INTUITION

25 APRIL 2025

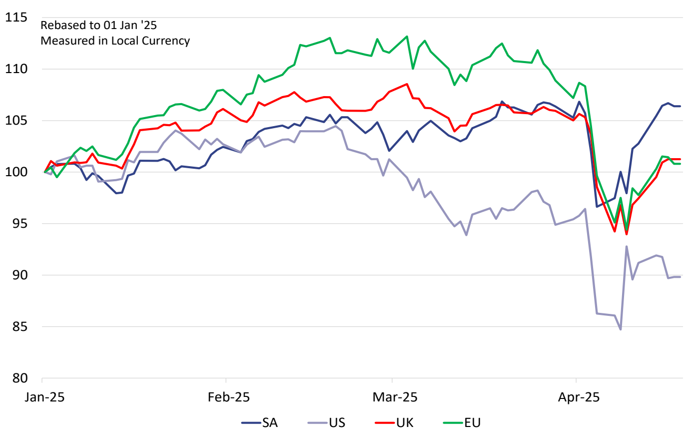
April: surviving the madness

April has been an interesting month for markets, to say the least. It all came to a head on the 2nd April – when Liberation Day (President Trump's tariff announcements) coincided with severe ructions within the GNU. Globally, markets declined as the unpredictability of tariffs hit home. These global moves were amplified in SA markets by the rising political risk. Three weeks on, calm has returned – for the time being at least. We articulate some of our thoughts about recent events, and remind investors that making rash decisions during periods of turmoil is seldom the right strategy.

Michael Porter

After a choppy start to the year, global volatility rose to its highest level since the outbreak of the Pandemic as President Trump unleashed his tariff regime. Although widely expected, the scale and quantum of tariffs caught markets off-guard, compounded by the seemingly simple formulas applied in determining tariffs for each country. US markets were down almost 19% at their weakest point, followed closely by those in Europe and the UK. After 4 days of turmoil, markets reversed course to record some of the largest one-day gains ever as Trump paused the effective implementation date of tariffs by 90 days for all countries who did not retaliate. Whilst the last week has been deafening silent by comparison, the trade war continues to unfold, as the US imposed additional restrictions on semiconductor exports to China.

PERFORMANCE OF SELECTED MARKETS YTD



The US has been the weakest of the major markets this year, as uncertainty collides with high valuations.

SPEED READ

- **The trade war ratcheted up a gear in April as President Trump announced a base tariff of 10% and reciprocal tariffs on all countries. Markets took fright.**
- **Five days later, most tariffs were suspended for 90 days , pending negotiations, sending markets sharply higher again.**
- **Global weakness coincided with higher local political risk as ructions deepened within the GNU. Our political process continues to mature, albeit along a very bumpy road.**
- **The primary consequence is lower economic growth, both locally and abroad.**
- **Potentially, a bigger issue is looming – and that is faith in the US and the US Dollar as a reserve currency. The gold price has surged as investors seek the ultimate safe haven.**
- **We are not making any rash decisions and continue to believe that diversified portfolios focused on strong cash flows and dividends are the best way to cope with current conditions.**

Locally, the above turmoil was compounded by rising political uncertainty as ructions deepened within the GNU over the Budget. Fears of a cabinet reshuffle that would exclude DA ministers were rife, as was the threat that the DA would leave or be kicked out. Similarly to the global trend, some calm has returned to markets this week. Data from the IRR showing that the DA has polled higher than the ANC for the first time in history is also providing food for thought as to what the future holds.

The Capped All Share Index is back to the levels it reached at the end of March, although there are winners and losers as one drills deeper into the underlying sectors. Mining has done particularly well – buoyed by the surge in the gold price – whilst locally-orientated sectors like retailers and financials have lagged. Interestingly, the property sector has recovered all its losses, and more.

> *"The Federal Reserve is independent, but President Trump is upping the ante, openly criticising Powell for not lowering rates, and threatening to replace him."*

As the dust settles after the Easter weekend, it is an opportunity to reflect on recent events and to articulate our thoughts on where to from here.

1. We have said many times that we are not political experts. Others do a far better job and it is worth listening to interviews with the IRR (and others). Our view is that politics is maturing in this country, albeit along a rather bumpy road. In terms of the Budget, we are encouraged that this process is drawing suggestions and input from all parties for alternatives to VAT and bracket creep. Whether the ANC is mature enough to embrace these suggestions, only time will tell. But the general mood is against VAT increases and the ANC are learning quickly that they no longer have carte blanche.
2. Globally, volatility is not going to disappear. Tariffs have been delayed, not abandoned. The dramatic about-turn is ostensibly to offer countries a chance to negotiate. Several countries have rushed to open a dialogue with the US, but there is no certainty that deals will be reached.
3. Tariffs on China were not rescinded, and in fact, increased further, to a maximum of 145%. China did retaliate after the initial announcement, and has retaliated further, including banning exports of rare earth minerals to the US. As mentioned above, the US has imposed further restrictions on chip exports to China - chips that helped to drive the development of Deepseek and other Chinese AI models. As the old African proverb goes, "when elephants fight, it is the grass that suffers."
4. Apart from the short-term gyrations, there is a larger issue unfolding, which could have much larger, longer-term ramifications. That is confidence in the US and the US Dollar as a reserve currency. We have often made the point that the US is the foundation stone of the global financial system. That maxim is being tested. Historically, the US has always been predicable – whether it be foreign policy, monetary policy or their legal system. All those are being tested. President Trump is actively defying the courts on a number of issues, whilst he is openly hostile towards Jerome Powell and the US Federal Reserve. Foreign investors are selling US assets (mainly bonds) steadily, at the same time that the US needs to refinance $7 trillion of debt this year. In SA, we might get frustrated with the conservatism of the SARB, but we can take pride in monetary policy and the steady hand at the tiller. The Federal Reserve is independent, but President Trump is upping the ante, openly criticizing Powell for not lowering rates, and threatening to replace him. Yet how can the US lower rates when inflation expectations are at record highs, thanks to impending tariffs. Turkey's president installed a "tame" central bank chief, only to watch its currency collapse as monetary policy lost all credibility. The US is a far bigger ship, but they are not free agents. Markets will discipline them just like any other country.

US DOLLAR INDEX

The sixteen-year bull market in the Dollar could be at risk if global investors lose faith in the predictability of the US monetary and legal system.

Drawing from these reflections, we make the following comments:

1. Investors are rushing to safe havens – hence the surge in the gold price. The Dollar has lost 10% of its value this year. President Trump wants a weaker Dollar, but he should be careful what he wishes for. A loss of faith in the US system will have far-reaching ramifications

for everyone, most notably in higher global interest rates. That is to no-one's benefit.

2. SA GDP growth is likely to be weaker than previously expected in 2025. Clients will remember that we have not had GDP growth of more than 1% in SA since 2014 (barring Covid distortions). The consensus was for growth of 1.8% this year, on the back of a cyclical recovery and further reform momentum. That has now been downgraded, and growth will probably settle somewhere between 1% and 1.5%. That is still better than in the past few years, but hardly enough to set our markets on fire.
3. The Rand is weak. Whilst it has recovered some of its recent losses against the Dollar, that is just because of Dollar weakness, rather than Rand strength. Against the Pound and Euro, the Rand is at record lows, a better reflection of local sentiment. That will be inflationary. The only good news is the weakness in oil prices, and the fact that oil is priced in Dollars. Local petrol prices should continue to fall next month. But we should be cautious to assume that we will get any further interest rate cuts this year, unless there is a steady improvement overall. That is one of the reasons for the weaker growth forecast above.
4. Globally, the same applies. The risk of recession this year in the US has risen to about 60%. Uncertainty prevails given the lack of clarity on US policy.
5. US markets started the year at high valuations. These have corrected in recent months but remain high. Markets will always be vulnerable to unpredictable events, and even more so when valuations are extreme.

Given the above, what actions are we taking? Importantly, we are not making any rash decisions. April is another perfect example of why investors should not panic when volatility rises, especially given the high level of unpredictability at present. Markets have bounced back quickly. That affords investors time to make informed, rather than knee-jerk, decisions.

With regard to portfolios:

1. Offshore, we continue to advocate balanced portfolios that are diversified across regions and sectors, as articulated in our recent Insight seminar. Defensive shares are outperforming the tech sector as investors seek the certainty of cash flows, a theme we have long advocated.
2. Locally, we must acknowledge the downward revisions to growth, although we still believe that the reform agenda is alive and well. However, weaker growth implies that we should focus on high-quality companies that can survive another tough year but also thrive should growth accelerate.
3. In both cases, strong cash flows and dividends are as important as ever.

We are only a third of the way through 2025, but it already promises to be a year that will go down in economic history. There is a long way to go before the dust settles on the policy direction of the new Trump Administration. We should expect more volatility ahead. Whilst that can be unsettling, remember that it also provides opportunity.

Global supply chains have been disrupted by Trump's tarrif threats, impacting everything from shipping to factory locations.

Our next Insight seminar will be held in June. As usual, we will take stock of how our economy and markets are faring six months into the year."

Topic:	Mid-Year Update
Natal Midlands	
Date:	12th of June 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	3rd of June 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	5th of June 2025
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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