local Equities	2.32%
Bloomberg Global Aggregate (USD)	Global Bonds	0.57%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	1.64%
MSCI AC World (USD)	Global Equities	3.38%

Source: Morningstar