MENTENOVA

ECONOMIC OVERVIEW

QUARTER 1, 2025

CONTENTS

EXECUTIVE SUMMARY

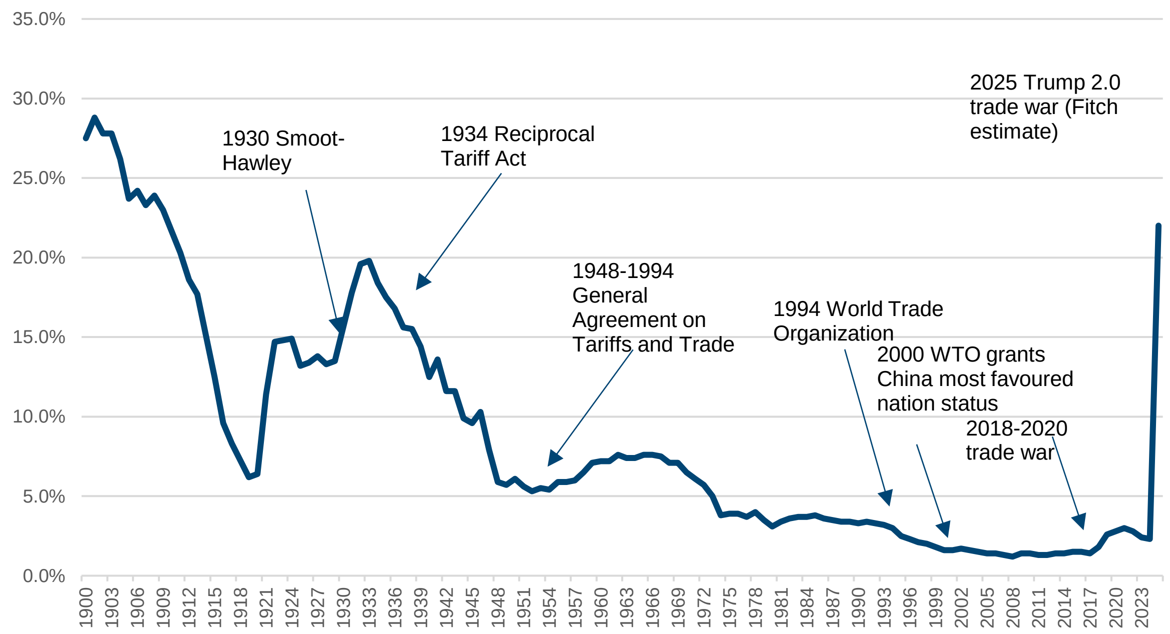
The first quarter of 2025 unfolded as a tale of divergence between developed and emerging markets. Global growth optimism at the start of the quarter quickly gave way to volatility following President Trump's aggressive tariff announcements, triggering tech-sector tremors and a sharp rotation from growth to value stocks. Developed market equities struggled, with the MSCI World Index declining by 1.7% and the S&P 500 down by 4.3% for the quarter. Meanwhile, European gains faded by March, and Japan's tech-heavy Nikkei suffered a steep quarterly decline. However, emerging markets showed resilience, supported by a weaker US dollar and a strong commodity rally, with the MSCI EM Index posting a 3% gain, led by strong performances in South Africa, Brazil and Korea, even as Taiwan and China faltered. The SA local equity market rallied by nearly 6%, buoyed by commodity strength, despite the country's budget crisis which puts the stability of the GNU at risk. Gold and platinum surged, and the Bloomberg Commodity Index rose by 9% for the quarter. In fixed income, global bond yields trended lower amid cautious central bank easing, although South African bonds remained under pressure. The rand appreciated modestly against the dollar but weakened against other major currencies.

Domestically, South Africa presented a complex mix of progress and persistent challenges. The political climate was marked by contention over fiscal policy, notably the unprecedented delay of the National Budget Speech due to disagreements within the Government of National Unity (GNU) around a proposed VAT hike. The controversial VAT increase – revised to a more palatable phased 1% hike over two years – was central to the debate and narrowly passed by Parliament in a 194-182 vote in early April. Apart from the VAT increase to address the widening fiscal gap, there is also the absence of inflation adjustments to personal income tax brackets. Despite these revenue-increasing efforts, debt levels are expected to remain elevated and rising debt service costs – projected at R424.9 billion in 2025/26 – highlight the constraints facing government spending, as 22 cents of every rand goes toward interest payments. This highlights that while there is the political will to maintain macroeconomic stability, structural turnaround in the country's economic growth trajectory is key to supporting fiscal consolidation over the medium to long term. Despite promising growth drivers from infrastructure development, anchored by Operation Vulindlela's public–private partnerships, Treasury's real GDP growth projections of 1.7% in 2025, rising to 2.1% by 2027, are simply not enough for the country.

Over the short term, SA's growth turnaround efforts are being further challenged by the heightened US trade and economic policy uncertainty. The proposed tariffs and the risk of exclusion from African Growth and Opportunity Act (AGOA) threaten vital SA export sectors such as automotive and agriculture, putting over 30,000 jobs and US$4 billion in annual trade at risk. The knock-on effects could shave 0.2–0.3 percentage points off GDP growth in 2025, worsen the current account deficit, and weaken the rand, fuelling inflation and tighter monetary policy. In response, South Africa, like many other countries, is intensifying trade diversification efforts through the African Continental Free Trade Area (AfCFTA), the European Union (EU) and BRICS nations, while seeking to overcome structural bottlenecks – especially in logistics, where inefficiencies cost the economy US$12 billion annually. Notwithstanding these efforts, trade imbalances with China and continued reliance on US markets highlight the need for deeper industrial and market reforms.

Trump's erratic policy signals have weighed on global growth expectations, dampening both consumer and business sentiment in the US and fuelling fears of a potential recession. While his promised pro-growth measures, such as tax cuts and deregulation, have yet to materialise, the solid labour market, robust household wealth and years of deleveraging offer some protection against economic downturns. However, Trump's trade policy could mark the end of globalisation, triggering significant structural shifts in global economic dynamics. Trump announced significant tariff increases for countries worldwide in early April, with estimates from Fitch indicating that the average effective tariff rate on US imports could rise from 2.5% in 2024 to 22% in 2025, returning it to levels not seen since 1910. This move mirrors the protectionist policies of the past, including the Smoot-Hawley Tariff Act of 1930, which exacerbated the Great Depression. In response, President Franklin D Roosevelt implemented the Reciprocal Trade Agreements Act in 1934, which allowed for tariff reductions through bilateral agreements, promoting international trade and countering protectionism.

Figure 1: US average effective tariff rate on imports



Source: Bloomberg, Fitch Ratings

In the near term, the US's major trading partners will stay focused on mitigating tariff-induced disruptions through trade diversification, manufacturing plant relocations, fiscal and monetary policies, retaliatory tariffs and negotiation with the Trump administration. However, the US has the upper hand in this trade conflict precisely because it currently runs large trade deficits. As tariffs ramp up, every country running a surplus with the US will find it harder to sell its products in the US. Who will consume the excess production capacity?, Meanwhile, the artificial intelligence (AI) race is really a race between the US and China, while AI-fuelled productivity gains may provide both countries with a growth edge over the long term.

As 2025 unfolds, the US has become the epicentre of global macroeconomic uncertainty, driven by a confluence of factors such as electoral tensions, escalating fiscal deficits, institutional challenges, and a growing shift away from the US dollar. With the 2026 mid-term elections on the horizon, market expectations are already being shaped by four potential Congressional outcomes, with historical patterns suggesting weak pre-election performance followed by strong post-election rallies. The establishment of the Department of Government Efficiency (DOGE) has further fuelled political uncertainty, particularly regarding the reliability of US macroeconomic data, with DOGE's claims of significant cost savings coming under fire in the wake of the Department presenting misleading figures. Meanwhile, the global de-dollarisation trend is gaining momentum, as countries like China and Brazil increasingly settle their trade transactions in yuan and central banks diversify into gold, signalling a reduction in reliance on the dollar. This shift is putting upward pressure on US Treasury yields.

On the foreign policy front, the Trump administration is to an increasing extent leveraging fiscal and diplomatic tools, including commercialising security arrangements and imposing sanctions on South Africa over land reform, thus illustrating a move away from unconditional fiscal support for traditional allies. This evolving approach requires global investors to attach as much importance to political alignments as economic fundamentals when assessing sovereign risks. For emerging markets, navigating this new volatility regime will demand a focus on sophisticated geopolitical scenario planning to ensure that well-informed investment decisions are made.

MARKET OVERVIEW: A QUARTER OF CONTRASTS

Trade policy uncertainty, the great sector rotation and the commodity renaissance

The first quarter of 2025 unfolded as a tale of two markets. While simmering trade tensions and Magnificent 7 tremors rattled developed markets, resource-rich emerging economies like South Africa rode a commodity wave, evidenced in relative outperformance. The quarter began with a sense of cautious optimism as the International Monetary Fund (IMF) projected 3.2% global growth, but this soon gave way to heightened volatility as US President Donald Trump's tariff announcements began to materialise early in March with the inclusion of a 25% tariff on Mexico and Canada as well as an additional 10% on China. A dramatic tech-sector reversal reshaped the market landscape.

Domestically, South Africa's markets and the political landscape truly reflected the rainbow nation, highlighting the differences between the two. Unprecedented events occurred over the quarter. For the first time ever, the National Budget Speech, which is delivered in February every year, was delayed. Political drama surrounded the delay as various members of the GNU contested the initially proposed 2% VAT increase, which was later revised in Budget 2.0 to a softer VAT hike of 0.5% to be spread over the next two years to a total of 1%. The return of stage 6 loadshedding, due to Eskom's claim of high electricity demand and the depletion of emergency reserves, served as a stark reminder of the structural challenges facing the economy.

Global equity markets experienced a rollercoaster ride, displayed by the MSCI World Index's weak performance of -1.7% for the quarter. The S&P 500's 2.8% gain in January evaporated into a 4.3% quarterly loss (-5.6% in March alone) as the 'Magnificent 7' tech stocks plunged 10.2% in March, wiping out close to US$600 billion from Nvidia's market cap in a single day in the wake of January's DeepSeek announcement. This tech wreck saw investors flock to value stocks, with the MSCI World Value Index gaining 5% over the quarter and outperforming its growth counterpart, and the MSCI Growth Index returning a disappointing -7.7% in the first quarter. European markets initially cheered the potential German fiscal stimulus (STOXX 600 was up 6.4% in January) before succumbing to the global risk-off sentiment (-3.8% in March), bringing the quarter performance to 5.8%. Meanwhile, Japan's tech-heavy Nikkei suffered its worst month since 2022, dropping 6% in February and taking Q1's return to a depressing -9.9%.

The developed markets counterpart heaved a sigh of relief over the quarter, supported by dollar weakness, with the MSCI EM Index delivering a healthy gain of 3% over the quarter. Star performers were our very own equity market, with the FTSE/JSE All Share gaining close to 6% over the quarter, Brazil's Ibovespa Brasil São Paulo Stock Exchange Index, which was up 8.3%, and Korea's KOSPI Index, which was up 4.5%. At the other end of the spectrum, Taiwan faced a serious struggle, delivering a quarterly performance of -9.9%, while China's Shanghai Shenzhen CSI 300 Index was down 1%. During the quarter, China announced a growth target of 5% in 2025, while lowering its inflation target from 3% to 2%, which will require a huge boost as CPI has hovered around 0.2% over the past two years. In India, the Nifty 50 Index returned flat at -0.3%. To alleviate growth concerns in India, the Reserve Bank of India reduced its interest rates in February for the first time in almost five years.

The quarter's fixed-income markets told a story of cautious optimism. Bond yields drifted lower globally as some central banks, including the European Central Bank (ECB) (25 bps cut in March), began tentative easing cycles, while other central banks, including the Bank of Japan, the Federal Reserve Bank and the Bank of England, kept rates unchanged. However, South Africa's bond market remained under pressure, with 10-year yields rising from 10.27% at the beginning of the quarter to 10.63% at the end of the quarter as investors weighed fiscal risks against the South African Reserve Bank's hawkish hold at 7.5%. The rand's 2.8% appreciation against the US dollar in March provided some relief (trading at R18.32/USD by the end of the quarter), though it still posted quarterly depreciations of 1.9% against the Japanese yen and 1.6% against the euro, and came out flat against the British pound with a 0.4% depreciation. Even though the pro-growth Trump campaign offered some relief for the US dollar at the beginning of the quarter, this did not last and the Dollar Spot Index declined by 3.9% over the quarter.

Against this turbulent backdrop, commodities emerged as the quarter's star performers. Gold glittered with a 19% year-to-date surge (including 9.3% in March) as investors sought refuge from market storms, while platinum (up 8.3% in January) and palladium (up 7.4% in March) rebounded strongly. Oil markets gyrated wildly, with Brent crude oil flat at 0.1% over the quarter, caught up in the OPEC+ supply discipline as plans to proceed with output increases in April are on the table. This contrasted with fears of shattered demand amid rising geopolitical uncertainty. These tailwinds proved beneficial for commodities as the Bloomberg Commodity Index delivered healthy gains of approximately 9% over the quarter.

Figure 2: Performance of major asset classes and indices in local currency terms

31 March 2025 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)
FTSE/JSE ALSI Total Return	3.6%	5.9%	5.9%	22.9%	9.4%	19.1%	9.0%
FTSE/JSE Capped SWIX Total Return	3.6%	5.8%	5.8%	22.9%	8.2%	18.7%	6.8%
S&P 500 Total Return	-5.6%	-4.3%	-4.3%	8.3%	9.1%	18.6%	12.5%
STOXX 600 Total Return	-3.8%	5.8%	5.8%	6.9%	8.2%	13.5%	5.7%
Nikkei 225 Total Return	-3.3%	-9.9%	-9.9%	-10.1%	10.8%	15.7%	8.5%
MSCI World Total Return	-4.4%	-1.7%	-1.7%	7.5%	8.1%	16.7%	10.1%
MSCI ACWI Total Return	-3.9%	-1.2%	-1.2%	7.6%	7.4%	15.7%	9.4%
MSCI EM Total Return	0.7%	3.0%	3.0%	8.6%	1.9%	8.4%	4.1%
MSCI World Value Index	-1.2%	5.0%	5.0%	9.5%	7.9%	15.9%	8.0%
MSCI World Growth Index	-7.5%	-7.7%	-7.7%	5.6%	7.9%	16.8%	11.8%
MSCI World Small Cap Index	-3.7%	-3.6%	-3.6%	0.2%	2.0%	14.0%	7.1%
FTSE UK Series FTSE All Share TR	-2.3%	4.5%	4.5%	10.5%	7.2%	12.0%	6.2%
MSCI AC Asia Ex. Japan Index	0.0%	1.9%	1.9%	11.9%	2.2%	7.6%	4.6%
MSCI Europe Excluding United Kingdom Index	-4.2%	6.3%	6.3%	5.6%	9.1%	14.2%	6.7%
Shanghai Shenzhen CSI 300 Index	-0.1%	-1.0%	-1.0%	13.5%	-0.1%	3.5%	1.8%
Korea Stock Exchange KOSPI Index	-1.5%	4.5%	4.5%	-7.9%	-1.4%	9.4%	4.0%
Taiwan Stock Exchange Weighted Index	-10.0%	-9.9%	-9.9%	4.5%	9.1%	20.2%	12.0%
NSE Nifty 50 Index	6.3%	-0.3%	-0.3%	6.8%	12.0%	24.0%	12.3%
Ibovespa Brasil Sao Paulo Stock Exchange Index	6.1%	8.3%	8.3%	1.7%	2.8%	12.3%	9.8%
Nasdaq-100 Index	-7.6%	-8.1%	-8.1%	6.4%	10.0%	20.8%	17.2%
Bloomberg Magnificent 7 Total Return Index	-10.2%	-16.0%	-16.0%	20.0%	19.8%	39.7%	36.7%
Bloomberg US Large Cap ex Magnificent 7 Total Return Index	-4.2%	0.5%	0.5%	7.1%	7.6%	15.8%	9.9%
Dow Jones Industrial Average TR	-4.1%	-0.9%	-0.9%	7.4%	8.8%	16.2%	11.4%
STEFI	0.6%	1.9%	1.9%	8.4%	7.5%	6.2%	6.7%
ALBI	0.2%	0.7%	0.7%	20.2%	9.8%	11.7%	8.4%
IGOV	0.0%	0.6%	0.6%	8.9%	6.5%	9.3%	5.3%
WGBI	0.7%	2.6%	2.6%	2.1%	-2.9%	-3.0%	0.0%
Bloomberg Global Inflation-Linked Total Return Index	1.0%	3.4%	3.4%	1.4%	-5.3%	-0.7%	0.6%
Bloomberg US Agg Total Return	0.0%	2.8%	2.8%	4.9%	0.5%	-0.4%	1.5%
Bloomberg EuroAgg Total Return Index	-1.5%	-0.9%	-0.9%	2.1%	-1.5%	-1.6%	-0.1%
Bloomberg Global Agg Corporate Total Return Index	0.6%	2.8%	2.8%	4.8%	0.8%	1.5%	2.0%
Bloomberg US Corporate High Yield Total Return Index	-1.0%	1.0%	1.0%	7.7%	5.0%	7.3%	5.0%
Bloomberg Pan-European High Yield Total Return Index	-1.1%	0.5%	0.5%	7.8%	4.7%	6.5%	3.5%
J.P. Morgan EMBI Global Core Hedged EUR	-0.9%	1.7%	1.7%	4.6%	0.4%	1.3%	0.9%
SAPY Total Return	-0.9%	-3.5%	-3.5%	19.8%	11.7%	19.0%	1.4%
MSCI US REIT Total Return	-3.5%	1.1%	1.1%	10.3%	-0.5%	11.3%	5.3%
S&P Global Property Total Return	-1.9%	1.4%	1.4%	5.5%	-2.8%	6.8%	3.0%
STOXX 600 Real Estate Total Return	-4.5%	-1.1%	-1.1%	-1.2%	-9.4%	0.0%	-1.6%
FTSE EPRA Nareit Global REITs TR Index	-2.4%	1.7%	1.7%	6.2%	-2.8%	8.5%	3.3%
Crude Oil	2.1%	0.1%	0.1%	-14.6%	-11.5%	26.9%	3.1%
Aluminium	-2.8%	-0.7%	-0.7%	8.4%	-10.1%	10.7%	3.6%
Copper	3.8%	10.7%	10.7%	9.5%	-2.2%	14.4%	4.9%
Gold	9.3%	19.0%	19.0%	40.1%	17.3%	14.6%	10.2%
Platinum	5.1%	9.9%	9.9%	9.5%	0.4%	6.7%	-1.3%
Nickel	2.9%	3.9%	3.9%	-5.2%	-21.2%	6.6%	2.5%
Palladium	7.4%	8.6%	8.6%	-2.5%	-24.1%	-16.0%	3.0%
Iron Ore	-1.7%	1.6%	1.6%	2.1%	-12.1%	3.7%	5.9%
Bloomberg Commodity Index Total Return	3.9%	8.9%	8.9%	12.3%	-0.8%	14.5%	2.8%
USDZAR	-2.0%	-2.8%	-2.8%	-3.0%	7.8%	0.5%	4.2%
GBPZAR	0.7%	0.4%	0.4%	-0.7%	7.2%	1.3%	2.8%
EURZAR	2.1%	1.6%	1.6%	-2.7%	7.0%	0.1%	4.3%
JPYZAR	-1.5%	1.9%	1.9%	-2.1%	0.6%	-5.9%	1.9%
Dollar Index Spot	-3.2%	-3.9%	-3.9%	-0.3%	2.0%	1.0%	0.6%

Source: Bloomberg

BUDGET SPEECH: AN UNPRECEDENTED MOVE

South Africa's 2025 National Budget Speech was postponed for the first time in history, from its scheduled 19 February to 12 March. Parliament's intense debate, which ended without an agreement, caused the delay. The GNU clashed over an initial 2% VAT hike, which was later reduced to 1% spread over two years, starting with 0.5% in 2025. Following the Finance Minister's speech, Parliament passed the budget on 2 April 2025 by a narrow-margin vote of 194–182. The VAT increase remained, along with other revenue plans. The Democratic Alliance (DA), a significant GNU member, remained dissatisfied with the outcome. They have considered taking legal action or leaving the coalition, which could stir heightened political tension in the country.

Revenue: key highlights

The 2025/26 South Africa budget focuses on generating extra revenue through a modest VAT increase, unchanged personal income tax brackets, and higher excise duties on alcohol and tobacco, while aiming to support critical areas like infrastructure, social protection, education, health and public services. Revenue use expectations include allocating R7.5 billion to SARS over the medium term to improve tax collection and showing a balanced approach by offering relief to lower-income households through zero-rated food items. However, a notable revenue shortfall compared to the previous budget underscores the ongoing challenge of funding government priorities amid serious economic constraints.

Expenditure: key highlights

While the government tried to rein in public wage spending through an early retirement provision, wage growth would still be above inflation in the face of anaemic economic growth. In addition, a hefty R424.9 billion goes to debt repayment in 2025/26, which is a major budget expense. With 22 cents of every rand spent on debt, funds for key areas like education and health will take a knock. This high cost highlights the challenge of managing South Africa's growing debt while supporting social services and growth, forcing the government to find other forms of relief.

Figure 3: Gross debt-to-GDP ratio

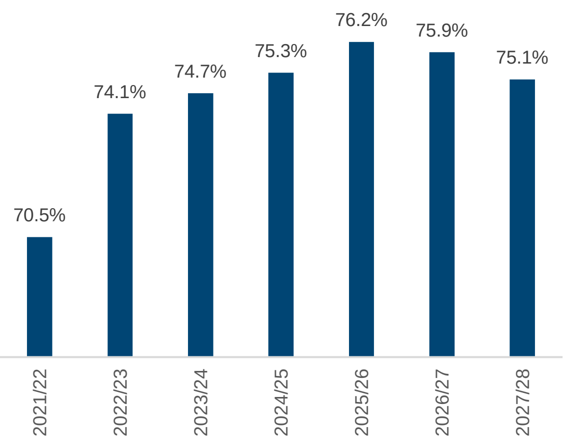


Figure 4: SA expenditure budget

Expenditure R billion	2025/2026	2024/2025	% Change
Social Services	1516.5	1424.3	6.5%
Debt repayment	424.9	389.6	9.1%
Economic Development	289.8	252.4	14.8%
Peace and security	266.1	250.4	6.3%
General public services	78.7	77.1	2.1%
Payments for financial assets	11.4	10.2	11.8%
Contingency reserve	5	0	
Total	**2592.4**	**2404**	**7.8%**

Source: National Treasury, RMB Global Markets Research

The budget deficit is widening and is now expected to reach R353.9 billion or 4.4% of GDP, up from R336.6 billion (4.2%) the previous year. This is being driven by weaker income, despite spending being trimmed. Public debt continues to rise and will hit 76.2% of GDP in 2025/26 before easing slightly in the subsequent two years.

One of the key concerns is the Social Relief of Distress (SRD) grant, which continues to be extended without a clear long-term funding plan. Support for state-owned enterprises (SOEs) remains limited. Transnet has been offered a R51 billion loan guarantee but no additional funding for now, while Eskom will receive R50 billion in cash – part of a R70 billion debt-relief arrangement – to help cover repayments of R40 billion in 2025/26 and R10 billion in 2028/29. No new funding has been allocated to other SOEs. Municipal finances are also under strain, with municipalities owing R22.5 billion to water boards and R110 billion to Eskom, raising the possibility of further government assistance being required. To help satisfy its financing needs, the government plans to raise US$3 billion in 2024/25 and US$15 billion over the medium term, while maintaining steady bond issuance to manage risk. On a more positive note, the primary budget surplus is improving and is expected to increase from 0.5% of GDP in 2023/24 to 2.0% by 2027/28 – a sign of gradual fiscal consolidation.

Budget Speech outcome and impact on various sectors

A 0.5% VAT hike to 15.5% (rising to 16% by 2026/27) and no income tax relief are expected to squeeze household budgets, slowing retail demand and potentially weakening consumer goods stocks. Meanwhile, over R1 trillion in infrastructure spending – R402 billion for transport, R219.2 billion for energy and R156.3 billion for water – is set to boost construction, logistics and renewable energy stocks, supported by a 1.9% GDP growth forecast. The property market could face higher costs from VAT, possibly slowing sales, though long-term stability is anticipated. Bonds are expected to remain steady, despite debt reaching 76.2% of GDP in 2025/26, with short-term yields likely to rise slightly due to inflation concerns and foreign currency bonds remaining attractive. Equities are projected to gain in growth sectors like infrastructure, but consumer stocks may struggle, with political risks keeping markets cautious.

The 2025 budget reflects the government's attempt to balance fiscal sustainability with economic pressures, despite political tensions within the coalition. While efforts to manage debt and diversify funding sources are aimed at ensuring long-term stability, taxation and spending remain contentious issues. The passing of the budget signals policy continuity, but ongoing disagreements within the GNU could lead to further uncertainty in the months ahead.

NAVIGATING DOMESTIC TURBULENCE AND GLOBAL GEOPOLITICAL SHIFTS

Assessing Trump's trade policies against South Africa's shifting trade landscape

South Africa's trade landscape is under mounting pressure as potential policy shifts in the US, particularly under the Trump administration, threaten key economic sectors. Proposed tariffs of 30% on imports from South Africa and South Africa's potential exclusion from the AGOA, which provides for duty-free access to the US market, pose significant risks. The automotive sector, which accounts for 64% of AGOA exports and generates over US$2 billion annually, is particularly vulnerable, with up to 30,000 jobs at risk. Similarly, agricultural exports, including US$400 million in fruit and US$167 million in textiles under AGOA, risk losing critical market access, further straining small and medium-sized enterprises (SMEs).

The macroeconomic fallout could exacerbate South Africa's stagnant growth, with analysts projecting a 0.2–0.3 percentage point reduction in GDP growth for 2025, compounding the negligible 0.8% growth rate in 2024. A weaker rand, driven by investor uncertainty, may elevate import costs and inflation, prompting tighter monetary policy. The loss of AGOA benefits alone risks a loss of US$4 billion in annual trade, widening the current account deficit and destabilising financial markets.

South Africa's trading relationships remain diverse, with China, the US and the EU playing pivotal roles. Historically, China has emerged as South Africa's largest trading partner, with net export trade valued at US$5.52 billion. However, this figure represents a significant decline from previous years, such as US$12.47 billion in 2021, reflecting fluctuating demand for South Africa's raw materials like coal and iron ore. The US, South Africa's second-largest trading partner on aver, accounted for US$6.67 billion of trade in 2024, showing a rebound from US$4.22 billion in 2023. The EU, represented by countries like Germany and the United Kingdom (UK), also remains a critical partner, with Germany contributing US$1.19 billion and the UK contributing US$3.81 billion in trade during 2024.

Figure 5: Yearly net exports with top trading partners (US$ m)

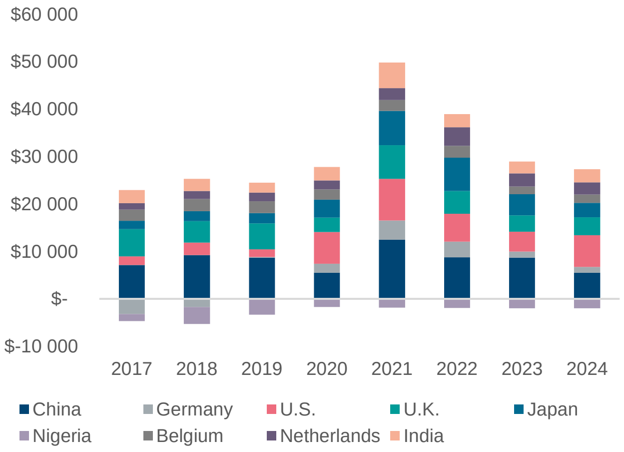
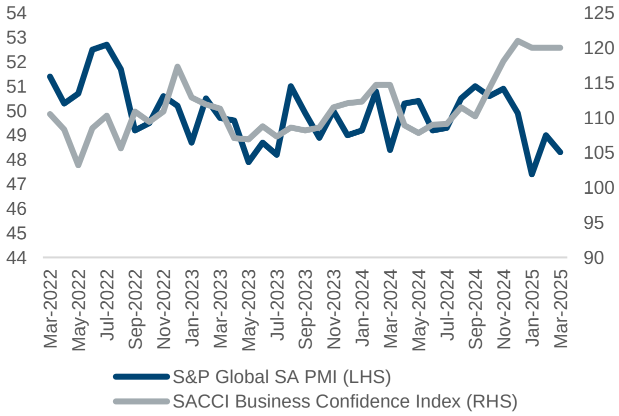


Figure 6: S&P SA Global PMI and SACCI Business Confidence Index



Source: Bloomberg, IMF, SACCI

To mitigate the risks posed by US trade policies, South Africa is diversifying its markets. The AfCFTA presents an opportunity to increase intra-African exports by 32% by 2035. Africa currently absorbs 25% of South Africa's exports, with the focus on vehicles, machinery and processed goods. However, inefficiencies in Transnet's rail and port systems, costing the economy US$12 billion annually, remain a challenge, prompting privatisation reforms and partnerships with logistics firms.

Additionally, South Africa is deepening its trade ties with the EU and BRICS nations, boosting agro-processing exports to the EU and leveraging India's coal demand. Trade with China, while substantial, is imbalanced due to the export of raw materials and the import of manufactured goods, leading to net financial outflows. The automotive sector, which is reliant on US$2 billion of exports to the US, remains vulnerable to tariff hikes, highlighting the importance of diversified trade partnerships and industrial development.

Amid global geopolitical tensions, SACCI's Business Confidence Index dipped slightly to 120 in January 2025, down from its December 2024 peak of 121, the highest since 2015. Stronger imports, vehicle sales and tourism provided support, but weaker export volumes weighed on sentiment. Policies under the GNU, formed in June 2024, initially boosted confidence, although uncertainty around the Trump administration dampened enthusiasm. Concurrently, the S&P Global South Africa PMI fell to 48.3 in March 2025, marking a fourth consecutive month of contraction amid persistently weak demand, declining output and subdued new orders.

Coalition fractures: South Africa's domestic discord in an era of global instability

South African equity markets have seen considerable volatility over the past three quarters, shaped by shifting sentiment around the formation of the GNU and general political instability. Investor optimism in Q3 2024 drove the Capped SWIX All Share Index up by 9.62%, buoyed by hopes of structural reforms. However, fiscal and political uncertainties in Q4 2024 caused a 2.14% decline. The market recovered in Q1 2025 with a 5.85% rise, led by a 26.42% surge in the SA Resources Index, which was driven by higher commodity prices and a weaker rand. Sectoral performance varied, with Industrials (+3.10%) and Financials (+1.83%) showing moderate gains, while Small Caps (-7.07%) and SA Listed Property (-3.51%) faced challenges under tighter financial conditions.

Foreign investor sentiment has been a key driver of market dynamics, with consistent net selling exerting downward pressure on valuations. Heavy outflows in 2024 reflected concerns about fiscal stability and the GNU's governance. Although foreign selling eased in Q1 2025, significant outflows continued (-R7.7 billion in February and -R2.8 billion in March), highlighting lingering doubts about domestic policy coherence and external geopolitical pressures. Protectionist trade policies and global tensions further reduced emerging market appeal, compounding these challenges.

Fiscal disagreements within the GNU, particularly over VAT increases, undermined investor confidence and raised fears of policy inconsistency. Global risk aversion also limited capital inflows, exposing markets to further uncertainty. While Q1 2025 showed resilience in equity performance, persistent foreign capital flight and volatile sentiment underscore the urgent need for cohesive policy action within the GNU to stabilise markets and restore long-term confidence.

Figure 7: SA equity net sales foreigners (ZAR m)

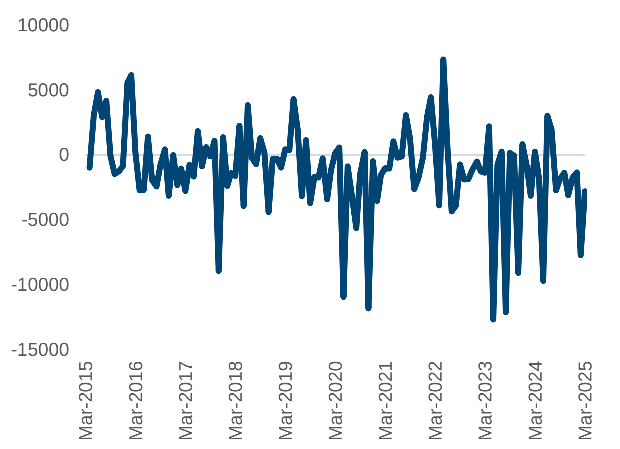
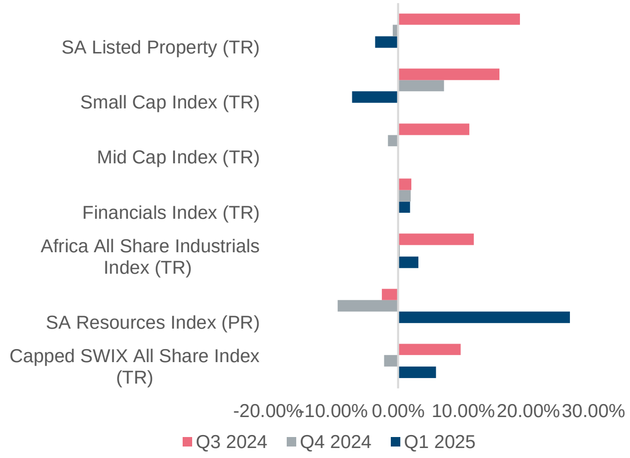


Figure 8: Quarterly FTSE/JSE performance



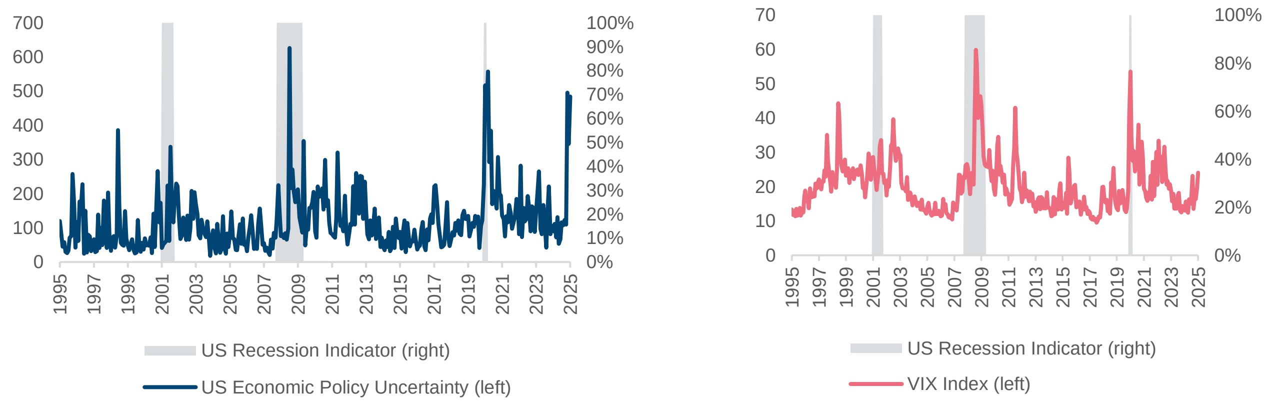
Source: Bloomberg

NERVES SHAKE MARKETS, BUT NOT (YET) THE US ECONOMY

Higher-than-average stress and uncertainty

Trump's pro-growth agenda fuelled optimism in the last quarter of 2024 for sustained US exceptionalism. Yet the first few months of his presidency have been marked by unexpected shocks, with heightened market volatility driven by abrupt policy swings and shifting growth expectations. Consumers, businesses and investors are grappling with conflicting measures – yet-to-happen pro-growth tax cuts and deregulation versus stagflationary tariffs and deportation – that are amplifying the risk of recession and clouding the economic outlook. Nonetheless, solid fundamentals, including high household net worth, productivity gains and lower debt costs, constitute more of a buffer against adverse effects on geopolitical risks, particularly bilateral relations, than the current state of the US economy.

Figures 9 and 10: Uncertainty and volatility surrounding the market trajectory



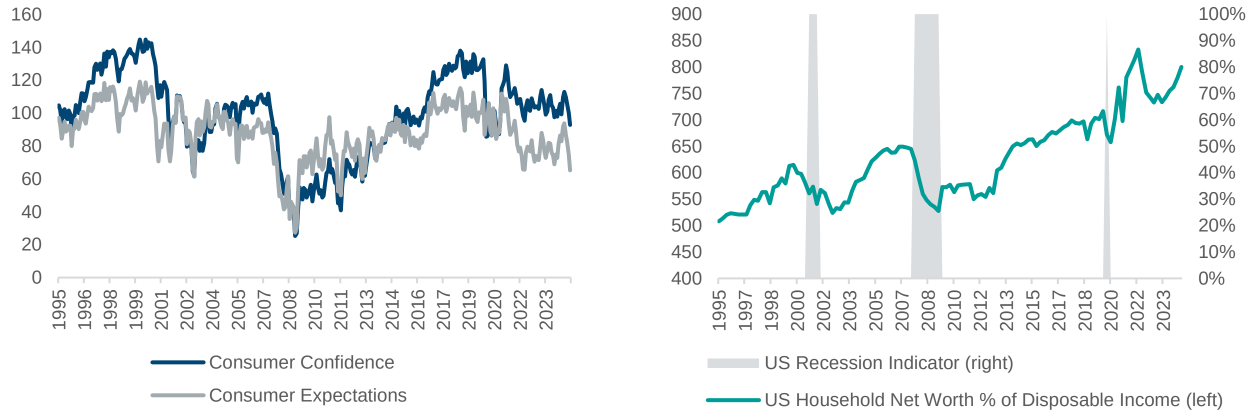
Source: Bloomberg

Household wealth, a hedge for income expectations

Consumer confidence and expectations – key gauges of short-term outlooks on income and labour conditions – have fallen to four-year (92.9) and 12-year (65.2) lows, reflecting heightened concerns over financial stability and future income. Spending patterns, driven by perceived utility from consumption, reveal a cautious shift: expectations of economic deterioration are prompting reduced risk-asset demand and tighter spending, posing risks to US consumer-driven growth.

Yet paradoxically, household resilience remains robust. Debt-service costs are manageable, while bank deposits and net wealth – ending Q4 2024 at over 8x disposable income – provide a significant buffer against short-term asset declines. Although the number of credit card delinquencies has increased, it remains at a comfortable pre-pandemic level, which does not show signs of financial distress among consumers. This wealth cushion, alongside a strong labour market, mitigates immediate downside risks to consumption.

Figure 11 and 12: Lower household morale buffered by comfortable financial positions



Source: Bloomberg

Corporates not necessarily weaker, but are better priced

The outlook for corporate earnings has deteriorated due to the alleged effects that tariffs will have, as most major sectors have revised forward earnings per share downwards. As a result, many investors have felt the brunt from both a dividend and a pricing perspective – but more so from the latter. The fact is that we are pricing in an escalating trade conflict at an accelerating pace, and investors are therefore facing diminishing marginal returns in an economy that was once very fruitful (in terms of dollar strength, S&P500 returns and GDP growth outlooks). This could make investors hypersensitive to short-term corrections – i.e. fattening equity market tails.

Figure 13: Lower earnings expecations

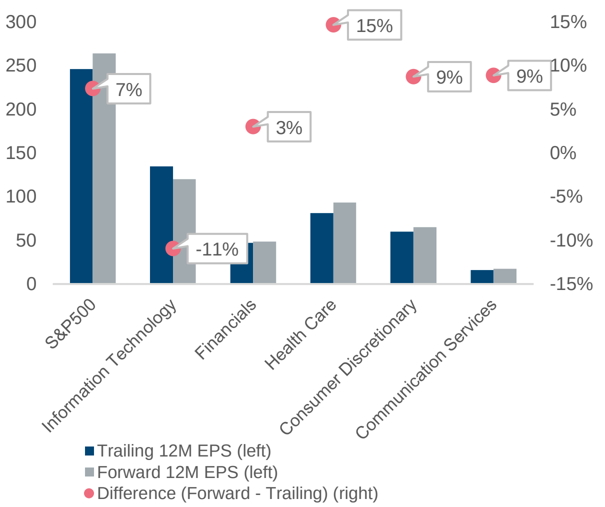
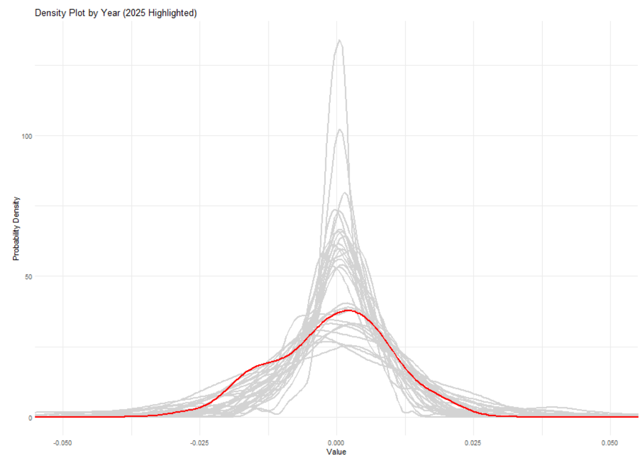


Figure 14: Increased tail risks displayed through fat-tailed S&P500, 2025 daily returns (red line)



Source: Bloomberg

Business confidence dipped to 60.9 in March, reflecting the market's anticipation of the Trump administration's economic agenda. However, this decline contrasted with a concurrent uptick in economic activity: S&P Global's flash US Composite PMI Output Index rose to 53.5 in March, signalling accelerated growth in both the manufacturing and services sectors. Corporate financial conditions remain broadly accommodative, supported by historically high earnings and profits. Firms have also capitalised on favourable credit market conditions over the past 18 months, refinancing debt at advantageous rates. While credit spreads have widened, they remain well below levels that typically signal economic distress or impair debt-servicing capacity. Meanwhile, labour productivity has reverted to pre-pandemic trends, aided by efficiency gains from AI adoption and work-from-home policies, which have reduced input costs and are supportive of stable future corporate margins.

Not yet a worst-case scenario

Persistent supply-side pressures continue to drive inflation above the Federal Reserve's 2% target, with the latest year-on-year figure (February 2025) at 2.8%, fuelled by stubbornly high services inflation. While lower fuel prices – averaging $3.6 per gallon in March compared to $4.0 a year earlier – have provided some relief for households, structural risks such as an aging US workforce, constrained global trade dynamics and the potential resurgence of retaliatory tariffs threaten to entrench higher-for-longer inflation. In response, the Fed has maintained its benchmark rate at 4.25–4.50% since March, with the Federal Open Market Committee (FOMC) revising growth forecasts downwards and inflation projections upwards.

Goldman Sachs now anticipates real GDP growth of just 1.7% year-on-year for 2025, while the Atlanta Fed's measure of current GDP forecasts a more aggressive real GDP contraction of 2.8% year-on-year at the end of March 2025. Coincidentally, the Fed's gradual tapering of its quantitative tightening programme – slowly unwinding bond holdings from its balance sheet – signals subdued confidence in near-term investment and consumer demand. Nevertheless, recession risks remain contained as the New York Fed's yield curve model, which tracks the spread between 3-month and 10-year Treasury rates, assigns only a 28% probability of a downturn within the next 12 months.

Critical uncertainty lies with trade policy. A worst-case scenario could emerge if the Trump administration underestimates the economic fallout from tariffs, triggering retaliatory measures and a destabilising global trade war. Though imports constitute just 30% of US GDP, investor sentiment has grown increasingly reactive to geopolitical noise, amplifying market volatility. While the US economy retains its underlying resilience, these risks underscore a fragile equilibrium between growth momentum and inflationary pressures which could result in a technical recession, if exacerbated.

Figure 15: Atlanta Fed GDP NowCast signals technical recession for Q1 2025

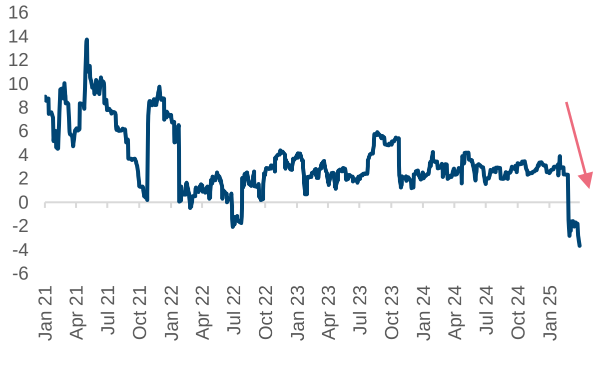


Figure 16: Probability of recession: low relative to 2024

Source: Bloomberg

MACROECONOMIC SHIFTS SHAPING THE WORLD

Global trade policy developments

The global trade landscape has faced renewed turbulence since US President Donald Trump's announcement in February 2025 of a 25% tariff on steel and aluminium imports, with plans to extend similar measures to auto, semiconductor and pharmaceutical imports. These protectionist policies have triggered retaliatory actions from key trading partners, including China, Canada and Mexico, escalating trade tensions. China has imposed tariffs on US$13.9 billion worth of US exports, while Canada and Mexico face looming tariffs that threaten deeply integrated oil, auto parts and fresh produce supply chains. The World Trade Organization (WTO) has warned of prolonged trade wars, which could exacerbate risks to global growth already strained by geopolitical tensions and debt sustainability concerns.

Vietnam emerged as a major beneficiary of trade policies during Trump's previous tenure, where companies like Apple relocated their manufacturing facilities from China to Vietnam to avoid tariffs. This shift bolstered Vietnam's economy and solidified its role as a manufacturing hub in southeast Asia. Other southeast Asian countries, such as Malaysia, also benefited from similar industry relocations, such as electronics and consumer goods. However, these shifts have not significantly increased US manufacturing output – a narrative Trump aims to change by using tariffs to incentivise domestic production and strengthen the US economy.

In contrast, China remains a primary loser in the face of reduced exports to the US, particularly in electronics, footwear and more recently, automobiles, while retaliatory tariffs hurt American farmers and exporters. Canada and Mexico also face significant challenges as the proposed tariffs threaten their economic ties with the US, potentially destabilising North American trade networks. Meanwhile, European economies are bracing for disruption from Trump's proposed 10% universal tariff on imports, which could severely impact trade-dependent sectors like automobiles and chemicals. Across all regions, higher import costs are driving up consumer prices globally while creating economic uncertainty that could lead to stagflation and prolonged financial market instability.

Western central banks are overall dovish

In early 2025, Western central banks switched to more accommodative monetary policies to counter slowing inflation and support economic growth. This coordinated effort saw significant rate reductions across advanced economies, with each central bank tailoring its approach to domestic conditions. The Swiss National Bank (SNB) led the easing cycle and continued this trend with five interest rate cuts by reducing the policy rate from 1.75%to 0.25% in March 2025.

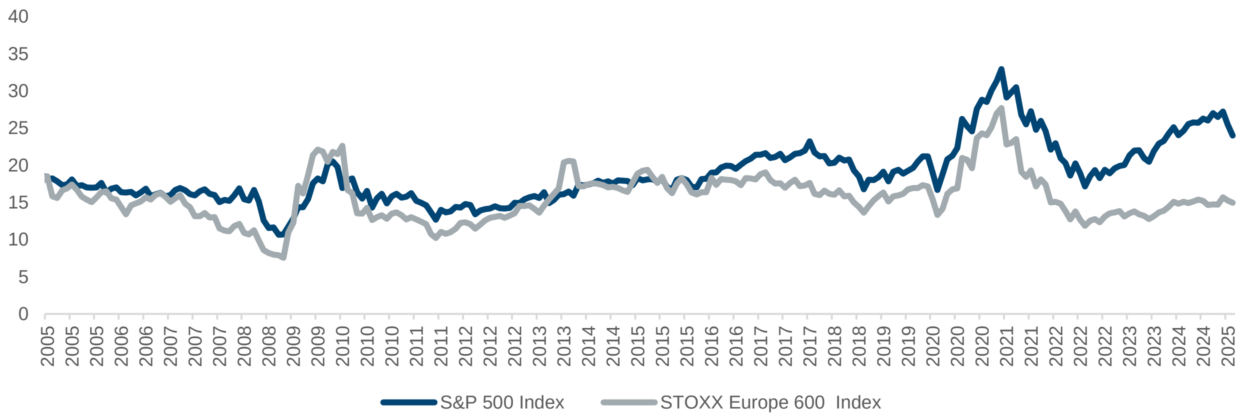
The ECB reduced rates in March 2025 by 25 bps to 4.25%, its marginal lending facility rate to 4.50% and its deposit facility rate to 3.75%. Sweden's Riksbank aggressively trimmed rates six times in quick succession during late 2024 and early 2025, reaching a policy rate of 2.25%. The Bank of England also adopted a cautious easing approach with three cuts between October 2024 and February 2025, settling at a bank rate of 4.50%.

In North America, the Bank of Canada reduced its policy rate by 25 bps in February and March 2025, which brought rates to 2.75%. The US Federal Reserve followed with three cuts beginning in September 2024, including a half-point reduction at that time and two smaller cuts afterwards, bringing its federal funds target range to 4.25–4.50% by early 2025.

These coordinated rate reductions reflect an effort to ease borrowing costs and stimulate economic activity across advanced economies. However, outcomes varied by region. Europe experienced improved market performance due to policy optimism, while the US sent mixed signals, stemming from trade tensions and inflation risks. Despite these measures, central banks remain cautious about balancing disinflationary trends, with potential risks of rekindling inflation or exacerbating financial vulnerabilities in key sectors such as real estate and banking.

European stocks outperformed US equities in Q1 2025 due to several factors that boosted investor confidence in the region. One key driver was the significant valuation gap between the two markets, with European stocks trading at a forward price-to-earnings (P/E) ratio of approximately 14x compared to the much higher 20x–22x seen in US stocks. This made European equities more attractive to global investors seeking value opportunities. Additionally, Europe benefited from fiscal stimulus measures, including Germany's plans to increase defence and infrastructure spending, which helped boost corporate earnings and sector-specific stocks like defence companies.

Figure 17: Price-to-earnings comparison between US and European equities



Source: Bloomberg

AI's impact on global markets

DeepSeek, a Chinese AI startup founded by Liang Wenfeng in 2023, made headlines in January 2025 with the launch of its DeepSeek-R1 model, an open-source reasoning AI that rivals leading US-developed models like OpenAI's ChatGPT – but at a fraction of the cost. Unlike traditional AI models requiring billions in investment and cutting-edge infrastructure, DeepSeek achieved comparable performance using innovative techniques such as mixture-of-experts architecture and reinforcement learning. This approach not only challenges assumptions about AI scalability but also democratises access to powerful tools, making advanced AI capabilities accessible to smaller players globally.

The disruptive impact of DeepSeek's innovations extends beyond technology into economic and geopolitical domains. The announcement of DeepSeek-R1 triggered a US$600 billion drop in Nvidia's market value and led to broader selloffs in US tech stocks, raising concerns about shrinking demand for high-performance chips. The model's affordability (20 to 50 times cheaper than OpenAI's equivalent) has reshaped industry dynamics and called into question Silicon Valley's strategy of massive investments in AI infrastructure. Furthermore, DeepSeek's rise symbolises China's growing technological self-sufficiency, challenging long-standing perceptions of its tech sector as a follower rather than a leader. This AI race has intensified geopolitical tensions, with the US considering imposing tighter export restrictions on AI chips to China

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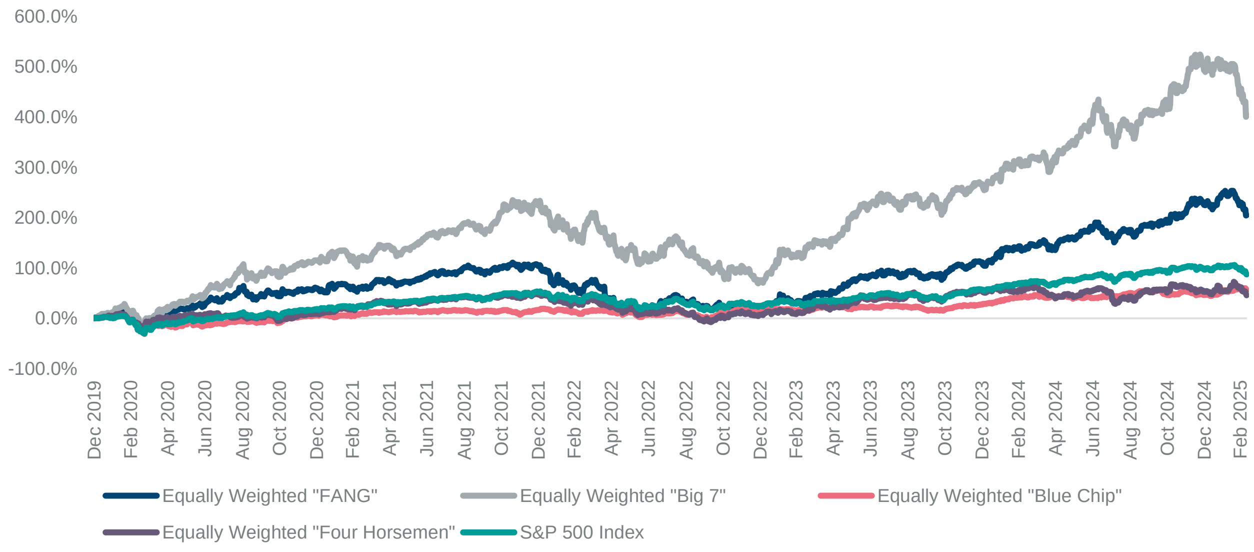
Figure 18: US equity performance



Source: Bloomberg

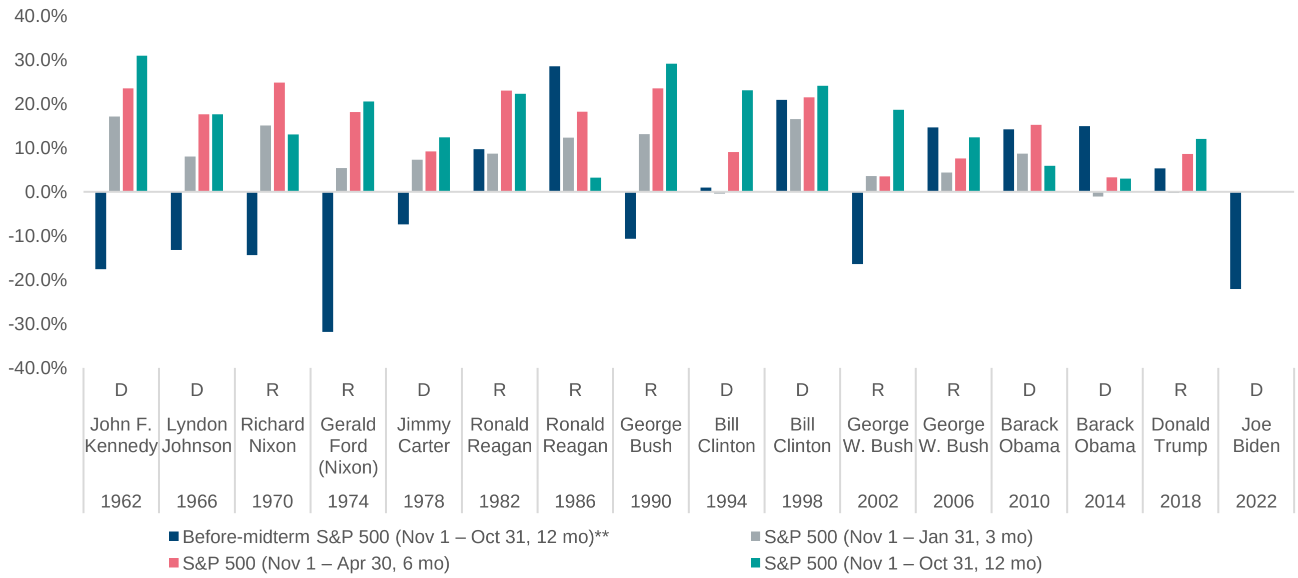
BALLOTS, BILLS AND BRETTON: US MACRO RISK IN FOCUS

As 2025 progresses, the US has become the epicentre of global macroeconomic risk. A confluence of factors – electoral brinkmanship around the 2026 mid-terms, swelling deficits under President Trump's fiscal agenda, institutional turbulence (including a new Department of Government Efficiency) and an accelerating shift away from the dollar – are roiling markets. Meanwhile, US foreign policy moves – from halting aid to Ukraine, to sanctioning South Africa over land reform – are amplifying uncertainty for allies and emerging markets.

Mid-terms, mandates and market moves

The 2026 US mid-term elections are already influencing market positioning, with investors preparing for four core scenarios based on control of Congress: full Republican control, full Democratic control or split chambers – Republican House with Democratic Senate, or vice versa. Historically, equity markets have underperformed in the year leading up to mid-terms (averaging around -1.1% returns) but rallied strongly (averaging +16% over the subsequent 12 months), as political uncertainty fades and policy direction firms.

Figure 19: Mid-term elections and market moves: A 60-year look at the S&P 500



Source: Bloomberg data, US 31 October 1961–3 October 2022

A Republican sweep may spur fiscal stimulus and tax cuts, lifting equities and steepening the Treasury curve. A split Congress, however, may reassure markets with the prospect of policy stability. For emerging markets like South Africa, the run-up to US elections often drives short-term volatility in currency and bond markets, tied more to yield expectations than policy substance.

Taxes, treasuries and tipping points

President Trump's expansive fiscal agenda is delivering near-term growth at the cost of long-term fiscal stability. According to the Congressional Budget Office, federal debt is on track to rise from roughly 98% of GDP in 2024 to over 130% by the early 2030s, driven by unfunded tax cuts and spending increases. Interest costs are surging, and bond markets are reacting. Bloomberg yield curve data shows a sharp steepening in early 2025, as investors demand higher compensation for long-term fiscal risk. Breakeven inflation rates are hovering near 2.4%, reflecting expectations of persistent price pressure. With borrowing needs approaching 6.2% of GDP annually, the US fiscal burden continues to expand, with long-term implications for bond supply and sovereign credibility.

Figure 20: The long-term budget outlook by fiscal year

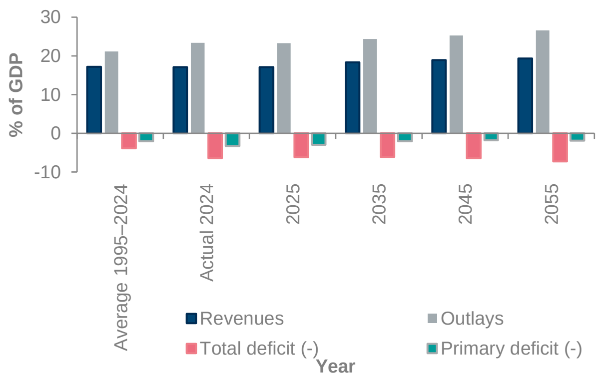
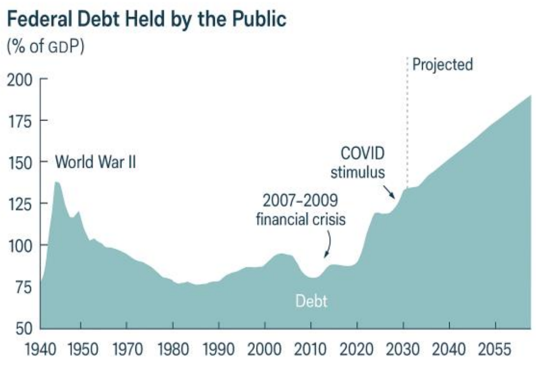


Figure 21: The long-term debt outlook



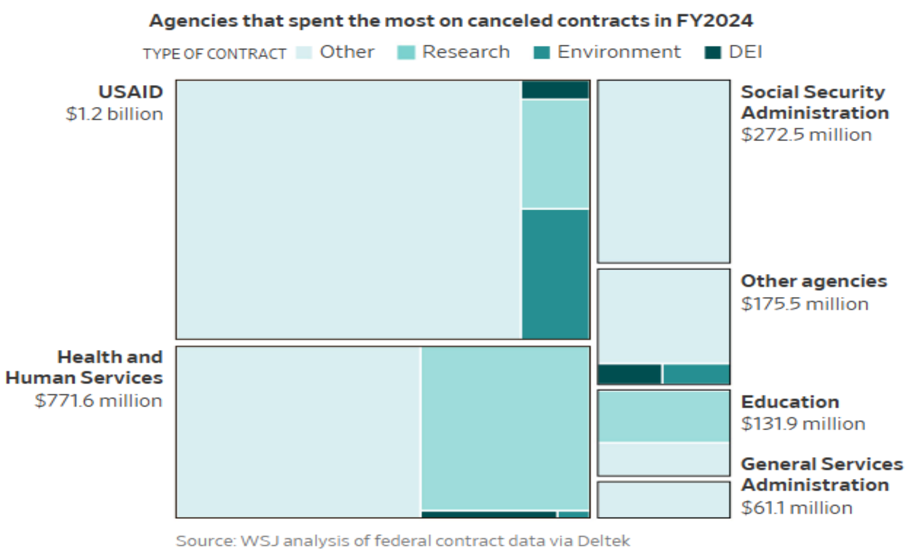
Source: Congressional Budget Office

Cuts, claims and credibility

The Department of Government Efficiency (DOGE), launched in 2025 under the Trump administration and headed up by South African–born Elon Musk, captures the tension between political ambition and fiscal reality. Marketed as a radical cost-saver, DOGE claims to have slashed federal expenditure by tens of billions of dollars through mass layoffs, agency closures and contract cancellations. However, independent audits reveal the actual fiscal benefit to be negligible. A widely cited example – a cancelled US$8 million contract logged as an US$8 billion saving – illustrates the scale of misreporting. Verified savings are closer to US$2 billion, a negligible amount that underscores growing distrust in official budget figures.

While DOGE's fiscal footprint is limited, its institutional reach is far more consequential. By securing access to sensitive economic infrastructure – including datasets from the Bureau of Labor Statistics – DOGE has triggered legal challenges and heightened investor fears about the politicisation of official US macroeconomic data.

Figure 22: 2024 Federal government contract terminations



Source: A WSJ treemap of federal contract cancellations in FY2024 – prior to DOGE's formation – shows less than US$3 billion in terminations across major agencies. DOGE's claimed savings in 2025 dwarf this baseline, highlighting the credibility gap.

Reserves, realignment and rising alternatives

The global monetary landscape is no longer anchored solely to the US dollar. What began as a theoretical hedge – de-dollarisation – is now codified in reserve strategies across BRICS and other geopolitically aligned economies. The IMF's COFER data shows that the dollar's share of global foreign exchange reserves has dropped to roughly 58% – a multi-decade low. In response to US sanctions and rising geopolitical tensions, countries like China and Brazil began settling some trade transactions in yuan as early as 2023, while Gulf energy exporters are exploring non-dollar oil pricing mechanisms. Meanwhile, 2024 marked an inflection point: central banks bought a record 1,037 metric tons of gold, making it the highest annual total on record and signalling sustained diversification into hard assets. Although over 80% of global trade remains dollar-denominated, there are deliberate but measured efforts to adopt multi-currency reserve structures. The move away from dollar reserves may reduce structural support for US Treasuries, placing upward pressure on yields, even in the absence of Federal Reserve action. For emerging markets like South Africa, reserve diversification offers potential monetary flexibility but increases exposure to capital flow instability and geopolitical risk repricing.

These actions highlight the fast-evolving nature of American foreign policy under Trump: strategic alliances are no longer underwritten by default fiscal support and global investors must now weigh diplomatic alignment with fundamentals when assessing sovereign risk. For emerging markets like South Africa, this creates a new volatility regime – one where political signalling can drive capital flows as much as macroeconomic data. The implication for portfolio managers is clear: geopolitical scenario planning is no longer optional, but integral to asset allocation decisions.

APPENDIX

Financial Market Performance as at 31 March 2025 (in ZAR)

	1 mth	3 mths	YTD	1 yr.	3 yr. (p.a.)	5 yr. (p.a.)	7 yr. (p.a.)	10 yr. (p.a.)
Local Equity Indices								
FTSE/JSE All-Share Index (ALSI)	3.6%	5.9%	5.9%	22.9%	9.4%	19.1%	10.8%	9.0%
FTSE/JSE Resources 20 Index	20.9%	33.7%	33.7%	23.1%	-1.9%	18.8%	15.3%	9.7%
FTSE/JSE Industrials Index	-0.3%	3.1%	3.1%	21.4%	16.4%	16.2%	9.6%	8.1%
FTSE/JSE Financials Index	0.2%	-1.8%	-1.8%	28.7%	10.0%	21.7%	6.4%	5.9%
FTSE/JSE Shareholder Weighted Index (SWIX)	3.6%	5.9%	5.9%	22.9%	8.3%	16.8%	8.1%	7.0%
FTSE/JSE Capped SWIX Index (Capped SWIX)	3.6%	5.8%	5.8%	22.9%	8.2%	18.7%	8.2%	6.8%
FTSE/JSE All-Share Top 40 Index	4.1%	8.5%	8.5%	22.8%	9.6%	19.0%	11.3%	9.4%
FTSE/JSE SWIX Top 40 Index	4.1%	8.5%	8.5%	22.8%	8.3%	16.1%	8.1%	6.9%
FTSE/JSE Mid Cap Index	3.7%	0.1%	0.1%	19.7%	6.4%	17.1%	6.3%	5.7%
FTSE/JSE Small Cap Index	-0.3%	-7.1%	-7.1%	27.3%	13.1%	28.8%	10.3%	8.5%
FTSE/JSE Listed Property Index (SAPY)	-0.9%	-3.5%	-3.5%	19.8%	11.7%	19.0%	2.3%	1.4%
FTSE/JSE Capped Listed Property Index	-1.5%	-4.2%	-4.2%	20.1%	11.0%	18.1%	0.4%	-0.7%
FTSE/JSE SA All Property Index	-1.5%	-4.2%	-4.2%	20.1%	11.1%	18.4%	1.4%	0.4%
Local Interest-Bearing Indices								
FTSE/JSE All-Bond Index (ALBI)	0.2%	0.7%	0.7%	20.2%	9.8%	11.7%	8.3%	8.4%
FTSE/JSE All-Bond Index 1 - 3 years	0.8%	2.1%	2.1%	11.0%	8.5%	8.2%	8.0%	8.1%
FTSE/JSE All-Bond Index 3 - 7 years	1.0%	2.0%	2.0%	17.7%	10.1%	11.1%	9.2%	9.1%
FTSE/JSE All-Bond Index 7 - 12 years	0.4%	0.9%	0.9%	21.9%	11.3%	12.8%	9.3%	9.1%
FTSE/JSE All-Bond Index +12 years	-0.7%	-0.7%	-0.7%	24.0%	9.3%	12.2%	7.8%	7.9%
Inflation Linked Government Bonds (IGOV)	0.0%	0.6%	0.6%	8.9%	6.5%	9.3%	5.2%	5.3%
Short-Term Fixed Interest Composite Index (SteFi)	0.6%	1.9%	1.9%	8.4%	7.5%	6.2%	6.5%	6.7%
Inflation Index								
Consumer Price Index (1 month lagged)	0.9%	1.3%	1.2%	3.2%	5.2%	4.8%	4.7%	5.0%
International Indices								
MSCI World Index	-5.9%	-4.5%	-4.5%	4.6%	16.6%	17.4%	17.9%	14.7%
MSCI Emerging Market Index	-0.9%	0.1%	0.1%	5.7%	9.9%	9.1%	8.6%	8.5%
MSCI All Country World Index	-5.4%	-4.0%	-4.0%	4.7%	15.9%	16.4%	16.8%	14.0%
FTSE World Government Bond Index (WGBI)	-0.9%	-0.3%	-0.3%	-0.7%	4.7%	-2.4%	4.9%	4.2%
S&P Global Property	-3.5%	-1.5%	-1.5%	2.6%	4.9%	7.5%	9.3%	7.4%
USA S&P 500	-7.1%	-7.0%	-7.0%	5.3%	17.6%	19.3%	20.6%	17.3%
UK FTSE 100	-1.2%	6.3%	6.3%	11.3%	16.4%	14.2%	12.4%	9.4%
Euro STOXX 50	-1.6%	9.2%	9.2%	3.1%	21.1%	16.5%	14.1%	10.7%
Japan Nikkei 225	-4.6%	-8.1%	-8.1%	-11.7%	11.4%	9.0%	11.2%	10.6%
Currency Movement								
Rand/Dollar (R18.37= 1 Dollar)	-1.6%	-2.8%	-2.8%	-2.7%	7.9%	0.6%	6.5%	4.2%
Rand/Euro (R19.86= 1 Euro)	2.3%	1.5%	1.5%	-2.5%	7.0%	0.3%	4.5%	4.3%
JPY/Rand (8.16 Japanese Yen= 1 SA Rand)	1.3%	-1.9%	-1.9%	1.9%	-0.6%	6.2%	-1.4%	-1.9%
Rand/Pound (R23.7= 1 Pound)	0.9%	0.2%	0.2%	-0.5%	7.2%	1.4%	5.2%	2.8%

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