



Prosperity

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Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE

Donald Trump's trade wars are underway - or are they? January ended with confirmation that 25% tariffs would be imposed on imports from Canada and Mexico, along with additional 10% tariffs on Chinese imports. Yet, shortly thereafter, the tariffs on Canadian and Mexican imports were put on hold again.

Market watchers are divided into two camps. The prevailing view is still that Trump is using tariffs as a show of force to gain concessions from trading partners. A more pessimistic view is that he is determined to reshape the US economy and its international relationships, even at the cost of inflicting damage to do so. His advisers appear split between these perspectives, making it difficult to discern where this is going. If Trump leans toward the latter, the risks to global growth, including that of the US, increase. While Canada, Mexico and other exporters rely on the US market more than the US relies on them, US firms and consumers are not immune to disruptions and rising costs. If, however, Trump is using tariffs as a bargaining chip, there will be a great deal of uncertainty, but not necessarily much change.

Ironically, Trump's "Make America Great Again" slogan contrasts with the reality that the US has already been outpacing other major economies in recent years. Strong economic growth rates, a surging stock market and a resilient dollar suggest that the US is already doing great.

In the fourth quarter of 2024, US economic growth remained solid at 2.4% year-on-year, with job creation in line with the long-term average of 1.5% per year. Rising household incomes continue to fuel consumer spending. However, Trump's policies introduce uncertainties. Much of the recent employment growth has been driven by immigrants, as the native-born workforce stagnates. Large scale deportations could lead to labour shortages, particularly in industries like construction that depend heavily on immigrant labour.

Tariffs also pose an inflationary risk. The impact depends on whether exporters cut prices, or exchange rates adjust. While a once-off rise in consumer prices is not the same as sustained inflation, a self-reinforcing cycle could emerge if tight labour markets push wages higher and inflation expectations shift. Already, the recent decline in inflation has stalled.

The Federal Reserve's preferred inflation measure, the Personal Consumption Expenditure deflator, rose 2.6% year-on-year in December, with the core measure at 2.8%. Against this backdrop, the Fed left rates unchanged at its January meeting, as expected. Futures markets now anticipate only two additional 25-basis-point rate cuts in the second half of the year. Trump, unhappy with the outcome, is expected to pressure the central bank for more aggressive rate cuts – like he did in his first term.

Other central banks are taking a different approach. In Canada, policymakers pre-emptively cut rates, citing risks from US tariffs. While this contributed to the Canadian dollar falling to a 20-year low against the US dollar, the Bank of Canada is more concerned about economic risks.

SA's response has been more cautious. While the South African Reserve Bank's Monetary Policy Committee (MPC) cut the repo rate by 25 basis points to 7.5% in January, two members voted to keep rates unchanged. Their hesitation reflects concerns that an escalating US-led trade war or shifting Fed expectations could weaken the rand and stoke inflation.

Despite these risks, SA's inflation outlook had been improving. The consensus expectation, as surveyed by Reuters, is that inflation will average 4.1% in 2025 and 4.5% in 2026. The Reserve Bank expects inflation to average 3.9% this year and 4.6% next year. If global trade tensions remain contained, the MPC has room for further rate cuts, which would support the ongoing recovery in consumer spending. Encouragingly, real retail sales rose 6.5% year-on-year in November, while new vehicle sales surged 17% in January – clear signs of strengthening consumer confidence.

Ultimately, the trajectory of Trump's trade wars remains uncertain. Whether they serve as a strategic bargaining tool or a deeper attempt to reshape the global order will determine their true economic impact.

MARKET UPDATE

Global markets navigated a volatile start to the year, grappling with the beginning of earnings season, persistent inflation concerns and newly announced tariffs by the US. Despite these challenges, the MSCI World Index posted a solid 3.6% gain in January. This positive trend was reflected in strong performances across several major indices.

The Dow Jones led the charge, surging 4.7%, followed by the S&P 500 with a 2.7% increase and the Nasdaq, which rose 1.6%. UK equities also enjoyed a robust month, with the FTSE 100 soaring 6.1%.

Asian equity markets offered a mixed picture, with the Hang Seng up 0.8% and the Shanghai Composite down 3%. Japan's Nikkei ended the month down 0.8%.

Domestically, the JSE All Share Index rebounded with a 2.2% gain after three months of decline, driven by strong commodity prices that propelled the Resi-10 Index up 18%. The Indi-25 gained 0.9%, while the Fini-15 slipped 2.7%.

The rand strengthened by 1% against the US dollar in January, to close at R18.65. Brent crude oil closed January at US\$76.76 per barrel, and gold rallied 6.6% to US\$2 801/oz.

GLOBAL EQUITIES



Adobe

Adobe, a global leader in creative software, delivered strong full-year 2024 results. The group reported record revenue of US\$21.5bn for the year, up 11% year-on-year as all the group's segments posted double-digit growth. From an industry perspective, 2024 was pivotal, with an increased focus on generative Artificial Intelligence (AI) content creation tools. Adobe launched several new AI technologies that are being integrated into the group's products. While the long-term commercial benefits of these innovations are still unfolding, AI remains a key priority for Adobe as it aims to remain the preferred choice for professional content creators.

With adjusted margins remaining largely unchanged, Adobe reported diluted earnings per share of US\$18.42. This exceeded analyst expectations of US\$18.29 and was supported by operating income of US\$10.02 billion. The Digital Media business was the standout performer, generating US\$2bn in net new annual recurring revenue (ARR). Operating cash flow was equally strong at US\$8.1bn, with management allocating a sizeable portion of that to share buybacks throughout the year.

Despite the strong financials, Adobe's share price declined after the results as investors reacted to 2025 revenue guidance that fell below expectations. This prompted concerns about the adoption rate of new products or potential conservatism in management's outlook. However, we believe that Adobe's history of outperforming guidance suggests that the 2024 results provide a foundation for long-term growth, underpinned by its consistent execution and recent innovations.



Givaudan

Givaudan, the global leader in flavour and fragrance ingredients, reported a strong 22% increase in earnings per share for its 2024 full-year results. This was driven by a 12.3% like-for-like sales increase, supported by a 9.6% rise in volumes. The volume recovery, following a weak 2023, significantly boosted profitability, leading to a 270bps improvement in the group's operating margin to 18.8%.

The company's strategic focus on expanding in developing markets paid off, with like-for-like sales growth of 19.5% in high-growth regions like Latin America and the Middle East, compared to 6.4% in mature markets such as North America and Europe. The Board has proposed a CHF 70 per share dividend (+2.9%), marking the 24th consecutive annual increase. With Givaudan's five-year strategy concluding in 2025, investors now eagerly await the announcement of its next medium-term plan.



LVMH

LVMH's 2024 results reflect the challenges facing the luxury industry, particularly weak demand for Cognac and Spirits, sluggish sales in luxury watches, and ongoing weakness in the Chinese market. Asia remained the largest revenue contributor at 28%, but sales fell 11% over the period. Japan led luxury sales growth with a 28% increase, although the pace slowed to 8% during the fourth quarter. Within developed markets, the US and Europe saw modest growth of 2% and 4%, respectively. Overall, sales were down 1.7%, factoring in foreign currency fluctuations.

The group continued to invest in capacity and operations, opting to maintain its cost base during what they deem to be a cyclical slowdown in the industry. As a result, profitability fell short of expectations, with diluted earnings per share down 17%. On a positive note, cash generation remained strong, supported by effective working capital management, with operating cash flow up 30%. This allowed LVMH to reduce leverage and maintain a EUR13 per share dividend.

Despite the challenging year, LVMH's management team has planned numerous measures to drive recovery, focusing on alcoholic beverages, travel retail and the Chinese market. Management are optimistic about improved sales performance heading into 2025 and the group's future prospects.



Stryker

Stryker, a leader in orthopaedic and neurological medical devices, delivered strong full-year 2024 results that exceeded analyst expectations. Organic sales grew by 10.2%, an impressive achievement given the high base of 12% in the prior year. Revenue matched organic sales growth at US\$22.6bn, while adjusted earnings per share rose 15% to US\$12.19. Both business segments performed well, with MedSurg and Neurotechnology leading at 11.2% organic growth. Geographically, growth was balanced across the US and International markets, with Emerging Markets, Europe and Canada standing out.

On the merger and acquisition (M&A) front, management highlighted recent bolt-on acquisitions in specialised surgical products and technology. While these had a slight impact on margins, they strengthen Stryker's position in adjacent markets. Management are optimistic about a strong deal pipeline and the group's strong balance sheet supporting further acquisitions.

Looking ahead to 2025, management expect revenue growth just below 10%, double-digit earnings growth, and improved operating margins. Longer-term, Stryker remains well-positioned to benefit from the growing demand for innovative and minimally invasive surgery.



DanaHER

Healthcare group, DanaHER Corporation delivered mixed results for full year 2024. While revenue exceeded analyst expectations, fourth quarter earnings fell slightly short. Management's cautious outlook for 2025 raised concerns about a slower-than-expected post-pandemic recovery. Despite the stronger second half, annual revenue remained flat at US\$23.8bn. The biotechnology segment, which provides bioproduction tools for drug makers, was the weakest performer, with a 6% decline in revenue. However, effective cost control helped sustain margins. Adjusted earnings per share declined by 1.3% to US\$7.48 from US\$7.58 in 2023. This was expected as revenue and earnings normalised after the pandemic-driven surge in demand for many of DanaHER's products.

DanaHER's free cash flow and strong balance sheet were the two key highlights. The group generated US\$5.3bn in free cash flow – which translates into 135% of earnings – marking its 33rd consecutive year of exceeding free cash flow conversion. This highlights the quality of the group's earnings and business model. Net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) declined to 1.8 times. We believe that the group's strong balance sheet positions it well to pursue acquisitions alongside organic growth.

LOCAL EQUITIES



Naspers

Naspers' 2025 interim results reflect resilience and strategic focus on profitability, with a commitment to driving shareholder value. Revenue rose 23% to US\$3.4 billion, core headline earnings surged 88%, and free cash flow improved significantly by 74%. E-commerce was the standout performer, with adjusted earnings before interest and tax (EBIT) increasing fivefold year-on-year to US\$169 million.

The results were also bolstered by Tencent's strong performance and the ongoing share buyback programme, which has generated US\$36 billion in value since inception and a 12% Net Asset Value (NAV) per share increase. With a robust balance sheet and prudent capital allocation, Naspers continues to deliver value while leading in technological innovation.

The company announced Nico Marais as Interim Chief Financial Officer, effective 30 November 2024, following Basil Sgourdos' retirement. Looking ahead, Naspers is aiming for US\$400 million in consolidated e-commerce adjusted EBIT and US\$6.2 billion in e-commerce revenue for FY25, representing 20% year-on-year growth.

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