INTUITION
07 MARCH 2025

Don't poke the bear!

About fifteen years ago, my wife and I went on a guided 4x4 trail with friends through the Mozambiquan portion of the newly expanded Kruger Park – a fun week exploring new territory. As is customary, practical jokes were common, but I found myself at the receiving end of many of them. After a few days, my sense of humour started to wear thin. One evening, around the fire, our guide gently suggested to the group "not to poke the bear". He could sense a change in mood. The trip continued and all was well. But that phrase has stuck and is a reminder of a fun few days. We are only two months into 2025, yet there have been plenty of "surprises" – not least around politics after President Trump's inauguration. One can't help but feel that some of our political actions are "poking the bear." What implications does this have for our outlook for the year?

SPEED READ

- **Since President Trump's inauguration, US foreign policy has changed significantly.**
- **This has been coupled with aggressive government spending cuts and a significant change in attitude towards diversity, equity and inclusion (DEI) policies.**
- **Already the implications of a stronger dollar and the possibility of higher inflation due to tariffs are filtering through to global markets, including SA.**
- **Unfortunately, SA finds itself in America's crosshairs. We can ill-afford to "poke the bear" given our tight fiscal position and weak growth.**
- **For now, we remain of the view that SA will benefit from reform and an acceleration in growth. But this situation is fluid. We will increase rand hedge exposure if deemed appropriate.**

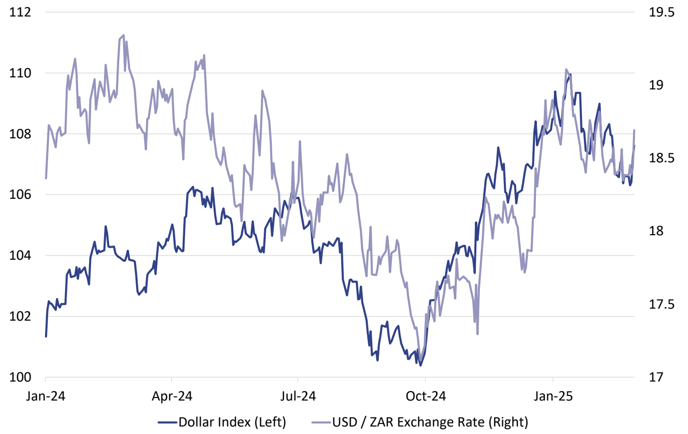
Michael Porter

This article is not intended to be a political commentary at all. Clients and investors are well read and there are far more competent political analysts than me to comment on unfolding events globally. But whether it be rising tariffs, global security, the Israeli / Hamas war or the Ukraine War, one thing is becoming abundantly clear – there is a new sheriff in town! Indeed, Mr Vance has used this expression on many occasions to signal that the manner in which the US will be conducting its foreign policy in the future is changing. Gone are the days of a "free ride" – if ever that was the case in the first place. Now, it appears to be a case of "if you want something from America, show us what you can do for us first. Otherwise, we're not interested."

At the same time, the US is embarking on a radical cost-cutting exercise as well as purging DEI policies. I don't think anyone would argue that governments globally have become bloated and inefficient over the past fifty years. We all complain about it. Most governments are so bloated they don't even know how our hard-earned taxes are spent. It is just a black hole. All governments - including our own - should be cost cutting and reviewing how they spend their money. On the face of it, this is long overdue, and other governments would do well to take note. But in true US style, the Department of Government Efficiency (DOGE), under Musk, is taking a cleaver to government spending. USAID is the most high-profile casualty so far, but employment and other programs are also in the firing line. So too are diversity and equity policies. In a world stifled by political correctness, this appeals to many as a breath of fresh air.

Even before the election took place, markets started to price in the economic implications of a Trump victory. The Dollar has appreciated, which implies weakness in other currencies. Higher tariffs unfortunately also imply higher inflation. Consequently, the US Federal Reserve has signaled a far more cautious approach to cutting US interest rates this year. Having expected another four cuts over the course of 2025, the market is now only expecting two. Even this is in doubt.

US DOLLAR INDEX AND RAND EXCHANGE RATE



There has been a very tight correlation between the overall direction of the US Dollar and the movement of the Rand since Trump's election.

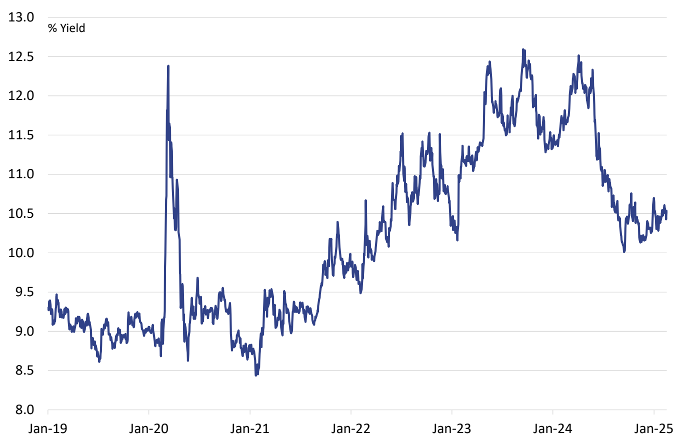
What does this mean for SA investors? Simply, the Rand is weaker than it would otherwise have been, and the outlook for the path of our interest rates is more subdued. A weaker currency raises the prospect of higher inflation, which, when combined with higher US rates, gives the SARB far less room to manoeuvre. At the margin, both could detract from local GDP growth this year – not something we can afford.

Notwithstanding the global issues, SA has also found itself firmly in America's crosshairs, singling out both local policies (expropriation and BEE) and our stance towards American allies through the case against Israel at the ICC. Some of this is not new to the Trump Presidency – these issues have been bubbling around for a few years. However, what has changed is the sheriff. Mr Vance made it quite clear to European leaders a few weeks back that the US views the greatest threat to Europe "as coming from within" – a reference to rolling back freedom of expression and democratic values in the name of political correctness. This same attitude is being applied to us. Why should SA (or Europe) receive anything from the US if we're not holding true to the values America holds dear whilst also being openly hostile to American allies.

Whilst we wait for the second take of the aborted Budget on the 12th March, we know that government finances are under pressure. Tax increases are likely given domestic pressures. Last week the US confirmed that it was freezing aid for HIV and other programs. We might now have to find our own money to continue those programs, straining an already tight fiscal situation. Furthermore, our government continues to antagonize the US through comments and articles on policy and the ICC case. Last week, the US's top envoy to our country, resigned. America is our second-largest trading partner, accounting for about 6.5% of our exports. Exports subjected to preferential tariffs under AGOA only account for 2% of total exports. That appears manageable and is in itself not necessarily a train smash, but up to 240,000 jobs could be at risk if our status is revoked. That could undo much of the good work being done elsewhere.

However, what our government does not seem to appreciate is that the global mood is changing, driven by the US. For now, behind-the-scenes diplomacy is out, replaced by aggressive, "shoot-from-the-hip" policies. Some political commentators are suggesting that we might even be subject to sanctions again. The political change last year and the absence of loadshedding has done much to bring down bond yields and hence borrowing costs for the country. Like the national mood, yields have deteriorated modestly this year, but nothing untoward in the context of global trends. With very little wiggle room in an already-tight budget, we cannot afford a withdrawal of foreign investment (even in financial assets like shares and bonds, let alone "bricks and mortar" investments) that would put upward pressure on bond yields and interest payments. That would certainly dent the prospect of an acceleration in GDP growth this year.

SA 10-YEAR BOND YIELD



Yields have compressed over the past eighteen months due to reform, the absence of loadshedding and the GNU. But yields could be vulnerable to a further deterioration in our international relationships.

At this stage, we are not changing our view that SA will continue with its reform program that will structurally lift GDP growth and benefit local investments. But the situation is fluid. We will increase rand-hedge exposure should we deem it necessary.

Having examined the case for SA in our last seminar, our next presentation will focus on the prognosis for offshore investments.

Topic:	**Re-examining the case for offshore**

Natal Midlands

Date:	13 March 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	11 March 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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