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The economy

A historic development in the first quarter of 2025 was South Africa's National Budget, which was withdrawn from presentation to Parliament on short notice and then presented to Parliament in March 2025. The budget contained a provision for an increase in value added tax (VAT), which was opposed by some political partners and other parties. This difficulty in passing the National Budget shows that the coalition partners in the Government of National Unity are not aligned on all issues affecting the country and the economy. While politicians try to find a workable solution, the tax measures announced by the Minister of Finance in the Budget Speech remain in force until determined otherwise, including the 0.5% increase in the VAT rate (refer to the Money Bill Amendment Procedure and Related Matters Act, 2009).

The range of tariffs the United States announced on all goods imported from certain trading partners and on certain goods sourced from anywhere outside the United States becomes effective in April 2025. The widespread use of tariffs already had an impact on certain sectors of the global economy in the first quarter and was reflected in the share prices of manufacturers (e.g. global motor manufacturers).

Figures released in March 2025 revealed disappointing growth in the domestic economy in 2024. The South African economy expanded by only 0.6% against an expected growth rate of more than 1%. Agriculture was down 8% and construction declined by 5.1% for the full year. The financial, real estate and business services sectors were up 3.5%, and the electricity, gas and water sectors were also up by 3.5% for the full year.

South Africa's labour force participation rate remained at 59.8%. In 2024, 355 000 new jobs were created in the economy, but the number of unemployed and discouraged job seekers increased by 513 000. This reflects that South Africa's working-age population is growing faster than the number of new jobs created in the economy.

In January 2025, the consumer price inflation basket was reweighted and rebased to December 2024. Using this basket, inflation was 3.2% for January and February 2025. The Monetary Policy Committee of the South African Reserve Bank reduced the repo rate by 0.25% at its meeting in January 2025 but declined to reduce it further in March 2025, reflecting the growing uncertainty about the global economy and the possible impact of tariffs in the future.

The rand exchange rate strengthened in Q1 2025, primarily because of a weakening US dollar. The dollar weakened against the euro from $1.02 to $1.09. As a result, the rand strengthened from an intraday weak point of approximately R19.20 to an intraday level of R18.00. The rand closed Q1 2025 at R18.32.

While sobering economic developments prevailed, the price of gold increased steadily over the last quarter. In Q1 2025, gold was up 19%, and has gained more than 50% since the beginning of 2024. The improvement in the gold price reflects global economic uncertainty and the increasing de-dollarisation of reserves held by central banks around the world. At R56 500 each, the value of Kruger Rands is up 16.5% in Q1 2025 and 37.8% for the 12 months to 31 March 2025.

View graph 1 - Gold

Financial markets

The prices of big technology stocks came under pressure in 2025. The Magnificent Seven drove stock indices up in 2023/24 but pulled them down in Q1 2025. Alphabet (Google) has lost 25%, Amazon 21%, Apple 14%, Meta (Facebook, Instagram WhatsApp) 22%, Microsoft 17%, Nvidia 27%, and Tesla 53% since December 2024. As a result, the S&P 500 Composite Index fell 10% from top to bottom in Q1 2025. At quarter-end, the index was down only 5%.

South African shares performed better. The FTSE/JSE All Share Index closed 5.9% better in Q1 2025, mostly because of the strong performance of commodity producers (e.g. gold and platinum). Top performing shares included Harmony, DRD Gold, Gold Fields, AngloGold Ashanti, Impala Plats, Northam and Angloplats. Financial shares posted moderate returns while retailers achieved mediocre returns despite the lower interest rate environment. Listed property continued its recent tepid performance.

View graph 2 - FTSE/JSE All Share Index

South African bonds performed well in 2024, as the FTSE/JSE All Bond Index (ALBI) yield-to-maturity rate improved from 12.29% in April 2024 to 10.05% in September 2024. The ALBI yield-to-maturity rate closed Q1 2025 at 10.77%. Bonds in the 12-year plus maturity bucket achieved an investment return of 24.0% in the 12 months to March 2025, but the short-term contribution in Q1 2025 was negative at -0.7%. Similarly, bonds in the popular 3- to 7-year maturity bucket returned 17.7% for the 12 months to March 2025 but only 2.0% for Q1 2025.

View graph 3 - FTSE/JSE All Bond Index yield-to-maturity rate

Money market returns continue to show some resilience despite the lower interest rate environment (8.3% for the year to March 2025).

% Change March 2025	Most recent quarter	Calendar YTD	1 year (p.a.)	3 years (p.a.)	5 years (p.a.)	10 years (p.a.)
All Share Index (ALSI)	5.9%	5.9%	22.9%	9.4%	19.1%	9.0%
Listed Property	-3.5%	-3.5%	19.8%	11.7%	19.0%	1.4%
STeFI Composite	1.9%	1.9%	8.3%	7.5%	6.2%	6.7%
All Bond Index (ALBI)	0.7%	0.7%	20.2%	9.8%	11.7%	8.4%
MSCI All Country World ZAR	-3.9%	-3.9%	5.6%	15.9%	16.3%	14.0%
Bloomberg Global Aggr. Bond ZAR	-0.1%	-0.1%	1.7%	6.1%	-0.9%	4.8%
Rand (+ stronger, - weaker)	2.8%	2.8%	1.9%	-6.8%	-0.5%	-3.4%
Inflation (estimate)	1.9%	1.9%	3.0%	5.4%	5.4%	6.2%
Gold ZAR	16.1%	16.1%	37.3%	34.3%	19.7%	29.9%

Source: Iress

Developments after quarter-end

Financial markets weakened considerably in the first few days of April 2025.

By Friday, 4 April 2025 the MCSI All Country World Index was down by 7.5%, the S&P 500 Composite Index by 9.6%, and the NASDAQ Index by 9.9%. The FTSE/JSE All Share Index was down by 8%, domestic bonds weakened by 2.5%, and the rand's exchange rate closed weaker at R19.13.

Panic selling has created a market correction, especially in listed equities. The market turbulence follows widescale tariffs imposed on trading partners by the United States and the announcement of counter-tariffs by some of these trading partners.

Investors are likely to remain nervous in the near term.

There have been several disruptions and market corrections in investment markets in the past. The recent sell-off in investment markets market correction is painful and has resulted in a significant drop in the value of assets for members, especially for members who invested in growth portfolios.

History has taught us that in times like these, it is critical not to panic and remain invested in line with a long-term investment strategy.

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Information for this article has been obtained from several sources:
Iress, Stats SA, Yahoo Finance