

Market Commentary

May 2025

GLOBAL MARKET THEMES

- Equity markets advanced globally in May, with the MSCI World Index up 5.92% and MSCI Emerging Markets (EM) rising 4.27%, supported by easing trade tensions and strong corporate earnings.
- US equities outperformed: the S&P 500 gained 6.29%, Nasdaq 9.56%, and Dow Jones 4.2%, led by tech and industrials.
- Volatility declined sharply, with the VIX easing to 18.57 from 24.70.
- The Federal Reserve held rates steady at 4.25%-4.50%, citing ongoing economic uncertainty and persistent inflation risks.
- In Europe, the European Central Bank (ECB) held rates at 2.25%, while the Bank of England (BoE) cut rates by 25 bps to 4.25%, despite UK inflation rising to 3.5% in April.
- Japanese equities rose (Nikkei 225 +4.15% month-to-date) amid strong earnings and a weaker yen; the Bank of Japan (BoJ) kept policy unchanged.
- Chinese equities gained, with the MSCI China Index up 2.74%. The Hang Seng rebounded on stimulus optimism and easing US-China tensions.
- Commodities were mixed: copper +4.71%, platinum +9.06%, palladium +3.15%, and gold flat at +0.02%.
- The USD/ZAR strengthened 2.95%, reflecting broader USD weakness.

SOUTH AFRICAN MARKET THEMES

- South Africa's annual consumer price inflation (CPI) ticked up to 2.8% year-on-year in April, up from 2.7% in March.
- The annual rate for food and non-alcoholic beverage (NAB) inflation rose to 4.0% in April.
- The VAT rate remained at 15% during May.
- Following the Monetary Policy Committee (MPC) meeting in May, the South African Reserve Bank (SARB) governor Lesetja Kganyago announced a 25 basis point cut.
- Data releases for Q1 2025 showed a drop in mining of 4.5% for the quarter, with platinum group metals contributing to the biggest drag.
- The National Treasury reported a budget deficit of R17.13 billion in May.
- President Ramaphosa travelled to the US to meet with President Donald Trump at the White House.
- Employment statistics for Q1 2025 reflected a rise in the unemployment rate to 32.9%.
- Equity markets performed well for the month: May saw an uptick of +3.0% in the Capped SWIX, +3.1% in the SWIX, and +2.7% in the ALBI, with the latter up +4.2% on a year-to-date basis.

Global market themes

Global markets posted strong gains in May 2025, buoyed by a temporary easing in global trade tensions, strong corporate earnings, and more stable monetary policy expectations. Developed markets led the rally, with the MSCI World Index up 5.92% in US dollar terms. The MSCI Emerging Markets Index followed with a gain of 4.27%, supported by renewed risk appetite following the suspension of proposed tariff hikes.

US equities rallied broadly. The S&P 500 Index gained 6.29%, the Dow Jones Industrial Average climbed 4.2%, and the Nasdaq Composite Index surged 9.56%. First-quarter corporate earnings exceeded expectations by 9%, the largest earnings beat in three years. Technology stocks led the gains, boosted by optimism around artificial intelligence (AI), while industrials and consumer discretionary sectors also performed well.

Macroeconomic data in the US was mixed. Headline inflation declined to 2.31% year-on-year, while core inflation held at 2.78%. The labour market added 177,000 jobs in April. However, consumer sentiment deteriorated significantly, with the University of Michigan Consumer Sentiment Index falling to 52.20, its third-lowest reading on record. The Federal Reserve maintained the federal funds rate at 4.25%-4.50%, citing risks from tariffs, inflation, and slowing growth. Despite the cautious tone, investor sentiment improved as the Chicago Board Options Exchange Volatility Index (VIX) fell to 18.57 from 24.70.

In Europe, the STOXX All Europe Index rose 5.13% in euro (EUR) terms. The European Central Bank kept its benchmark rate at 2.25%, following a cut in April, and noted that while inflation was easing, growth risks remained. The European Commission revised its 2025 GDP growth forecast down to 0.9%, with inflation projected at 2.1%.

The United Kingdom saw the Bank of England unexpectedly cut its base rate by 25 basis points to 4.25%, despite a jump in inflation from 2.6% in March to 3.5% in April, driven by higher airfares and energy costs. The FTSE 100 Index rose 3.83% in British pound sterling (GBP), with energy and financials leading gains. News of a limited UK-US trade deal added to positive sentiment late in the month.

In China, growth and policy stimulus remained key themes. First-quarter GDP grew 5.4% year-on-year, but industrial activity remained subdued, with the official Manufacturing Purchasing Managers' Index (PMI) stuck at 49.0. The government responded with targeted stimulus measures, including liquidity support and infrastructure investment. Equity markets responded positively, with the MSCI China Index up 2.74% in USD and the CSI 300 Index gaining 0.82% in Chinese yuan (CNY). The Hang Seng Index also rebounded on optimism around US-China tariff de-escalation and expectations of further credit easing.

Japanese equities extended their rally, with the Nikkei 225 Index up 4.15% in Japanese yen (JPY), supported by a weaker currency and strong export earnings. Inflation rose to 3.5% in April, following the rollback of energy subsidies. The Bank of Japan (BoJ) held its policy rate steady, continuing its gradual path towards normalisation. The Manufacturing PMI edged up to 48.5 but remained below the expansion threshold, with export orders still under pressure.

Emerging markets also advanced. Brazil's Bovespa Index rose 1.75%, supported by stronger commodity prices and improved economic sentiment. India's SENSEX increased by 1.45%, while the MSCI BRIC Index returned 1.93%, reflecting broader resilience across key emerging economies. A weaker US dollar further supported emerging market assets.

Commodity markets were mixed in May. Oil prices rose 2.82% in US dollars, while industrial metals posted notable gains: copper rose 4.71%, platinum climbed 9.06%, and palladium increased 3.15%. Gold remained flat at +0.02%, reflecting more balanced risk sentiment. The USD/ZAR exchange rate appreciated by 2.95%, in line with global US dollar weakness and improved risk appetite.

South African market themes

South Africa's annual consumer price inflation (CPI) rose to 2.8% year-on-year in April, up from 2.7% in March. Month-on-month, CPI was up by 0.3% for April 2025. Key contributing factors included higher prices of food and non-alcoholic beverages, particularly meat and coffee. The annual rate for food and non-alcoholic beverages (NAB) rose to 4.0% in April. Meat was a large contributor to this increase, with prices up 2.3% on average.

South Africa's GDP growth was marginal, expanding by just 0.1% in the first quarter of 2025. Agriculture, especially horticulture and animal products, drove most of the momentum due to good rainfall.

The South African 2025 budget was presented by the Minister of Finance, Enoch Godongwana, on 21 May 2025. Key takeaways from the budget included allocating more funds to infrastructure projects, creating a conducive environment for saving and job creation, fiscal consolidation, and spending reductions. Despite these aims, the debt-to-GDP ratio rose from 75.9% to 77.2%, as a result of lower nominal GDP growth. The VAT rate remained unchanged at 15%.

Following the Monetary Policy Committee (MPC) meeting in May, the South African Reserve Bank (SARB) governor Lesetja Kganyago announced a 25 basis point cut. This brought the repo rate to 7.25% with effect from 30 May 2025. Consequently, the prime lending rate will be reduced to 10.75%. It is also expected that a stronger rand and lower oil prices would help relieve pressure from the increased fuel levy.

Q1 2025 economic data highlighted several challenges. Mining output fell by 4.5% for the quarter, with platinum group metals contributing to the biggest drag. Consumer spending improved over the quarter, with retail trade sales rising higher. Six out of the seven major retail groups had positive Q1 results. Manufacturing shrank by 2.3% for the quarter, driven down by petroleum, food and beverages, and transport equipment prices.

The National Treasury reported a budget deficit of R17.13 billion for May, reflecting increased government spending and lower revenue streams. The budget deficit is expected to remain at around 3.8% of GDP in the medium-term framework. The Absa Purchasing Managers' Index (PMI) dipped to 43.1 in May, down from 44.7 in April, indicating contraction in the manufacturing sector, and showing slightly lower factory activity.

During May, President Ramaphosa travelled to the US to meet with President Donald Trump at the White House. Attendees alongside President Ramaphosa included the Minister of International Relations and Cooperation, the Minister in the Presidency, the Minister of Trade and Industry, the Minister of Agriculture, and the Special Envoy. The aim of the trip was to reset and discuss bilateral relations between the two countries, with the main focus on economic and commercial relations.

Employment statistics for Q1 2025 reflected a rise in the unemployment rate to 32.9%. Job losses were recorded across the trade, construction, mining, and community and social services sectors. Youth unemployment increased to 46.1%. This reading has remained above the 40% mark since Q3 2020.

Equity markets performed well for the month: May saw an uptick of +3.0% in the Capped SWIX, +3.1% in the SWIX, and +2.7% in the ALBI, with the latter up +4.2% on a year-to-date basis. Financials, Industrials, and Resources all increased for the month, up +2.5%, +3.9%, and +2.6%, respectively. Mid-Caps and Large-Caps were also up by +5.5% and +2.9% respectively, while Small-Caps gained +3.3%.