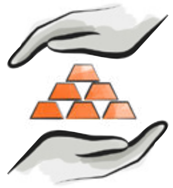
Market Commentary

March 2025

RISCURA

South African market themes



Demand for safe-haven assets intensified amid growing uncertainty

Inflation remained well contained in March, with the repo rate unchanged at 7.5%

The rand strengthened by 2%, and bonds held steady despite fiscal policy headwinds

The Budget's revised fiscal framework suggests a phased increase in the VAT rate to 16% by 2026/27

In March, South African equities closed the first quarter of 2025 on a solid footing, with the FTSE/JSE Capped SWIX Index advancing 3.6%, defying global market volatility. This performance was largely driven by a sharp rally in precious metals, as gold surpassed the US$3,000/oz mark and platinum group metals (PGMs), particularly rhodium, also posted strong gains. Demand for safe-haven assets intensified amid growing concerns over a potential global trade war and heightened geopolitical uncertainty stemming from U.S. tariff threats. However, gains were concentrated in the resource sector (+18.4%), while other sectors lagged, with financials eking out a 0.2% gain, industrials slipped by 0.3%, and listed property declined by 1.6%.

Gold and PGM miners dominated the leaderboard, led by Sibanye Stillwater and Harmony Gold, both of which surged by 47.9% month-on-month. Sibanye rebounded strongly after a dismal February, buoyed by news of a deepening global platinum deficit, while Harmony benefitted from solid half-year results and a healthy dividend payout. Impala Platinum followed closely, gaining 42.9%, despite a slight decline in revenue, thanks to the broader uplift in PGM prices. These mining counters were largely responsible for masking the broader market softness, as most other stocks delivered flat to negative returns for the month and year to date.

On the macroeconomic front, inflation remained well contained, offering some relief amid ongoing global uncertainty. Headline CPI was steady at 3.2% year-on-year in February, supported by muted food inflation and declining transport costs. Core inflation, which strips out volatile components such as food and fuel, eased to 3.4%, signalling subdued underlying price pressures. Both measures remain comfortably within the SARB's 3%–6% target range, reinforcing a benign inflationary environment for now. At its March MPC meeting, the SARB kept the repo rate unchanged at 7.5%, noting persistent upside risks to the inflation outlook stemming from the evolving global trade tensions, volatile oil prices, and the potential for renewed rand weakness. While rising electricity tariffs and looming VAT increases could add price pressure later in the year, inflation is still expected to average around 4% in 2025, providing a degree of policy flexibility if economic conditions were to deteriorate.

In the bond market, South Africa's 10-year government bond yield closed March slightly higher at 10.6% from 10.53% in February, signalling a steady interest rate outlook and a measured market response to the revised Budget. Fiscal concerns, while still present, appear to have been partially offset by the more balanced fiscal strategy outlined by National Treasury. The rand appreciated 2.0% month-on-month to R18.39/USD, supported by a weaker US dollar and increased investor demand for safe-haven assets, particularly gold. Against this backdrop, the FTSE/JSE All Bond Index edged up by 0.2%, while inflation-linked bonds delivered a muted return of 0.03%. Meanwhile, SteFI Cash provided a stable return of 0.6% for the month.

On the growth front, GDP data for Q4 2024 confirmed a 0.6% quarter-on-quarter expansion, signalling a tentative but encouraging recovery in economic activity following a contraction in Q3. The rebound was underpinned by strong performances in agriculture, buoyed by favourable weather conditions, as well as the trade and finance sectors, which benefitted from improved consumer demand and real income gains. However, the overall momentum remained fragile, with persistent weakness in mining, manufacturing, and transport, reflecting ongoing structural constraints, such as logistical inefficiencies and subdued external demand. For the full year, the economy grew by a modest 0.6%, highlighting the shallow nature of the recovery and the need for more sustained policy support and reform implementation.

March's PMI came in below 50.0, reinforcing concerns over weakening domestic economic momentum

There was a small improvement in export orders, especially from other African countries

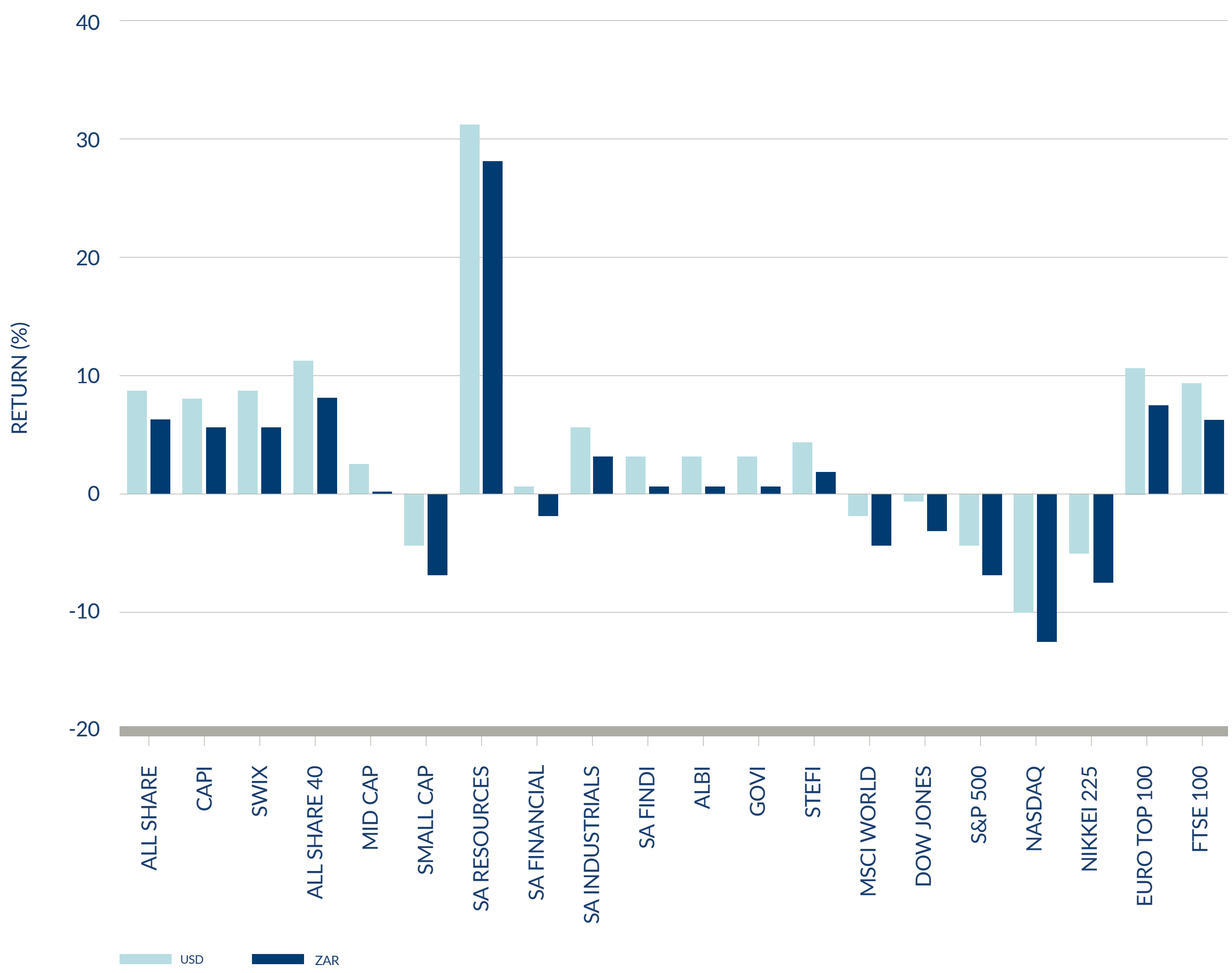
March also saw the successful tabling of the delayed national Budget, following earlier disagreements within the Government of National Unity over proposed tax measures. The revised fiscal framework introduced a phased increase in the value-added tax (VAT) rate—starting with a 0.5 percentage point rise in 2025/26, with a further 0.5% expected in the following year—bringing the VAT rate to 16% by 2026/27. To supplement revenue, personal income tax brackets were not adjusted for inflation (except for the lowest two), and medical aid tax credits were left unchanged. Excise duties on alcohol and tobacco were raised by more than initially budgeted, while the general fuel levy remained unchanged.

On the expenditure front, the Budget maintained projections for higher spending growth, with key drivers including health-related funding and debt-service costs, which are projected to exceed 5% of GDP. The government also highlighted that the potential introduction of a Basic Income Grant from 2026 would significantly increase the social protection bill. The public sector wage bill continues to strain the budget. Over the medium term, the consolidated budget deficit is forecast to remain above 4% of GDP, while gross debt is expected to peak above 78% before gradually declining.

Lastly, the S&P Global South Africa Purchasing Managers' Index (PMI) fell to 48.3 in March, down from 49.0 in February, signalling a continued contraction in private sector business activity. The PMI is a widely watched indicator that reflects the health of the manufacturing and services sectors. March marked the fourth straight month below the 50.0 threshold, reinforcing concerns over weakening domestic economic momentum. The drop in the PMI was primarily due to slower output and fewer new orders, which businesses attributed to uncertainty around government policy, weak consumer confidence, and subdued investment. However, there was a small improvement in export orders, especially from other African countries, suggesting that regional demand offered some support despite weak domestic conditions.

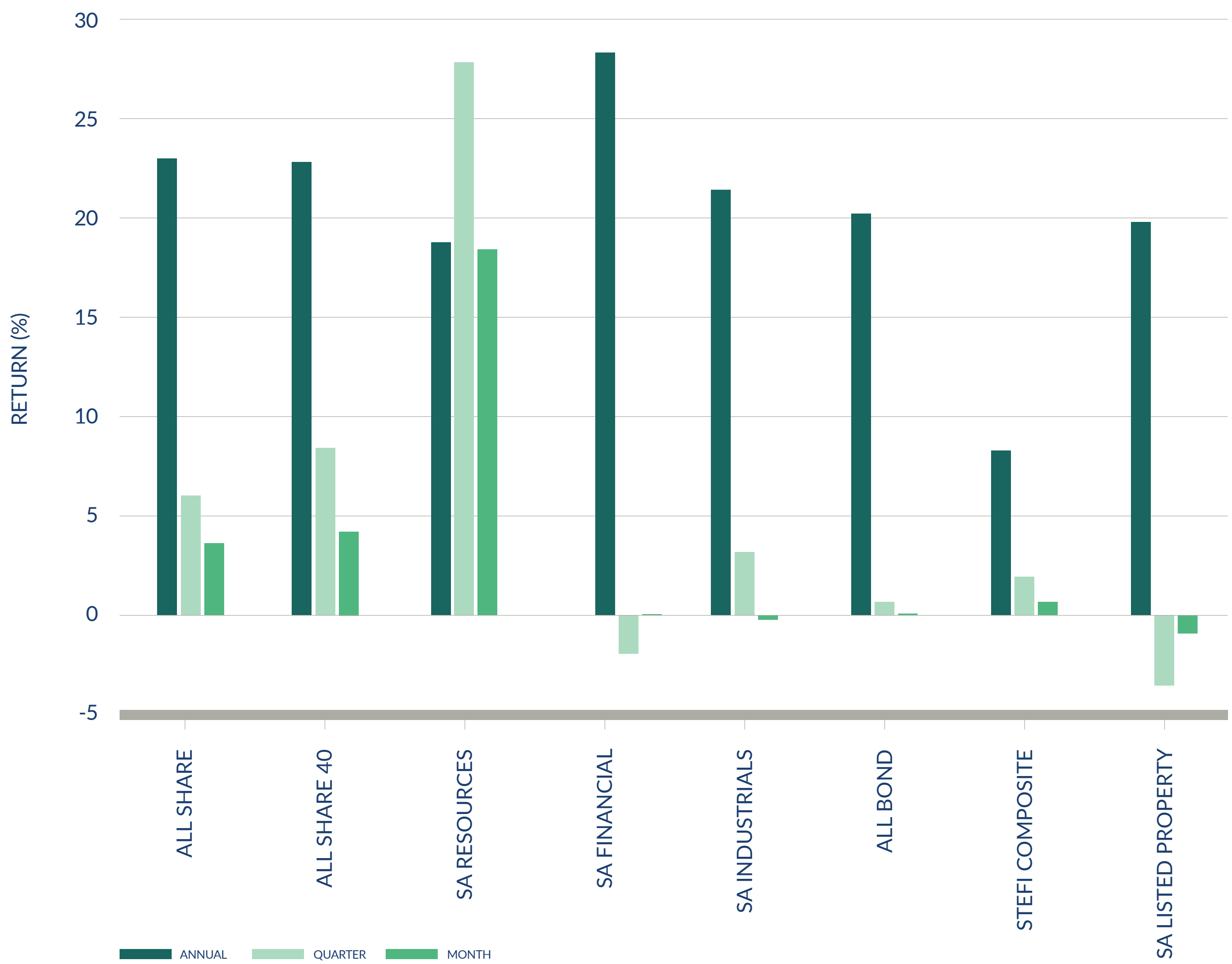
World Market Indices Performance

QUARTERLY RETURN OF MAJOR INDICES



South African Market Indices Performance

RETURNS OF THE FTSE/JSE SECTORS AND INDICES



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