Prosperity

May 2025

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Private Clients
by Old Mutual Wealth

ECONOMIC UPDATE

May brought some important developments in both global and local economic policy. Uncertainty around US policy continued to dominate global markets, but fears of an extreme outcome have eased. A new trade agreement between the US and China removes the aggressive tariffs each side imposed and pauses the "reciprocal" import duties the US slapped on China for 90 days. Consequently, the average US tariff on Chinese goods has dropped from an extreme 145% to a still-high 41%.

Later in the month, a US federal trade court ruled that President Trump had overstepped his authority when he introduced the reciprocal tariffs on more than 60 countries. The ruling has been appealed, and legal loopholes still exist, but the decision signals that presidential power over trade is not absolute. Politically, the tariffs could become increasingly unpopular as their effects are felt, making Republicans nervous ahead of the November 2026 mid-term vote.

When it comes to fiscal policy, the US House of Representatives passed a budget extending the 2017 tax cuts and introducing new temporary ones. While it includes some spending cuts, mainly to health and welfare, the package will significantly widen the US budget deficit by an estimated US$3 to US$5 trillion over the next decade. The relentless rise in US government debt, and a lack of political resolve to manage it, is starting to concern investors. Moody's has now joined other major ratings agencies in stripping the US of its AAA credit rating.

Despite these risks, US economic data has held up better than expected, although much of this may be due to stockpiling by companies and households earlier in the year. This creates a difficult backdrop for monetary policy and the Federal Reserve left rates unchanged at its May meeting.

Outside of the US, the situation is more straightforward. Concerns about global growth, exacerbated by trade tensions, prompted 14 central banks to cut interest rates during the month, including the Bank of England, Reserve Bank of Australia and the South African Reserve Bank (SARB). The SARB reduced the repo rate by 25 basis points to 7.25%, with one member of the Monetary Policy Committee voting for a larger cut, suggesting that further cuts may be on the cards.

Inflation in SA continues to trend lower. Headline consumer inflation has remained below the 3% - 6% target range for three consecutive months, with April CPI at 2.8%. Core inflation, which excludes food and fuel, has also declined to 3%. The SARB expects inflation to average at just 3.2% this year, with projections of 4.1% and 4.2% for 2026 and 2027, respectively. A more stable exchange rate also supported the Bank's decision to lower rates. However, weaker global growth led to a downward revision in SA's 2025 GDP forecast, from 1.7% in March to 1.2% now. Still, ongoing structural reforms may support a stronger medium-term recovery.

On the same day that Presidents Ramaphosa and Trump met in Washington, SA's updated Budget was tabled in Parliament . While relations between the two countries have cooled, the meeting opened the door to renewed dialogue, which may help avoid another spike in US tariffs on SA exports after the current 90-day pause.

The Budget was relatively uneventful compared to earlier proposals, but the key takeaway is Treasury's commitment to fiscal consolidation. A primary budget surplus, where tax revenue exceeds non-interest spending, is expected to rise from 0.7% of GDP to 2.1% in 2027/28. Including interest payments, the overall deficit is expected to continue narrowing over the medium term, reaching 3.2% of GDP by 2027/28. As a result, the debt-to-GDP ratio is projected to peak at 77.4% this year and gradually decline thereafter. While this turning point has been promised for a decade, it now appears more achievable than ever.

Despite ongoing risks, both fiscal and monetary policy in SA remain prudent. Lower inflation, a stable currency, and a credible budget path provide a relatively strong foundation, even as global uncertainties continue to cast a shadow over the outlook.

MARKET UPDATE

May proved to be a volatile month for global markets, characterised by both initial volatility and a subsequent resurgence in optimism. An early announcement of a 90-day tariff reduction between the US and China initially spurred a buying rally; however, this positive sentiment was partially offset by Moody's downgrade of the US credit rating.

Despite this setback, the S&P 500 surged 6.3%, the Dow climbed 3.9% month-on-month and the Nasdaq posting its largest monthly gain (+9%) since November 2023. The FTSE 100 also saw a respectable 3.3% month-on-month increase, even as UK April inflation unexpectedly ticked up to 3.5% from 2.6% in March.

In Asia, China's manufacturing sector showed a slight improvement in May, with the official Purchasing Managers' Index rising to 49.5 from 49.0 in April. While broader Asian market sentiment was initially pressured by global trade concerns, the mid-May announcement of substantial tariff reductions between China and the US injected renewed optimism. This development drove significant gains in key regional indices: the Hang Seng rose 5.3%, the Shanghai Composite increased by 2.1%, and the Nikkei also finished May up by 5.3%.

Mirroring the positive global market sentiment, the JSE delivered solid gains in May, with the All Share Index climbing 3%. The Indi-25 led the charge, posting an impressive 3.9% month-on-month increase, followed by the Resi-10 (+2.2%) and the Fini-15 (+1.8%).

The rand strengthened considerably against the US dollar, gaining 3.2% during the month. Gold, despite its strong year-to-date performance (+25.3%), remained largely flat in May, closing at US$3,289.40 per ounce with a marginal 0.02% increase. Amid supply concerns following news of a decline in the US crude stockpile, Brent crude oil experienced a 1.2% rise to settle at US$63.90 per barrel. Platinum reached a two-year peak, with a substantial 9.1% surge during the month.

GLOBAL EQUITIES

JOHN DEERE

Deere & Co

Deere & Company delivered a resilient second-quarter performance despite softer demand in agriculture and construction. Solid profitability was maintained through disciplined execution, cost control and pricing strategies. Leadership credited the strength of its dealer network and workforce for sustaining high levels of customer service.

All three equipment segments posted lower sales due to weaker volumes. Production & Precision Ag sales fell 21% with a 30% drop in operating profit, while Construction & Forestry saw a 23% decline in sales and 43% in profit, both pressured by weaker volumes and pricing. Small Ag & Turf was more resilient, with sales down 6% and flat operating profit, supported by effective cost and pricing actions. Financial Services held steady, with net income down just 1%.

Deere remains confident in its long-term strategy, continuing to invest in innovation, manufacturing and precision technology to support future growth. Management acknowledged that while the near-term macro environment remains uncertain — marked by high interest rates, trade policy volatility, and pressure on customer sentiment — they remain focused on disciplined execution and long-term strategic investments. For the remainder of fiscal 2025, they expect large agricultural demand in the US and Canada to decline by approximately 30%, driven by elevated used inventory and tighter farmer budgets. Small Ag and Turf is projected to decline by 10% – 15%, while Construction & Forestry demand is expected to contract by 10% – 15% as well. Despite ongoing headwinds, Deere is maintaining its full-year net income guidance of US$4.75bn - US$5.5bn, supported by proactive management of costs, inventory and production.

Looking ahead, management sees opportunity in unlocking further value through its precision tech stack and SaaS-based solutions. They are cautiously optimistic that stabilising agricultural fundamentals, new trade agreements (like the UK deal), and falling input costs could help support customer investment over time. Used equipment inventory remains a key area of focus, especially for large ag, with Deere and its dealers working to rebalance the market. Overall, while 2025 is framed as a transitional year, the company remains confident in its strategic positioning and ability to capitalise when market conditions improve

Management has communicated recent macro headwinds transparently and continues to execute effectively, helping Deere maintain profitability and deliver value to both customers and shareholders. As a result, our investment case remains strong, with the share price responding positively to the latest results.

LOCAL EQUITIES

RICHEMONT

Richemont

Global luxury goods company, Richemont delivered a stronger-than-expected full-year performance, with sales growth rebounding to 4% after a flat first half. Double-digit sales growth across the Americas, Europe, Middle, East & Africa, and Japan offset continued weakness in Asia Pacific, where sales declined due to ongoing softness in China. Jewellery (+8%) remained the stand-out performer, while Specialist Watches declined by 13%.

Profits were impacted by the steep increase in precious metals prices as the group did not increase pricing by the same magnitude. As a result, the group's operating margin contracted by 240bps, however, it remained robust at 20.9%. The state of geopolitics makes for an uncertain operational outlook, management takes comfort in the group's strong financial position, with net cash of EUR8.3bn, allowing the group to maintain its investments and operational capacity through the cycle. Supported by the strength of the balance sheet, management proposed a dividend of CHF3.00 per A share (10 B shares), representing a 9% increase.

Looking ahead, management is responding cautiously to the sharp slowdown in luxury goods consumption, which has impacted specialist watches more severely than jewellery. However, Richemont is well positioned and well-funded to navigate this volatile environment and capitalise on potential investment opportunities. We remain optimistic about the group's long-term growth potential, though acknowledge that the recent share price rally has pushed the stock above our fair value range.

REUNERT
REUNERT LIMITED

Reunert

Local industrial conglomerate, Reunert reported a subdued interim performance for 2025, with group revenue down 6% and headline earnings down 21%. Weaker South African cable sales, delays in a key defence contract and continued pressure in the small-scale battery storage market weighed on results. Blue Nova, the battery storage business, has now been classified as held for sale.

Despite the weaker first half, management expects a stronger second half, driven by the delivery of the deferred defence fuze contract and solid momentum in the defence order book. The interim dividend was maintained at 90 cents per share, supported by a stable balance sheet and marginal net cash position.

Looking further ahead, Reunert sees upside from increased private sector participation in infrastructure, particularly in rail, ports, water and the power grid. While near-term delays in infrastructure spending may continue to impact Electrical Engineering, the ICT and Applied Electronics divisions are set to benefit from improved activity in the second half.

As a capital-expenditure-sensitive business, Reunert faces near-term uncertainty from tariffs and geopolitical risks. However, we remain confident that infrastructure investment will gain traction across SA and the continent, positioning Reunert as a key beneficiary. We retain a positive long-term view and see the stock as undervalued.

CONTACT US

CAPE TOWN

PINELANDS

Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405
Tel: 021 524 4678

STELLENBOSCH

97 La Gratitude, Dorp Street, Stellenbosch, 7600
Tel: 021 861 5300

NEWLANDS

22 Kildare Street, Newlands, 7700
Tel: 021 524 4678

GEORGE

1st Floor, Building 5, 27 York Street, George
Tel: 082 823 2731

JOHANNESBURG

2nd Floor, Lacey Oak House, Bally Oaks Office Park, Ballyclare Drive, Bryanston, 2191
Tel: 011 245 3805

PRETORIA

6th Floor 180, Maine, Park Lane West, 197 Amarand Ave, Menlyn, 0181
Tel: 012 369 7236

KWAZULU NATAL

74 Old Main Road, Unit 7, Kloof
Tel: 031 767 7300

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