INTUITION

13 JUNE 2025

Midyear Update: Was that it?

Over the past two weeks, we have been travelling around the country, presenting our midyear update seminar. This article summarizes the presentation for those unable to attend. The first five months of 2025 have been interesting to say the least – "controversial" headlines are common. Most investors will remember "Liberation Day" – the 2nd of April when President Trump announced his sweeping tariffs. That coincided with our own GNU ructions. Markets collapsed. A week later, Trump did a U-turn, so much so that markets are now close to new highs. In SA, they are at new highs, thanks to the mining sector. Our presentation was entitled "Was that it?" in reference to this surprising turnaround. Can we all now breathe a sigh of relief? What does the next six months hold?

SPEED READ

- **Despite the turbulence from unpredictable US policy, markets have bounced back and are now positive for the year.**
- **Whether it be trade policy, GDP forecasts, or the outlook for interest rates, globally there are just too many moving parts to make reliable, informed decisions.**
- **In addition, there is a bigger shift underway. After 20 years of US exceptionalism, investors are questioning whether the US is still a predictable and reliable ally, and a safe destination for investment. We expect a gradual diversification away from US-centric investments.**
- **In SA, the much-anticipated benefits from the GNU have been slow to materialize. Growth has been revised downwards for both 2025 and 2026.**
- **In the face of so much uncertainty, we suggest a focus on quality – defined as companies that earn consistent economic profits which in turn fuels strong cash flows and strong dividends.**

Michael Porter

Most investors will remember "Liberation Day" – the day President Trump unleashed his new tariff regime on the world. Unsurprisingly, they were more draconian than anticipated. Markets tanked. A week later, Trump announced a 90-day stay of execution, except for China. Since then, the US has done a deal with the UK and walked back from the brink with China – both sides offering compromises. Unsurprisingly, markets have bounced back – hard. Most are positive for the year and some are at new all-time highs. Goldman Sachs has coined a new term – "the Taco Trade" – which is an anagram for "Trump Always Chickens Out." Does this mean we can all relax? Is the worst of the volatility over?

British cartoonist, MATT, summed up Trump's growing reputation with his usual wit.

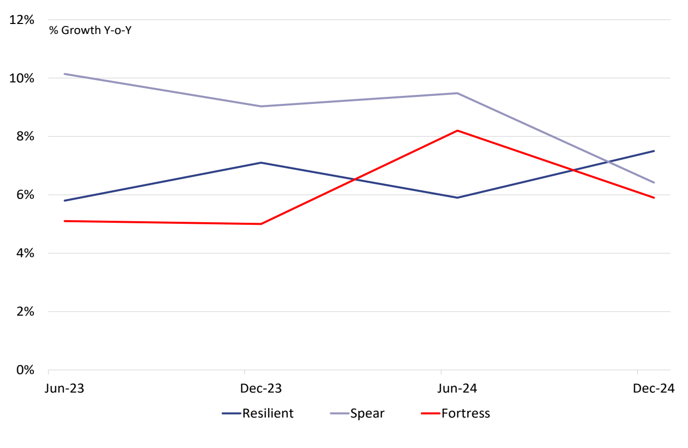
It is fair to say that there is an unusually high degree of uncertainty at present. Trade policy is far from being settled.

US courts have ruled the tariffs illegal, but they have been reinstated temporarily pending an appeal. In the meantime, the Trump administration has increased tariffs on steel and aluminium imports. Furthermore, no one is certain what will happen in early July when the 90-day grace period is due to expire? Will there be another trade shock, or will Trump back down again?

In the short term, economic data continues to hold up reasonably well, but it is hard to separate what is panic buying ahead of tariffs and what is genuine underlying demand. Forecasts for GDP growth in the US are fluctuating wildly, as are expectations for US interest rates. Such frequent changes in key economic variables does not provide a conducive base from which to make sound investment decisions.

Simultaneously, a larger issue is unfolding. After at least 20 years of US supremacy, and certainly fifteen years of US market outperformance, investors are starting to question the future of US assets. Traditionally, the US has been a safe, reliable and predictable partner. Indeed, US Treasury Bonds are considered the global risk-free asset. But exploding debt – which will be exacerbated by Trump's proposed "Big Beautiful Bill" forced Moody's to downgrade the US from AAA to AA – the last of the three major ratings agencies to do so. Almost a quarter of all US debt matures this year and will need to be refinanced at substantially higher interest rates. Already, US interest payments as a percentage of GDP are at 4.5%. This is forecast to rise much further over the next ten years. (As an aside, a similar ratio for SA is 5.3%! And we know how precarious our government finances are!)

US INTEREST PAYMENTS: % OF GDP



US national debt now stands at over $36 trillion, resulting in soaring interest payments. Trump's tax bill will only exacerbate this trend.

The consequence of the above are rising US government bond yields and a weaker dollar – the implications of which will reverberate around the world. It is not all bad – a weaker Dollar implies a stronger Rand and higher commodity prices. Both are positive for SA assets. But in the near term, the combination of unpredictable trade policy, uncertain growth and shifting investment flows leave investors with more questions than answers.

> *"In the short term, economic data continues to hold up reasonably well, but it is hard to separate what is panic buying ahead of tariffs and what is genuine underlying demand."*

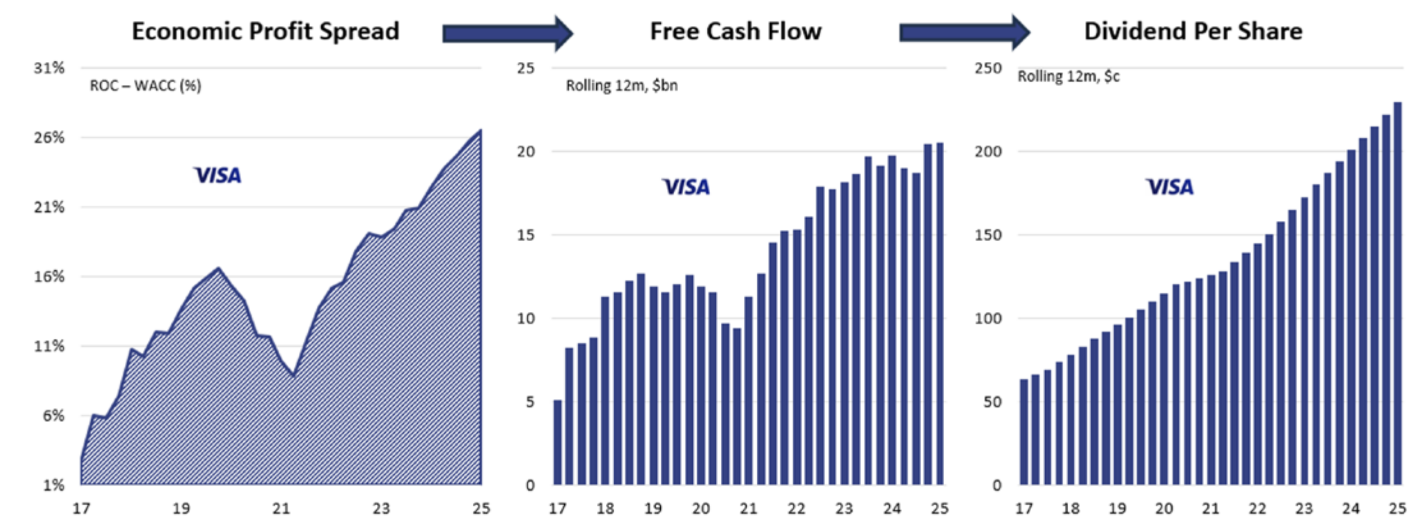
Let us now turn our attention to SA. Last July, one issue of Intuition highlighted seven economic indicators that we believed would confirm whether our economy was gaining any momentum after the elections. In this presentation, we revisited three of those – with mixed results. On a positive note, confidence has certainly improved – especially business confidence which is a critical component of any recovery. But data released just last week suggests that even this is fizzling out. The other indicators – demand for credit and manufacturing growth – remain very subdued. Whilst we did not explicitly cover Eskom, the energy availability factor (EAF) is now trending around 57%, well down from the 70% level this time last year. Loadshedding has not yet been consigned to history.

It is not surprising therefore that growth forecasts for our own country have been sharply downgraded. When Willie presented his "Outlook for 2025" presentation last December, we expected growth of between 1.7% and 2% this year. Now that has moderated to just 1.3% - and even that might be a stretch after last week's weak data. Equally discouraging, the forecast for 2026 is hardly better at 1.4%. That doesn't paint a picture of an economy on the rebound. Yet there are a few green shoots. Petrol prices continue to fall, so too interest rates. This will provide some cyclical relief. But we need more aggressive cuts to really jumpstart our economy.

Holistically, both the global and local outlook leaves more questions than answers. Hence, we believe that our portfolio construction should focus on quality – companies that have the ability to survive the tough times, but who will also thrive should conditions turn more favourable. That begs the question: how do we define quality?

We introduced the concept of economic profit – the return

VISA: ECONOMIC PROFIT CASE STUDY



Visa's ability to generate returns in excess of its cost of capital have translated into strong cash flows and an enviable dividend track record.

a company generates after deducting an appropriate charge for the capital used to generate that profit. Companies that consistently generate economic profits tend to also generate strong cash flows, and hence strong dividends – our core focus. Globally, Visa (or Mastercard, for that matter) might be considered a poster child for such an analysis. Not only does Visa consistently generate an economic profit, but that profit rises over time. This implies that Visa is able to generate higher and higher returns on profits reinvested into the business. As the sequence of charts below shows, this has translated into exceptional free cash flows, and an enviable track record of dividend growth. Dividends have risen more than threefold over the past eight years.

Investors will be forgiven for asking whether such an analysis also holds true for SA companies, given the lack of economic growth over the past decade. We demonstrate, using Hudaco as an example, that it does, although the trend is not as strong. We also show why Standard Bank is regarded as a core holding.

The presentation concluded with two slides highlighting our model portfolio construction both locally and abroad. In both cases, we have a core portfolio consisting of high-quality companies that can weather most storms. Equally, in both cases, we also highlight some of the more cyclical themes that are appropriate to both portfolios. Globally those themes include healthcare and wellness, cash flow champions, digitalization, and energy and infrastructure, amongst others. Locally, the themes include the supported consumer, infrastructure and reform, commodity hedges, financial inclusion and digitalization.

In closing, no one can predict what the next three to six months will hold. We must acknowledge that conditions now are more uncertain than they were a few months back. Yet our oft-repeated statement that "companies are not countries" continues to hold true. We would urge investors not to react to headlines – having done so in April would have resulted in disaster. Rather, we will focus on high-conviction, quality and defensive companies that should weather most storms until the outlook becomes clearer.

PLASTIC CONVENIENCE

Credit cards have become ubiquitous for payments, wherever one is in the world.

Our next seminar will be held in September in Johannesburg and the Midlands. The topic will be communicated in due course.

Topic:	To be announced
Natal Midlands	
Date:	11th of September, 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	9th of September, 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, Morne du Plessis Boardroom, 4th floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.
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