NEWS LETTER

SPEKTRA FINANCIAL SERVICES

MAY 2025

NAVIGATING TRUMP'S FIRST 100 DAYS WITH A LONG-TERM LENS

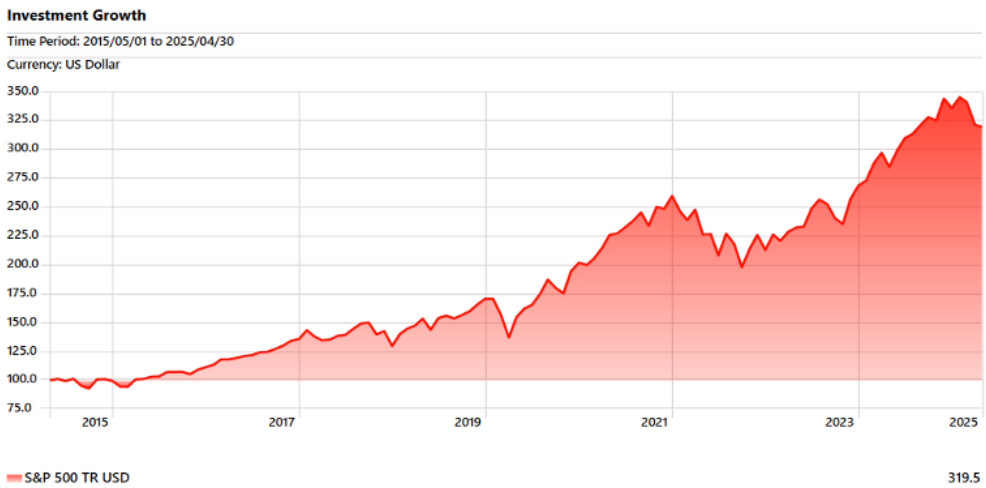
On 30 April, US President Donald Trump marked his first 100 days in office during his second term; a period defined by aggressive policy shifts, geopolitical posturing, and mounting investor anxiety. Since his inauguration, Trump has pursued a sweeping agenda; tasking the private sector, including the world's richest man, with overhauling federal operations, promising high-stakes peace deals in Ukraine and the Middle East, and challenging long-standing global trade dynamics.

However, the market response has been far from optimistic. US equities have fallen more than 7% over the first 100 days, the worst performance at the start of a presidential term since Gerald Ford in the 1970s. The decline has taken many on Wall Street by surprise, particularly given expectations of a pro-business, tax-cutting Republican agenda. Instead, heightened uncertainty and erratic policy signals have prompted a significant outflow from dollar-denominated assets.

Reflecting this unease, over ten major US banks have downgraded their year-end forecasts for the S&P 500, revising expectations downward in response to persistent volatility and capital flight. While some investors had positioned for a reflationary boom under a deregulation-heavy administration, the initial months have instead delivered risk-off sentiment and policy-driven market turbulence.

Despite a flurry of alarmist headlines, the recent pullback in global equity markets remains well within the bounds of historical norms (see chart below). While a slightly more defensive stance is warranted in the current environment, long-term investors should take comfort in the broader context. Periodic market corrections are a natural part of the investment cycle; and importantly, opportunities for long-term growth remain plentiful, particularly within well-diversified portfolios.

S&P 500 (USD) Performance: Last 10 Years



Source: Morningstar Direct

HIGHLIGHTS

Trump's First 100 Days:

- Market volatility increased as US equities fell over 7%.
- Policy unpredictability and geopolitical tension drove risk-off sentiment and capital outflows.

Global Market Outlook:

- Return expectations improve for Japan, emerging markets, and the UK.
- US prospects more muted due to high valuations and slowing growth.

Fixed Income & Credit:

- Higher yields enhance fixed income appeal, with US high-yield bonds offering stronger return contributions via credit spreads.

South Africa – VAT Suspended:

- The Western Cape High Court blocked the planned 0.5% VAT increase.
- A revised budget will be presented on 21 May, with a more consultative process to follow.

Economic Forecasts & Monetary Policy:

- The IMF downgraded SA's 2025 GDP forecast to 1.0% amid trade risks.
- The SARB maintains a neutral rate stance at 7.25%, with limited room for easing.

As we have often expressed in previous market insights, bouts of volatility and market pullbacks can often provide attractive opportunities for investors, and shouldn't cause undue panic for those who are invested in well-diversified and robust portfolios. Indeed, in their latest Capital Market Assumptions report issued by Ninety One in April, their market outlook highlights a modest improvement in long-term return expectations despite ongoing global uncertainty. Structural policy shifts, from US deregulation to increased European defence spending and China's domestic rebalancing, are reshaping investment dynamics. Yet, volatility remains high, and expected returns remain subdued by historical standards.

Fixed income assets now offer better prospects thanks to higher yields, with credit spreads contributing more meaningfully, particularly in US high yield. Income continues to dominate return profiles, while revaluation effects remain a drag.

Equity return forecasts have nudged higher, especially in Japan, emerging markets, and the UK, as valuation pressures ease. However, the US, after a decade of exceptional performance, faces more muted prospects due to elevated valuations and slowing relative growth. Europe, on the other hand, may be at a turning point, with signs of policy-driven recovery and scope for dividend growth to rejoin its long-term trend.

SOUTH AFRICA: VAT HIKE SUSPENDED AS FISCAL POLICY DEBATE HEATS UP

The Western Cape High Court suspended the proposed 0.5 percentage point increase in South Africa's VAT rate, effectively scrapping the measure ahead of its planned implementation on 1 May. The court ruling ends a high-profile political dispute within the Government of National Unity (GNU), with the Democratic Alliance (DA), who challenged the increase, welcoming the judgment as a reinforcement of parliamentary process.

Finance Minister Enoch Godongwana, who announced the suspension on 23 April, has confirmed that a revised National Budget (version 3.0) will be tabled on 21 May. Looking ahead, Treasury will embark on a new, more consultative budget process beginning in September, in preparation for the October Medium-Term Budget Policy Statement (MTBPS). The Finance Minister's cautious tone suggests greater sensitivity to political consensus within the GNU and public scrutiny over fiscal decisions.

Despite continued tensions within the coalition, DA leader John Steenhuisen affirmed the party's commitment to remaining in government. "We're not going to leave the government of national unity," Steenhuisen said in a recent interview, adding that the DA's leadership is united in its belief that the coalition "can survive—and should survive." His remarks come amid ongoing disagreements over key economic policies, including tax, infrastructure spending, and labour reform.

At the macroeconomic level, South Africa's growth prospects have weakened, with the IMF revising its 2025 GDP growth forecast down from 1.5% to 1.0% in its latest World Economic Outlook. A major downside risk is the United States' recent announcement of a 30% import tariff which, though postponed by 90 days, has already rattled South African exporters. While platinum group metals (PGMs) and gold have been temporarily exempted, the automotive and agricultural sectors, which account for billions in export earnings, are highly exposed. The IMF also reduced its 2026 growth projection to 1.3%, citing rising global trade tensions and domestic policy uncertainty.

Against this backdrop, the South African Reserve Bank (SARB) is expected to proceed cautiously. The Monetary Policy Committee (MPC) continues to signal a neutral interest rate stance around 7.25%, following a 25-basis-point cut in January. While another modest cut is possible later in 2025, the SARB has indicated that the current cycle is likely nearing its end. With limited scope for monetary stimulus and persistent external volatility, the SARB is prioritising stability over aggressive easing.