



Prosperity

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- Economic and Market Overview
- Global Equities
- Local Equities

Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE

After his emphatic election victory, investors are grappling with the consequences of a Donald Trump presidency. Even though he will only be inaugurated in late January, he is already putting his stamp on things and moving markets.

Trump wasted no time in threatening significant import tariffs: 25% on goods from Mexico and Canada, and an additional 10% on Chinese imports, with more levies potentially to follow. He cites national security concerns, pointing to illegal drugs and migrants crossing the borders from Mexico and Canada and accusing China of failing to curb the export of chemicals used to produce the deadly drug fentanyl. These claims allow him to bypass Congress to impose such tariffs.

Mexico, Canada and China run trade surpluses with the US, and in fact, the three combined account for half the total US trade deficit. Trump has long argued that a trade deficit is tantamount to the US 'losing' while other countries are 'stealing jobs.' Economists think differently, and the long-term evidence is that trade is beneficial to both parties. However, not enough attention has been paid to the so-called distributional impact of trade and globalisation. In other words, while American society as a whole benefited from lower prices, greater choice and higher profits, many workers lost their jobs, and many regions were devastated when factories closed to relocate offshore.

Market reactions to the election suggest that investors believe Trump's bark will be worse than his bite and that much of the bluster is a negotiating tactic. Indeed, a few days after the tariff threat, Trump had a "wonderful" conversation with Claudia Sheinbaum, the new Mexican president, claiming that she agreed to his demands. It remains to be seen how many of the more extreme campaign promises will be implemented.

Understandably, many investors are looking back to Trump's first term for hints about the economic impact of his return. However, there are key differences between 2016 and now.

In 2016, federal debt stood at US\$19 trillion (73% of GDP). Today it is US\$35 trillion and rising, conservatively projected to hit 130% of GDP by decade's end. While not an immediate crisis, this growing debt will pose challenges in the future.

The US economy was also weaker in 2016, with real GDP growth at 1.5% and the economy running below full capacity. Inflation was also low, another sign of economic slack. In contrast, today's economy is growing at nearly 3%, with unemployment near record lows. Although many voters were dissatisfied with the economy, it is not one in need of a major stimulus. In fact, additional spending or tariff-driven price increases could fuel inflation, which, while lower than two years ago, remains above the Federal Reserve's 2% target and the very encouraging decline has stalled somewhat in recent months.

It therefore seems likely that the Federal Reserve will scale back the extent of interest rate cuts next year. This is where the rubber hits the road for South Africa, although we will

have to wait and see whether local exports to the US will also face increased tariffs.

The SA Reserve Bank's Monetary Policy Committee (MPC) remains closely attuned to shifts in the US interest rate outlook. As an emerging market central bank, it must keep a constant eye on Washington. To put it simply, if the gap between interest rates in the US and elsewhere widens due to the Fed cutting less aggressively than other central banks, capital will flow to the US and the dollar will strengthen. A stronger dollar means weaker currencies elsewhere and potentially higher inflation.

So, while the members of the MPC unanimously decided to lower the repo rate from 8% to 7.75% at the November meeting, they are likely to maintain a gradual pace of rate cuts, despite the improved inflation outlook. Consumer inflation fell below 3% in October, and the Reserve Bank projects it will average 4% next year, stabilising around the 4.5% target in 2026 and 2027.

The Reserve Bank's growth forecasts remain modest, projecting GDP growth to reach 2% by 2027. While this outlook is conservative compared to private sector forecasts, it indicates positive momentum.

SA's gradual rate-cutting cycle aligns with easing inflation, boosting households' purchasing power. This effect is already evident in the third quarter's rise in retail sales, even before the financial boost from Two Pot pension withdrawals. Business confidence has also improved, with the Bureau for Economic Research's survey showing a steady increase over the past three quarters. While challenges remain, such as water supply issues in Gauteng and other regions, these developments suggest South Africa is beginning to see green shoots of economic recovery.

MARKET UPDATE

Trump's victory spurred a rally in US equity markets, though a surging US dollar weighed on commodity prices and the rand. While US stocks rallied, global markets remained cautious, reflecting lingering concerns about the global economic outlook. The Dow jumped 7.5% in November, while the S&P 500 and Nasdaq rose 5.7% and 6.2%, respectively. In the UK, the FTSE 100 gained 2.2% in November, recovering the prior month's losses.

China's Shanghai Composite edged up 1.4% for the month, while the Hang Seng and Nikkei indices fell 4.4% and 2.2%, respectively. Locally, the JSE saw its second consecutive monthly decline. The All Share Index fell 1% month-on-month, with the Indi-25 flat, the Fini-15 up 0.2%, and the Resi-10 down 6.7% due to weaker commodity prices.

The rand depreciated 2.6% against the US dollar in November, while commodities also struggled. Brent crude slipped 0.3%, platinum dropped 4.5%, and gold ended its four-month rally with a 3.7% decline, closing at US\$2 650.98/oz.

GLOBAL EQUITIES



Apple

Amid heightened speculation around the new iPhone 16's impact on revenue and the recovery of sales in China, Apple delivered resilient full-year 2024 results, showing steady progress on both fronts. iPhone 16 sales provided a modest boost to annual revenue, while China's revenue recovery was better than anticipated.

Group revenue rose 2% to US\$391bn, with little impact from currency movements, surpassing analyst expectations by US\$537m. Gross margins reached a record high 46.2% (+2.1%) for the year following strong growth in higher-margin services revenue. We expect this trend to continue to drive Apple's profitability going forward. Earnings per share (EPS) for the period fell 0.8% to US\$6.08, impacted by the once-off US\$10.2bn tax fee related to a recent EU court judgment. Operating income, which excludes this fee, was up 7.8% over the year to US\$123.2bn with adjusted EPS up 10%.

Greater China was the only region to report a revenue decline, down 7.7% to US\$67bn. Despite this, the final quarter saw stable revenue in China, potentially signalling an early recovery in the key region. The rest of the regions reported strong growth, including the Americas (Apple's largest revenue contributor at 43%), which grew 3.1%. Apple ended the year with a net cash position of US\$50bn.



Deere & Co.

Deere & Co, the global leader in agricultural machinery, reported full year 2024 results reflecting challenging market conditions shaped by higher interest rates, lower commodity prices and elevated stock levels, which all impact farming fundamentals negatively. To adapt, the company leveraged its experience from past cycles to align manufacturing with lower demand. Sales and profitability declined, largely due to reduced shipment volumes. Despite these challenges, Deere demonstrated resilience through structural improvements and robust cost-management strategies. Full-year net income fell 30% to US\$7.1 billion, down from US\$10.166 billion in 2023. Importantly, this was in line with management guidance and market expectations. Notably, fourth-quarter sales exceeded management's projections.

In response to market headwinds, Deere has made deliberate adjustments to its operations, prioritising efficiency and aligning production with current demand. The company continues to invest in customer-focused innovations, particularly technologies and solutions aimed at boosting productivity and reducing costs for agricultural and construction clients. These efforts underscore Deere's long-term commitment to maintaining its market leadership and meeting evolving customer needs.

Looking ahead, while the forecast suggests continued challenges in key markets, Deere remains focused on leveraging its operational strength, fostering innovation and deepening customer relationships to sustain performance through the business cycle. Net income for fiscal 2025 is expected to be between US\$5 billion and US\$5.5 billion.

LOCAL EQUITIES



Richemont

Global luxury goods company, Richemont reported mixed interim results, with a 1% decline in reported sales and a 17% drop in operating profit. However, flat sales of EUR10bn (in constant currency) outpaced many peers amid a global luxury goods consumption slowdown. Geographically, America (+10%) and Japan (+32%) showed continued resilience, sales in Europe slowed to 4% and Asia Pacific underperformed as sales in China, Hong Kong and Macau declined by 27%.

With a strong balance sheet, highlighted by a EUR6.1bn net cash position, Richemont is well positioned to continue investing in its brand desirability and capacity through the cyclical deceleration. This should help the group capitalise on opportunities that may arise during this challenging period in the industry.



Stor-Age

Property REIT, Stor-Age reported decent interim results for 2025, with positive performance across the group's SA and UK operations. Despite facing high interest rates, inflation and a slowdown in housing activity, the UK saw a notable rebound, with net property operating income up by 7.4% year-on-year. The SA operations continued to perform well, with property revenue up by 11.1%. Overall, group rental income and net property operating income rose 8.6% and 9.6%, respectively. SA net operating income grew by 12% while UK income grew by 7.4%. Similarly, occupancies across the two geographies improved by 1.4%. Dividends per share fell 6.8% to 57.2 cents due to a planned reduction in the payout ratio from 100% to 90%. This aligns with management's strategy to retain capital for the group's growing development pipeline.

Interest rate cuts in both the UK and SA are yet to impact Stor-Age as over 80% of the group's debt is hedged against interest rate movements. Therefore, any meaningful benefit from lower rates will take a while to be evident. A small, but fast-growing part of Stor-Age's business is the additional fees generated from non-property related activities, such as property management fees and third-party digital advertising for strategic self-storage operators.

This business line is attractive due to its capital-light nature and its ability to improve Stor-Age's digital capabilities. Management expect this business line to contribute about R100m in revenue over the next few years, with more than half being recurring in nature. We expect this to continue to grow over time and to provide an acquisition pipeline for the group across regions.



Ninety-One

Ninety-One reported weak 2025 interim results, reflecting a tough environment for active managers, particularly those with significant emerging market exposure. The group experienced net outflows of £5.3bn (up from £4.3bn in the same period last year), primarily in higher risk strategies. However, this was slightly offset by positive markets, good cost control and improved investment performance. Notably, September marked the strongest inflow month in over a year and if this trend continues, it could signal a positive shift, especially alongside better emerging market returns.

Along with the interim results, Ninety-One announced a significant transaction that will see the group acquiring Sanlam Investment Management (SIM) and be appointed as the primary investment manager for Sanlam's assets. While we await the release of additional details related to the deal, Ninety-One disclosed that they will be taking over the management of approximately R400bn (£17bn) along with the investment professionals within SIM. This long-term arrangement will include a 15-year contract and a commitment by Sanlam to become an anchor investor in Ninety One's international private credit strategies. Ninety-One will also issue 12.3% of its shares to Sanlam, valuing the transaction at about R4bn. Beyond the capital commitment, the deal will grant Ninety-One access to Sanlam's distribution network and is expected to be earnings accretive from the outset. Our initial view, while awaiting further details, is that the deal strengthens Ninety-One's SA operations and accelerates the consolidation trend being seen within the broader investment management industry to navigate increasing competition and a shrinking savings pool in SA.



Mr Price

SA apparel retailer, Mr Price reported interim results reflecting two very different quarters. Despite a challenging first quarter marked by economic contraction, the market reacted positively to consistent market share gains in five of the six months and improving momentum into the second quarter.

The group's gross margin expanded by 110 basis points to 39.7%, driven by lower markdowns supported and improved stock management across all segments. Group revenue rose to 5.2%, with cash sales accounting for a robust 88.1% of total sales (up by 5.1%). Credit grew modestly by 2.7% as management maintained its prudent approach despite the 32.6% rise in new account applications. Total expenses increased by 9.2% as 92 new stores were opened during the period. Overall group operating margin declined by 10 basis points to 11.4% and headline earnings per share increased by 7.1%. Mr Price remains highly cash generative, ending the six-month period with R2.2 billion in cash and no debt. While management expect an easier trading environment in the second half, they will continue to extend credit prudently.

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