

Looking back
at 2024

1

A hostile environment for incumbent parties

In an era where voters often conflate domestic governance with global challenges, incumbent leaders have experienced a loss of electoral support. Rising inflation rates, in particular, have led to severe consequences for those in power.



2

Donald Trump's historic return

As inflation and stagnant real wages weighed heavily on families, Trump's focus on job creation and tax cuts resonated deeply, enabling him to successfully court apolitical young men during the election campaign.



3

Reshaped interest rate expectations

Concerns about inflation have intensified, leading to the potential for higher terminal rates, as Trump's agenda - including substantial tax cuts and tariffs - could stoke price pressures and complicate the Federal Reserve's path forward.



4

The August market correction and the Bank of Japan's bold shift

The unwinding of the Japanese yen carry trade heightened market volatility, further complicated by fears surrounding a weakening United States (US) labour market and heightened geopolitical uncertainties.



5

China's stimulus measures amid domestic constraints

Fiscal interventions may stabilise the property market but they are unlikely to catalyse a robust rebound in consumer demand. Increasing salaries and expanding social security measures are needed to provide households with greater financial security.



Looking back at 2024

6

South Africa's (SA) energy sector turned the corner

The end of loadshedding has come as a surprise to many, primarily due to the rapid rollout of the Energy Action Plan, which includes initiatives to repair ageing power stations, increase private generation capacity and procure renewable energy sources.



7

A local political shake up

The shift in SA's political landscape can be attributed to a confluence of factors, including widespread discontent with the African National Congress's governance, failures in service delivery and economic stagnation.



8

Flurry of legislation signed into law

Legislative measures are addressing the pressing challenges facing the country. However, not all developments in SA have not been without contention, including bills related to pension fund amendments, land reform and the national health insurance.



9

Intensified debate over SA's inflation goals

After curbing inflation, there has been renewed discussion about establishing a revised target closer to 3%. Nevertheless, stubborn inflation in certain categories including medical aid, electricity and water remains a concern.



10

A vote of confidence for SA's structural reforms

Standard and Poor's Global Ratings' positive outlook on SA's sovereign rating of BB- reflects the government's efforts at enhancing governance, accelerating economic reforms and focusing on attracting private investment.



Looking ahead
to 2025

1

Trump's economic playbook and its global implications

Trump's proposed foreign policy and immigration reforms, anticipated tax cuts and deregulation efforts can significantly impact both domestic and international markets, initially driving a divergence in growth between the US and the rest of the world.



2

The future of American exceptionalism

A more insular approach to domestic and foreign policy could foster perceptions of a US retreat from its historical ties to international alliances and multilateral agreements, thereby undermining the foundational tenets of American exceptionalism.



3

Problems in the last mile of disinflation

Trump's proposed policies may complicate efforts to sustain a fall in inflation. His administration's emphasis on aggressive tariffs, mass deportations and expansive tax cuts could inadvertently undermine progress toward lower inflation rates.



4

China's plans to combat Trump's tariffs

Future stimulus efforts should prioritise social welfare spending and support for the beleaguered real estate sector, rather than continuing the traditional focus on industrial investment and infrastructure projects.



5

Trump's high-stakes game of diplomacy

If Trump opts for quick fixes over nurturing strategic alliances, adversarial powers like Russia and China could seize the opportunity to expand their influence in key regions. The unpredictability of his policies risks escalating tensions and igniting new conflicts.



Looking ahead
to 2025

6

The government of national unity's (GNU) test against time to deliver

Despite positive sentiment surrounding the GNU, without substantial improvements in economic performance - particularly regarding job creation - a backlash against the coalition could emerge.



7

Private sector to increasingly fuel SA's economic recovery

An improved rail network statement coupled with revised access pricing will likely encourage private sector investment; however, meaningful improvements in rail infrastructure are expected to take three to five years to materialise.



8

From revived investor sentiment to a tangible recovery

Fewer manufacturers in SA perceive the political environment as a hindrance to their operations and investment, indicating an increasing belief in the government's ability to effect essential changes against a backdrop of political stabilisation.



9

A test for fiscal discipline

There is an urgent need for fiscally-responsible policies that can significantly reduce poverty, enhance health and education outcomes and stimulate economic growth all while avoiding exacerbating fiscal challenges.



10

SA's vulnerability to global instability

Economic progress, despite a relatively stable domestic political environment with the recent establishment of the GNU, remains susceptible to global instability and market volatility, caused by geopolitics and economic slowdowns in key trading partners.



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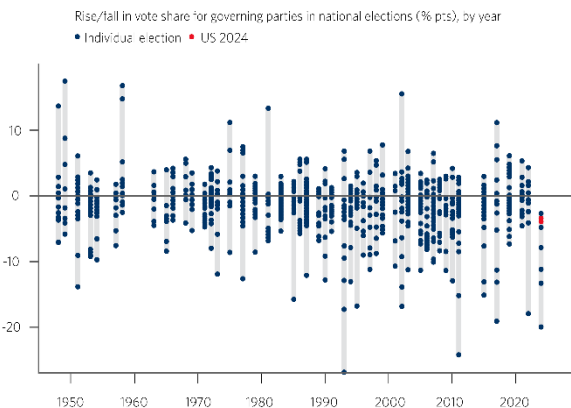


Looking back at 2024: Ten surprises that shaped the economy

(1) A hostile environment for incumbent parties

The past two years have ushered in a tumultuous landscape for incumbent political parties across the globe. In 2024, an unprecedented wave of elections unfolded, granting voters an opportunity to voice their discontent. From the Democrats in the United States (US) to Britain's Conservatives, Emmanuel Macron's Ensemble coalition in France to Japan's Liberal Democrats, and even Narendra Modi's once-dominant Bharatiya Janata Party, governing parties faced electoral defeats of historic proportions.

Chart 1: Every developed economy governing party facing election in 2024 lost vote share



Source: *Financial Times*, Momentum Investments
 Excludes years where fewer than five countries had elections

The *Financial Times* reported a striking trend: every incumbent in the ten major countries tracked by the ParlGov Global Research Project faced significant voter

backlash in this year's national elections. This unprecedented phenomenon marks a watershed moment in electoral history, the likes of which have not been seen in nearly 120 years (see chart 1).

“ Such widespread discontent signals a profound shift in the political landscape, as voters increasingly hold their leaders accountable for both domestic challenges and global uncertainties. ”

In an era where voters often conflate domestic governance with global challenges - be it pandemic-induced supply chain disruptions or geopolitical strife - incumbent leaders have found themselves in precarious positions. Rising inflation rates have led to severe consequences for those in power; the Democrats, for example, were penalised for inflation's direct impact on daily life, while cost-of-living issues also took centre stage in Britain's July general election, resonating with electorates worldwide.

This convergence of economic pressures and political accountability underscores a growing sentiment of disillusionment that is reshaping the political landscape across nations. These options aim to enhance engagement while maintaining clarity and depth in discussing the relationship between voter sentiment and economic conditions.

The current wave of discontent transcends mere inflationary pressures. The *Financial Times* notes that a contemporary take on Arthur Okun's "misery index" might substitute immigration for unemployment as a central concern. This shift reflects a broader narrative. Numerous countries are experiencing economic and social turmoil on a scale not seen in decades. As voters navigate these turbulent waters, the challenges posed by immigration and economic instability are increasingly at the forefront of public consciousness, influencing political dynamics and electoral outcomes.

“ Growing disillusionment with centrist policies has nudged voters toward more radical alternatives, as many perceive centrist governments as inadequate in confronting pressing challenges like inflation, inequality, and social justice. ”

Leftist parties have found new traction by advocating for social equity and wealth redistribution. In Uruguay, Yamandú Orsi's campaign effectively tapped into these sentiments, while Claudia Sheinbaum's focus on social equity thrust her to victory in Mexico. Likewise, Lee Jae-myung's Democratic Party captured the support of younger voters by prioritising issues such as youth unemployment and housing affordability. Conversely,

right-wing parties have adeptly capitalised on voter frustrations by emphasising themes of nationalism and immigration control.

Donald Trump's successful campaign highlighted "America First" policies alongside stringent immigration measures. In Europe, Matteo Salvini's League Party gained significant ground with its hardline stance on immigration, appealing to voters anxious about cultural changes. Marine Le Pen's anti-immigration rhetoric resonated strongly with those facing economic uncertainty in France, while similar dynamics bolstered right-wing leaders like Viktor Orbán in Hungary and Jarosław Kaczyński in Poland.

Notably, despite heightened political tensions, the incidence of election-related violence has decreased compared to prior years, suggesting a shift toward more peaceful political discourse among electorates. Increased voter turnout reflects a revitalised interest in democratic engagement and a desire for direct influence over political outcomes. This convergence of heightened participation, dissatisfaction with centrist governance and the rise of extreme ideologies prompts essential questions regarding the future trajectory of democracy itself. Political leaders must recalibrate their strategies to navigate these changes or risk further alienating their constituents in an increasingly divided world.

(2) Trump's historic return

Trump's election as the 47th President of the US marks a transformative moment in American politics and economics.

His surprising gains among traditionally Democratic voter bases, particularly Black and Latino males, illustrates a realignment in electoral priorities, as Trump adeptly tapped into the sentiments of voters eager for economic solutions. By addressing the electorate's concerns and speaking to their desires, he connected with voters in ways that transcended traditional party lines.

While his controversial anti-immigration policies raised eyebrows, economic concerns - especially the rising cost of living - took precedence for many voters, including those socio-economic and demographic groupings he did not have a stronghold in during the 2020 elections.

As inflation and stagnant wages weighed heavily on families, Trump's focus on job creation and tax cuts resonated deeply, enabling him to successfully court apolitical young men during the election campaign.

Historically, betting odds have served as reliable predictors of electoral outcomes, with only four exceptions in over 100 years according to *Seattle Times*. These included Trump in 2016, Jimmy Carter in 1976, John F. Kennedy in 1960 and Harry Truman in 1948. As the 2024 election approaches, betting markets have increasingly favoured Trump, signalling a prevailing belief among investors and analysts that he may reclaim the presidency.

However, polling data painted a more inaccurate picture. While polls have improved in capturing voter sentiment, recording the smallest margin of error in more than 20 years, they still struggled to account for the 'shy Trump voter' - those who support him but are hesitant to voice their preferences due to social stigma or fear of backlash.

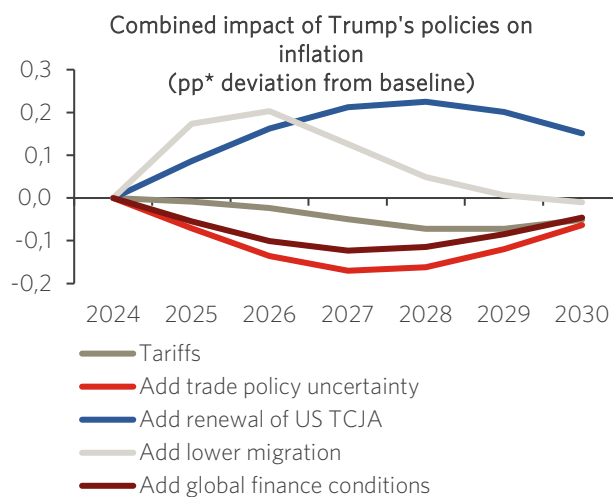
“ Trump's second term is likely to be more perilous than the first, as he consolidates power by appointing loyalists to key Cabinet positions and benefits from a Republican 'red sweep' in Congress. ”

Unlike his initial administration, where he occasionally appointed officials who countered his more extreme inclinations, this time he is expected to surround himself entirely with allies committed to his "Make America Great Again" vision.

With Republican dominance in both chambers of Congress, Trump will enjoy unprecedented legislative backing, allowing him to advance contentious policies on immigration, taxes, deregulation and foreign affairs with minimal opposition. The conservative majority in the Supreme Court further strengthens his position by limiting checks on presidential authority, as seen in recent rulings that grant broad immunity for official actions.

Trump's return to office is poised to have substantial reflationary effects on the US economy. His proposed policies, centred on tax cuts and deregulation, aim to stimulate growth but also raise inflation concerns (see chart 2). Professor Emeritus at the Stern School of Business of New York University, Nouriel Roubini, warns that Trump's fiscal strategies could lead to unsustainable deficits and higher bond yields, potentially crowding out private investment and stifling economic growth while intensifying inflationary pressures. This scenario could culminate in stagflation - characterised by stagnant growth and elevated inflation rates.

Chart 2: Trump's proposed policies raise inflation concerns but there are offsetting policy impacts



Source: International Monetary Fund, Momentum Investments
 TCJA = Tax Cuts and Jobs Act expiring at the end of 2025
 *pp = percentage points

Furthermore, Trump's presidency reinforces the narrative of American preeminence by doubling down on America-first policies that prioritise domestic interests over global cooperation. His rhetoric positions the US as a self-reliant superpower willing to defy international norms, yet this approach risks isolating the nation, weakening alliances like NATO, and undermining its leadership on critical issues such as human rights and climate change.

(3) Reshaped interest rate expectations

In the wake of Trump's election victory, financial markets have recalibrated their expectations regarding the extent of interest rate cuts. Initially, analysts anticipated a series of gradual rate cuts as the US Federal Reserve (Fed) aimed to stabilise the economy amid easing inflation and a cooling labour market. However, with Trump back in power and his proposed economic policies on the table, these expectations have shifted towards a more cautious outlook. Concerns about inflation have intensified, leading to the potential for higher terminal rates, as Trump's agenda - including substantial tax cuts and tariffs - could stoke price pressures and complicate the Fed's path forward.

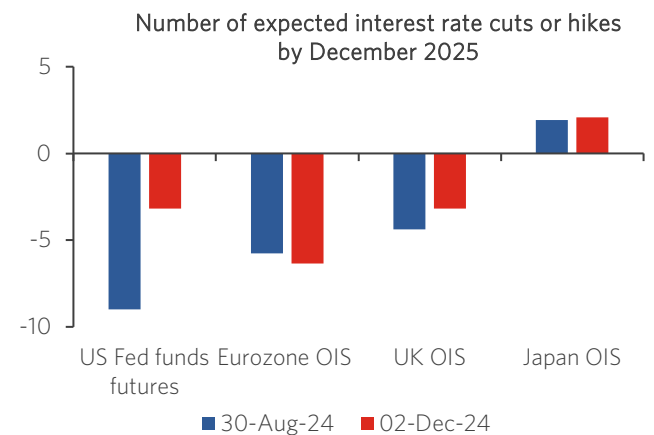
The Peterson Institute for International Economics has forecasted that Trump's policies - ranging from deportations that disrupt the labour market to import tariffs and attempts to undermine the Fed's independence - could sharply elevate consumer prices two years into his second term. Their analysis suggests that inflation, which would otherwise hover around 1.9% in 2026, could soar to between 6% and 9.3% if Trump's economic proposals are enacted.

“ Investor anxiety over persistent inflation and the prospect of increased government borrowing indicates that terminal rates may settle higher than previously anticipated as the Fed grapples with a complex landscape of reflationary pressures.

Earlier this year, Fed funds futures had projected nine interest rate cuts by the end of 2025, following a brief market downturn in August 2024 amid concerns about labour market weakness. However, after the Fed implemented an unexpectedly large 50-basis point cut and following Trump's clear election win, futures have since repriced, now anticipating just three rate cuts by late 2025 (see chart 3).

Although the European Central Bank (ECB) commenced its interest rate-cutting cycle before the Fed in June 2024, it is expected to maintain an aggressive stance in light of ongoing economic difficulties in Germany. The IFO Business Climate Index has shown notable weakness, languishing ten points below its long-term average and reflecting a downturn in manufacturing and overall economic sentiment. Political uncertainty has spiked in Germany, following a collapse of the ruling three-party “traffic light” coalition after Social Democrat (SPD) Chancellor Olaf Scholz sacked Finance Minister Christian Lindner of the liberal FDP party. Moreover, with bleak growth projections, the ECB may opt for further rate cuts to spur growth despite inflationary apprehensions.

Chart 3: Shallower interest rate cutting cycle anticipated



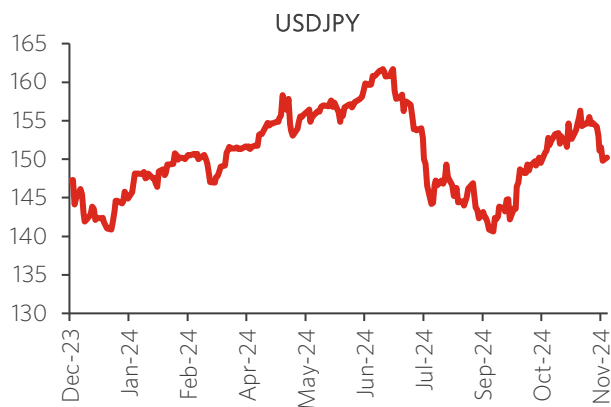
Source: Bloomberg, Momentum Investments

Conversely, the Bank of England is likely to encounter pressure to keep interest rates high as inflationary fears persist alongside weak economic indicators. If Trump's policies contribute to a global inflation spike, the UK will face rising costs while attempting to balance growth and stability. This divergence in monetary policy between the US and Europe could reshape currency dynamics, potentially pushing the euro toward parity with the dollar. Should US growth outperform under Trump's agenda while Europe struggles with stagnation, a stronger dollar against the euro could result in increasing volatility risks in foreign exchange markets.

(4) The August market correction and the Bank of Japan's bold shift

August 2024 witnessed a significant correction in global financial markets, largely fuelled by the unwinding of the Japanese yen carry trade alongside intensifying geopolitical tensions, particularly in Eastern Europe and the Middle East. The carry trade strategy, which entails borrowing in low-interest-rate currencies like the yen to invest in assets with a higher return, had gained traction among investors. However, as the Bank of Japan (BoJ) began to raise interest rates for the first time in 17 years, sending the yen stronger (see chart 4), investors swiftly recalibrated their positions.

Chart 4: The yen strengthened on an exit from ultra-easy monetary policy in July



Source: Bloomberg, Momentum Investments

The cessation of the BoJ's long-held policies of quantitative and qualitative monetary easing and yield curve control signalled a shift towards tighter monetary

conditions, prompting many to liquidate their yen-denominated investments.

This unwinding process heightened market volatility, further complicated by fears surrounding a weakening US labour market and rising geopolitical uncertainties.

Japan's monetary policy has long been characterised by an exceptional commitment to ultra-low interest rates aimed at combating deflation and stimulating economic growth. However, recent data revealing robust wage growth - most notably, Japan's largest companies agreeing to an above-5% wage increase for 2024, the most substantial hike in 33 years - prompted the BoJ to reassess its stance. Despite this wage growth, however, rising living costs continue to burden consumers.

Compounding these economic challenges is a turbulent political climate, particularly following snap elections that saw the ruling Liberal Democratic Party (LDP) lose its parliamentary majority for the first time in 15 years, driven by public dissatisfaction over the cost-of-living crisis and ongoing corruption scandals. While markets have largely maintained their expectations for broader policy direction in Japan away from an easy monetary policy stance, the intensifying political turmoil could complicate the BoJ's efforts to wean the economy off decades of monetary stimulus.

(5) China's stimulus measures amid domestic constraints

In stark contrast to the tightening monetary policies adopted by much of the world amid rising inflation and wage growth during 2022 and 2023, China has grappled with persistent deflationary pressures. The People's Bank of China (PBoC) has responded with aggressive monetary easing, deploying interest rate cuts and liquidity injections to stimulate demand.

Despite ongoing weaknesses in domestic consumption and a struggling property market, China's export sector has demonstrated remarkable resilience. In 2024,

exports have thrived, buoyed by robust global demand and competitive pricing strategies that have enabled Chinese goods to maintain their international market share.

However, as trade relations grow increasingly complex - especially with a new US administration under Trump - the sustainability of this export growth may face hardship.

The nature of the PBoC's stimulus can be characterised more as a stabilisation effort than a comprehensive program akin to past large-scale initiatives. These measures are crucial for alleviating financial pressures on local governments, allowing them to settle overdue wages and pay suppliers. By easing the debt burden on local government, the stimulus aims to stabilise public services and uphold employment levels, which are vital for sustaining consumer confidence.

The consumer confidence index nevertheless continues to languish, indicating that even with reduced borrowing costs, households are opting to save rather than spend. Analysts argue that although these fiscal interventions may provide short-term relief, they are unlikely to catalyse a robust rebound in consumer demand.

Long-term solutions require structural reforms that increase household income relative to overall gross

domestic product (GDP) such as increasing salaries and expanding social security measures to provide households with greater financial security, encouraging them to spend rather than save.

Chart 5: Chinese consumer sentiment remains downbeat



Source: Bloomberg, Momentum Investments

(6) South Africa's (SA) energy sector turned the corner

The end of loadshedding has come as a surprise to many, primarily due to the rapid rollout of the Energy Action Plan launched by President Cyril Ramaphosa in July 2022. This ambitious strategy sought to resolve the long-standing issues afflicting Eskom, SA's state-owned power utility.

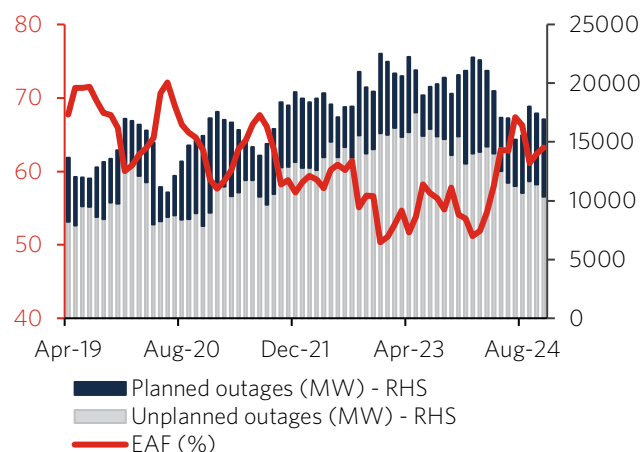
Central to the plan were initiatives to repair ageing power stations, increase private investment in generation capacity and accelerate the procurement of renewable energy sources.

These reforms have resulted in a notable improvement in Eskom's Energy Availability Factor (EAF) - a vital indicator of power generation reliability - stabilising at approximately 55% for much of the year.

A pivotal element in this turnaround has been the effective execution of Eskom's Generation Operational Recovery Plan, which targets reductions in unplanned

outages and enhances overall efficiency at power stations through a previous ramp-up in planned maintenance (see chart 6). Regulatory reforms have also facilitated greater private sector participation in energy generation, further bolstering capacity.

Chart 6: Improving EAF alongside a reduction in unplanned maintenance



Source: Eskom, Momentum Investments

According to Operation Vulindlela, these energy sector reforms have unlocked over R400 billion in private investment to date. Projects registered with the National Energy Regulator of SA (NERSA) now total over 9 500 MW since the licensing threshold was raised in 2021, while the latest SA Renewable Energy Survey reveals a pipeline of 134 GW of projects under development, with more than 60 GW already advanced through environmental and regulatory approvals.

Initially, the SA Reserve Bank (SARB) estimated in April 2023 that loadshedding would reduce GDP growth by

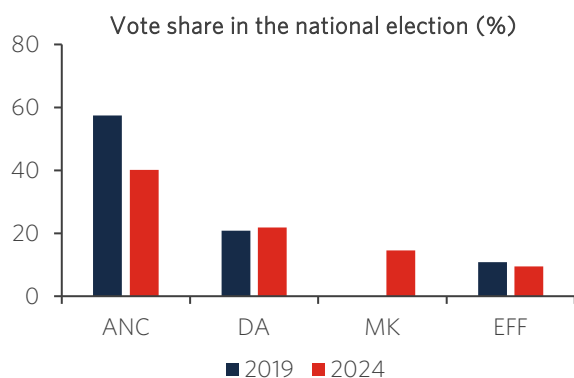
0.8 percentage points (pps) in 2024. However, as improvements in energy supply became apparent and loadshedding diminished, SARB revised this estimate downward to 0.5 pps by October 2024, reflecting a more optimistic outlook as energy availability improved significantly. The pause in loadshedding since 26 March 2024, has been instrumental in this positive revision. While this development is welcome, officials recognise that vulnerabilities persist within the electricity system. Ongoing maintenance and investment are critical to ensuring long-term stability and preventing future outages.

(7) A local political shake up

SA's political landscape underwent a dramatic transformation in 2024 as the African National Congress (ANC) lost its majority for the first time since the end of apartheid. In the 29 May elections, the ANC garnered just 40.2% of the vote, a significant drop from 57.5% in 2019 (see chart 7), resulting in a loss of 71 seats and leaving it with only 159 seats in the National Assembly. The Democratic Alliance (DA) capitalised on this decline, increasing its share to 21.8% and securing 87 seats, while the newly established uMkhonto weSizwe (MK) Party surged to prominence with 58 seats and around 14.6% of the vote. This shift heralds a new era in SA politics, characterised by increased competition and coalition-building among various parties.

This shift in SA's political landscape can be attributed to a confluence of factors, including widespread discontent with the ANC's governance, failures in service delivery, economic stagnation, and the rapid rise of the MK Party, which has adeptly capitalised on these sentiments. Founded in late 2023 and backed by former President Jacob Zuma, the MK Party quickly gained traction among disillusioned voters. Its ascent has been marked by an appeal to Zulu nationalism and traditional leadership, leveraging Zuma's enduring popularity in KwaZulu-Natal. The party's manifesto resonated with voters who felt overlooked by the ANC, promising to tackle pressing issues such as economic inequality and inadequate access to essential services.

Chart 7: Loss of ANC electoral support



Source: Independent Electoral Commission, Momentum Investments
 MK Party did not participate in the 2019 national election
 EFF = Economic Freedom Fighters

“ The political shake up in SA prompted various factions to engage in coalition discussions, having recognised that no single party can govern alone. ”

By June 2024, ten political parties had united to form a Government of National Unity (GNU), collectively holding approximately 71.8% of the seats in the National Assembly.

This maturation of SA's political environment has facilitated collaboration across ideological lines to address pressing national issues, including contentious policies such as the Basic Education Laws Amendment (BELA) and the National Health Insurance (NHI). The

formation of a GNU reflects an evolving political landscape where there is a growing acknowledgement

that collective governance is essential for tackling systemic challenges.

(8) Flurry of legislation signed into law

SA marked a notable shift in its healthcare policy with President Cyril Ramaphosa's unexpected signing of the National Health Insurance (NHI) Bill into law on 15 May 2024. This move coincided with the passage of several other critical bills aimed at addressing various socio-economic issues.

The NHI, which aims to ensure universal health coverage for all South Africans, has been a focal point of debate for years.

Its signing is particularly striking given the contentious discussions and criticisms it faced during its legislative process.

After receiving approval from the National Assembly in June 2023 and passing through the National Council of Provinces (NCOP) in December 2023, concerns regarding its financial sustainability and possible constitutional conflicts persisted. Nevertheless, the ANC government has pushed forward with implementation, reflecting a commitment to rectify historical disparities in healthcare access as mandated by the Constitution.

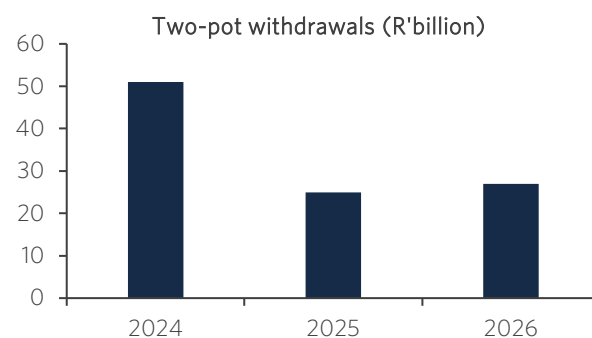
BusinessTech recently reported that fewer than 40% of inspected public healthcare facilities complied with established standards, underscoring the need for substantial improvements. Furthermore, private sector leaders have proposed that underutilised capacity within their facilities be offered to the state under commercially viable terms.

In a bid to alleviate pressure on SA's network industries, several significant bills were introduced, including the Economic Regulation of Transport Bill, which establishes a regulatory body to oversee the efficiency and effectiveness of the transport sector. Additionally, the National Water Resources Infrastructure Agency Bill aims to create a new state-owned entity responsible

for developing and managing national water infrastructure, thereby enhancing water security and improving the management of existing resources. Complementing these efforts is the Electricity Regulation Amendment Act, designed to foster greater competition in the electricity market, reduce energy costs and stimulate investment in new generation capacity. Together, these legislative measures reflect a concerted effort to address the pressing socio-economic challenges facing the country.

The recent legislative developments in SA have not been without contention, particularly concerning the Pension Fund Amendment Bill and the Land Reform Bill. Signed into law on 21 July 2024, the Pension Funds Amendment Bill introduced a two-pot retirement system, which took effect on 1 September 2024. This framework allows a portion of retirement savings to be accessed before retirement, aiming to provide financial relief during crises while promoting long-term savings. Critics, however, argue that this accessibility may encourage premature withdrawals, jeopardising long-term financial security.

Chart 8: Estimated two-pot withdrawals revised higher by the SARB



Source: SARB, Momentum Investments
2024 includes the expectation from the date of implementation

The SARB estimates that withdrawals could reach R51 billion since implementation in 2024 - up from R40

billion - of which 75% is expected to be spent rather than saved (see chart 8).

Similarly, the Land Reform Bill has faced scepticism regarding its feasibility, particularly concerning the redistribution and management of land. Critics fear that

without adequate support systems, beneficiaries may struggle to utilise the land effectively, potentially exacerbating economic challenges rather than alleviating them.

(9) Intensified debate over SA's inflation goals

Throughout 2024, SA witnessed a decline in inflation expectations as food and fuel price pressures subsided from their respective highs—14.4% in March 2023 and an astonishing 56% in July 2022—to more manageable levels of 2.8% and negative 19% by October.

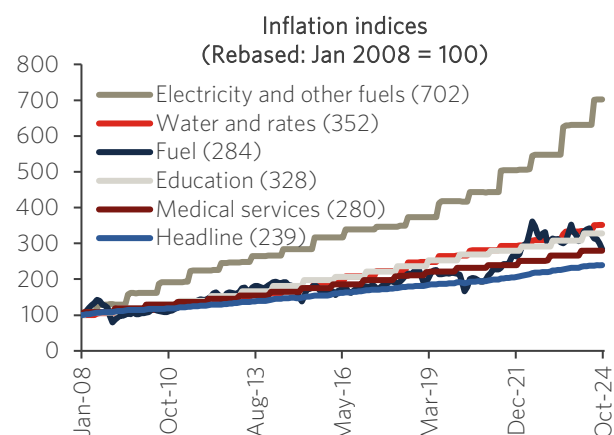
The headline inflation rate for October came as a pleasant surprise to market observers when it dipped to 2.8%. Following this success in curbing inflation, there has been renewed discussion about establishing a revised target closer to 3%.

Proponents argue that such an adjustment would bolster price stability, better safeguard purchasing power for vulnerable populations, enhance the credibility of monetary policy and create a more stable framework for future interventions.

Nevertheless, apprehensions remain regarding stubborn inflation in certain categories, particularly medical costs averaging 9.2% since 2009, along with electricity prices at 11.9% and water at 7.9% (see chart 9). These

persistent pressures indicate that monetary policy may need to adopt a firmer stance to mitigate demand-pull inflation across various sectors.

Chart 9: SA's inflation pressure points



Source: Statistics SA, Global Insight, Momentum Investments

A study from the SARB suggests that the sacrifice ratio - defined as the output loss linked to a pp decrease in inflation - is relatively low and was indeed negative during the period when the SARB successfully steered inflation expectations towards the midpoint of its targeted band.

(10) A vote of confidence for SA's structural reforms

Following Standard & Poor's (S&P) Global Ratings' upgrade of SA's economic outlook from stable to positive on 15 November 2024, the rand strengthened, indicating that markets had not fully anticipated this development.

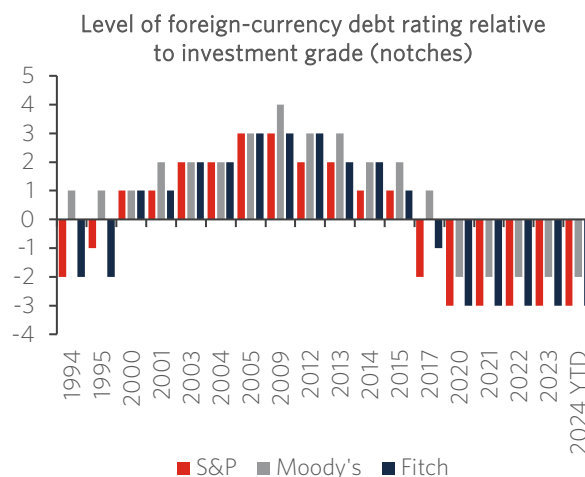
The positive outlook reflects the government's efforts on enhancing governance, accelerating economic reforms and focusing on attracting private investment.

S&P cited several factors underpinning their decision for the upgrade:

- The establishment of a GNU has renewed focus on implementing essential economic reforms critical for boosting growth.
- An upward revision of GDP growth expectations to 1.4% from a previous estimate of 1%, driven by two-pot withdrawals, lower interest rates and declining inflation.
- A notable increase in investor confidence, could lead to heightened investment levels.

This positive outlook suggests a one-in-three chance of an upgrade to SA's sovereign rating of BB- on foreign-denominated debt (see chart 10) within the next year, contingent upon sustained reform momentum, particularly in logistics and effective management of medium-term fiscal pressures.

Chart 10: SA's sovereign rating outlook likely to improve off a weak base



Source: S&P Global Ratings, Fitch, Moody's, Momentum Investments

Looking ahead: Ten trends that could shape 2025

(1) Trump's economic playbook and its global implications

As Trump gears up for his second non-consecutive term beginning in January 2025, his foreign policy initiatives, proposed immigration reforms, anticipated tax cuts and commitment to deregulation are set to significantly impact both domestic and international markets (see chart 11). Among Trump's key proposals that are likely to shape the economic landscape are:

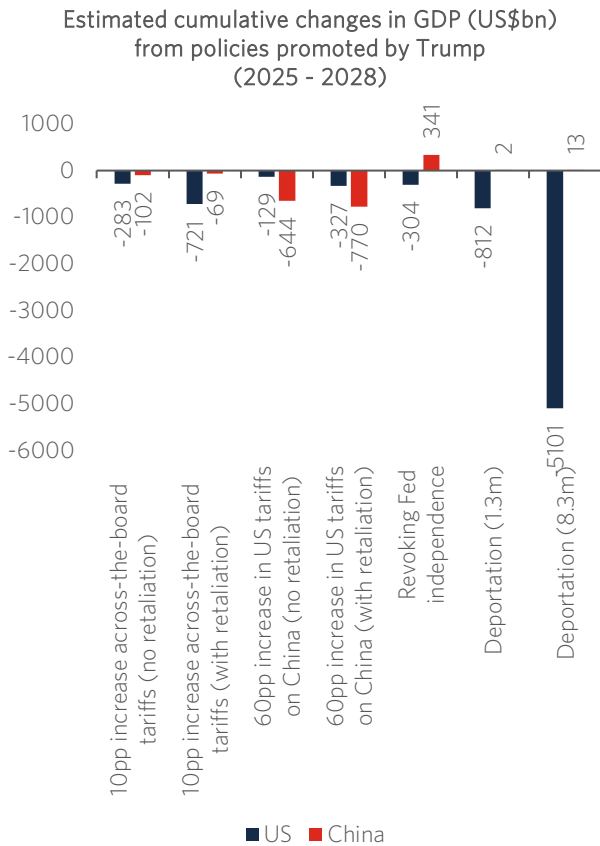
- **Immigration:** Trump has pledged to enact "draconian" immigration policies involving mass deportations and stricter border enforcement. Although these measures aim to tackle illegal immigration and job competition concerns, they risk creating labour shortages in essential sectors like agriculture and construction.
- **Tax cuts:** The former president intends to extend and deepen the tax cuts introduced during his first term, with the goal of stimulating economic growth by enhancing disposable income for consumers while reducing corporate tax liabilities.
- **Deregulation:** Trump is expected to pursue aggressive deregulation across multiple industries, particularly in energy and finance. This approach

aims to stimulate business expansion but raises valid concerns about environmental safeguards and financial system stability. A renewed focus on fossil fuel production is anticipated under his leadership, aligning with his pro-business rhetoric but this will raise environmental issues amid ongoing climate change debates.

- **Foreign policy:** Trump has expressed a desire for a more isolationist approach regarding Ukraine while reaffirming strong support for Israel. His administration may reconsider US involvement in international conflicts in favour of prioritising domestic issues. This shift could jeopardise US commitments to NATO and necessitate increased military spending elsewhere.
- **Tariffs:** Trump has signaled intentions to reinstate high tariffs on Chinese imports - Morgan Stanley indicates that current average tariffs are about 20% but could escalate to 46% if his initial 60% tariffs are applied - as well as impose tariffs on goods from other countries as part of a protectionist trade strategy.

The threat of high tariffs serves as a powerful incentive for China to engage cooperatively. As such, Trump can use this tactic to compel the Chinese government to make concessions on trade practices, particularly regarding intellectual property rights.

Chart 11: Estimated impact of Trump policies



Source: Peterson Institute for International Economics (PIIE), Momentum Investments

In recent statements, Trump has also voiced his intention to impose a 25% tariff on all products coming into the US from Mexico and Canada. He has framed this move as a response to illegal immigration and drug trafficking issues, stating that these tariffs will remain until there is a significant reduction in such problems.

Trump has further threatened to impose 100% tariffs on BRICS countries – comprising Brazil, Russia, India, China, SA, Egypt, Ethiopia, Iran and the United Arab Emirates - if they attempt to create a new currency that competes with the US dollar.

“ While aimed at bolstering American manufacturing, these tariffs could lead to higher consumer prices domestically and stunt growth in emerging markets if retaliatory measures disrupt global supply chains. ”

Additionally, markets are closely watching Trump's potential impact on the Fed, although we suspect there are enough checks and balances in place for the Fed to maintain its credibility and authority on setting monetary policy to match economic circumstances.

(2) The future of American exceptionalism

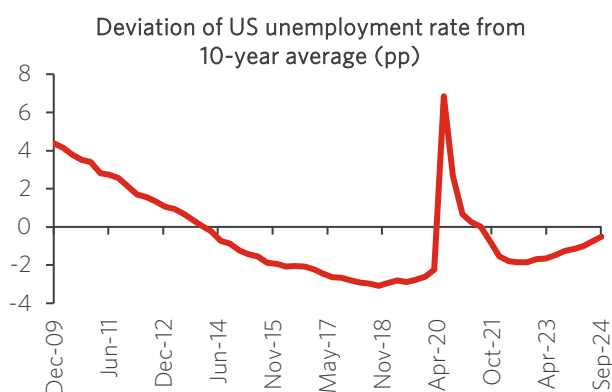
As Trump resumes the presidency in 2025, the principle of American exceptionalism may encounter significant challenges, particularly as his administration adopts a more insular approach to both domestic and foreign policy. Trump's 'America First' ideology prioritises US interests, which risks diminishing the US's traditional role as a global leader in promoting democracy and fostering economic cooperation.

“ This shift could foster perceptions of a US retreat from its historical commitments to international alliances and multilateral agreements, thereby undermining the foundational tenets of American exceptionalism. ”

While the decline of American exceptionalism presents challenges, it does not preclude robust initial economic growth for the US. Projections indicate that US growth

could significantly diverge from the global economy in 2025. Bolstered by resilient consumer spending, fiscal support and technological advancements, the US economy is expected to outperform many developed nations grappling with stagnation or recession. For instance, while US GDP growth may initially hover closer to 3% than 2%, regions such as Europe are likely to struggle with low growth due to tightening monetary policies and persistent fiscal challenges.

Chart 12: Firm US labour fundamentals



Source: Bloomberg, Momentum Investments

Several factors contribute to this divergence. The US labour market is demonstrating notable resilience, with low unemployment rates and elevated job vacancies supporting consumer confidence and expenditure (see chart 12). Additionally, fiscal measures implemented during Trump's initial term - namely tax cuts and deregulation - are expected to persist in driving economic activity, even as they exacerbate domestic inequalities and widen the trade deficit. This

combination of strong labour market fundamentals and stimulative policies positions the US economy to achieve growth that contrasts sharply with the stagnation faced by many other advanced economies.

Trump's protectionist trade policies may provide initial safeguards for certain American industries against global competition; however, they risk generating tensions with trading partners that could lead to retaliatory measures disrupting international trade flows. This inward-looking strategy might foster short-term economic benefits but could ultimately compromise long-term growth potential by alienating crucial allies and diminishing US companies' access to global markets. Thus, while US growth may initially diverge favourably from other economies as a result of Trump's policies, doubts regarding the sustainability of this divergence are increasingly pertinent.

PIIE explored the medium-term effects of Trump's proposed policies through two scenarios. In the 'low' combination scenario, both a 10% and a 60% increase in tariffs are enacted without foreign retaliation, resulting in the deportation of 1.3 million workers and an erosion of the Fed's autonomy (also see chart 11). In contrast, the 'high' combination scenario anticipates similar tariff increases but includes retaliatory actions from other nations, leading to the deportation of 8.3 million workers while further undermining Fed independence. In these scenarios, US real GDP is projected to be between 2.8% and 9.7% lower than baseline by 2028, with employment levels falling between 2.7% and 9%.

(3) Problems in the last mile of disinflation

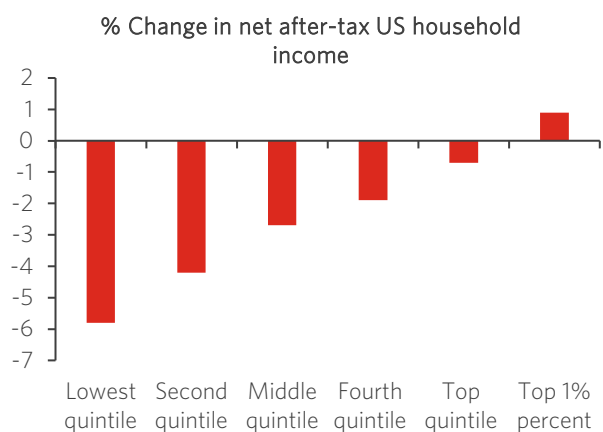
As Trump embarks on his second term, the goal of achieving disinflation - a reduction in the inflation rate - faces considerable hurdles, particularly during the critical 'last mile' of this economic transition. Despite signs of cooling inflation, Trump's proposed policies may complicate efforts to sustain this trend. His administration's emphasis on aggressive tariffs, mass deportations, and expansive tax cuts could inadvertently undermine progress toward lower

inflation rates, potentially leading to renewed price pressures that would impede consumer relief. PIIE estimates that Trump's new tariffs would significantly reduce American incomes, with effects ranging from a 5.8% decrease for the lowest income quintile to about a 0.9% increase for the wealthiest (see chart 13).

A typical household in the middle of the income distribution is projected to lose approximately

US\$1 700 annually. This trend is supported by findings from the World Trade Organisation, which underscores that restrictive trade policies disproportionately affect low-income households, women and smaller businesses that struggle with increased fixed costs associated with trade.

Chart 13: Net increase in tariff proposals and tax cuts for American households



Source: PII, Momentum Investments

The mass deportation of undocumented immigrants could significantly worsen labour shortages in essential industries like agriculture and construction. This labour crunch may lead employers to increase wages as they compete for a shrinking pool of workers, thereby driving up production costs and exacerbating inflationary pressures. Rising wages could hinder disinflation efforts if businesses choose to pass these increased costs onto consumers. Although Trump's deregulatory agenda

may offer some relief by lowering compliance costs for businesses, it remains uncertain whether these savings will translate into lower prices for consumers.

The minutes from the November 2024 Federal Open Market Committee meeting revealed that participants expected to gradually move toward a more neutral policy stance if inflation continued its descent toward the 2% target and the economy remained close to full employment.

“ If Trump’s policies lead to a renewed wave of inflation, it could undermine consumer confidence and complicate the Fed’s approach to monetary policy, potentially postponing any intended interest rate reductions. ”

The Committee for a Responsible Federal Budget has projected that, under current law, US national debt could escalate to 125% of GDP by the end of 2035, up from 99% today. This figure rises to 134% under Vice President Kamala Harris’s fiscal proposals and reaches 143% under Trump’s plans, based on medium cost estimates. Following Trump’s election victory, Treasury yields have surged, reflecting investor anxieties regarding future inflation and fiscal sustainability. This uptick in yields can undermine the effectiveness of any Fed rate cuts, as consumers and businesses face higher borrowing costs regardless of the Fed’s actions.

(4) China’s plans to combat Trump’s tariffs

China’s economic recovery efforts are set to gain momentum in 2025, particularly as the geopolitical landscape shifts with Trump’s return to the White House. While the Chinese government has initiated stimulus measures this year to address its sluggish economy, the real impact may be contingent on how Trump’s proposed tariffs on Chinese goods play out, although higher rates may be watered down by concessions made with the US.

Beijing is nevertheless likely to adopt a wait-and-see approach, gauging the economic fallout of these tariffs before unveiling any substantial stimulus in 2025. Goldman Sachs has cautioned that an escalation in trade tensions could lead to significant downgrades in growth forecasts. A broad-based tariff or more aggressive measures, could have dire consequences for China’s economy.

The Oxford Institute for Energy Studies emphasises that while rare earth elements are not geologically rare,

China controls a staggering 70% of global extraction and 90% of processing. Historically, the US has excluded these materials from tariff lists, recognising their critical role in high-tech applications, including defence technologies and clean energy solutions.

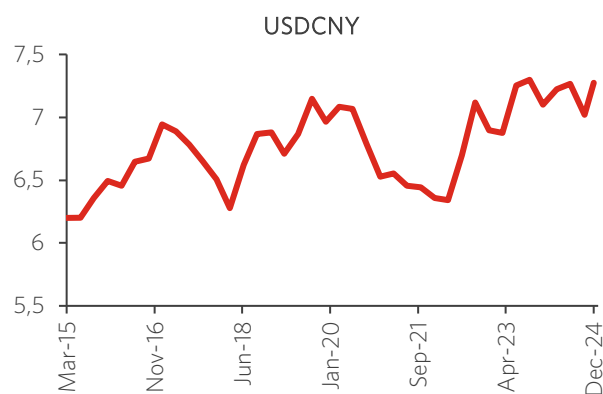
“ Morgan Stanley suggests that rare earth metals may escape new tariffs due to their strategic importance and China's dominant position in their production. ”

The stimulus package unveiled by Chinese authorities in 2024 has predominantly emphasised monetary measures, including interest rate cuts and liquidity support, which have sparked a notable rally in the stock market. However, for China to secure sustainable long-term growth, it must confront persistent challenges such as weak consumer spending, an ageing population, a fragile property market and escalating global tensions. Deutsche Welle highlights that the current stimulus measures represent approximately 10% of GDP growth – significant, but less than the 13% seen during the global financial crisis. Despite this substantial injection of funds, analysts caution that these measures may yield only marginal effects on overall growth, primarily alleviating budgetary pressures on local and provincial governments.

As Trump prepares for his return to the White House in January 2025, his threats of new tariffs on Chinese

imports loom large. During his first term, the imposition of tariffs in March 2018 prompted Beijing to allow the yuan to depreciate by roughly 12%, making exports more competitive (see chart 13). Moving forward, the Chinese government is expected to fine-tune its policies to stimulate domestic demand.

Chart 13: Trump accused China of devaluing the yuan when tariffs were imposed in 2018



Source: Bloomberg, Momentum Investments

Yet scepticism remains regarding whether these adjustments will be sufficient for China to transition from a production-based economy to one driven by consumption. Future stimulus efforts should prioritise social welfare spending and support for the beleaguered real estate sector, rather than continuing the traditional focus on industrial investment and infrastructure projects.

(5) Trump's high-stakes game of diplomacy

A ceasefire has been announced between Israel and Hezbollah, a development facilitated by France and the US after nearly 14 months of intense conflict.

This agreement is viewed as a significant achievement for Israel, which has accomplished many of its military goals against Hezbollah during this prolonged confrontation. Both parties have committed to responding militarily to any violations of the ceasefire.

“ The recent ceasefire between Israel and Hezbollah represents a significant diplomatic achievement for the Trump administration, reducing immediate risks by stabilising a volatile region and lessening the likelihood of further US military entanglement. ”

Israeli Prime Minister Benjamin Netanyahu emphasised that Israel will act decisively against any attempts by Hezbollah to breach the agreement or rearm in southern Lebanon. Under the terms negotiated, Hezbollah is expected to retreat north of the Litani River, while Israeli forces will withdraw south of the Blue Line (dividing Lebanon from Israel). Nonetheless, doubts linger about the sustainability of this ceasefire, as historical precedents suggest that such agreements often falter amid ongoing regional tensions.

This agreement aligns with Trump's overarching strategy of fostering robust relations with Israel while maintaining a confrontational stance against Iran, which supports Hezbollah. By emphasising security collaboration with Israel, Trump seeks to enhance American influence in the Middle East while potentially facilitating peace talks that reflect his administration's goals.

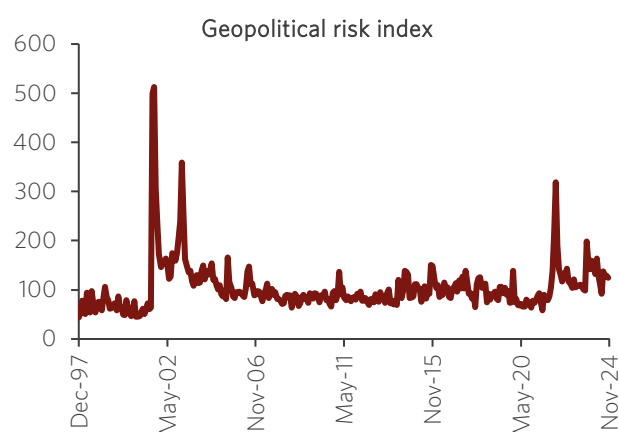
This development allows Trump to frame himself as a peacemaker, bolstering his image as a strong leader capable of securing diplomatic victories. With this ceasefire established, he enters office facing one fewer crisis, enabling him to concentrate on other urgent matters without the burden of an ongoing conflict complicating his policy agenda. Such positioning appeals to voters who prioritise national security and stability in the Middle East, reinforcing Trump's narrative of effective leadership in countering Iranian threats.

Trump has boldly asserted that he could resolve the ongoing Ukraine-Russia conflict "in 24 hours" upon taking office. His close relationship with Russian President Vladimir Putin, coupled with his previous administration's lenient approach toward Moscow, suggests a potential pivot toward negotiations that may involve concessions to Russia. Such a strategy, while

appealing in its promise of swift resolution, risks long-term instability in Eastern Europe by undermining Ukraine's sovereignty and potentially emboldening further Russian aggression.

This approach could position Trump as a peacemaker, enhancing his image as a decisive leader capable of achieving diplomatic breakthroughs. However, it also raises concerns about the implications for Ukraine and its allies. With the prospect of a quick resolution on the table, Trump could find himself navigating a complex landscape where appeasement of Russia might lead to greater discord in the region.

Chart 15: Lull in geopolitical risks may be behind us



Source: www.matteoiacoviello.com, Momentum Investments

Under Trump's foreign policy framework, the spectre of long-term instability in contested regions is a pressing concern and could keep geopolitical risk elevated (see chart 15). If he opts for quick fixes over nurturing strategic alliances, adversarial powers like Russia and China could seize the opportunity to expand their influence in pivotal regions such as Eastern Europe and the South China Sea. The inherent unpredictability of Trump's policies risks escalating tensions and igniting new conflicts.

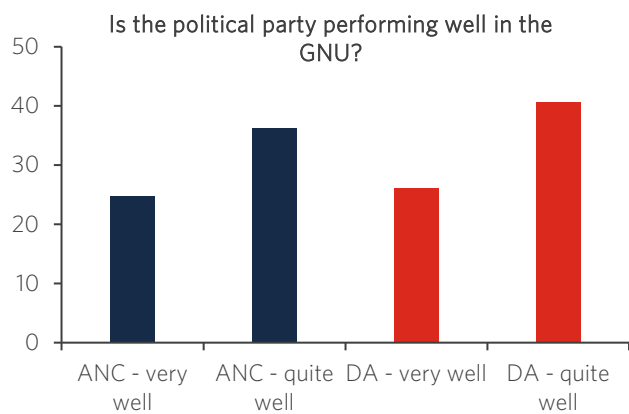
(6) The GNU's test against time to deliver

The future economic prospects of SA hinge on the stability of its GNU, which faces a series of formidable challenges that could test its coalition arrangement.

Under pressure to deliver real economic benefits to citizens contending with soaring unemployment, rising living costs and stagnant wages, the GNU's ability to

address these urgent issues will be critical. Analysts warn that failing to meet public expectations could foster disillusionment with the coalition government, making the upcoming elections pivotal for gauging public sentiment and shaping party strategies for future national contests.

Chart 16: A majority believe that the ANC and DA are performing well within the GNU



Source: Social Research Foundation (SRF) - survey of 1 204 with a margin of error of 3%, Momentum Investments
The remainder of responses are performing poorly and do not know

The October 2024 SRF survey reveals that around 60% of South Africans believe the GNU is functioning effectively, with this sentiment particularly strong among supporters of both the ANC and DA. However, recent polling shows a decline in support for opposition

parties such as the EFF and MK Party, indicating a shift towards favouring stability and collaboration over populist alternatives.

Nonetheless, concerns regarding inclusivity remain salient; the SRF notes that while the GNU may cater to middle-class interests, it must also deliver benefits to poorer communities to avoid perceptions of serving elite interests.

“ The forthcoming local government elections in 2026 will serve as a critical litmus test for the GNU's effectiveness and popularity. ”

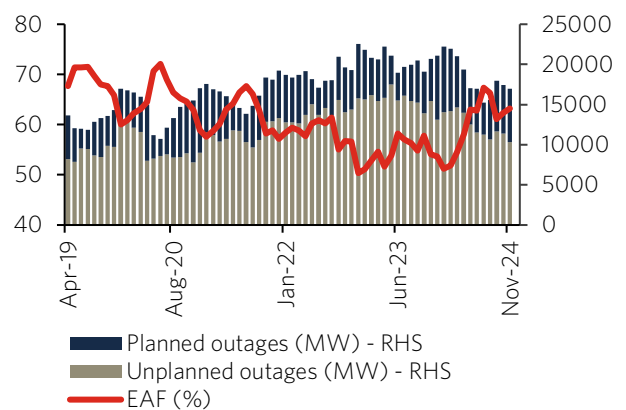
Over 46% of respondents expressed opposition to left-leaning parties, reflecting a broader scepticism towards radical populism. Nevertheless, despite positive sentiment surrounding the GNU, the SRF cautions that without substantial improvements in economic performance - particularly regarding job creation - a backlash against the coalition could emerge.

As public expectations mount, any failures could embolden opposition parties and influence voter sentiment ahead of the ANC's national elective conference scheduled for 2027.

(7) Private sector to increasingly fuel SA's economic recovery

A crucial factor influencing SA's economic outlook for 2025 is the ongoing enhancement of electricity supply, driven primarily by Eskom's efforts to bolster generation capacity and reliability, alongside increasing private sector involvement. Over the past six months, Eskom's EAF has consistently surpassed 60%, coinciding with a notable seven-month period without load-shedding. This upward trend in EAF appears sustainable, particularly with the anticipated online activation of Kusile unit 6, Medupi unit 4 and the second unit of Koeberg by early next year, which will collectively add over 2 000 MW to the grid.

Chart 17: An improvement in plant reliability



Source: Eskom, Momentum Investments

The improvement in EAF signals a stabilisation in unplanned outages, with planned maintenance levels remaining robust at over 6,000 MW for two consecutive months as of October 2024 (see chart 17).

Since January, unplanned outages have decreased by nearly 3 000 MW, while maintenance activities continue to be effectively managed. Eskom's energy strategy has yielded significant financial benefits as well, with diesel expenditure dropping by R16.3 billion year-on-year - approximately 71.2% less than the previous financial year.

Meanwhile, the state-owned freight and logistics entity, Transnet, is grappling with severe operational and financial difficulties that have significantly impacted its performance. The company reported an alarming R7.3 billion loss for the 2023/24 financial year, primarily due to ongoing infrastructure challenges such as equipment shortages, maintenance backlogs, and rampant criminal activities including cable theft and vandalism. These issues have led to reduced freight volumes and efficiency in both rail and port operations, critically undermining the nation's logistics capacity.

To address these pressing challenges, Transnet estimates it requires a capital injection of approximately R100 billion for stabilisation and modernisation efforts; however, market assessments suggest this figure could be nearly doubled.

This would entail appointing an independent infrastructure manager and allowing third-party access to the rail network - crucial steps toward improving operational efficiency and competitiveness. While the Regulation of Transport Bill has been enacted,

significant rehabilitation work on the rail network has yet to begin. An improved network statement coupled with revised access pricing will likely encourage private sector investment; however, meaningful improvements in rail infrastructure are expected to take three to five years to materialise.



Essential measures include increased investment in new locomotives to replace outdated fleets, bolstered security measures to safeguard infrastructure from theft and a logistics reform strategy that facilitates greater private sector involvement in rail operations.



Conversely, enhancements to port infrastructure could yield more immediate benefits within the coming year.

Moreover, SA is facing a pressing water supply challenge, with Dr. Sean Philips, Director-General of the Department of Water and Sanitation, warning that three-quarters of its usable surface water has already been fully utilised. The absence of a legal requirement for revenue generated from water sales to be reinvested into infrastructure exacerbates this crisis, compounded by municipalities' failure to hire essential skilled personnel.

Dr. Rogers highlighted that SA's average treated water consumption is 219 litres per capita per day - substantially above the global average of 173 litres. He also pointed out a dramatic decline in drinking water quality - only 54% of systems were compliant in 2023 compared to 95% in 2014.

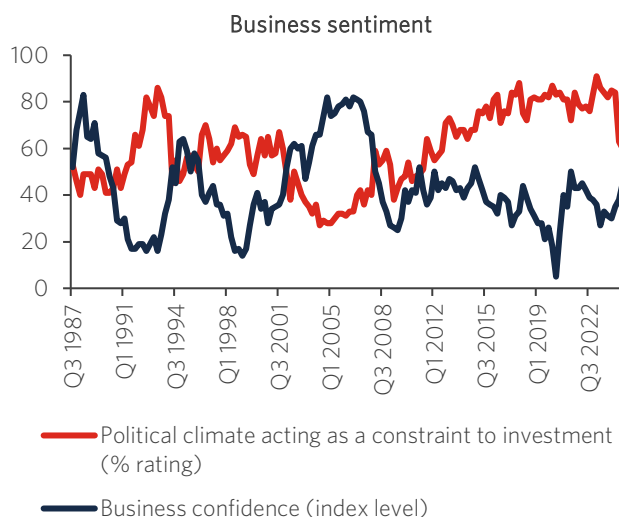
(8) From revived investor sentiment to a tangible recovery

The establishment of the GNU has led to a notable uptick in sentiment among local fund managers. Following the GNU's formation, confidence among fund managers regarding accelerated reforms has surged.

The Bureau for Economic Research's (BER) recent fourth quarter Manufacturing Survey reveals that fewer manufacturers perceive the political environment as a hindrance to their operations (see chart 18), indicating an increasing belief in the government's ability to effect

essential changes against a backdrop of political stabilisation.

Chart 18: Political climate less of a constraint to investment



Source: BER, Momentum Investments, data up to Q4 2024

However, despite this shift in sentiment, there has yet to be a corresponding rise in infrastructure spending to boost growth.

Moreover, for SA to secure an upgrade in its sovereign rating, it will be crucial to demonstrate sustained improvements in economic growth and fiscal discipline.

As of October 2024, SA has made significant progress toward exiting the Financial Action Task Force (FATF) greylist, having addressed most of its action items - 16 out of 22 - while only six remain outstanding. These unresolved issues include bolstering investigations into complex money laundering and terrorist financing cases and ensuring timely access to beneficial ownership information for companies and trusts. Although substantial progress by February 2025 appears unlikely, we remain optimistic that an exit from the greylist could be achieved by October 2025, enhancing SA's appeal further.

(9) A test for fiscal discipline

Despite facing political hurdles, SA's National Treasury has shown a steadfast commitment to fiscal consolidation, maintaining a primary balance in surplus within the medium-term expenditure framework. However, market participants remain cautious about the difficult fiscal decisions ahead, particularly regarding the need for increased support for state entities, managing the legacy of cost-of-living pressures on civil servants during future wage negotiations, and broadening government aid for the most vulnerable in a sustainable manner.

The Department of Public Service and Administration has revised its wage increase offer for approximately 1.3 million government employees from an initial 3% to 4.7% for FY25/26, with future increases tied to inflation for FY26/27 and FY27/28. Nevertheless, the

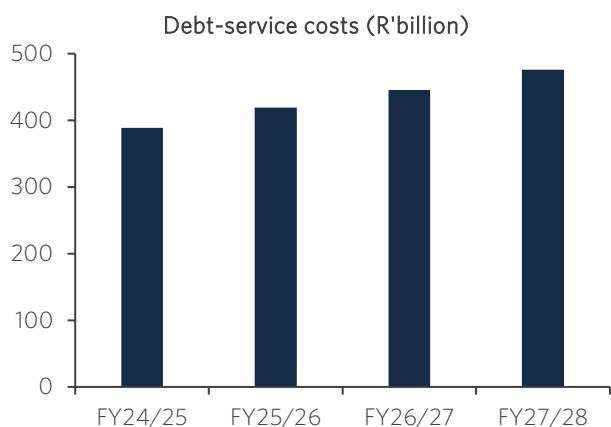
SA Policing Union (SAPU) has rejected this offer, demanding a 7.5% salary increase.

SA's path towards fiscal consolidation and debt stabilisation is further complicated by constrained growth prospects and escalating socio-political demands on government resources. According to a September 2024 report by the SA Social Security Agency (SASSA), over 19 million social grants were disbursed to more than 12 million beneficiaries, in addition to 9.2 million recipients of social relief grants.

This underscores the urgent need for policies that can significantly reduce poverty, enhance health and education outcomes and stimulate economic growth.

However, the successful implementation of a basic income grant will require meticulous planning and fiscal discipline to avoid exacerbating existing financial constraints while effectively addressing the needs of the most vulnerable.

Chart 19: Escalating debt-service costs



Source: National Treasury, Momentum Investments

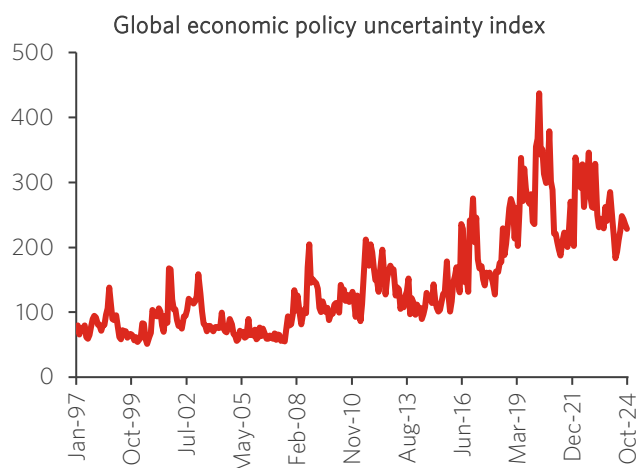
Moreover, interest costs on SA's burgeoning debt remain high (see chart 19), with debt-service costs projected to consume an average of 22 cents of every rand collected by the government over the medium-term expenditure framework. By fiscal year 2027/28 (FY27/28), servicing this escalating debt burden could cost R1.3 billion per day.

Nevertheless, recent economic reforms are beginning to yield positive effects on growth, with failures in SA's network industries becoming less of a binding constraint on economic prospects. We believe that increased private sector participation will enhance growth opportunities in the medium term.

(10) SA's vulnerability to global instability

Economic progress in SA, despite a relatively stable domestic political environment, remains susceptible to global instability and market volatility (see chart 20).

Chart 20: Uncertainty over global economic policy remains high



Source: policyuncertainty.com, Momentum Investments

The recent establishment of the GNU has fostered a more optimistic sentiment among investors and local fund managers. However, external factors - such as geopolitical tensions, fluctuating commodity prices, and economic slowdowns in major trading partners - pose significant risks to the country's growth trajectory.

Consequently, while local reforms and enhanced political stability offer promise, SA's economic resilience will largely hinge on its ability to navigate these external uncertainties and their implications for inflation and interest rates in the coming years.

Our baseline forecast anticipates a decline in headline inflation from an expected average of 4.6% in 2024 to 4.2% in 2025, which could facilitate two interest rate cuts down to 7.25%. Nevertheless, upside inflationary pressures stemming from currency fluctuations,

administered costs, and oil prices complicate monetary policy decisions. The SARB aims to keep inflation within its target range of between 3% and 6%, but persistent global inflation trends, exacerbated by rising protectionist policies, may limit the extent of interest rate reductions.

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