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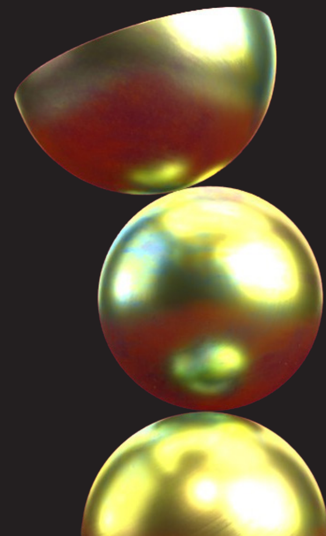
FOURword

Financial markets commentary

April 2025

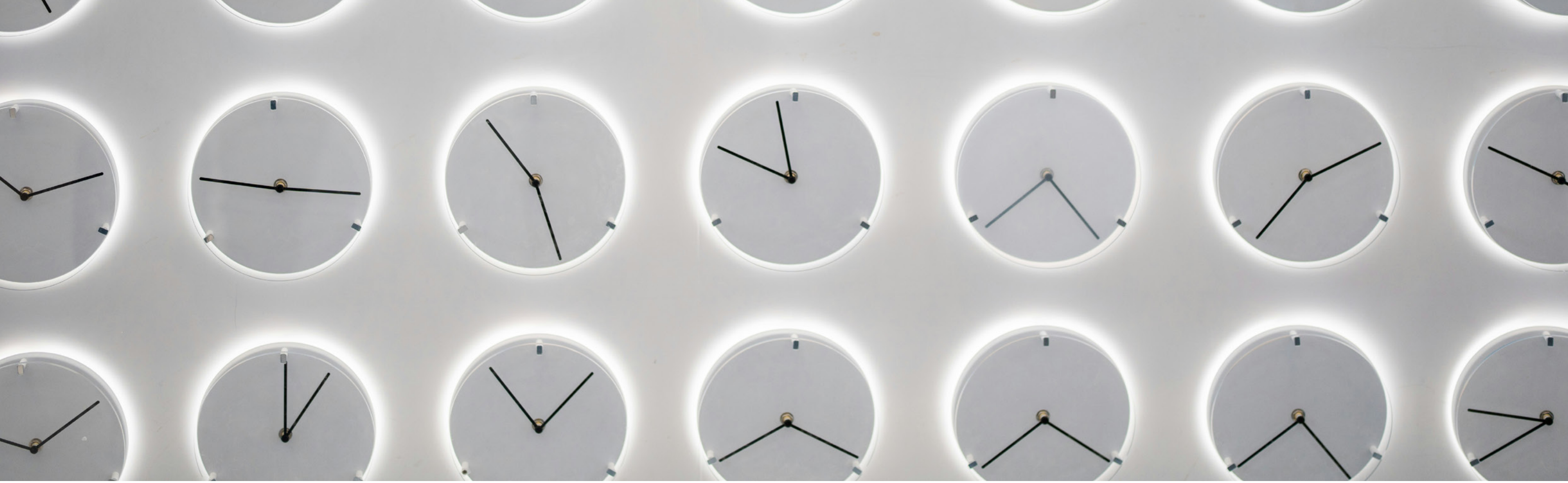


Overview

The first quarter of 2025 proved challenging for global markets as investors navigated heightened uncertainties.

The biggest market disruptor this quarter was the Trump administration's aggressive – and often inconsistent – tariff agenda against key U.S. trading partners. Trump's tariffs were met with retaliatory actions, sparking a global trade war that affected hundreds of billions dollars of trade. These protectionist shifts stoked stagflation fears, prompting several economists to lower their global growth forecasts and S&P 500 targets.

Beyond trade, Middle East tensions flared. Meanwhile, South Africa faced its own challenges as its relations with the U.S. deteriorated. Washington withdrew its aid to SA and threatened to exclude the country from Africa Growth Opportunity Act (AGOA) trade preferences. Domestically, the government of national unity (GNU) came under strain due to disagreements between the ANC and DA over VAT increases. The temporary resolution collapsed on March 31, leaving the nation and investors in a state of uncertainty.



Developed markets

The so-called “Trump Trade” which was expected to benefit US equities, and the US dollar didn’t materialise as anticipated, at least for now. Instead, fears of stagflation triggered a rotation out of the US and into other developed market equities. The **S&P 500** slumped 4.59% – its worst quarterly performance since 2022 – while the tech-heavy Nasdaq plummeted 8.25%, its steepest decline since mid-2022. The so-called “Magnificent Seven” tech giants, which had driven the bull market in prior years, dragged heavily on indices, with Tesla plunging 36% and Nvidia dropping nearly 20% in the first quarter.

In contrast, the **MSCI World ex-USA** surged 5.50%, led by a strong rally in Eurozone stocks, which gained 11.63%, and the UK, which rose 8.53% in dollar terms. Sentiment towards European equities improved materially, supported by Germany’s €1 trillion infrastructure and defence stimulus package. Equity markets responded positively, with Germany advancing 15.30%, while Spain and Italy outperformed with gains of 22.01% and 16.77%, respectively. Japan (-0.59%) closed the quarter with a modest decline, while Canada (+0.59%) posted a slight gain despite facing tariff-related pressures.

A rotation theme was also evident in sector and style performance, reflecting a defensive tilt by investors amid global market volatility. Energy (+9.17%) topped the performance chart, supported by strong oil prices and heightened geopolitical tensions. Utilities followed with a 6.59% gain as investors gravitated toward safer assets. Financials (+5.54%) also rallied, buoyed by strength in European banks perceived as resilient to tariffs and beneficiaries of EU fiscal support. On the downside, Consumer Discretionary (-10.47%), Information Technology (-12.04%), and Communication Services (-4.62%) underperformed due to disappointing earnings, cautious outlooks, and trade-related supply chain disruptions. From a style perspective, **MSCI Value** (+4.24%) surged, outperforming **MSCI Growth** (-7.75%), signalling a shift toward income-generating, lower-valuation stocks. **MSCI Quality** declined 5.92%, suggesting reduced investor appetite for traditionally high-quality companies.

Global bonds also ended in the positive driven primarily by the US. UK 10-year gilt yields rose to 4.69% (from 4.57% in Q4 2024), Germany’s bund yields ticked to 2.72% (from 2.36%), while the U.S. 10-year Treasury yield eased to 4.23% (from 4.53%), signalling a tilt toward quality fixed-income amid continued market volatility. Against this the **Bloomberg Global Aggregate Bond Index** (+2.64%) ended the quarter positively, rebounding from previous quarter loses (Q4 2024: -5.10%).

Domestic markets

South African markets had a resilient quarter with equities posting solid gains while bond indexes marginally inclined. The JSE All Share Index advanced 5.94% in Rand terms, mirroring positive momentum in emerging markets, as resources and industrial sectors surged 33.74% and 4.27%, respectively, while financials (-1.72%) were flat. This upward trajectory was supported by several companies delivering robust earnings performances despite challenging operating conditions.

Major highlights included some SA-facing counters such as RCL Foods, Standard Bank and BidCorp. RCL Foods delivered a 38.8% growth in headline earnings per share, driven by exceptional performance in its grocery and baking divisions. Standard Bank reported a 4% increase in annual profits, while BidCorp managed to achieve a 6.8% rise in trading profit through effective cost management despite subdued consumer spending. However, not all companies fared equally well - Northam Platinum suffered a 49.7% decline in half-year profits due to softer metal prices, and Vodacom's net profits contracted to R6.84bn as rising costs offset revenue growth.

In the fixed income market, bonds demonstrated notable stability in the face of fiscal uncertainties, with both the All-Bond Index (0.70%) and CILI (0.70%) ending the quarter on a positive note. This relative resilience suggests that while investors remain cautious about South Africa's fiscal outlook, they have not adopted an outright risk-off stance toward domestic debt instruments. The market's ability to absorb these pressures while maintaining stability speaks to improving depth and liquidity in South Africa's capital markets.

Other emerging markets

Emerging market equities posted strong overall gains in the first quarter, largely driven by China. This influence was evident in the MSCI Emerging Markets ex China index, which lagged with a –0.32% return in March and –2.31% for the quarter.

Chinese markets led the rebound, with Deepseek's success helping to shift sentiment around China's AI capabilities. President Xi Jinping's pro-business manoeuvres and the accompanying positive economic narrative further boosted confidence, prompting foreign capital to rotate away from India and the U.S. This backdrop propelled a 14.66% rally in dollar terms in the MSCI China Index.

The tech sector was particularly strong, with the Hang Seng Tech Index surging 21% in the first quarter. Notable gainers included Alibaba Group Holding Ltd (+55%), Tencent Music Ent. (+25%), and Xiaomi Corp (+43%), all of which reported strong quarterly results.

Other Asian markets delivered mixed results. Indian equities rallied 7% in March – their strongest monthly performance since June 2024 – but closed the quarter down 3% due to earlier losses. Foreign equity inflows reached $974m on March 27, though below the September 2024 peak. Renewed buying, central bank liquidity support, and expectations of rate cuts lifted sentiment.

However, concerns over potential reciprocal tariffs continue to weigh on India's economic outlook.

Taiwan's market pared losses to close 12% down for the quarter, amid persistent concerns over potential U.S. tariffs impacting its critical semiconductor sector. Key chipmakers like TSMC fell 10%, while MediaTek declined 6%, reflecting investor caution despite solid long-term fundamentals. The MSCI Latin America Index outperformed, gaining 11% for the quarter. Meanwhile, Russia's IMOEX Index also attracted attention with a sharp rally following the February 12 call between Russian and U.S. leaders, as investors speculated about the potential for diplomatic progress. Optimism grew when Trump's fallout with Ukrainian President Volodymyr Zelenskiy led to a pause in U.S. military aid and intelligence sharing, supporting expectations of a quick settlement. However, those hopes were short-lived. Russian stocks have since erased nearly all their earlier gains, with the IMOEX falling back below 3,200. Despite this, the IMOEX remain 9% higher year-to-date while the ruble is also 36% stronger against the U.S. dollar than before the Trump-Putin call, making it the best-performing emerging market currency year-to-date.

Macro highlights

Trade policies: a fog of policy ambiguity

In the first quarter of 2025, global markets grappled with escalating trade tensions driven by a renewed protectionist push from the United States. President Trump's administration introduced sweeping tariff measures, including hefty levies (and threats of levies) on imports from Canada, Mexico and China with increased duties on steel and aluminium. These moves sparked swift retaliatory actions from its major trading partners, fuelling concerns over the stability of global trade.

This challenging backdrop prompted economists to revise their global growth projections and reassess U.S. equity market prospects. Consumer anxiety intensified markedly, with the University of Michigan U.S. Consumer Sentiment Index plunging to a 12-year low, reflecting a dramatic deterioration in sentiment. In response, both the OECD and Fitch downgraded growth forecasts for major economies, including the U.S., Eurozone, Mexico, and Canada. While the consensus continues to favour a U.S. economic soft landing, most analysts have significantly raised the probability of a potential recession in 2025.

Market turbulence is expected to intensify in the second quarter with President Trump's planned April 2 announcement - dubbed "Liberation Day" - of additional tariff measures. These anticipated measures, which may match or exceed existing retaliatory tariffs, would target approximately 15 major U.S. trading partners. The proposed 25% tariffs on steel, aluminium, and automobiles, coupled with expanded levies on Chinese goods, have already drawn strong opposition from China, the EU, and Canada. This growing backlash has stoked fears of widespread global supply chain disruptions and contributed to heightened investor unease across financial markets.

Inflation and rates: diverging trends, diverging paths

Inflation trends in Q1 2025 reflected the complex interplay of tariffs, shifting demand dynamics, and geopolitical tensions. In the **United States**, inflation remained sticky. Headline CPI edged up to 2.8% in Q1 2025 from 2.7% in Q4 2024, while core CPI eased modestly to 3.1%—its lowest level since April 2021. The Fed's preferred measure, core PCE, ticked up to 2.8% from 2.7%, marking its highest level in over a year. Despite this surprise, the broader inflation narrative remains contained. The UK saw more stubborn price pressures, with headline CPI rising to 2.8% and core inflation at 3.6%, in line with expectations. Services and wage inflation remain elevated, likely delaying any policy pivot from the Bank of England until late Q2 2025 or Q3 2025.

In contrast, the **Eurozone's** disinflation continued. Headline CPI held steady at 2.3%, while core inflation dipped to 2.6%, both softer than forecast. Weak domestic demand and falling energy prices supported the trend, boosting confidence in a potential ECB rate cut by mid-year. China stood out for its deflationary backdrop. CPI fell by 0.7% year-on-year (y-o-y) in February—the first drop below zero in 13 months—amid seasonal effects and subdued consumer demand. The Producer Price Index also declined by 2.2%, marking 28 consecutive months of factory-gate deflation.

Domestically, **South African** inflation remained contained. Headline inflation rose modestly to 3.2% in February, up from 3.0% in December, but remained well below the SARB's midpoint target. Core inflation eased to 3.4% from 3.6%.

Policy responses diverged across major central banks. The Bank of England cut rates by 25bps in February but paused in March. The ECB adopted a more aggressive easing stance, cutting rates in both January and March to support sluggish growth. The Fed held rates steady at 4.25%–4.50%, though it dropped references to inflation progress, signalling a more hawkish bias amid ongoing trade and geopolitical risks. Meanwhile, the Bank of Japan raised rates for the first time since 2008, citing wage and service price growth, and upgraded its CPI forecast, highlighting growing confidence in achieving its inflation target. The SARB cut rates by 25 basis points in January and held steady in March, reflecting cautious optimism around inflation and macro stability.

Economic activity: mixed but mostly resilient amid persistent uncertainty

Global economic activity in Q1 2025 showed encouraging signs of resilience, especially in services, even as manufacturing remained under pressure and regional divergences deepened.

In the **United States**, services continued to underpin growth, buoyed by strong consumer demand, real wage gains, and easing inflation. The services PMI held firm at 54.3, while the composite PMI softened to 53.5 from 55.4 in Q4 2024 – still comfortably in expansion territory. Manufacturing, however, remained subdued. The PMI rose marginally to 49.8 but stayed below the 50-mark, with trade tensions, inventory adjustments, and muted capex weighing on the sector. Diverging GDP forecast – ranging from a 2.8% contraction (Atlanta Fed) to 2–2.5% growth (White House) highlights the prevailing uncertainty driven by policy uncertainty.

The UK economy delivered modest but uneven growth. Services led the recovery, with the PMI climbing to 53.2 in Q1 2025 from 51.4 in Q4 2024, lifting the composite PMI to 52.0—its highest since September. However, manufacturing continued to contract, with the PMI slipping to 44.6 amid persistent Brexit-related trade disruptions, supply bottlenecks, and soft investment. GDP rose 0.2% in the three months to January, but a contraction in January and downward revisions to full-year growth (now 0.75%) underscored continued fragility.

The Eurozone showed early signs of stabilisation. The composite PMI edged up to 50.4, led by an improvement in manufacturing, which reached a 27-month high of 48.7. Although still in contraction, this marked a turning point for the region, supported by falling energy costs and improving supply chains. Fiscal policy also played a supportive role, with targeted stimulus from Germany and France – backed by the EU's NextGenerationEU fund – focused on green infrastructure and industrial competitiveness. However, tighter fiscal constraints may limit growth.

In **South Africa**, economic performance remained mixed heading into 2025. GDP grew by 0.6% in Q4 2024, recovering from a slight contraction in Q3 2024, supported by strength in agriculture (+17.2%), trade (+1.4%), and finance (+1.1%). Household consumption continued to drive growth, although investment and government spending declined, and net exports were flat. The unemployment rate eased slightly to 31.9%, while the PMI slipped to 49.0 in February, remaining in

contraction territory. Business confidence held up, aided by easing power cuts, low inflation, and rate stability—despite softer retail sales and growing concerns over U.S. trade policy.

These concerns were further compounded by the March 2025 national budget, which introduced a 0.5% VAT increase and left personal tax brackets unchanged—moves that may weaken household consumption in the near term. While aimed at bolstering revenue, these measures arrive amid an already constrained growth environment. Public debt has reached 76% of GDP, with the budget deficit widening to 5%. Debt servicing costs remain high, and funding pressures at state-owned entities persist. Although the budget directs over R500 billion to education, R422bn to social grants, and nearly R290bn to economic development and infrastructure, spending remains modest relative to South Africa's needs.

Growth is forecast at 1.9% in 2025, averaging just 1.8% over the medium term—insufficient to meaningfully reduce unemployment or rebuild fiscal buffers. Tensions with the U.S. have further clouded the outlook, with the threat of AGOA exclusion and potential trade sanctions posing downside risks to exports and investor sentiment. While the post-GNU environment has delivered some improvements, stronger and more coordinated policy execution is needed to lift South Africa into a more durable growth path.

In **China**, the economy displayed early strength in Q1 2025. Retail sales rose 4.0% y-o-y, industrial output expanded 5.9%, and fixed asset investment increased 4.1%. However, structural challenges persisted. The property sector continued to contract – investment fell 9.8%, and new home starts dropped 29.6%. Meanwhile, loan growth slowed to 7.1%, the weakest since 2003, reflecting tepid demand and ongoing deflationary pressures.

Geopolitics: rising volatility amid fragile ceasefires

Geopolitical tensions re-emerged as a key market driver in Q1 2025, with ceasefire collapses, new sanctions, and military escalations reshaping risk perceptions across regions.

In the **Middle East**, hopes for stability were dashed when the U.S. brokered ceasefire between Israel and Hamas collapsed in March. Israel's renewed large-scale military operations in Gaza marked a significant escalation, reversing early-quarter optimism. Unrest also spread within Gaza, where rare anti-Hamas protests signalled growing internal dissent and opened a narrow window for renewed diplomacy.

Iran faced mounting instability amid intensifying U.S. sanctions and rising regional tensions. Domestic unrest increased, while U.S. airstrikes on Houthi positions in response to Red Sea attacks further destabilised the region. While these actions aligned with President Trump's campaign rhetoric, they have raised concerns about wider regional spillover and global oil supply disruptions.

In **Eastern Europe**, a U.S.-mediated Black Sea ceasefire between Russia and Ukraine brought temporary relief, especially for grain exports. Continued Russian missile strikes and Ukrainian drone responses outside the ceasefire zone highlighted its limited scope. France's €2 billion

military aid pledge to Ukraine reinforced expectations of a protracted conflict rather than a near-term resolution.

South Africa also found itself drawn into the geopolitical spotlight. Relations with the U.S. deteriorated partly because of President Ramaphosa's decision to sign the land expropriation bill into law – a move that sparked harsh criticism from both Donald Trump and Elon Musk. In response, the U.S. suspended support for key HIV and USAID programmes and signalled that South Africa's eligibility for AGOA could be revoked. These developments raise the risk of sanctions or trade penalties, with potentially material implications for exports and investment flows.

Domestically, South Africa's political landscape showed signs of strain. The national budget was delayed amid coalition tensions between the ANC and DA over a proposed VAT hike. A compromise was eventually reached with a proposed 0.5% increase to 15.5%, but the episode exposed deep fissures within the GNU. The budget committee has yet to reach a consensus on the finance minister's proposed budget. The temporary resolution collapsed on March 31, leaving the nation and investors in a state of uncertainty. Meanwhile, load shedding returned – albeit at reduced intensity – adding to the challenges of sustaining momentum in the months ahead.

Responsible Investing Corner: March Highlights

Global Partners Step Up as U.S. Pulls Out of South Africa's Energy Transition Plan

Last month, we reported on the potential withdrawal of the United States' $2.9 billion commitment to South Africa's Just Energy Transition Investment Plan (JET IP). In March 2025, this became a reality as President Donald Trump's Executive Order 14162 revoked the U.S. International Climate Finance Plan, leading to the immediate termination of U.S. financial commitments, including $56 million in grants and $1 billion in potential commercial investments from the U.S. International Development Finance Corporation.

In response, South Africa is actively seeking alternative funding from grant-making organisations to fill the gap. The European Union has stepped in with a $5.1 billion investment, aimed at supporting green energy projects and vaccine production, signalling a strengthening of EU-South Africa relations. Meanwhile, the International Partners Group (IPG), which includes the UK, Germany, France, the EU, Denmark, and the Netherlands; has reaffirmed its commitment, collectively pledging over $9 billion. Additional contributions from Spain, Switzerland, and Canada bring the total international support to approximately $12.8 billion.

Despite the setback, South Africa remains committed to its energy transition, with strong global backing reinforcing the urgency and importance of a just and sustainable shift to cleaner energy.

Corporate Accountability and the Shifting ESG Landscape

Investor expectations for corporate accountability have intensified, with growing pressure on companies to enhance ESG reporting and align executive compensation with sustainability goals. However, there is a notable shift as some global corporations are scaling back their ESG commitments in response to rising costs and increasing opposition, particularly from the U.S. In recent developments, the Financial Times reported that UBS removed ESG-linked pay references, Standard Chartered dropped 2025 emissions-based bonuses, BP abandoned its energy transition pay target after a year introducing it, and Starbucks cut greenhouse gas and Diversity, Equity & Inclusion (DEI) metrics from incentives.

This broader retreat from ESG-linked pay structures signals a changing corporate approach to sustainability, driven by regulatory pushback and cost concerns. In a related development, the CFA Institute has announced that effective April 8, 2025, its "Certificate in ESG Investing" will be rebranded as the "Sustainable Investing Certificate." The institute cited evolving global interpretations of ESG investing, with "sustainable investing" deemed a more accurate reflection of the certification's objectives. However, this move also underscores the growing influence of U.S. anti-ESG sentiment on global financial markets and corporate strategies.

Financial markets tables

As at 31 March 2025

SA indices (ZAR)	1 Month	3 Months	6 Months	YTD	1 Year	3 Years (Ann)	5 Years (Ann)
ALSI	3,55%	5,94%	3,68%	5,94%	22,94%	9,41%	19,06%
SWIX All Share	3,55%	5,94%	3,68%	5,94%	22,94%	8,33%	16,82%
Capped SWIX All Share	3,60%	5,85%	3,58%	5,85%	22,87%	8,20%	18,67%
Mid Caps	3,66%	0,06%	-1,49%	0,06%	19,71%	6,37%	17,13%
Small Caps	-0,27%	-7,07%	-0,51%	-7,07%	27,33%	13,14%	28,79%
Large Caps	3,91%	9,90%	6,21%	9,90%	23,47%	9,75%	18,83%
Resource 10	20,88%	33,74%	20,28%	33,74%	23,06%	-1,91%	18,80%
Industrial 25	-0,22%	4,27%	3,74%	4,27%	21,20%	17,18%	16,02%
Financial 15	0,18%	-1,72%	-3,53%	-1,72%	28,62%	10,11%	22,34%
ALPI	-1,54%	-4,25%	-4,61%	-4,25%	20,13%	11,11%	18,37%
ALBI	0,19%	0,70%	1,13%	0,70%	20,16%	9,83%	11,73%
CILI	0,03%	0,70%	1,53%	0,70%	8,93%	6,52%	9,33%
STeFI	0,64%	1,89%	3,94%	1,89%	8,36%	7,54%	6,21%
Global indices (USD)							
MSCI World	-4,64%	-2,14%	-2,54%	-2,14%	5,55%	5,93%	14,39%
MSCI ACWI	-3,95%	-1,32%	-2,30%	-1,32%	7,15%	6,91%	15,18%
MSCI UK	0,13%	8,53%	0,52%	8,53%	10,12%	3,78%	9,56%
MSCI USA	-5,97%	-4,82%	-2,48%	-4,82%	6,75%	7,21%	16,80%
MSCI Europe ex-UK	-0,89%	10,26%	-1,62%	10,26%	2,42%	4,73%	10,64%
MSCI World Value	-1,56%	4,24%	-0,56%	4,24%	6,32%	4,49%	12,32%
MSCI World Growth	-7,51%	-7,75%	-4,24%	-7,75%	5,37%	7,63%	16,59%
MSCI World Quality	-5,63%	-2,79%	-5,92%	-2,79%	3,19%	9,03%	16,54%
MSCI EM	0,38%	2,41%	-5,93%	2,41%	5,58%	-1,19%	5,35%
MSCI EM LatAm	4,27%	11,44%	-7,73%	11,44%	-18,55%	-8,40%	5,54%
MSCI EM Asia	-0,23%	0,95%	-7,02%	0,95%	7,80%	-0,23%	5,43%
Bloomberg Global Aggr Bond Index	0,62%	2,64%	-2,60%	2,64%	3,05%	-1,63%	-1,38%
Currencies and commodities (USD)							
GBPUSD	2,47%	3,01%	-3,69%	3,01%	2,07%	-0,65%	0,71%
EURUSD	3,81%	4,32%	-3,08%	4,32%	-0,02%	-0,90%	-0,41%
USDZAR	-1,19%	-2,65%	6,43%	-2,65%	-2,88%	7,93%	0,67%
GBPZAR	1,26%	0,27%	2,50%	0,27%	-0,86%	7,23%	1,38%
EURZAR	2,57%	1,55%	3,15%	1,55%	-2,90%	6,96%	0,26%
Gold Spot	9,30%	19,02%	18,56%	19,02%	40,08%	17,26%	14,64%
Brent Crude	2,55%	2,63%	5,63%	2,63%	4,28%	-2,50%	18,74%
Goldman Sachs Commodity Index	4,04%	8,51%	6,65%	8,51%	7,98%	-5,43%	10,89%

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