ECONOMIC AND MARKET OVERVIEW

The 60th U.S. presidential inauguration took place on January 20, 2025, marking Donald Trump's second term as president and J.D. Vance's term as vice president. Due to freezing temperatures and high winds, the ceremony was held inside the United States Capitol rotunda. This made it the first presidential inauguration to take place indoors since Ronald Reagan's in 1985. Trump's speech emphasised unity but also touched on his expansionist agenda, criticising Democrats, other global leaders, and pretty much anyone who has a differing opinion.

Soon after his inauguration, President Trump issued executives orders (among dozens of others) imposing new or additional tariffs on imports from Mexico, Canada, and China. He also threatened various countries with talk of tariffs. Before the actual effect of these tariffs on bilateral trade could be fully assessed, Trump agreed to suspend the tariffs against Mexico and Canada for one month. This followed negotiations with his counterparts in each of these nations, but the Chinese tariffs still went into effect in early February.

The South African Reserve Bank (SARB) cut its repo rate by 0.25% in January for the third consecutive Monetary Policy Committee (MPC) meeting, bringing the benchmark rate to 7.5%. SARB Governor Lesetja Kganyago announced the widely expected move following the MPC's first meeting of 2025. Still, his tone was one of caution regarding further cuts for the rest of the year amid an uncertain global environment. A silver lining is that South African inflation has fallen firmly within the central bank's 3% to 6% target range, with the Consumer Price Index (CPI) coming in at 3% for December.

The U.S. Federal Reserve Bank held interest rates steady following its Federal Open Market Committee (FOMC) meeting on 29 January. Federal Reserve Chair Jerome Powell said there would be no rush to cut rates again until both inflation and jobs data made it appropriate. The decision and Powell's comments put the FOMC policy in a holding pattern at a time when the U.S. economic landscape seems both stable and wildly uncertain. As a healthy set of macroeconomic fundamentals that have changed little in recent months, pending decisions from the Trump administration on immigration, tariffs, taxes and other areas that could prove disruptive. The FOMC also signalled that inflation fears have led to this pause in the current declining interest rate cycle.

The International Monetary Fund (IMF) released its World Economic Outlook Update, which projected global growth at 3.3% for both 2025 and 2026. This forecast remained broadly unchanged from the October 2024 prediction, with an upward revision in the United States offsetting downward revisions elsewhere. Additionally, the World Bank published its Global Economic Prospects report, which highlighted that global growth is expected to hold steady at 2.7% in 2025 - 2026. However, this growth rate is considered insufficient to foster sustained economic development, particularly in developing and emerging market economies.

MARKET PERFORMANCE

Equity markets around the globe had a strong start to 2025, as European and UK stocks, in particular, made up some ground lost to the United States last year.

The FTSE 100 in London added 6.2% in pound sterling, while European markets gained 8.1% in euros. The S&P 500 continued its rally from 2024, ending the month 2.8% higher in U.S. dollars. Market returns in the United States were characterised by the meaningful underperformance of technology stocks after claims that DeepSeek, a Chinese artificial intelligence (AI) company, had developed more efficient technology than its rivals in the U.S.

South African shares rose on average by 2.3% in January, mainly due to resource counters which added over 16% by the end of the month. Sasol (+69%) and Harmony Gold (+42%) lead the charge among the locally listed companies.

Global bond yields ended the month marginally higher, as policy uncertainty remained elevated, adding to risks that inflation could rise and halt the rate-cutting cycle. South African bonds (0.4%) and the rand came under pressure in the first few days of the month as investor sentiment toward emerging markets turned negative. Subsequently, bonds and the currency rallied as the new U.S. administration was less belligerent than previously expected (for now). The last week of the month saw a spike in volatility as concerns about the Government of National Unity's (GNU's) sustainability arose, and the (albeit temporary) return of load shedding resulted in marginally higher yields and a weaker currency.

Continued central bank buying pushed the gold price to a new high as it ended the month with a 7% return in US dollar terms. Oil ended the month marginally higher (up 2.8%) but is still lower than a year ago.

MARKET INDICES[1]	31 JANUARY 2025		
(All returns in Rand except where otherwise indicated)	3 months	12 months	5 years[2]
SA equities (JSE All Share Index)	1.1%	19.6%	13.1%
SA property (S&P SA REIT Index)	-2.5%	21.3%	2.8%
SA bonds (SA All Bond Index)	3.1%	16.9%	9.4%
SA cash (STeFI)	2.0%	8.5%	6.2%
Global developed equities (MSCI World Index)	11.5%	22.4%	17.7%
Emerging market equities (MSCI Emerging Markets Index)	3.6%	15.8%	8.1%
Global bonds (Bloomberg Barclays Global Aggregate)	4.3%	0.6%	2.3%
Rand/dollar [3]	5.6%	0.4%	4.5%
Rand/sterling	2.1%	-2.1%	3.2%
Rand/euro	1.1%	-3.9%	3.1%
Gold Price (USD)	2.7%	37.3%	12.2%
Oil Price (Brent Crude, USD)	4.9%	-6.1%	5.7%

1. Source: Factset
2. All performance numbers in excess of 12 months are annualised.
3. A negative number means fewer rands are being paid per US dollar, so it implies a strengthening of the rand.

DID YOU KNOW?

AND THEN CAME DEEPSEEK
(a case study in the power of economics)

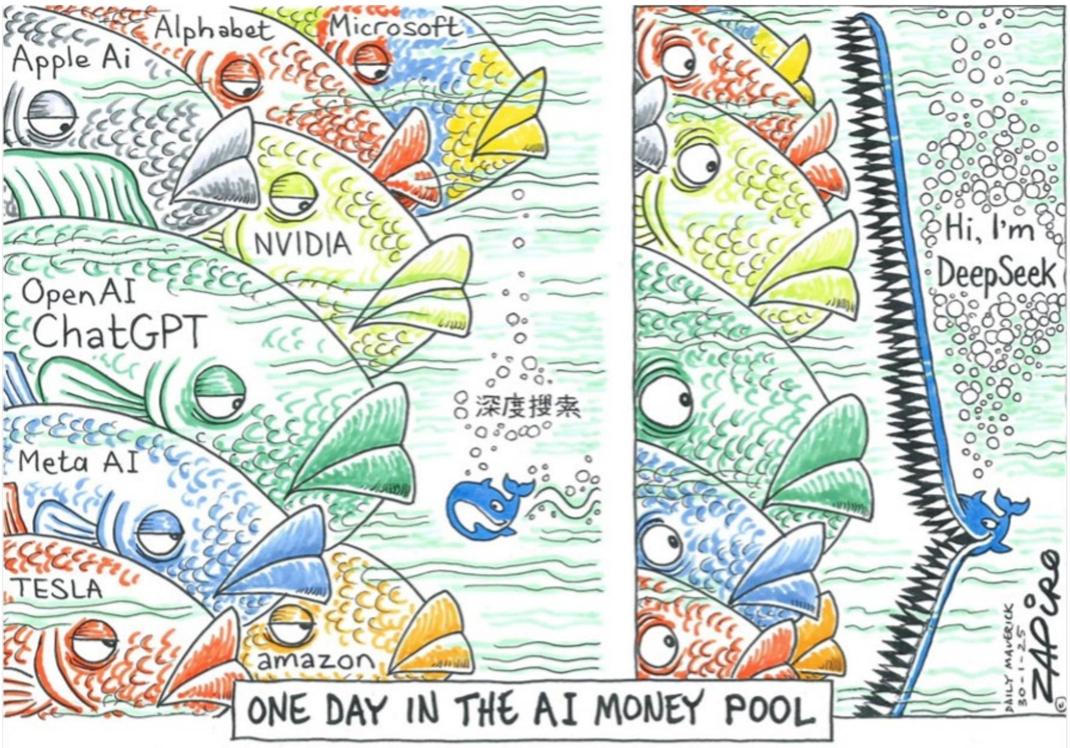
"It is not the size of the dog in the fight, but the size of the fight in the dog."
Mark Twain

Economics, as the Oxford Dictionary tells us, **is the branch of knowledge concerned with the production, consumption, and transfer of wealth.** In essence, it's the process during which inefficiencies are identified and replaced with more efficient solutions. And that leads to the transfer of wealth from the owner of the relatively inefficient asset/process/product (call it the solution) to the owner of the relatively more efficient version.

In the last week of January DeepSeek, a Chinese based artificial intelligence firm illustrated this very clearly. One of the relative inefficiencies in the current artificial intelligence (AI) race is the cost of the processing units (computer chips) and the vast amounts of electricity that's required to power these chips. In many instances that was seen as a hurdle to entry that deterred many potential competitors from entering the race at all.

As it stood (until 27 January at least) training the top AI models is really expensive. OpenAI, Anthropic, and others spend billions of dollars just on computing power and processes. They need large data centres with thousands of graphic processing units (USD 40 000 per unit). It's like needing a whole power plant to run a factory.

And then, DeepSeek showed up and said "what if we did this at a fraction of the cost?" Unlike Trump they didn't just talk - they actually did it. Their models match or beat GPT-4 and Claude on many tasks. The AI world simply had to take notice:



As published in Daily Maverick on 1 February 2025. Reproduced with the creator's permission.

DeepSeek did this by rethinking everything from the ground up. Conventional (and we use the word in its broadest sense) AI is like writing every number with 32 decimal places. The product developers at DeepSeek were saying "what if we just used 8? It's still accurate enough!" Suddenly they could do the billions of calculations using 75% less computing memory.

In addition to this they also designed a "multi-token" system. Normal AI reads like a six year old: "The... cat... sat..." DeepSeek reads in whole phrases at once. It increased their processing speed by 100% and is 90% as accurate. When you're in the business of processing billions of words, this most certainly matters.

There's also another very smart angle: They built an "expert system." Instead of trying to teach one massive AI entity everything (like having one person be an actuary, accountant and attorney), they implemented specialized experts that only wake up when its (their?) assistance is required. To date the traditional (once again a very broad application of the term) models had all 1.8 trillion parameters active 24 hours a day, seven days a week. The different approach by DeepSeek uses (only) 671 billion parameters of which less than 40 billion are active at once. It's like having a huge team but only calling in the experts you actually need for each task.

The results, to say the least, are significant: AI training cost is more than 90% lower. The number of GPUs required are 98% less. It can run on gaming GPUs instead of the far more expensive data centre hardware.

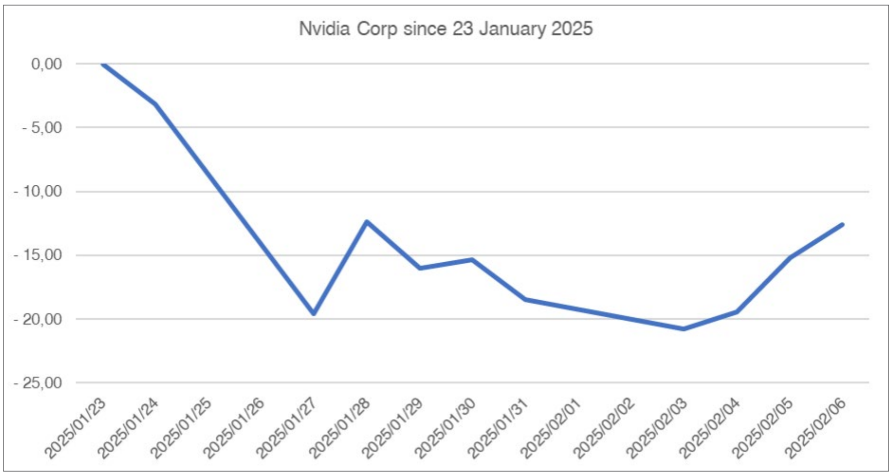
"Is there a catch?" economic theory would ask. That's the profound part - it's all open source. Anyone can check DeepSeek's work. The code is public and the technical papers explains all the nuances. It's not magic that appeared out of thin air, just very clever engineering.

AND THEN CAME DEEPSEEK *continued*

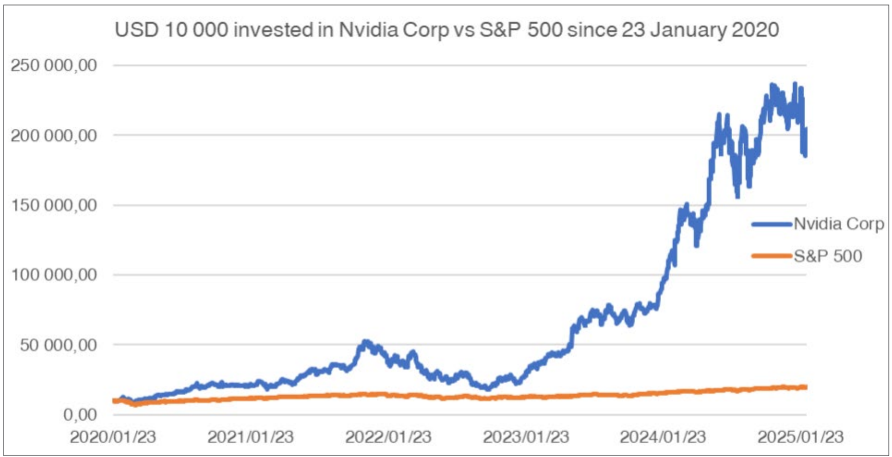
For the largest company in the world (at least up to that point), Nvidia, this can be a big headwind. A large portion of their business model is built on selling expensive GPUs with mouth-watering profit margins. If more companies can enter the AI market with regular gaming GPUs, that causes an issue.

This is a classic disruption story: Incumbents optimise existing processes, while disruptors rethink the fundamental approach. DeepSeek asked "What if we just did this smarter instead of throwing more hardware at it?"

The immediate market impact was immense. Nvidia's share price tumbled nearly 20% (over half a trillion dollars) and at the time of writing, was still down 10% from its level a few days before DeepSeek's announcement:



A longer-term investor, however, will also notice that it's not the first time Nvidia has faced challenges that, at the outset, caused its share price to buckle. Over the longer term, it has been a magnificent investment. In the last five years, the S&P 500 has doubled (a very decent growth rate of 14% per year in USD). Nvidia? Up 20 times:



There are a few lessons in this story.

Firstly, markets are noisy as new information is continuously available. On the same day that someone thinks it's a great idea to buy a stock, there's someone on the other side that is of the opinion that today's the day to sell.

Secondly, it pays to diversify. For every technology success story (like Nvidia), there are hundreds of failures. And it's not as simple to identify which is which. If it were straightforward, we'd all have done it.

In the third instance – partner with a trusted advisor that has seen similar events unfold before. Wisdom either comes from your own mistakes or learning from those of others.

Final thought: This feels like one of those moments we'll look back on as an inflection point. Like when PCs made mainframes less relevant, or when cloud computing literally changed our digital world. AI is likely to become a lot more accessible, and a lot less expensive. Unless we're wrong…

Financial Services Providers: Portfolio Analytics Consulting (Pty) Ltd; FSP No 18490 and Analytics Consulting 1 (Pty) Ltd; FSP No 47564; Tel: (021) 936 9500; Website: www.analyticsconsulting.co.za