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MARKET MATTERS

3 MARCH 2025

MAKING AMERICA GUESS AGAIN?

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The past five to ten years have seen tremendous change across the world, politically, economically and socially. Wars, pandemics, election upsets, disruptive new technologies, we've apparently seen it all. One underlying theme, however, has been the relative strength of the US economy, the world's largest.

The US was at the epicentre of the 2008 global financial crisis and was devasted by it. But once recovery was underway, it outperformed other major developed economies. While China is still growing faster in absolute terms, at least according to official data, relative to lofty expectations China's economy has struggled in recent years. US equities have comfortably outperformed most other markets over the past decade or so, and the dollar has gained against other currencies. The US re-emerged as a global fossil fuel superpower thanks to fracking but is also at the forefront of the emerging artificial intelligence (AI) technologies.

In other words, when Donald Trump promised to make America great again, he faced a major obstacle: from such a strong base, further outperformance was always going to be difficult. US corporate profit margins are already near record levels, the dollar is already very strong, the US is already pumping record quantities of oil and unemployment is already low. It is a simple fact of economics and finance that growth is easier off a low base when expectations are depressed than off a high base with little room for positive surprises.

The other major obstacle Trump faces is himself. Whether or not he is implementing a grand strategy to rewire the US and global economies, or simply aiming for a series of tactical negotiated wins, "Art of the Deal" style, we don't know yet. Markets rallied after his election on the assumption that it's the latter, and that he would be pro-business. But his focus so far has been on tariffs, immigration and foreign policy. This creates uncertainty and does nothing to boost growth. In fact, it may be doing the opposite.

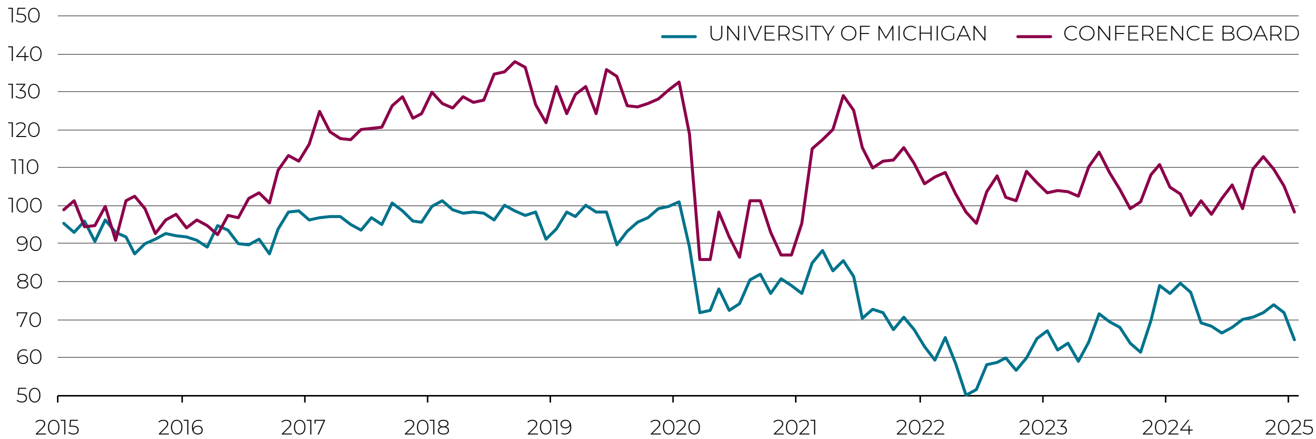
It has been a remarkably busy first month in office for Trump. Some of his actions, such as firing perceived opponents from senior positions was always likely. It was also expected that he would threaten tariffs on countries with whom the US has a trade deficit and put pressure on allies to conform with his world view, including pushing Europe – rightly– to spend more on defence. It was expected that he would push Ukraine to the negotiation table with Russia.

What was not expected was that Trump would seemingly punish friends more than foes when it comes to tariffs (Canada more than China) or that he would cozy up to Russia's Vladimir Putin, blame Ukraine for the war and demand a share of Ukraine's mineral wealth. Or threaten to annex Greenland or the Panama Canal. Again, all this might be a negotiation tactic, or it may be a serious attempt to alter the global geopolitical landscape. But it creates uncertainty either way.

What was also not expected was that he would give the billionaire Elon Musk, who is neither a government employee nor an elected official, free rein to take an axe to the civil service. While the job cuts so far are small in the context of a three million federal government workforce, they seem indiscriminate and reckless, rather than a careful reprioritisation of government activity or attempts to save money. For instance, Musk cut thousands of workers at the Inland Revenue Service, the US equivalent of SARS. This will harm tax collection and could therefore end up widening the budget deficit, the opposite of what he claims to achieve.

As an aside, the level of federal employment has been fairly steady around three million over the past five decades even as the population has grown. Though there is obviously some waste in such a large system, this does not seem to be bloated civil service. Either way, many government employees surely fear for their future now and might hold back on big purchases. Though American households sit with record levels of cash, most of that is concentrated in the hands of the rich. Less affluent families might start building savings buffers.

CHART 1: US CONSUMER SENTIMENT INDICES



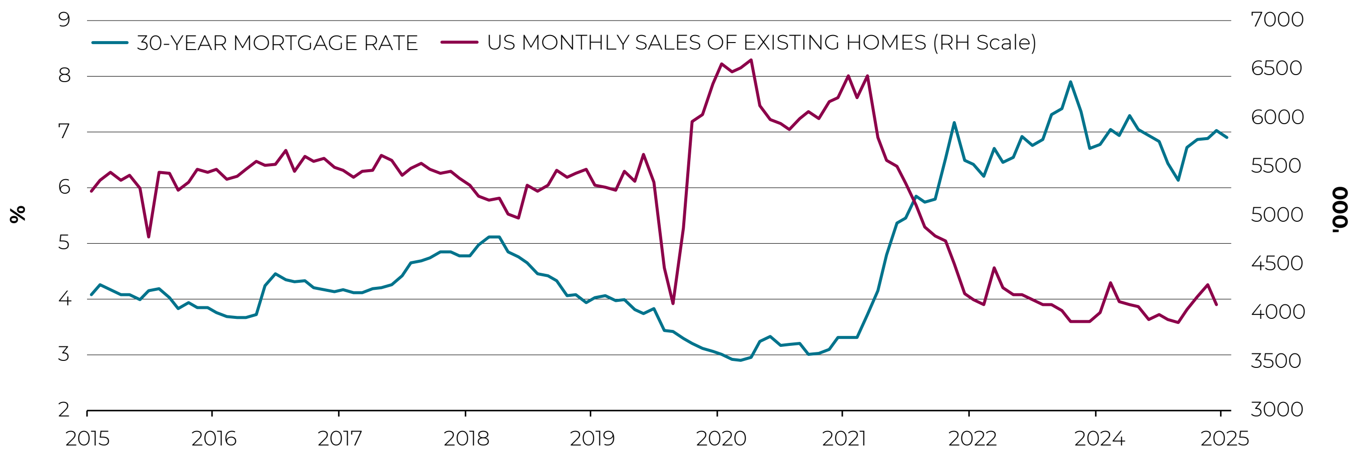
Source: LSEG Datastream

With consumer spending at robust levels coming into the year it was always likely that things would slow. The head-spinning pace of change unleashed by the White House in recent weeks might just accelerate the process. The two best-known consumer confidence indices rose in the wake of the November election but pulled back sharply in the January and February readings. People seem unsettled, particularly at the prospect of tariffs raising prices. It is possible to read too much into consumer sentiment surveys, since the US population is deeply divided, and political views might colour their perception. The decline is telling, nonetheless.

The health of the American consumer remains at the core of the US, indeed global, economic outlook. Importantly for now, despite Musk's job cuts, broader indicators of job losses remain stable. However, this can change and is something to pay close attention to, especially since US interest rates relief has been limited.

One of the factors behind the unexpected strength of the US economy in the past three years has been how shielded households were from the great global interest rate surge. Across Europe, Canada, Australia, South Africa and more, higher central bank interest rates fed into rising mortgage rates, and a growing debt service burden for households. Not in America, where mortgage rates are mostly fixed, keeping the interest burden low. But it also means that consumers in these other countries are now benefiting from falling rates, in a way that American homeowners aren't. The mortgage rate in the US remains around 7%, and the housing market remains frozen. Sales activity is depressed, as are leading indicators. The Federal Reserve, meanwhile, has paused its cutting cycle unlike central banks elsewhere, since inflation has been sticky in the past few readings.

CHART 2: US MORTGAGE RATES AND HOME SALES



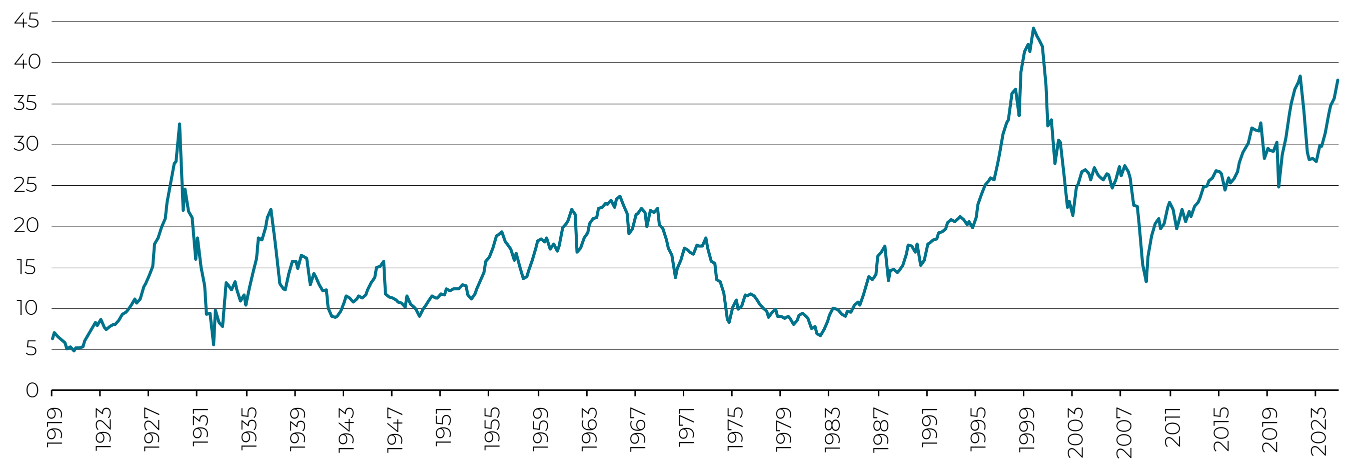
Source: LSEG Datastream

If the US economy were to slow substantially, the Fed can respond with rate cuts. With its policy rate at 4.5%, there is plenty of room to cut. However, as long as it is concerned about an inflation flare-up, potentially due to tariff increases, it might be too slow to act. Like generals, central bankers have the unfortunate habit of fighting the last war. In 2021, the last war was stubbornly low inflation, resulting in the Fed being slow to respond to the inflation surge. In 2025, the last war was missing the inflation surge, and the Fed might again be late in responding to a slowdown in economic growth. In a worse-case scenario, the Fed can start hiking rates again if it fears an inflation upswing. That would hurt markets but might also be a death knell to its independence. The pressure from the White House not to do so would be intense.

CAPE *fear*

These concerns about the cyclical outlook for the US economy come against the backdrop of a lot of good news being priced into US markets, notably large-cap equities (the S&P 500) and corporate bonds. The dollar is also historically strong. No matter which way you slice and dice the numbers, US equities are expensive. Chart 3 shows the cyclically-adjusted price: earnings (CAPE) ratio popularised by Professor Robert Shiller, a Nobel Prize-winning economist. It is a ratio of the current price over the previous decade's average real earnings. The last time US stocks were this expensive was in 2000. Now, this does not tell us anything about what might happen in the months ahead. Valuation metrics are a guide to longer-term return expectations, not short-term momentum. Anything is possible in the short term. As it happens, US shares have underperformed Europe and other markets in recent weeks. Unfortunately, we will only know in hindsight whether this is a turning point in a decade-long stretch of outperformance.

CHART 3: US CYCLICALLY-ADJUSTED PRICE: EARNINGS RATIO



Source: LSEG Datastream

Finally, there is the question over the longer-term impact of Trump's policies. His supporters will argue that his reforms will raise economic growth rates over time. However, the opposite outcome is also possible, due to the undermining of the institutions that made America great in the first place. This could have a dampening effect on growth and asset prices over time. For instance, the US will always have the best geographic location in the world, but will it remain the leader in scientific research if the government cuts its support of universities and research institutions, and actively questions the value of science?

Moreover, the reason capital from all over the world floods into US markets is that they are large and liquid, yes, but also because investors have confidence in the rule of law. They believe they will be treated fairly by regulators and on an equal basis with domestic investors, and indeed with rich and powerful Americans. The early signs have not been encouraging. Billionaires like Musk are swarming around Trump. Judges have been vilified, and the heads of key enforcement and regulatory agencies replaced with people known for loyalty, not expertise. Last year's Nobel Prize in Economics was awarded to three scholars Daron Acemoglu, James Robinson and Simon Johnson for their work in showing how strong institutions are crucial for strong economies. Acemoglu in particular has been very critical of the Trump administration's actions so far. Notably, all three are foreign-born but work at top US universities, as does a long list of US Nobel Prize winners. Immigration, both skilled and unskilled, has always been a source of strength to the US. Sensible immigration policies will only become more important over time given America's aging population and stagnating native-born workforce.

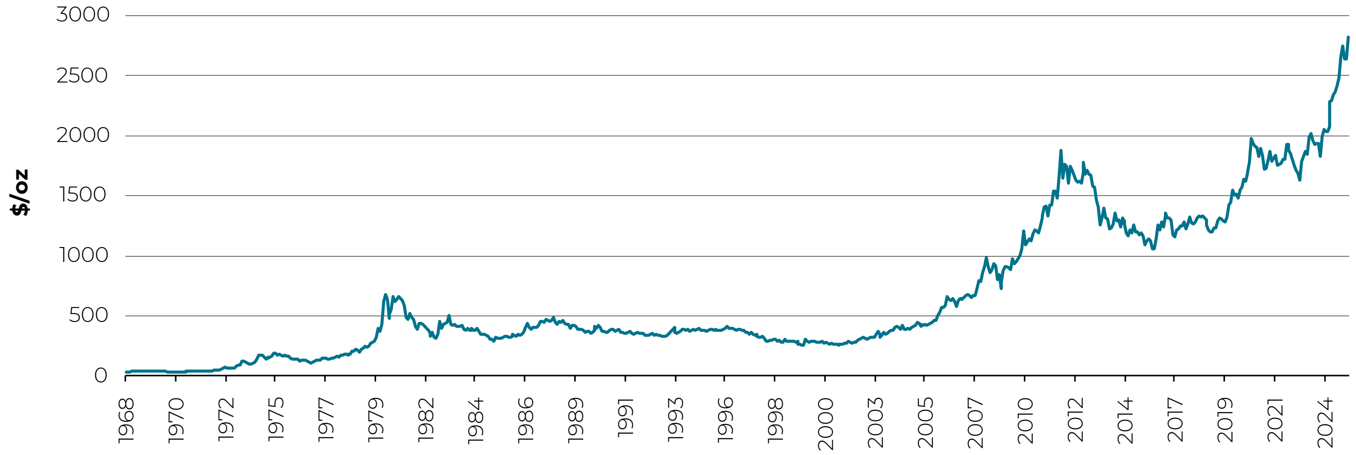
The optimistic view is that Trump will only serve four years and the pendulum could swing the other way after 2028. The traditions of democratic decision-making, good governance and sensible policymaking run very deep in the US. If South Africa could survive its State Capture years, US institutions could endure much. Businesses are always extremely adaptive.

However, South African assets are still carrying a governance discount and credibility, once lost, recovers only slowly. South Africa is undergoing a tough period of fiscal consolidation, as a result of past indiscipline. In contrast, US assets still carry a premium, and even under optimistic scenarios, US government debt levels will keep rising.

GILDED

All this uncertainty probably explains the surging gold price. But as chart 4 shows, the gold price suffered deep declines in the past, so we cannot assume it will always go up, especially not after such a strong run. So, what should investors do? The phrase "don't bet against the US" is one of those market adages everyone hears at some point. However, being underweight US equities is not the same as betting against them. They too, have had a strong run and now have elevated valuations and an ambiguous fundamental underpin.

CHART 4: GOLD BULLION $ PER OUNCE



Source: LSEG Datastream

As we head into uncharted territory, keeping calm will be more important than ever. We cannot predict what happens next, nor how quickly the political turmoil affects the business cycle and ultimately the structural growth rate of the US and indeed global economies. It is useful to think through different scenarios where things change for the better, the worse, or don't change much at all. But leave it to the day traders to respond to the tweets, the taunts and the threats. For long-term investors, a valuation-based approach and diversification offer the best defence against the inevitable volatility.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US$	3,767.0	-1.98%	-1.82%	1.59%	13.36%
United States	S&P 500	US$	5,862.0	-2.51%	-2.96%	-0.34%	15.62%
Europe	MSCI Europe	US$	2,215.0	0.14%	3.50%	10.58%	8.15%
Britain	FTSE 100	US$	11,034.0	0.87%	2.65%	7.88%	14.28%
Germany	DAX	US$	2,004.0	0.55%	4.65%	13.86%	21.53%
Japan	Nikkei 225	US$	255.4	-2.68%	-0.56%	0.64%	-1.84%
Emerging Markets	MSCI Emerging Markets	US$	1,097.0	-4.36%	0.37%	2.05%	7.65%
Brazil	MSCI Brazil	US$	1,250.0	-5.73%	-5.37%	6.20%	-26.90%
China	MSCI China	US$	72.5	-4.34%	11.76%	12.47%	35.39%
India	MSCI India	US$	907.0	-4.62%	-8.11%	-11.43%	-7.17%
South Africa	MSCI South Africa	US$	455.0	-5.60%	0.44%	5.81%	25.00%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	85,943.0	-3.34%	-0.02%	2.20%	19.03%
All Share	All Share (Total Return)	Rand	15,727.0	-3.34%	-0.01%	2.30%	23.45%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	38,447.6	-3.10%	-0.38%	2.17%	22.94%
TOP 40/Large Caps	Top 40	Rand	14,201.0	-3.49%	0.96%	4.25%	23.53%
Mid Caps	Mid Cap	Rand	24,269.0	-2.87%	-4.19%	-3.48%	19.23%
Small Companies	Small Cap	Rand	41,263.0	-2.48%	-2.32%	-6.82%	27.17%
Resources	Resource 20	Rand	4,990.0	-6.87%	-6.17%	10.64%	19.81%
Industrials	Industrial 25	Rand	27,204.0	-3.50%	3.40%	4.49%	25.15%
Financials	Financial 15	Rand	15,403.0	-1.26%	0.82%	-1.90%	24.75%
Listed Property	SA Listed Property	Rand	2,340.3	-1.61%	-0.28%	-2.61%	20.88%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government Overall (USD Unhedged)	S&P	US$	75.1	0.29%	1.23%	1.61%	-0.59%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1,108.3	0.33%	0.07%	0.51%	17.83%
Government Bonds	BESA GOVI	Rand	1,091.4	0.33%	0.08%	0.52%	17.76%
Inflation Linked Bonds	BESA CILI	Rand	379.2	-0.21%	1.00%	0.67%	9.23%
Cash	STEFI Composite	Rand	602.1	0.15%	0.59%	1.25%	8.37%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US$	74.0	-0.52%	-2.58%	-1.28%	-11.86%
Gold	Gold Spot	US$	2,881.0	-1.81%	3.00%	10.13%	42.13%
Platinum	Platinum Spot	US$	970.0	-0.51%	-6.10%	6.01%	10.48%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	18.46	-0.56%	1.12%	2.04%	4.21%
ZAR/Pound	ZAR/GBP	Rand	23.27	-0.34%	-0.52%	1.55%	4.90%
ZAR/Euro	ZAR/EUR	Rand	19.20	0.06%	0.73%	1.83%	8.81%
Dollar/Euro	USD/EUR	US$	1.04	0.96%	-0.38%	-0.48%	3.85%
Dollar/Pound	USD/GBP	US$	1.26	0.25%	-1.60%	-0.80%	0.79%
Dollar/Yen	USD/JPY	US$	0.01	0.34%	-2.64%	-4.72%	-0.60%

Source: I-Net, figures as at 28 February 2025

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