The Compounding Case for Market Confidence

What May Data Tells Us About Market Momentum

Domestic equities posted a strong performance in May 2025, gaining 3.1% for the month. Market sentiment improved amid headlines ranging from South Africa's White House diplomatic visit to several upside earnings surprises. The FTSE/JSE All Share Index's year-to-date return rose to 14.0%, while the 12-month performance reached 27.3%. Performance was broad-based across the market cap spectrum, with Mid-caps lead at 5.5%, followed by Small Caps at 3.3%, and Large Caps also closing higher with a 2.9% return. On a sector basis, Industrials rose 3.9%, Resources gained 2.6%, while Financials advanced 2.5%. Price gains outpaced earnings revisions, leading to higher price multiples.

Local bonds gained 2.7% over May 2025 amidst geopolitical tensions. The asset class still lags its equity and property counterpart on a year to date (4.3%) and one year basis (21.8%). The SA Government 10-year fell by 0.4% from 10.5% to 10.1% over the month of May.

Annual consumer price inflation was up 2.8% in April 2025, up from 2.7% in March 2025. CPI increased 0.3% month-on-month in April 2025. The main positive contributor's annual inflation rate were housing and utilities (4.4% and contributing 1.0 percentage point). Core inflation increased 0.1% in April (below expectations and has been inside the SARB's target for the past 48 months). In addition to the CPI, South Africa passed its 2025 national budget in May. VAT hikes were replaced with a fuel levy increase which attracted some confidence in South Africa's fiscal management. The SARB also cut interest rates by 0.25%, as well as propose a tighter inflation target.

Numbers have shown recent downtick in South Africa's risk premium relative to the US. South Africa's monetary and fiscal policy outperformance, including muted inflation and improved debt dynamics, has bolstered investor confidence. While US trade tensions, **outlined in the below chart**, and geopolitical risk have prompted market volatility, particularly in the US equity markets, making EM assets like SA bonds more attractive.

In May 2025, the Rand appreciated against the trade-weighted basket, the Pound sterling and the Greenback, moving from R18.61/$ to R18.00/$ by May month end. On a 12-month basis, the Rand holds gains of 4.0% against the Dollar but weakened against other major currencies, falling 1.9% against the Euro and 3.2% against the Pound. The rand remains undervalued by 94% relative to the US dollar.

On the global side, global equity markets gained 5.7% in May 2025, clawing their way back toward the all-time highs set earlier in the year despite ongoing tariff disruptions. Volatility has remained a dominant theme in both US and global markets.

Developed markets rose 5.9% over the month. The US was the standout performer, returning 6.3%, largely driven by the Magnificent 7. The FTSE 100 rose 3.8%, and the Euro Stoxx gained 5.8%. Emerging markets also gained, rising 4.3% in May, with all major regions closing in the green. South African equities led with a 6.3% gain, followed by Japan (4.0%) and China (2.7%).

On a sector level, Information Technology outperformed with a 10.4% gain, while Industrials (8.1%), Financials (5.5%), and Materials (2.5%) followed. Health Care was the only major laggard, falling 3.4%. In terms of market cap, Small Caps (6.1%) outpaced Mid-Caps (5.4%) and Large Caps (5.8%).

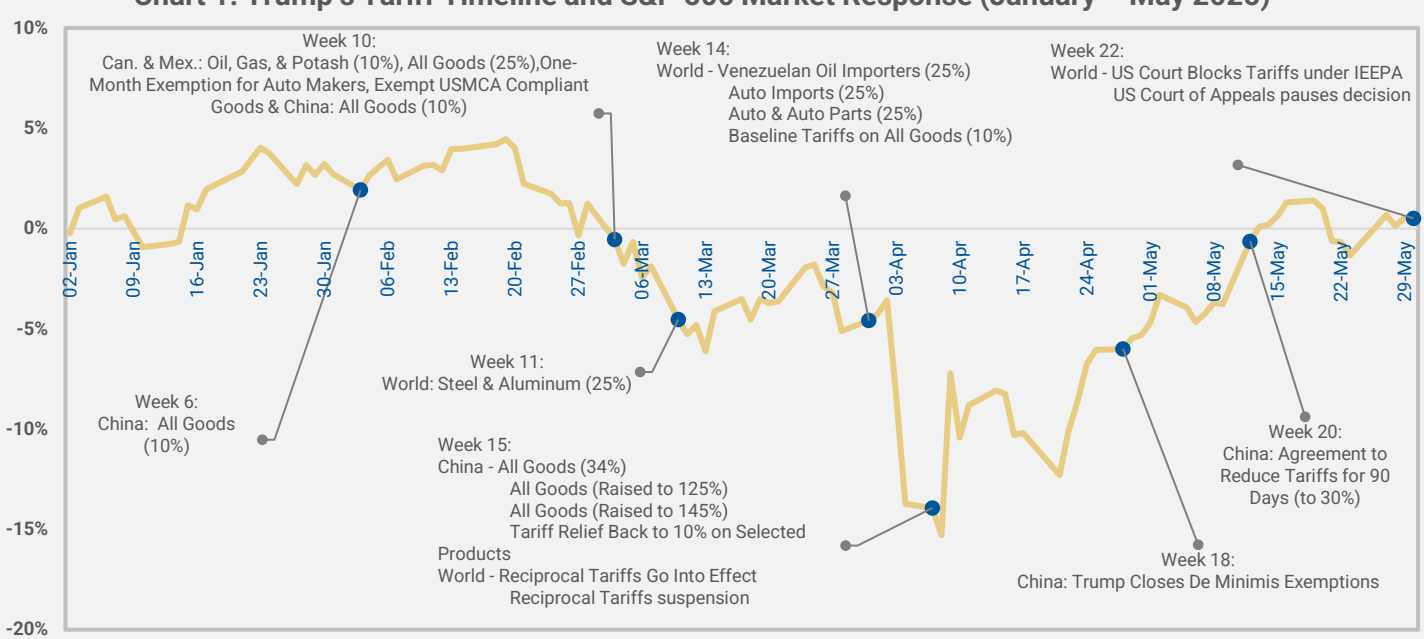
Despite the rebound, the S&P 500 ended May up just 0.5% year-to-date, underscoring how volatile 2025 has been. Trade tensions have driven record-breaking swings, from sharp selloffs to explosive rallies, with equity volatility at times rivalling that of crypto markets. **The below chart** Illustrates the S&P 500's year-to-date performance, highlighting how tariff announcements (and subsequent reversals) have directly shaped market direction throughout the year.

Global listed property rose 2.4% over May 2025. Global property is still under pressure of the macro backdrop. Valuation metrics are not compelling while elevated interest rates and weak global demand remain notable headwinds in the asset class.

US government bond yields rose by 23 basis points in May, while the Bloomberg Global Aggregate Index declined 0.4%. The move reflects persistent investor uncertainty, as rising US 10-year yields signal growing demand for compensation amid elevated fiscal risk and geopolitical tension. BCA maintains a preference for government bonds over credit and inflation-linked securities, favouring a defensive stance considering unresolved fiscal pressures, sticky interest rates, and a fragile macroeconomic backdrop.

US core PCE inflation eased to 2.5% in April, down from 2.7% in March and in line with expectations, keeping it close to the Fed's 2% target. While the Fed is expected to hold rates steady to gauge the impact of tariffs, BCA argues it is politically boxed in and economically constrained, limiting its ability to anchor macro stability. Rate cuts may follow as growth slows, but capital outflows, political interference, and declining credibility could blunt their effectiveness.

Chart 1: Trump's Tariff Timeline and S&P 500 Market Response (January – May 2025)



Source/s :Seed Investments, BCA Research

Asset Classes in Focus

Where Key Market Momentum Lies

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	3.1%	14.0%	27.3%	13.7%	17.6%	9.8%
Local Property	2.3%	6.2%	32.5%	15.9%	19.8%	3.0%
Local Bonds	2.7%	4.2%	21.8%	11.4%	10.1%	8.9%
Local Cash	0.6%	3.1%	7.9%	7.4%	5.9%	6.2%
Global Equity	2.6%	0.8%	9.0%	17.9%	13.9%	13.6%
Global Property	-0.6%	0.2%	7.4%	5.9%	7.0%	8.1%
Global Bonds	-3.3%	0.7%	2.7%	6.1%	-0.9%	5.0%
Global Cash	-2.6%	-2.6%	0.6%	10.0%	3.4%	6.2%

Local Review

Equity

Domestic equities delivered a solid 3.1% return in May 2025, buoyed by improved sentiment following South Africa's White House visit and several earnings beats. The FTSE/JSE All Share Index's year-to-date return climbed to 14.0%, with a 12-month return of 27.3%. Mid-caps led performance at 5.5%, followed by Small Caps at 3.3% and Large Caps at 2.9%. Industrials gained 3.9% on Tencent's strong results, Chinese policy optimism, and Pepkor's earnings. Resources rose 2.6%, lifted by Sasol's cost-cutting plans, and Financials added 2.5% after Investec's FY2025 release. Price gains outpaced earnings, resulting in higher multiples and a modest de-rating. The Model Ranking was downgraded to 2, while the IC Ranking remained at 3.

Fixed Income

Local bonds gained 2.7% over May 2025 amidst geopolitical tensions. The asset class still lags its equity and property counterpart on a year to date (4.3%) and one year basis (21.8%). The SA Government 10-year fell by 0.4% from 10.5% to 10.1% over the month of May. This move reflects a broad-based downward shift in the yield curve across maturities. Model rankings remain unchanged at a 3 while IC Rankings were downgraded from a 4 to a 3.

Cash

Annual consumer price inflation was up 2.8% in April 2025, up from 2.7% in March 2025. CPI increased 0.3% month-on-month in April 2025. The main positive contributor's annual inflation rate were housing and utilities (4,4% and contributing 1,0 percentage point). Core inflation increased 0.1% in April which was below expectations and has been inside the SARB's target for the past 48 months. Cash remains attractive, offering an attractive yield of 4.5%. Model and IC rankings remain at a 5.

Currency

In May 2025, the Rand appreciated against the trade-weighted basket, the Pound sterling and the Greenback, moving from R18.61/$ to R18.00/$ by May month end. On a 12-month basis, the Rand holds gains of 4.0% against the Dollar but weakened against other major currencies, falling 1.9% against the Euro and 3.2% against the Pound. The rand remains undervalued by 94% relative to the US dollar. Model and IC rankings remain neutral.

Global Review

Equity

Global markets gained 5.7% in May 2025, clawing their way back toward the all-time highs set earlier in the year despite ongoing tariff disruptions. Developed markets rose 5.9% over the month, supported by broad-based strength. The US was the standout performer, returning 6.3%. The FTSE 100 rose 3.8%, and the Euro Stoxx gained 5.8%. Emerging markets also gained, rising 4.3% in May, with all major regions closing in the green. South African equities led with a 6.3% gain, followed by Japan (4.0%) and China (2.7%). On a sector level, Information Technology outperformed with a 10.4% gain, while Industrials (8.1%), Financials (5.5%), and Materials (2.5%) followed. Health Care was the only major laggard, falling 3.4%. In terms of market cap, Small Caps (6.1%) outpaced Mid-Caps (5.4%) and Large Caps (5.8%). Model Rankings remain at a 2 and IC Rankings have been upgraded to a 3.

Property

Global listed property rose 2.4% over May 2025. Global property is still under pressure of the macro backdrop. Valuation metrics are not compelling while elevated interest rates and weak global demand remain notable headwinds in the asset class. Model and IC rankings remain at a 2.

Fixed Income

US government bond yields rose by 23 basis points in May, while the Bloomberg Global Aggregate Index declined 0.4%. The move reflects persistent investor uncertainty, as rising US 10-year yields signal growing demand for compensation amid elevated fiscal risk and geopolitical tension. BCA maintains a preference for government bonds over credit and inflation-linked securities, favouring a defensive stance considering unresolved fiscal pressures, sticky interest rates, and a fragile macroeconomic backdrop. Model and IC rankings remain at 3.

Cash

US core PCE inflation eased to 2.5% in April 2025, down from 2.7% in March and broadly in line with expectations. Inflation remains close to the Fed's 2% target. BCA argues that the central bank is politically boxed in, economically constrained, and increasingly ineffective in anchoring macroeconomic stability. Model and IC rankings remain unchanged at 3.

Alternative

Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities, and hedge funds and can provide investors with uncorrelated returns. These uncorrelated global assets are particularly attractive in low-interest rate environments as they offer asymmetric return profiles. Alternative asset classes can thus perform a useful role in multi asset portfolios as they help provide more consistent returns.

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