



FG ASSET MANAGEMENT

ECONOMIC EXPRESS

MAY 2025

Risk sentiment rebounded again in May following the weakness in April as some of the uncertainty around tariffs was clarified and economic data remained stable. Locally, both equities and fixed income performed well as concerns over the stability of the Government of National Unity (GNU) faded, and a third national budget was presented without objections.

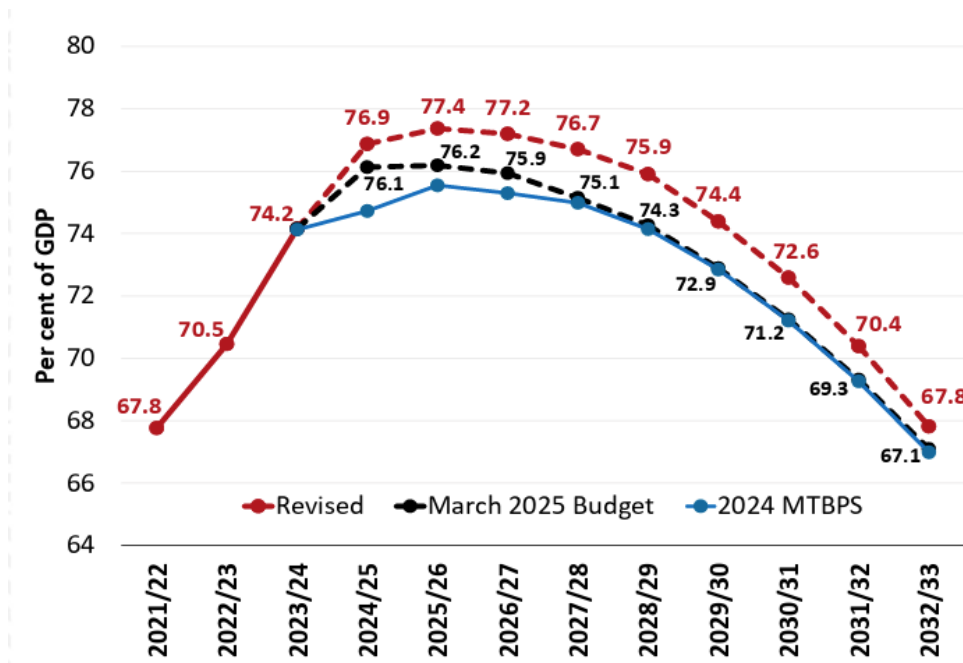
Going into May the US still had a 145% tariff in place against Chinese goods and China had an 80% tariff in retaliation. However, following trade discussions during the month, there was some reprieve as both countries agreed to temporarily reduce tariffs for a three-month period to work towards an agreement. This development supported growth assets, and sentiment was further buoyed by a trade agreement concluded with the UK. Despite optimism around potential future deals, the UK agreement remained the only one finalised by month-end. With the 9th of July deadline marking the end of the 90-day reciprocal tariff suspension fast approaching, trade tensions are likely to re-emerge as a source of market uncertainty.

US sovereign debt lost its last top triple-A rating as it was downgraded by the ratings agency Moody's. The first major ratings agency S&P had already downgraded the US' rating in 2011. Even though the rating change might be seen as very delayed, it still signals the concerns currently in the market with regard to the increasing debt burden of the US sovereign. We saw longer US bond yields move higher over the month as a result which contributed to the underperformance of global bonds over the month.

South Africa's third attempt at passing a national budget was presented mid-month. Notable revisions included a downgrade of the growth forecast from 1.9% to 1.4%. As anticipated, the VAT increase was scrapped with the resulting revenue shortfall offset by reduced spending on frontline services and PRASA. The National Treasury reaffirmed its commitment to fiscal consolidation, with the primary budget surplus projected to rise to 0.8% from 0.5% the previous year. Gross debt-to-GDP is now expected to peak at 77.4% this year, up from the previously forecasted 76.2%, reflecting weaker growth expectations.



Figure 1: Gross Debt/GDP outlook:



Source: National Treasury (2021 to 2033)

At month-end, the South African Reserve Bank (SARB) cut the repo rate by 25 basis points to 7.25%, marking the fourth rate cut since the easing cycle began in September of the previous year. Inflation forecasts were revised lower to 3.2% for 2025, down from 3.6%, due to a stronger rand, lower oil prices, and the cancellation of the VAT hike. However, the growth forecast was also reduced from 1.7% to 1.2%, given ongoing global economic uncertainty stemming from U.S. trade policy.

Headline inflation in South Africa remains subdued, coming in below the lower end of the 3%–6% target range at 2.8% year-on-year. This further reassured the Monetary Policy Committee (MPC) that inflation is well-contained. The SARB also reiterated its intention to shift its inflation-targeting framework from the current range to a single-point target of 3%, aligning South Africa more closely with inflation targets used by other emerging market peers.

May marked a notable shift in market dynamics, with improving risk sentiment driven by easing global trade tensions and a stabilizing domestic political environment. The resolution around South Africa’s national budget provided additional support to local markets. However, the backdrop remains complex: global trade uncertainties and subdued growth forecasts all highlight the need for caution. Going forward, the trajectory of tariff negotiations and inflation trends will be key in shaping market direction.



Index	Asset Class	MAY 2025
STEFI Composite Index	Local Cash	0.63%
FTSE/JSE All Bond (Total Return)	Local Bonds	2.73%
FTSE/JSE SA Listed Property (Total Return)	Local Property	2.32%
FTSE/JSE Africa All Share (Total Return)	Local Equities	3.14%
Bloomberg Global Aggregate (USD)	Global Bonds	-0.36%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	2.65%
MSCI AC World (USD)	Global Equities	5.81%

Source: Morningstar