MARKET COMMENTARY - QUARTER ENDED 31 MARCH 2025

There were divergent performances in global equity markets in the first quarter of 2025. US equity markets fell, while those of Europe and emerging markets rose. Value stocks outperformed their growth counterparts. The Trump administration's vacillation over US tariff policy created increased uncertainty among consumers and businesses, dimming the growth outlook for the world's largest economy. In Europe, the fiscal response was much stronger than many had been anticipating.

Government bond prices fell during the period as yields rose. Commodities rose, boosted by strong price gains in gold and silver. The US Dollar declined against the Yen, the Euro, Sterling by 4.9%, 4.5% and 3.2% respectively.

INDEX	3 MTH TOTAL RETURN IN USD (%)	3 MTH TOTAL RETURN IN EUR (%)	3 MTH TOTAL RETURN IN GBP (%)
MSCI WORLD	-1.8	-5.9	-4.7
S&P 500 (US)	-4.3	-8.2	-7.1
FTSE EUROPE EX-UK	10.9	6.4	7.6
FTSE ALL SHARE (UK)	7.7	3.3	4.5
TOPIX (JAPAN)	1.5	-2.7	-1.5
MSCI EMERGING MARKETS	2.9	-1.3	-0.1
MSCI ASIA EX- JAPAN	1.8	-2.4	-1.2

The US

The S&P 500 Index fell by 4.3% in US Dollars and the tech-heavy Nasdaq Composite Index fell by 10.8%.

Investors grappled with concerns that tariff policies and potential trade wars could re-ignite inflation and derail the economic outlook. They also feared that public sector jobs cuts planned by DOGE (the new Department of Government Efficiency) could put pressure on US consumers. The University of Michigan's consumer sentiment index for March came in at 57.0, well below February's 64.7 reading.

The Federal Reserve (Fed) held its key rate at the target range of 4.25 – 4.50% as expected at its March meeting, but lowered its growth forecasts and increased inflation projections due to the potential impact of tariffs. Fed Chairman, Jerome Powell, did however leave the door open to future rate cuts, suggesting that the Fed was more concerned about the downside risks to growth than the upside risk to inflation.

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Europe

Eurozone

The FTSE Europe ex-UK Index rose by 6.4% in Euros and by 10.9% in US Dollars.

The more confrontational approach from the new US administration had a galvanising impact on European policymakers. European Commission President, Ursula von der Leyen, announced her proposal for ReArm Europe which could mobilise close to EUR 800 billion for a safe and resilient Europe.

The European Central Bank (ECB) was also positive about the prospect of further fiscal stimulus ahead. ECB President, Christine Lagarde, praised the change in approach at the central bank's March meeting. Eurozone interest rates were cut twice during the quarter.

Despite the threat of higher tariffs from the US, German equities soared as the incoming government proposed a massive fiscal stimulus package targeted at defence and infrastructure spending. Total spending over the next 10 years is expected to amount to €1 trillion. German leaders said that the dramatic change is necessary to counteract worsening trade and geopolitical tensions between the US and Europe. German equities rose by 16%.

UK

The FTSE All Share Index rose by 4.5% in Sterling and by 7.7% in US Dollars.

Following a deterioration in the fiscal outlook, UK Chancellor Rachel Reeves was forced to announce new spending cuts amounting to £8.4 billion to comply with the government's fiscal rules. Despite these policy changes, UK equities outperformed many other regions during the quarter.

Japan

The TOPIX Index fell by 3.4% in Yen but rose 1.5 % in US Dollars.

February core inflation was higher than expected at 3.2%, above the Bank of Japan's (BoJ's) 2% target for the 35th consecutive month. Japanese nominal wages rose at the fastest pace in nearly thirty years, climbing by 4.8% in December from a year earlier. At its January meeting, the Bank of Japan (BoJ) raised its short-term policy rate from 0.25% to 0.50%, the highest level since the 2008 global financial crisis. This was a widely expected move that supported financial stocks, particularly banks.

US tariffs loomed over the manufacturing sector. The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index (PMI) fell from 49.0 in February to 48.4 in March.

Emerging Markets

The MSCI Emerging Markets Index rose by 2.9% in US Dollars.

China: The MSCI China IMI Index rose by 15.0% in US Dollars. China announced that it would target growth of around 5% for a third consecutive year in 2025 and raised its budget deficit target to 4% of GDP. Stimulus measures such as interest rate cuts, support for the country's property sector and liquidity injections helped to stabilise the economy and restore investor confidence. Advances in artificial intelligence by Chinese companies also led investors to re-evaluate China as a leader in the technology sector.

***Brazil**:* The MSCI Brazil IMI Index rose by 14.0% in US Dollars. Brazilian equities rose strongly and the Real strengthened by 7.9% against the US Dollar. Inflation remains above the central bank's target and the policy rate has been raised three times since the start of the year.

India: The MSCI India IMI Index fell by 3.0% in US Dollars. A continued economic slowdown coupled with high corporate valuations sparked a major selloff which reversed in March after investors believed the market to have bottomed out.

South Africa: The MSCI South Africa IMI Index rose by 13.8% in US Dollars.

INDEX	3 MTH TOTAL RETURN IN ZAR (%)	6 MTH TOTAL RETURN IN ZAR (%)	12 MTH TOTAL RETURN IN ZAR (%)
FTSE JSE TOP 40	8.5	3.7	19.1
FTSE JSE RESOURCE 10	33.7	18.7	19.9
FTSE JSE FINANCIAL 15	(1.7)	(4.6)	22.7
FTSE JSE INDUSTRIAL 25	4.3	2.7	18.4

The Economy

Among the key state-owned enterprises (SOE's), rail, port and Eskom's performances are all better than the lows in 2023 but have stopped improving of late. Similarly, business confidence has recently also stopped improving, perhaps influenced by uncertainty generated by US tariff policy under President Trump and friction in the GNU over SA VAT. While South Africa may well still be in a cyclical recovery spurred by consumer spend and an acceleration in Europe and China, there are still long-term binding constraints on growth that have yet to be addressed. With CPI inflation at 2.7%, the real (after-inflation) repo rate remains very elevated at 6.8% despite a small decrease of 0.25% in January 2025. With unemployment around 30% and no excess consumer demand, we simply cannot understand the need for such high real interest rates which appear to be in the SARB's misplaced belief that they will avert Rand weakness.

The JSE

Despite a moribund economy, South African assets have rallied strongly over the past year. South African equities have outperformed global equities, South African bonds outperformed global bonds and South African listed property outperformed global property. However the above-mentioned uncertainties gave cause for pause in the past quarter and a resumption of the bullish trend depends largely on reduction of these uncertainties.