



Prosperity

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Private Clients
by  Old Mutual Wealth

ECONOMIC UPDATE

Recent weeks have seen unprecedented shifts in economic policy, changing the outlook for global economic growth and sparking market volatility.

At the center of this disruption is US President Donald Trump's "Liberation Day" announcement, introducing steep new tariffs on imports from 60 countries. These so-called "reciprocal" tariffs are anything but – calculated not on other countries' tariffs on the US, but on trade imbalances. South Africa faces a 30% tariff, Vietnam 46%, and China 34%, all on top of existing tariffs. Even Lesotho, which imports very little from the US, was hit with a 50% tariff. Traditional allies like the UK and Australia, weren't spared, each slapped with a flat 10% import tax.

China quickly retaliated with matching tariffs, prompting Trump to up the ante, raising Chinese import duties to 145%. China retaliated by raising tariffs on US imports to 125%. At these levels, profitable trade between the world's two largest economies is virtually impossible.

Faced with the negative market reaction, notably the unusual combination of a falling dollar and rising US government bond yields, Trump partially retreated. Under pressure from business leaders and political advisers, he paused the tariffs for 90 days to allow trade talks, exempted electronic goods like smartphones and gave US carmakers some relief.

Still, by the end of April, the effective US import tariff rate will rise from around 2.5% to around 22% – one of the largest tax increases in history, ultimately borne by US consumers. Needless to say, markets reacted sharply.

For the US, this creates a supply shock: prices rise, consumer spending falls – echoing the post-COVID surge in prices. For the rest of the world, it is a demand shock. Some central banks, including Canada and the EU, have already cut rates to offset this. Lower oil prices will also help contain inflation. But for the US Federal Reserve, it is more complicated. It kept interest rates unchanged at its April policy meeting, much to Trump's chagrin.

Higher US prices as a result of the tariffs won't necessarily lead to persistent inflation. Much depends on consumer and business behaviour. If the economy is weak, firms will lack the pricing power to keep raising prices. However, with inflation already above the Fed's 2% target, the central bank is in wait-and-see mode. Moreover, Trump's policies could still change, as indeed they have already.

Uncertainty now clouds every global supply chain. While the intent is to boost US manufacturing, few CEOs will invest in increased domestic production without assurance that the tariff protection will remain in place. Even then, it could take years and, in some cases, might never happen. Moreover, while

most countries are keen to negotiate a deal with the US to avoid tariffs, China has shown no indication that it is willing to bend the knee. China remains the largest supplier to the US by far. Therefore, it is a real possibility that consumers will face higher prices and shortages of key goods in the months ahead, while thousands of smaller firms that rely on inputs from China could go out of business. Larger companies may have to cough up and face margin pressure while the search for alternative suppliers continues.

Markets have stabilised after the initial shock, as investors recognise Trump's limits in pushing through extreme tariffs. However, unless the tariffs are cancelled soon, their impact will become visible in the months ahead, and with it, the potential headwinds to company profits. The real uncertainty faced by businesses will be even worse than the tariffs themselves in some cases. Investors will constantly be reassessing whether the unfolding economic reality is sufficiently reflected in market prices.

Most of all, trust in the US as the stable anchor of the global economy and financial system has been shaken. For years, investors and businesses relied on US markets and consumers. A big review is underway in financial centers across the world.

For SA, the global shock triggered by Trump's tariffs has been worsened by domestic political uncertainty. With the "reciprocal" tariffs currently paused, SA still faces a 10% tariff on non-mining exports – a setback for manufacturing and agriculture exporters with US contracts, though not a major blow to the broader economy. The government has reached out to Washington to negotiate, but relations are strained, and SA has limited bargaining power.

Apart from the direct impact of tariff barriers on exports to the US, SA faces the indirect impact of a weaker global economy, with our exports to China, Europe and elsewhere potentially coming under pressure. As a commodity exporter and capital importer, SA is highly sensitive to global conditions. The rand weakened sharply after "Liberation Day", but has since recovered somewhat. This volatility will keep the Reserve Bank cautious, likely holding rates steady despite the weaker economic outlook.

That said, the door to a May rate cut remains open, due to subdued inflation. Consumer inflation declined to 2.7% year-on-year in March from 3.1% in February – below the Reserve Bank's 3% - 6% target range. Core inflation, which excludes volatile food and fuel prices, declined to 3.1%, and producer inflation was only 0.5%. The main drivers of local inflation – electricity prices and medical aid costs – cannot be influenced by keeping interest rates high.

Ultimately, much depends on the evolving political outlook. Market confidence depends heavily on political stability.

Disagreements over the 2025 Budget, particularly proposed VAT hikes, nearly fractured the governing coalition. The controversial VAT increases, expected to raise R75 billion over three years, were ultimately shelved after legal challenges and political wrangling. Treasury must now revise the Budget and submit a third version, with updated (and likely lower) growth forecasts, and reduced spending plans. Borrowing more is not an option. While the Reserve Bank has cut household borrowing costs by 25 basis points this year, government borrowing costs have risen by the same margin, driven by higher bond yields.

The good news: the Government of National Unity (GNU) has weathered the crisis – for now. Whether the Budget fallout strengthens the coalition by showing it can survive tough negotiations, or weakens it by eroding trust, remains to be seen. What matters most is that, despite global and local turbulence, SA retains a functioning government and policy continuity as it navigates an increasingly uncertain global landscape.

MARKET UPDATE

The announcement of tariffs at the start of April reignited US recession fears and spurred market volatility. However, sentiment improved toward the end of the month when President Trump announced a 90-day pause on the tariffs. This helped lift global equities, with the MSCI World Index ending April up 0.9%.

In the US, headline inflation eased more than expected, dropping to 2.4% year-on-year in March from 2.8% in February. Despite this positive surprise, equity market performance was mixed: the S&P 500 declined by 0.8% month-on-month, the Dow Jones fell more sharply by 3.2%, while the Nasdaq managed a modest gain of 0.9%.

In the UK, inflation continued to trend lower, falling to 2.6% in March from 2.8% in February. The FTSE 100 reflected broader global concerns, slipping 1.0% over the month.

Asian markets were hit hard by the impact of the newly imposed tariffs. China's official manufacturing PMI fell into contraction territory, declining to 49.0 in April from 50.5 the previous month. This weakness weighed on equity markets, with the Hang Seng down 4.3% and the Shanghai Composite losing 1.7%. In contrast, Japan's Nikkei delivered a standout performance, gaining 1.2% and recovering losses from March.

Locally, the JSE All Share Index rebounded strongly after being initially shaken by global trade tensions, ending April up 3.3%. Gains were broad-based: the Indi-25 surged 4.9%, the Resi-10 rose 2.3% and the Fini-15 added 2.2%.

The rand weakened by 1.5% against the US dollar during the month. Commodity markets were mixed: Brent crude oil tumbled by 15.5% to US\$63.12 per barrel, gold rose by 5.3% to US\$3 288.59 per ounce, while platinum fell 2.8% month-on-month.

LOCAL EQUITIES



Clicks

Despite a challenging operating environment, Clicks delivered solid interim results, with diluted headline earnings per share (HEPS) up 13.2% over the period. Group revenue rose 6.2% and trading margin improved by 60bps to 9.1%, within its medium-term target range of 9% -10%. While group turnover growth slowed from 8.1% (in the first 20 weeks) to 6.2%, gross margin expanded by 42bps to 24%, driven by a higher mix of private label sales in the retail segment. The group continues to execute on its store expansion strategy, reaching 950 stores and 740 pharmacies during the first half of the year.

Looking ahead, the consumer environment is expected to remain under pressure. However, we believe that Clicks is well positioned to defend and grow market share through effective promotions and the expansion of higher-margin private labels. Management have guided FY25 HEPS growth of 11% - 16%. The group plans to invest R1.025 billion in capex for the year, with a focus on new stores, refurbishments and infrastructure upgrades, as it targets a long-term goal of 1 200 stores.



Capitec

Capitec reported robust full-year 2025 results, with headline earnings per share (HEPS) up by 30% and the full-year dividend rising by 34%. Personal Banking led the way, with a 27% increase in headline earnings, driven by lower credit impairments and higher income from value-added services. Business Banking reported a 13% increase in headline earnings, following the integration of Capitec Pay into the division.

The bank's return on equity (ROE) improved from 26% to 29%, supported by growth in transactional and value-added services (VAS) income, operating efficiencies and a lower credit loss ratio. Net interest income after credit impairments rose significantly by 54% to R11.9 billion. This was partially offset by a 30% rise in operating expenses, largely due to the consolidation of AvaFin. In terms of headline earnings contribution by segment, Personal Banking accounted for 45%, Strategic Initiatives (including value-added services and Capitec Connect) contributed 23%, Insurance made up 25%, Business Banking 5%, and AvaFin 2%.

Looking ahead, Capitec aims to accelerate digital banking adoption and integrate its personal and business banking platforms for a seamless client experience. Management remain optimistic about future growth prospects, particularly in the business banking, life insurance and AvaFin segments.

CONTACT US

CAPE TOWN

PINELANDS

TEL: 021 524 4678

ADDRESS: Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | PO Box 207, Cape Town, 8000

EMAIL: privateclients@omwealth.co.za

STELLENBOSCH

TEL: 021 861 5300

ADDRESS: 97 La Gratitude, Dorp Street, Stellenbosch, 7600

EMAIL: privateclients@omwealth.co.za

NEWLANDS

TEL: 021 524 4678

ADDRESS: 22 Kildare Street, Newlands, 7700

EMAIL: privateclients@omwealth.co.za

JOHANNESBURG

TEL: 011 245 3805

ADDRESS: 2nd Floor, Lacey Oak House, Bally Oaks Office Park, Ballyclare Drive, Bryanston, 2191

EMAIL: privateclients@omwealth.co.za

PRETORIA

TEL: 012 369 7236

ADDRESS: 6th Floor 180, Maine, Park Lane West, 197 Amarand Ave, Menlyn, Pretoria, 0181

EMAIL: privateclients@omwealth.co.za

KWAZULU NATAL

KLOOF

TEL: 031 767 7300

ADDRESS: 74 Old Main Road, Unit 7, Kloof, KwaZulu-Natal

EMAIL: privateclients@omwealth.co.za

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Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | Tel: +27 (0)21 524 4678 | Email: privateclients@omwealth.co.za

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