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WEALTH GROUP
Growing and Protecting Wealth

2025 BEGINS WITH A BANG: TRUMP'S FIRST MOVES SHAKE GLOBAL MARKETS

On the 20th of January Donald Trump took office at the White House and officially assumed the role of US president. Upon his inauguration, Trump wasted little time and signed 36 executive orders in his first week. The primary themes surrounding the orders included trade tariffs, with Mexico, Canada and China being the primary targets; energy production and the environment, where Trump has allowed for greater exploration and usage of oil and gas reserves; border immigration, most notably by declaring a National Emergency at the Southern Border of the US and Mexico on his first day in office.

These policies came to a head over the weekend when Trump imposed 25% tariffs on imports from both Mexico and Canada, along with a 10% levy on Canadian Energy. 10% tariffs on imports from China were also imposed, while additional tariffs against the EU were threatened.

These policies are likely to place upward pressure on inflation in the US, while enforcing economic headwinds on Emerging Markets, primarily through their large dollar-denominated international debt burdens.

Due to the ongoing volatility and inflationary uncertainty in the US, the US central bank kept its main interest rate at 4.25% to 4.5% in the last week of January and indicated it was now on pause, with Fed chair Jay Powell saying US rate-setters "do not need to be in a hurry to adjust our policy stance". The Fed decision to keep interest rates unchanged was unanimous and took place just days after Trump called for significantly lower borrowing costs and warned he would voice his opposition if he disagreed with the central bank's move.

In its announcement, the Federal Open Market Committee noted that inflation in the U.S. remained "somewhat elevated" and removed a previous reference to "progress" toward its 2% target. Fed Chair Jerome Powell later explained that this adjustment was merely a "cleaning-up exercise" rather than an indication of a policy shift.

CHINESE TECHNOLOGY DISRUPTS GLOBAL MARKETS

Arguably the largest disrupter of global markets in the first month of 2025 was the launch of Chinese company DeepSeek's R1 model. Founded in 2023 and headquartered in Hangzhou, China, DeepSeek was established by Liang Wenfeng, a Chinese hedge fund manager that leverages AI-driven investment strategies.

Unlike many AI firms focused on commercial applications, DeepSeek prioritizes developing foundational open-source technology. The company is particularly known for its cost-efficient approach to training and operating large language models (LLMs).

DeepSeek's efficiency stems from its "expert system" architecture, which selectively activates only about 6% of the model's parameters based on the topic or domain, rather than engaging all parameters as traditional LLM's do. While this approach has proven to be innovative and cost-effective, earlier DeepSeek models lagged behind leading U.S. models in sophistication.

This challenged the common belief that cutting-edge AI requires massive investments in high-performance computing infrastructure. Notably, DeepSeek's R1 model was trained on NVIDIA H800 GPUs rather than the more advanced H100s, which are restricted in China. The long-term impact of this remains uncertain, but it has sparked speculation that U.S. tech giants, including hyperscalers, may have overspent on AI infrastructure or could scale back future investments, despite ongoing commitments to large capital expenditures.

A TEMPORARY CEASEFIRE IN GAZA

On January 15, 2025, Israel and Hamas reached an agreement on a proposed armistice and a hostages-for-prisoners exchange to end the Gaza war, which took effect on January 19. The agreement outlines a phased approach, starting with a six-week ceasefire and the release of all Israeli hostages in Gaza in exchange for some Palestinian prisoners held by Israel. This would be followed by a permanent ceasefire, Israel's full withdrawal from Gaza, and a reconstruction plan expected to last between three and five years.

SOUTH AFRICA

South Africa's annual inflation rate for December came in at 3%, slightly up from 2.9% in November but still encouragingly low, with minimal inflationary pressures outside of administered services.

On the back of the low inflation reading, the Reserve Bank lowered interest rates by 25 basis points to 7.5% in its meeting at the end of January. While the Bank is expected to remain cautious, another rate cut to 7.25%, considered the neutral rate, is likely by mid-year.

Monthly inflation rose just 0.1% in December, well below market expectations of 0.3%. This slight increase lifted annual inflation to 3%, following 2.8% in October and 2.9% in November. However, inflation remains significantly lower than previous months, having declined from 3.8% in September, 4.4% in August, 4.6% in July, and 5.1% in June. For 2024, inflation averaged 4.4%, the lowest annual rate since 2020 and in line with the midpoint of the 3%–6% target range.

Core inflation remained unchanged month-on-month in December, also below expectations of a 0.2% rise. This brought the annual core inflation rate down from 3.7% to 3.6%, marking its lowest level since April 2022 and keeping it within the target range for 44 consecutive months.

On the 23rd of January President Cyril signed the contentious Expropriation Bill into law, which provides for the expropriation of land with nil compensation. Donald Trump, along with almost all other members of the GNU, clapped back hard against the bill over the weekend, threatening to halt funding from SA as a result of the bill and calling it a "bad situation… A massive human rights violation, at a minimum, is happening for all to see."

Trump's recent action comes after his first-day executive order to cut funding to the World Health Organization (WHO), a decision that has already caused global concern. South Africa is among the countries affected, as it receives billions of dollars from the U.S. to support HIV/AIDS treatment programs.