

INVESTMENT NOTE

7 APRIL 2025

TARIFFS, TURMOIL AND TRADE-OFFS



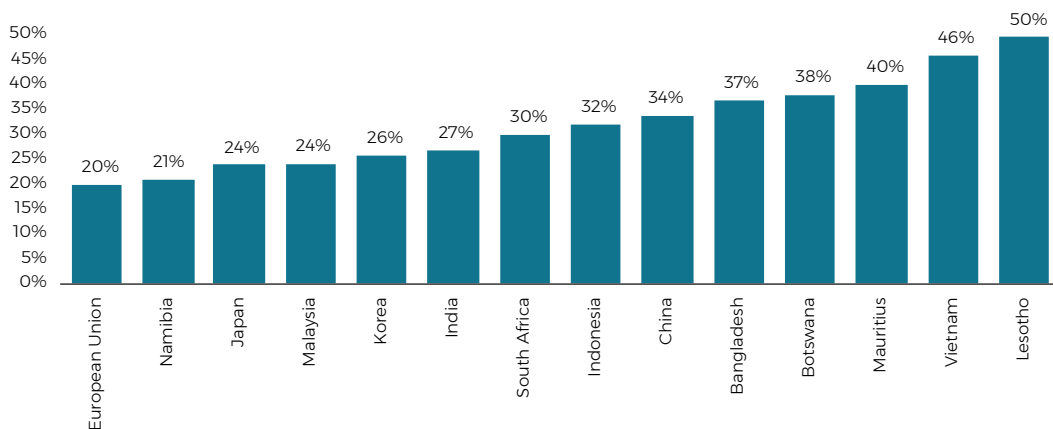
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South African investors have been hit by a double whammy of geopolitical and domestic political uncertainty. Neither is good, but before making rash decisions, perspective is necessary.

Let's start with a global view. US President Donald Trump's "liberation day" announcement of sweeping new import tariffs was much worse than investors expected. The expectation was that tariffs would be reciprocal to broadly match what other countries charge for imports from the US. Instead, it appears to be driven by a formula that has little grounding in economic theory or trade realities (no need to get into the details). For instance, South Africa's average duty on American imports is 7%, but the US tariff on South African imports jumped to a staggering 30%. Sixty countries will be hit by these tariffs, which Trump still terms "reciprocal", though they clearly go far beyond what these countries charge the US. The remaining countries will be hit by a 10% tariff, including Australia, Brazil and the UK. Canada and Mexico were spared new tariffs, but previously announced import duties, including those on steel, aluminium and vehicles, remain in force.

CHART 1: NEW "RECIPROCAL" US IMPORT TARIFFS, SELECTED COUNTRIES



Source: The White House

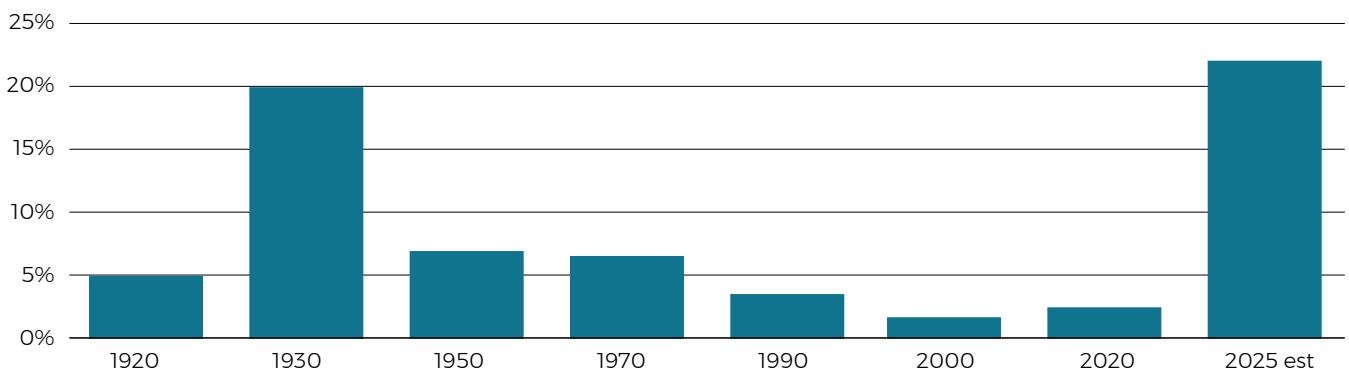


Since there are always exceptions, loopholes and give-aways, the effective tariff level is constantly lower than the headline number. Even so, this amounts to one of the biggest shocks to the global trading system in years.

Ratings agency Fitch estimates that the effective tariff rate that Americans will pay for imports will jump to 22% from around 2.5% currently. This puts us back in the same territory of the Smoot-Hawley Act, a 1930 piece of legislation that hiked the tariff rate to 20% and contributed to the Great

Depression. The impact will not be the same this time round, since the economic and geopolitical backdrops are very different. The US and global economies are also more services-orientated these days, and less dependent on goods trade. Fiscal and monetary policymakers have learned important lessons in managing crises since the 1930s, and their actions will be important to watch. Finally, other major economies retaliated to Smoot-Hawley by raising their own tariff levels on the US, but also on one another. How will they react this time?

CHART 2: EFFECTIVE US IMPORT TARIFF, %



Source: Petersen Institute for International Economics, Fitch Ratings

China has already matched the new 34% tariff. It imported around \$140 billion worth of goods from the US last year. Other large economies might also respond, even if only symbolically for domestic political reasons. Smaller countries will try to strike a deal with the US, and President Ramaphosa has already called for bilateral negotiations. It is not clear how willing Trump is to negotiate, though we must hope he is. Domestic political pressure might force him to make concessions. Congress has the authority to roll back any tariff increases, though enough Republican lawmakers will have to vote against their president. After next year's midterm elections, it could be a different story.

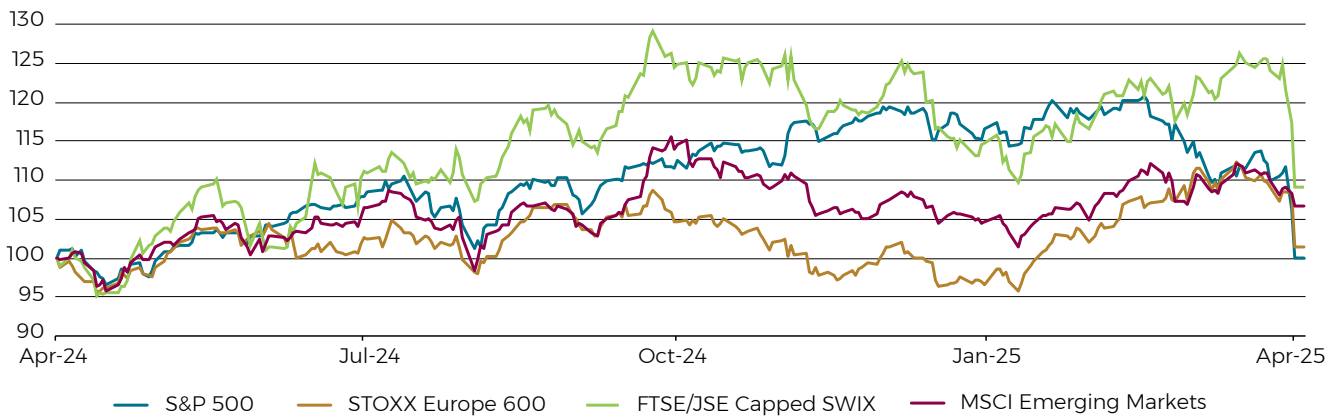
Importantly, unlike the 1930s, non-US countries will probably be more open to expanding trade links among one another. The US is the world's biggest consumer market, and a prize for any exporting company. But its \$3 trillion in annual imports only amounts to around 13% of total global imports. This suggests that Trump has overplayed his hand. His actions could isolate the US while other countries expand trade ties. This will be a longer-term process, however, and also depend on how long these tariffs stay in place.

The bottom line is that crisis always create opportunities for businesses and investors while it can also force political leaders to make the tough trade-offs they usually avoid at all costs.

Will these tariffs work as intended? Trump is determined to boost manufacturing activity and employment in the US. There is logic to stimulating highly sensitive areas such as semi-conductors and defence technologies through tariffs, though that might also require subsidies. For other more mundane manufactured goods, these tariffs will stimulate some reshoring, but only if companies are convinced of their permanence. Moreover, since most businesses import at least some of their inputs, US-based factories will still come under pressure. When it comes to low-value items like clothing and shoes, it just doesn't make sense to produce in the US, even with tariffs. American wages are too high, and most workers don't want these sorts of jobs. Yet tariffs on poor countries like Bangladesh and Lesotho that specialise in these products have surged. Either way, US consumers will pay higher prices, whether the goods are produced locally or internationally.

How much higher depends on where in the value chain - producer, transporter, importer, distributor, retailer and consumer - the tariff impact is absorbed. Higher prices do not necessarily equate to higher inflation, which refers to sustained and ongoing price increases. The US Federal Reserve will look through the immediate impact of tariffs on prices, and focus on the "second-round effects," whether and how these cost increases are passed on.

CHART 3: EQUITY BENCHMARKS IN US\$



Source: LSEG Datastream

Naturally, equity markets responded very negatively. This will put a squeeze on profit margins, while also weighing on topline growth. The ongoing uncertainty also hurts. No one believes this is the end of the matter, but in which direction does it swing? What it's telling is that the dollar weakened. Economic theory suggests that the dollar should have strengthened, but markets clearly see this as a headwind for US growth, which will ultimately drag US interest rates lower.

A key question for investors in the coming months is therefore whether the Fed is too focused on inflation risks to respond timeously to the deteriorating economic outlook. It has a lot of room to cut interest rates, which can prevent this economic shock from turning into a recession, but it would need to move sooner rather than later. It is also important to note that US companies and households also have strong balance sheets in aggregate and therefore any contraction in economic activity will not be accompanied by large-scale deleveraging, the reason the 2008 recession was so bad, for instance.

GOING AGOA GONE

Many commodities are exempt from the new tariffs, which softens the blow for South Africa, since precious metals are our biggest export to the US. It is a blow nonetheless to the many manufacturing and agricultural businesses that previously enjoyed duty-free access under AGOA. Again, the exact impact depends on many factors, including the new tariff level that our competitors in the US market face. Take fruit exports, for instance. We have a different growing season to the US, so our farmers don't compete directly with Americans, but with producers in other southern hemisphere countries.

Exports to the US amount to around 8% of total South African export values. While the impact will be negative, it is not catastrophic. However, there is also an indirect impact if the remaining 92% declines because of weaker growth in other countries. The financial market impact is also crucial, since episodes of market stress like these tend to put downward pressure on the rand and upward pressure on domestic interest rates. Amid the uncertainty, it is likely that the South African Reserve Bank will halt further rate cuts, at least until the US Fed starts reducing rates aggressively.

Unfortunately, for South Africa, Trump's tariff timing could not have been worse.

GNU UNDOING?

The budget drama that has been dragging on since mid-February took a turn towards farce and potentially tragedy in the last week, leaving the DA's ongoing participation in the government of national unity (GNU) in serious doubt.

For investors, this is very disappointing. One can only hope that the evolving global crisis is large enough to get our political leaders to also make the necessary trade-offs in the national interest, despite the apparent breakdown in trust.

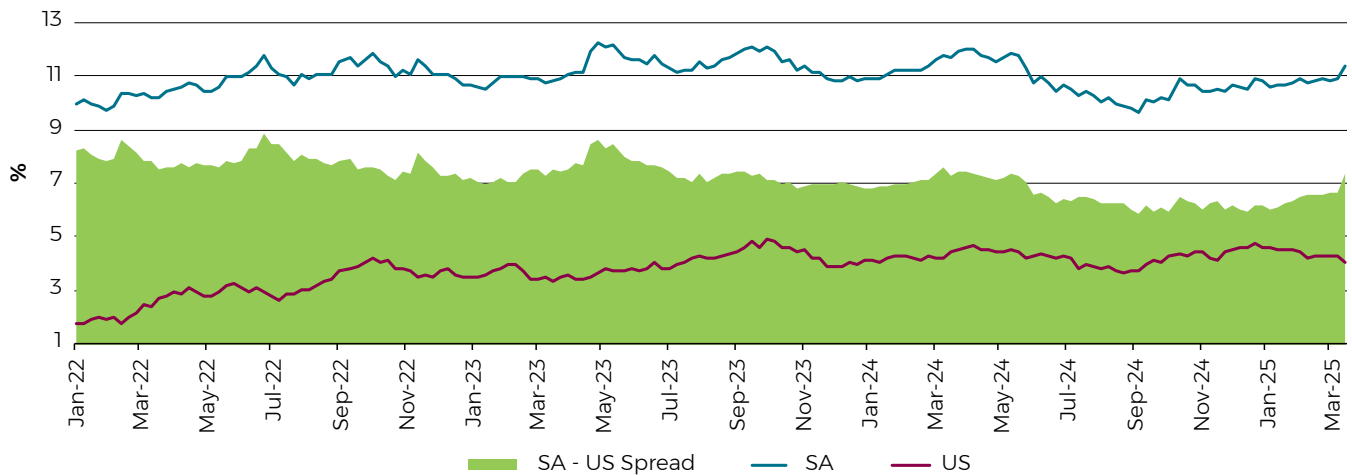
The withdrawal of the DA from the GNU would be a blow to political stability. Without the DA, the GNU would only have 50% of the seats in parliament, not enough to pass legislation, but also not enough to lose votes of no-confidence. It is worth remembering that the ANC plus a few smaller parties was the base case pre-election scenario for most investors, and they were largely comfortable with it. There is no indication that the worst-case scenario for investor

sentiment, namely the MK or EFF joining the governing coalition, will materialise.

The most important thing is ultimately policy, not parties or personalities. Key reforms have been made and more are in the pipeline. The big shift in policy thinking predates the

GNU, namely allowing and indeed encouraging the private sector to participate in industries previously monopolised by the state. Operation Vulindlela, the joint initiative of Treasury and the Presidency to tackle obstacles to economic growth also predates the GNU, will go ahead.

CHART 4: 10-YEAR GOVERNMENT BOND YIELDS %



Sources: LSEG Datastream

Global investors have long attached a political risk premium to South Africa, demanding additional compensation for the possibility of something going badly wrong, including the small but not zero chance of a populist government. The rand is weaker than interest rate differentials suggest it should be, equities trade at depressed multiples despite a good run over the past 12 months, and bond yields are higher than the inflation outlook implies. This risk premium, for instance seen in the difference between South African and US bond yields, has now widened, but remains in range. To narrow this spread, we'll need to see global anxiety ease,

but also ongoing evidence that South Africa is making progress with its economic-enhancing reforms.

The government will also have to stick to fiscal consolidation plans to stabilise its debt level. After years of running a credible and coherent budgeting process, the shambolic events in Parliament in the past few days have done investor sentiment no good. Nonetheless, the fact that the finance minister is seemingly pushing ahead with an unpopular tax increase does point to the commitment not to increase borrowing. This is important.

COOL HEADS NEEDED

Clearly, cool heads are now needed in South Africa and across the world. We don't want policymakers to make a bad situation worse. The same is true for individual investors. Making rash decisions usually do more harm than good. The situation is fluid and unpredictable, but if you are a long-term investor with a diversified strategy, the events of the past few days will cost you short-term returns but are unlikely

to leave you much poorer ten or so years from now. The historic experience is that markets bounce back from shocks like these, but retaining market exposure through volatility is the only realistic way of capturing the upside. People think they can time the market, but most can't. Therefore, they must make the trade-off between sacrificing peaceful sleep in the short term and benefiting over the long term.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	3 326.0	-8.50%	-8.35%	-10.30%	-1.77%
United States	S&P 500	US\$	5 074.0	-9.08%	-9.59%	-13.74%	-1.42%
Europe	MSCI Europe	US\$	2 081.0	-6.97%	-5.41%	3.89%	-1.79%
Britain	FTSE 100	US\$	10 388.0	-7.29%	-6.30%	1.56%	3.02%
Germany	DAX	US\$	1 931.0	-6.81%	-5.44%	5.10%	12.27%
Japan	Nikkei 225	US\$	229.8	-7.23%	-3.23%	-9.43%	-12.59%
Emerging Markets	MSCI Emerging Markets	US\$	1 088.0	-2.94%	-1.18%	1.21%	3.72%
Brazil	MSCI Brazil	US\$	1 264.0	-5.03%	-4.46%	7.39%	-22.64%
China	MSCI China	US\$	72.8	-2.98%	-1.50%	12.93%	32.93%
India	MSCI India	US\$	968.9	-2.33%	-2.33%	-5.38%	-1.83%
South Africa	MSCI South Africa	US\$	429.0	-12.45%	-11.91%	-0.23%	8.33%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	81 554.0	-8.95%	-7.99%	-3.02%	8.20%
All Share	All Share (Total Return)	Rand	15 036.0	-8.64%	-7.68%	-2.19%	12.05%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	36 688.5	-8.83%	-7.89%	-2.50%	11.70%
TOP 40/Large Caps	Top 40	Rand	13 642.0	-8.57%	-7.69%	0.15%	11.76%
Mid Caps	Mid Cap	Rand	22 613.0	-11.04%	-10.12%	-10.07%	5.94%
Small Companies	Small Cap	Rand	38 611.0	-7.06%	-6.17%	-12.81%	19.56%
Resources	Resource 20	Rand	5 414.3	-10.76%	-10.24%	20.05%	4.17%
Industrials	Industrial 25	Rand	25 854.0	-5.82%	-4.76%	-0.69%	15.60%
Financials	Financial 15	Rand	13 885.0	-10.92%	-10.02%	-11.57%	15.52%
Listed Property	SA Listed Property	Rand	2 209.4	-4.87%	-4.72%	-8.05%	14.72%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government S&P Overall (USD Unhedged)		US\$	76.8	2.21%	2.04%	4.04%	1.72%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 082.7	-1.86%	-2.49%	-1.81%	15.56%
Government Bonds	BESA GOVI	Rand	1 067.4	-1.80%	-2.42%	-1.69%	15.65%
Inflation Linked Bonds	BESA CILI	Rand	379.4	0.10%	0.03%	0.73%	8.85%
Cash	STEFI Composite	Rand	606.5	0.14%	0.08%	1.98%	8.27%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	65.6	-10.93%	-12.56%	-12.56%	-27.93%
Gold	Gold Spot	US\$	3 037.0	-1.52%	-2.78%	16.09%	32.45%
Platinum	Platinum Spot	US\$	902.0	-8.15%	-9.98%	-1.42%	-4.95%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	19.13	-3.65%	-4.21%	-1.50%	-2.13%
ZAR/Pound	ZAR/GBP	Rand	24.64	-3.21%	-3.98%	-4.10%	-3.98%
ZAR/Euro	ZAR/EUR	Rand	20.91	-4.56%	-5.23%	-6.52%	-2.98%
Dollar/Euro	USD/EUR	US\$	1.10	-1.82%	-1.64%	-5.91%	-1.82%
Dollar/Pound	USD/GBP	US\$	1.29	0.35%	0.03%	-3.07%	-2.30%
Dollar/Yen	USD/JPY	US\$	0.01	-1.91%	-2.00%	-6.51%	-2.84%

Source: I-Net, figures as at 4 April 2025

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