Market Commentary

February 2025

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South African market themes

South African stocks fell, but insurance and telecoms stocks outperformed significantly

US land policy tensions increased volatility in South African markets

Eskom implemented stage 6 load shedding despite claims of improvement

Proposed VAT hike to 17% was postponed, raising investor uncertainty

In February, South African equity markets closely mirrored global trends while navigating persistent economic uncertainties. The FTSE/JSE Capped SWIX Index ended the month lower, down 0.4%, reflecting investor caution amid both domestic and international challenges. However, sector performance varied significantly within this subdued market, with notable gains in the insurance, telecommunications, and select large-cap stocks.

The insurance sector was the standout performer, experiencing an increase of 9%. This rally was largely driven by Discovery and OUTsurance, whose stock prices rose by 14% and 13%, respectively. Telecommunications stocks also recorded gains, rising by 4% in February, which was attributed to Vodacom's 6% increase, underpinned by strong domestic market performance and reduced foreign exchange headwinds across its African operations. Telkom followed closely with an 8% gain, supported by continued strength in mobile earnings.

Among large-cap stocks, the Naspers-Prosus complex was the top performer on the JSE, experiencing a 12% rise in price over February. Initially, investor enthusiasm was tempered by the announcement of the acquisition of Just Eat; however, the stock's performance was positively impacted by a 19% rally in Tencent. Global beverage giant AB InBev also saw significant gains, rising by 21%.

In February, South Africa's political landscape experienced significant volatility. Internationally, tensions escalated between South Africa and the United States when the Trump administration announced plans to cut aid due to disagreements over land policies. This political instability triggered immediate reactions in financial markets. The yield on South Africa's 10-year government bonds rose to 10.5%, while the rand showed some resilience and appreciated by 0.6% against the US dollar.

The FTSE/JSE CILI outperformed nominal bonds, the broader Capped SWIX equity, and property markets, gaining 1% over the month. Bonds saw a slight gain of 0.1%, while the property ALPI index increased by 0.3%. However, resources declined sharply by 7.1% during February. In contrast, both the industrials and financial sectors experienced moderate gains of 2.8% and 1.0%, respectively. Statistics South Africa (Stats SA) reported that headline inflation rose to 3.2% year-on-year in January 2025, up from to 3.0% in December 2024. This result was slightly better than the Reuters median forecast, which anticipated an increase to 3.3%. The main contributor to the rise in headline inflation was an increase in transport costs. This was partially offset by declines in prices for food, non-alcoholic beverages (NAB), and clothing and footwear. Core inflation remained steady at 3.5% in January; however, December's core inflation was adjusted down from 3.6%. These results were consistent with the Reuters median prediction.

Investor sentiment was shaken domestically following the unexpected postponement of the national budget speech. This delay was caused by disagreements within the Government of National Unity (GNU) regarding proposed tax increases. A significant shock to the market came from the ANC's suggestion to raise VAT to 17%. Tax experts have expressed concerns about this move, pointing out that previous budgets usually provided stability, making this proposal an unusual departure. Analysts cautioned that while this change might be presented as a democratic victory, it could undermine market confidence and negatively affect tax collections, the value of the rand, and overall financial markets.

Investors are now eagerly awaiting the rescheduled budget presentation on 12 March. The key focus areas include fiscal policies affecting state-owned enterprises (SOEs), as the

Budget presentation has been rescheduled to 12 March

The rand gained 0.6%, while 10-year bond yields rose

EU and South Africa strengthened ties amid US policy uncertainty.

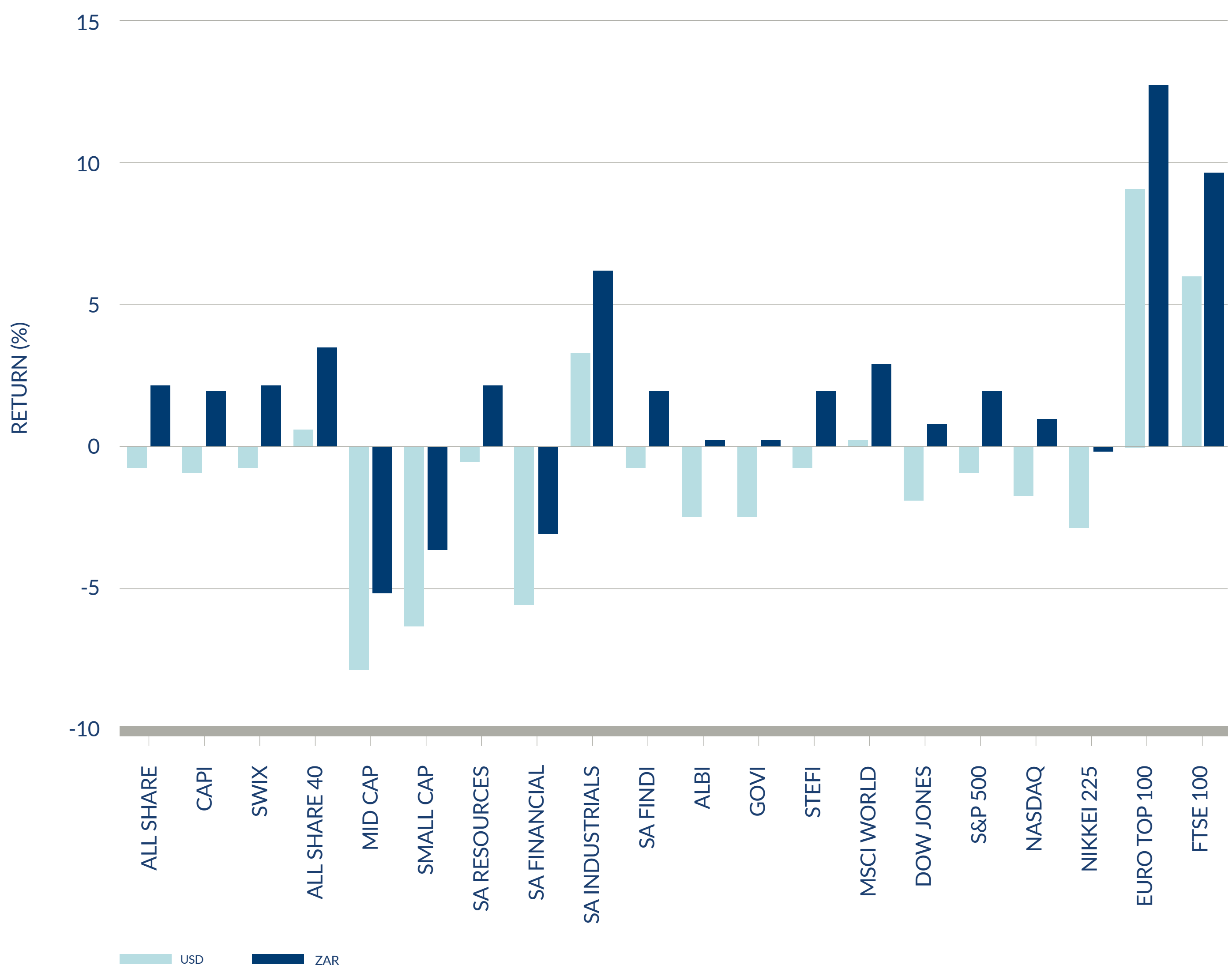
government remains firm in its opposition to bailouts. Instead, it has emphasised the importance of improving governance and making strategic capital investments to tackle fiscal challenges. Additionally, the delays in finalising the budget may disrupt tax collections. Typically, new tax brackets take effect on 1 March, and the lack of relief from bracket creep in the prior year boosted revenue collection. Any partial relief this year could similarly benefit the government's financial position.

In February, the country faced a brief second round of load shedding as Eskom intensified power cuts to stage 6 due to multiple unit failures at various power stations. Despite this, Eskom asserts that load shedding is largely a thing of the past, thanks to improvements in its generation fleet. The company remains committed to maintaining high levels of service, which has resulted in a 99% electricity availability rate for the current financial year (April 2024 – February 2025), saving R17 billion in diesel costs. However, Eskom's restructuring efforts face ongoing challenges due to rising municipal debt. The government initially pledged R254 billion in debt relief but later revised this amount to R230 billion. Over time, this relief is expected to be converted into government equity to help stabilise Eskom's financial position.

In the diplomatic arena, South Africa and the European Union (EU) have made efforts to mend past tensions. EU foreign policy chief Kaja Kallas highlighted the importance of strengthening their ties, especially as uncertainty over US foreign policy under Donald Trump increases. While the EU remains a strategic partner, Kallas noted that it does not have the financial capacity to fully replace the $400 million in annual HIV aid that the US previously provided to South Africa.

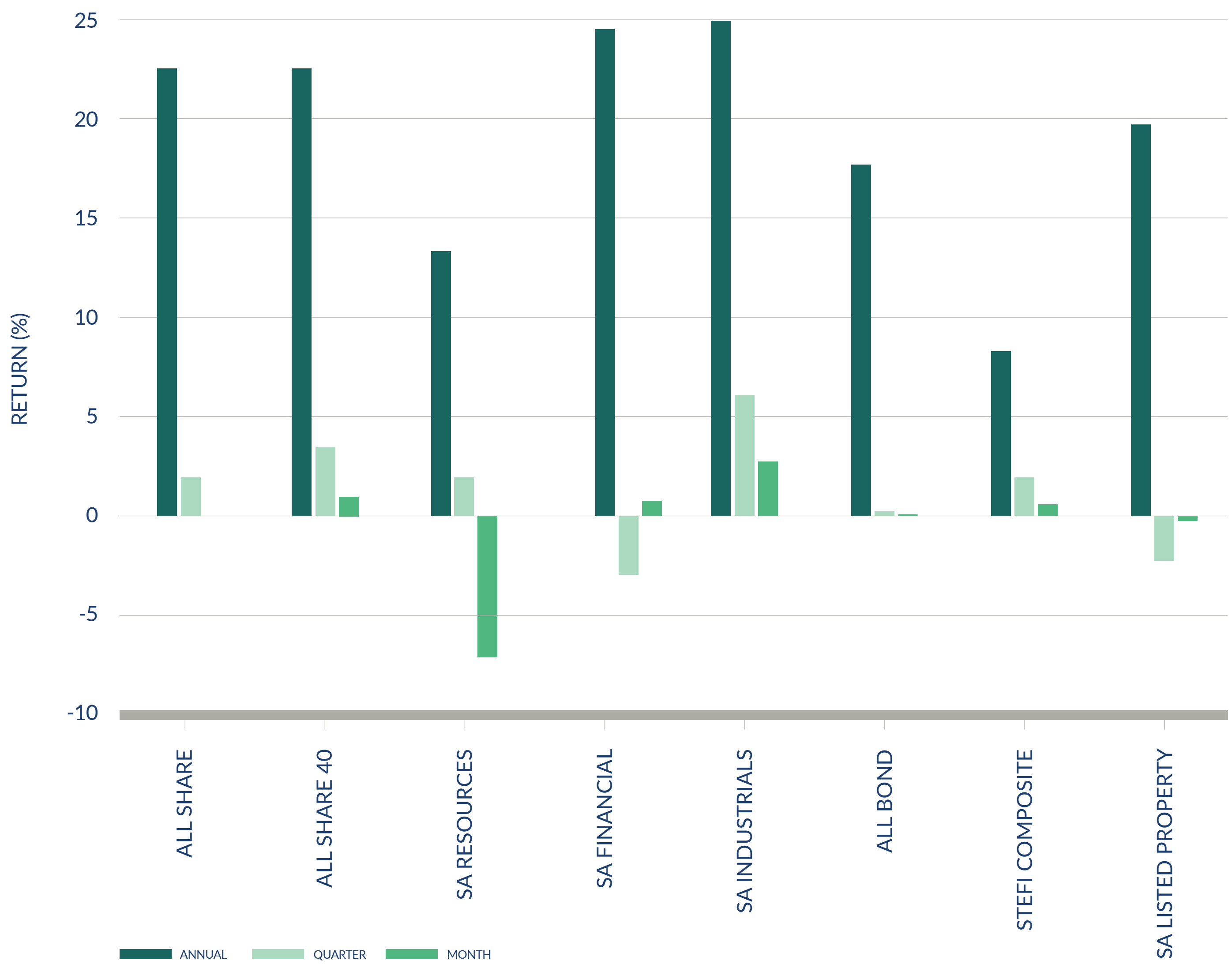
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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