STANLIB
MULTI-MANAGER

Market Commentary

Quarter 2, 2025

Markets whipsawed, fuelled by war games and tariffs truce

Global markets have seen significant volatility since President Trump announced the so-called reciprocal levies in a sweeping executive order on 2 April. The plan to use tariffs to reset the world moved the US as a trusted partner in trade agreements and global security, to a source of confusion and doubt in mere weeks.

Trillions of dollars in market value have been shed and regained amid weeks of delays, reversals and announcements about potential trade deals. However, markets have largely put this behind them, with the de-escalation of tariffs between the US and China a major catalyst together with the ceasefire implemented between Israel and Iran, spurring optimism there will be a lasting pause in the conflict. This calmed investors and risk assets quickly recovered.

The MSCI AC World Index ($) gained 11.5% in Q2. The DXY dollar index, which tracks the strength of the dollar against a basket of major currencies, ended the quarter down 7.1%. Trade-related uncertainties, ballooning fiscal debt and weakened confidence about enduring US exceptionalism have weighed on the dollar. This boosted the returns of international indices for dollar investors over the quarter. This was a particular tailwind for European equities. After a strong first quarter of the year, UK and European markets underperformed in Q2. However, the dollar weakness against the euro meant that in dollar terms, European equities managed to gain 12.7%. The MSCI Emerging Market Index was up 12.2% in dollar terms.

Bond markets also whipsawed — the Bloomberg Global Aggregative Bond Index ($) gained a respectable 4.5% in Q2. European government bonds made the biggest contribution, after the European Central Bank (ECB) cut rates twice. US Treasury yields remained range bound over the quarter, with the benchmark 10-year Treasury yield at 4.2%, after climbing as high as 4.58% in May.

Global equities
▲ 11.5%
(MSCI AC World Index)

Dollar weakness
▼ -7.1%
(MSCI AC World Index)

Global bonds
▲ 4.6%
(Bloomberg Global Aggregate Index)

US — from tariff pain to record highsc

Fed maintains 'wait-and-see' approach

Robust corporate earnings and solid economic data suggest that growth in the US remains resilient. The US added more jobs in June than economists anticipated, and the unemployment rate dropped to 4.1%. Data showed consumer prices i.e. CPI rose at a muted pace last month from 2.3% to 2.4%, defying concerns that tariffs would start to rekindle inflation. Despite a resilient economy, the Fed is challenged with a stagflation 'dilemma' with potential higher inflation numbers that may keep interest rates at current levels for longer. On the other hand, if employment numbers worsen, they may consider cutting rates in the second half of the year — getting the balance right is key.

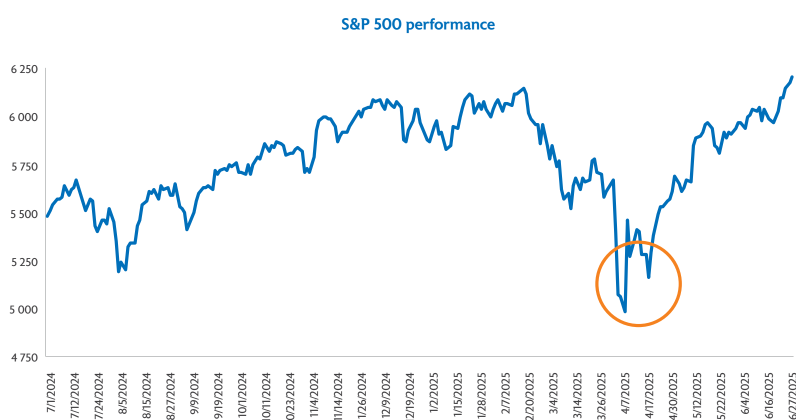
At its June meeting, the Fed decided to remain watchful and kept interest rates unchanged at a range of 4.25% to 4.50%. The unknown inflationary impact of the increase in US import tariffs together with the likely fiscal stimulus impact — Trump's Big Beautiful Bill — later this year has contributed to the Fed keeping interest rates on hold.

Economic growth contracted for the first time in three years, with GDP shrinking at an annual rate of 0.5% in the first quarter of 2025. Growth is still expected to be a positive 1.4% for 2025, but lower than the 2.4% of 2024. US consumer spending declined in May by the most since the start of the year, indicating elevated uncertainty around the Trump administration's economic policies is increasingly weighing on the outlook for growth. Bond futures traders currently see roughly a 77% chance that the next rate cut will happen in September.

Wild quarter on Wall Street

The S&P 500 and Nasdaq composite closed the quarter at all-time highs, extending a head-spinning round-trip from the stock-market rout in early April. Markets have moved higher on tariff postponement and the perception that they will be more moderate than initially announced. Investors may not think the economy is taking off, but they are probably relieved that the worst-case scenarios feared in recent months have not come to pass.

The S&P 500 Index added 10.9%, reversing steep losses that brought the S&P 500 within striking distance of a bear market in April. The S&P 500 is up 25% since hitting its low point on 8 April. The Nasdaq Composite finished the quarter up 17.9%. At a sector level in the S&P 500, technology (+22%) and communications (+19%) led the outperformance while energy (-8%) and healthcare (-6%) underperformed. Notably, energy and healthcare were the top performing sectors in Q1.



Source: Macrotrends.net.

Along with technology and communications, new highs were reached by the industrial and financial sectors, which may suggest the economy is stronger and holding up better than expected amidst the widespread uncertainty. Heavyweights such as NVIDIA, Microsoft and Meta, have shown robust revenue growth, fuelled by AI adoption and cloud expansion.

While the current momentum is encouraging, ongoing uncertainties around trade policies and economic indicators suggest that volatility may persist. What happens on 9 July, when the clock strikes midnight on what some call 'Liberation Day 2.0' is anyone's guess. It could be a non-event with additional tariff deadline extensions in the offing. It might be a day of long-promised trade deals that have yet to materialise, or it could be a day when the hammer comes down and tariffs are simply dictated.

FactSet estimates that the year-over-year EPS growth for the second quarter will be a mere 5%. This slowdown in earnings growth is a stark contrast to the robust performance that has driven the market to its recent highs and could put pressure on the market's current record-high valuations, potentially leading to a period of recalibration. The forward 12-month PE ratio of the S&P 500 is 21.9 versus the 5-year and 10-year averages of 19.9 and 18.4, respectively.

China — economy shows resilience

The Chinese economy expanded 5.4% in the first quarter, getting a boost from a rush of exports headed to the US before extra tariffs are levied. In June, US and Chinese policymakers reached an agreement in principle to bilaterally ease trade restrictions. While details around the agreed-upon framework remain vague, reports suggest the focus is on the US reducing export controls of technology goods to China in exchange for access to rare-earth minerals. It seems very likely that the US underestimated the leverage China has regarding the supply of specific rare earth minerals.

Chinese consumers and companies have been reluctant to spend because of the property meltdown and concern over the economy's fate with the US tariffs. To further bolster the economy, the People's Bank of China cut the one and five-year loan prime rates in May. Data suggests that the government's fiscal efforts to pump up consumption are bearing fruit. China's retail sales saw a 6.4% year-on-year increase in May.

Europe — inflation target reached

In Europe, the central bank cut interest rates in June for the fourth time this year, from 2.25% to 2.00%, seeking to prop up a eurozone economy that was struggling even before erratic US economic and trade policies dealt it further blows. Inflation in the eurozone crept up in June, hitting the European Central Bank's target of 2% and raising expectations that policymakers will leave the key interest rate unchanged in July. The ECB left its projection for euro area GDP growth this year unchanged at only 0.9%.

Equity markets increasingly difficult to ignore

European shares outperformed their US peers by the biggest margin on record in dollar terms during the first half of this year, the most dramatic sign of how the region's markets are staging a comeback after more than a decade in the doldrums. Europe has become a big beneficiary as governments boost spending while its central bank slashes interest rates. European equities currently trade at significant valuation discounts relative to the US, with forward price-to-earnings (P/E) multiples around 12x versus approximately 22x for the US market.

UK — growth remains sluggish

The Bank of England left interest rates unchanged at 4.25% in June, after a rate cut in May. The central bank warned that "global uncertainty remains elevated" with energy prices rising due to the escalation of the conflict in the Middle East.

Although the economy grew more than expected in the first quarter of 2025, growth has been sluggish and analysts warn that the disruption and uncertainty caused by US trade tariffs could limit growth in the latter part of the year. In April, the International Monetary Fund cut its forecast for 2025 global growth — and reduced its prediction for the UK from 1.6% to 1.1%.

Japan — narrow path ahead

The Bank of Japan (BoJ) has raised rates by only 60 basis points since March 2024, when it abandoned its negative interest rate policy. It held its policy rate at 0.5% in June, saying that it views the spike in inflation as temporary. Japan's inflation rate is currently at 3.50%.

Growth concerns are another reason why the BoJ is holding back on raising rates. Higher rates generally help to curb inflation, but they can also constrain economic growth. Last year, the economy only grew by 0.17% and averaged only 0.5% over the past decade. Escalating tensions in the Middle East and US tariffs are complicating the BoJ's task of raising still-low interest rates and reducing a balance sheet that has ballooned to roughly the size of Japan's economy. Last year, the BoJ ended its bond yield curve control and began tapering its huge bond buying.

> *"The BoJ faces a tough, narrow path ahead, needing to raise fast enough to prevent inflation expectations from shooting up, but not so fast as to see the economy fall back into its earlier deflationary morass."*
>
> Frederic Neumann -Chief Asia Economist, HSBC

South Africa — GNU still intact as the JSE hits new all-time high

During the quarter we witnessed the emergence of several threats to the stability of the GNU, ranging from getting the budget approved to the firing of a deputy minister from the Democratic Alliance (DA). The DA withheld its support for the original budget proposal, opposing the planned VAT hike, forcing a revised draft from Treasury. Finance Minister, Enoch Godongwana, eventually presented a less controversial budget 'version3.0', which includes some budget cuts but also lower revenue forecasts. Government debt is projected to stabilise at 77.4% of GDP in the 2025/26 fiscal year, which is higher than the 76.2% projected in March, and VAT will remain at 15%.

The SARB announced a 25bp cut to the benchmark repo rate in May — the prime lending rate is currently 10.75%. Inflation is now well under control — 2.8% year on year as of May — but growth remains a big challenge at a projected rate of 1.6% this year. Research released by the Stellenbosch-based *Bureau of Economic Research* bolsters the case for the SARB to again cut interest rates by 25 bps to 7% when it delivers its next decision at the end of July.

The equity market rallied despite global headwinds

It was another strong quarter for the local market, despite uncertainty in global markets over the outcome of US tariff negotiations. We observed notable strength in local asset classes and the rand appreciated by 3.4% against the US dollar, reflecting improved domestic economic fundamentals, diminished inflationary pressures, and a weaker dollar.

The JSE All Share Index gained 10.2% in Q2 and 16.7% for the year to date — heading for the 100 000 level. To put this performance in perspective, it should be noted that the local market outperformed the broader emerging markets index in dollar terms. The Industrial sector made the biggest contribution in Q2, gaining 12%. The big consumer index stocks produced robust financial results. This included *Richemont*, *AB InBev* and *British American Tobacco*, together with tech giants *Naspers/Prosus*.

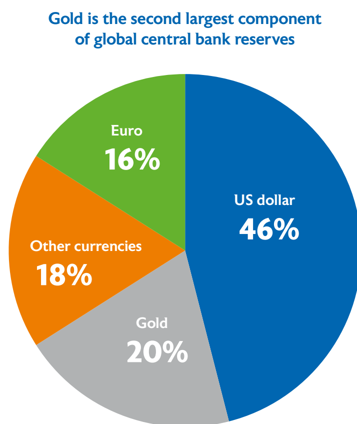
SA equities
▲ 10.2%
(All Share Index)

Year-to-date, the overall surge in the market came from the strong performance of gold and platinum shares. *AngloGold* gained 80%, *Goldfields* 61%, and *Harmony* 53%, while platinum share, *Northam* rose 94%, *Impala* 70%, *Sibanye* 96%, and *Valtierra* 38% (formerly known as Anglo American Platinum).

Gold, the new darling

The dollar gold price has increased 26% this year, as an expanding US-led tariff war boosted its safety appeal and central banks maintained elevated levels of buying, including diversification away from the US dollar. Record-high purchases and a blistering rally in prices saw gold overtake the euro as the second-largest asset in the reserves of the world's central banks. The share of gold in global foreign reserves at market prices reached 20% at the end of 2024, surpassing the euro at 16%.

Gold is the second largest component of global central bank reserves



Source: ECB, IMF, Bloomberg.

After three years of stubbornly low prices, platinum soared to its highest level in more than a decade — up 50% YTD, propelled by a sharp rise in Chinese imports, persistent supply concerns, and renewed investor interest in the metal used in catalytic converters, jewellery and electronic items. Platinum output in South Africa — by far the world's largest producer — has declined this year amid heavy rains and other disruptions. That has helped to underpin the price gains, boosting the platinum shares. Silver also emerged as one of the top-performing commodities this year, gaining 25%. Silver is a key component in photovoltaic cells used in solar power.

Bonds – lower inflation boosted returns

The All Bond Index was up 5.8% in Q2 and 6.6% YTD. The bond rally has been supported by inflation that eased to a five-year low of 2.8% year-on-year. Also providing support was the final version of the budget that provided some reassurance about the credibility of fiscal policy and added impetus to a bond rally that has seen yields on benchmark government securities falling to their lowest levels in more than six months. The 10-year yield on the Government bond ended the quarter 65 bps lower at 9.9%.

SA bonds
▲ 5.8%
(All Bond Index)

Investor sentiment also improved after the rate cut in May and on signs that the central bank is working with the Treasury to lower its inflation target to 3%. If the SARB is successful in pushing the target rate lower, the net result will be a lower repo rate and lower bond yields. A lower inflation target and revised borrowing strategy could save the government up to R870 billion in debt-service costs, according to a report by SARB.

Money market assets gained 1.86% in Q2 and 3.79% for the year-to-date.

Conclusion — patience remains the name of the game

The current global environment and market conditions underscore the value of staying invested through periods of uncertainty. Anything can happen in the short term, as this year has already shown. Patience and well-diversified portfolios remain key. As always, your financial plan should remain aligned to your goals, time horizon, and risk tolerance, and not be dictated to by temporary market noise.

> *"The stock market is a device for transferring money from the impatient to the patient."*
>
> \- Warren Buffett

Albert Louw
STANLIB Multi-Manager

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