

Return-Free Risk – Market Commentary

This market commentary is intended to cover March but of course, and perhaps as usual, market events move at speed and April has superseded March in significance. We therefore report various market returns for March but mostly comment on April.

The Table below summarises various market returns for March. This is instructive in the context of April in that the US market, and the MSCI World, already experienced a not insignificant decline.

Specifically the S&P 500 declined -5.7% and the Nasdaq declined -7.6%, driving the MSCI World Index down -4.5%. Within the MSCI World, Growth declined -7.5%, while Value declined -1.3%.

Emerging Markets were less affected at +0.6%, while SA returned +4.6% in USD terms, primarily driven by strong Gold sector outperformance.

Table 1. South African and global equity returns (USD) for March 2025*

	Mar-25	YTD 2025
FTSE/JSE ALSI (ZAR)	3.6%	5.9%
FTSE/JSE ALSI (USD)	4.6%	8.7%
MSCI World	-4.5%	-1.8%
MSCI EM	0.6%	2.9%
MSCI Value	-1.3%	4.8%
MSCI Growth	-7.5%	-7.8%
S&P 500	-5.7%	-4.4%
Nasdaq 100	-7.6%	-8.1%

*Total return indices, Source: Factset

March already saw relatively large US market declines, with media commentary about the US ceding leadership to Europe and the Mag 7 never being the same again. Media commentary is of course ubiquitous and in a 24/7 news cycle commentators need content.

These movements turn out to be old news however as April arrived and the new US president unveiled his tariff policy, shaking markets which eventually forced a retreat.

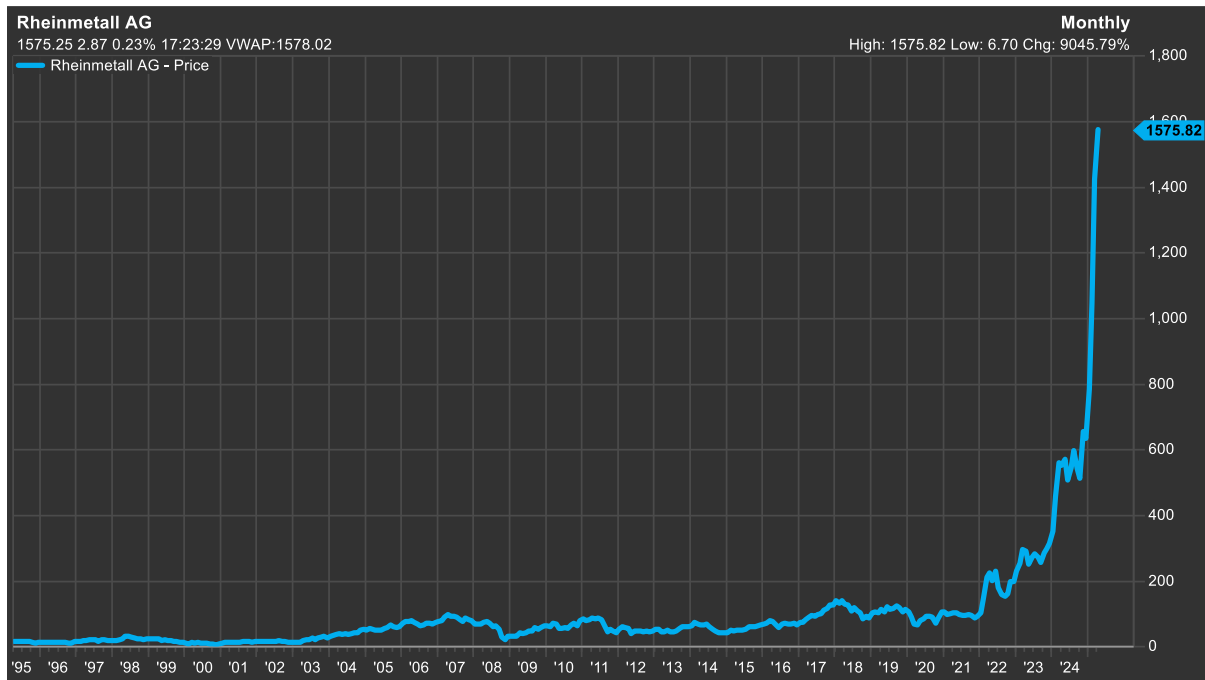
We follow a sequence for the rest of the commentary and attempt to provide context rather than review events which have already been widely covered.

The market declines in March

We note that the US market had already declined in March sparked by a negative Q1 GDP forecast by the Atlanta Fed. The forecast itself appeared to be due to an excess in gold imports related to the current gold arbitrage trade between Switzerland and the US. Tech tends to be the most volatile sector and tends to lead, both down and up, therefore we are not surprised that Tech shares, including the largest Tech shares, led the way down.

The European outperformance since the beginning of the year has largely been on the announcement of German intended spending. If the US market appears richly valued then German arms manufacturer Rheinmetall is a sight to behold – its PE currently stands at 84x (it has seen multiples in excess of 100 in the past). We include a Rheinmetall price chart in Chart 1 below.

Chart 1. Rheinmetall stock price



Source: Factset

Notwithstanding current sentiment, we equally do not find the idea of the US market somehow permanently “ceding leadership” to Europe convincing. In any case this notion appears to have been lost in what followed.

The Trump bomb and its formula

As mentioned above, events have been well-covered, and we do not intend to repeat. We also do not intend to jump on the bandwagon and to comment on how flawed the tariff formula is, and how incompetent Trump and his advisors are. We are far from this view (the defence secretary appears out of his depth, at least in media coverage which may be biased) but do think the administration driven by its leader have a particular style of execution.

For completeness we include the now famous formula below, without explaining the terms as this is not necessary.

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}$$

What is Trump trying to achieve?

The formula does a good job of explaining Trump’s aims and these do not include some sort of theoretically correct reciprocal tariff rate. Rather, as he has told us using various media over many years, he is concerned about the deficit of the US with each trading partner. In (his) simplistic presentation terms, “they are paying us less than we are paying

them". The fact that services aren't included, the reasons for the deficit with a particular trading partner, or that the use of robots in a US factory might be a reason for not using labour is of lesser importance.

Essentially the formula divides the size of the US deficit by that partner's total exports to the US. The result is a percentage deficit. So the US administration is saying "pay us the deficit". They further divided the result by 2 i.e. "pay us 50% of the deficit because we are good guys" or 50% of the tariff rate presented as correct.

So we think the formula achieves the intended objectives and isn't "stupid" i.e.

1. if a trading partner pays, the deficit is meant to close by half overnight
2. if the same trading partner doesn't want to pay, they want to negotiate – also an intended outcome which seems to be happening

We also note that white males without a college degree are a key Trump constituency from 2016 and have experienced the highest increase in suicide rates over the last 30 years as manufacturing outsourcing from the US accelerated.















More serious charges, as we are already seeing in practice, are that tariffs are rarely effective because

1. they drive up the cost of inputs in US manufacturing
2. there is a threat of retaliation

What about the original tariff rates?

For context and interest we include a cutout of a table of pre-existing tariff rates in Table 1 below.

Table 1. Existing WTO trade-weighted average tariffs

	<i>White House calculation</i>	<i>WTO trade-weighted average</i>	<i>Difference</i>
 Cambodia	97%	7.9%	+89.1 pts.
 Lesotho	99	10.6	+88
 Laos	95	8.3	+87
 Madagascar	93	8.1	+85
 Vietnam	90	5.1	+85
 Myanmar	88	5.7	+82
 Sri Lanka	88	7.5	+81
 Mauritius	80	1.3	+79
 Botswana	74	5.6	+68
 Serbia	74	6.4	+68
 Thailand	72	6.3	+66
 China	67	3	+64
 Guyana	76	13	+63
 Bosnia + Herzegovina	70	7.5	+63

Source: David Yarbrough, Raymond James Financial

Per Table 1 above, the obvious point is how much higher the Trump tariffs are though, as commented above, this is irrelevant. Of greater interest is the converse that existing tariffs appear relatively low e.g. the trade-weighted China tariff is 3%.

The US Treasury yield

One of the major worries in the market turmoil was the rising Treasury yield. A notable quote from the US during the episode was

“Seeing the bond guys panic is like seeing your parents cry as a kid. You don’t understand it but you know it’s bad.”

We think the reason for the concern was that in a crisis the bond yield is expected to fall, yet in April, the Treasury yield did indeed initially decline to 4.0% only to rise to 4.5%.

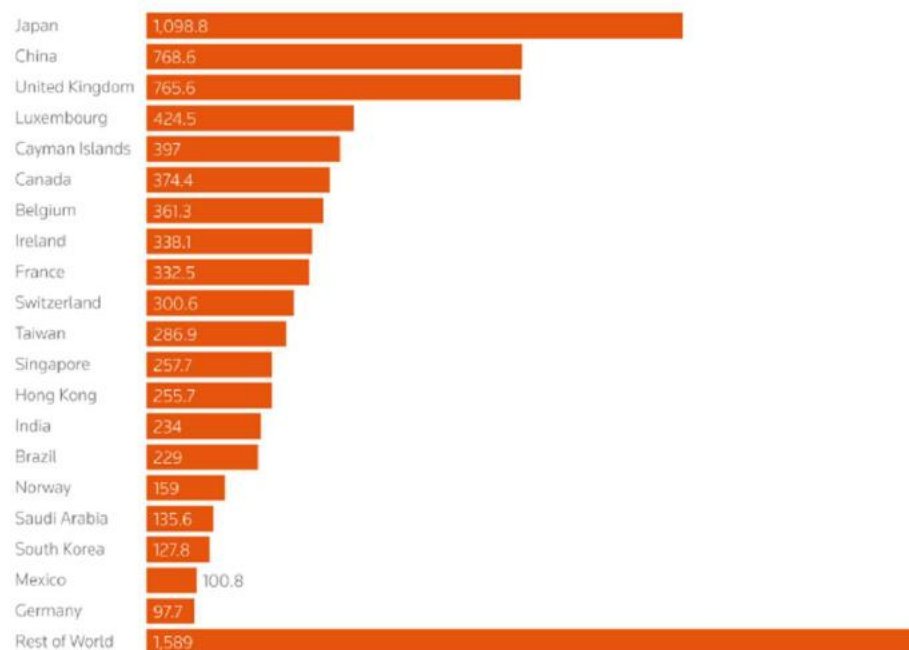
Theories abound about the underlying reasons for the selling – hedge funds unwinding leveraged trades, or trading partners retaliating indirectly – Canada and China being pointed to as likely suspects.

We don’t feel we are able to comment on the validity of either of the above (perhaps both are correct, among others) except that, coupled with the USD weakness, foreign investors appeared to be fleeing a US safe haven asset. It could simply be a response recognising the risks posed by the actions of a new administration.

We also note the real yield on US 10-year TIPS rose from 1.8% to 2.3% i.e. a similar amount, indicating no increase in breakeven inflation. So yields did not rise because tariffs are expected to be inflationary.

For interest we also include in Chart 2 below the largest foreign owners of US government debt, where Japan and not China, as is popularly perceived, is the largest.

Chart 2. Foreign owners of US government debt



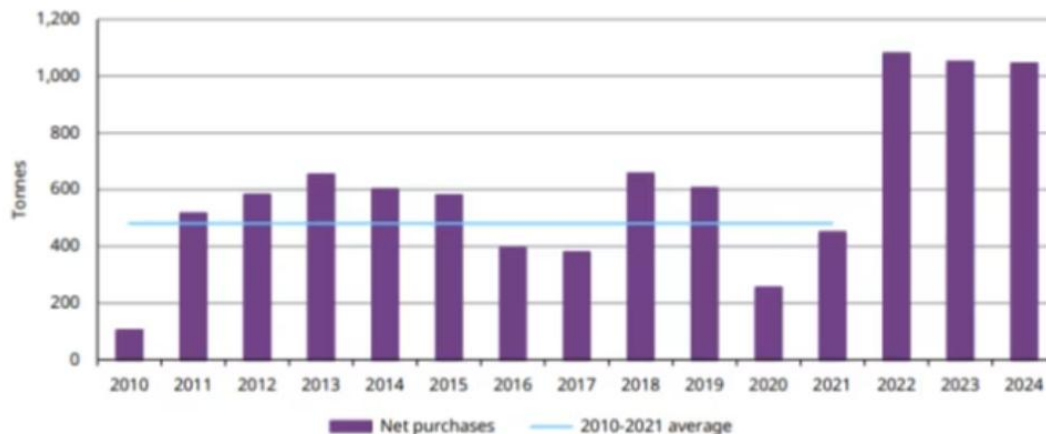
Source: David Yarbrough, Raymond James Financial

Gold

Finally a word on Gold. After consistent positive performance in 2023 and 2024, from a technical perspective the gold price movement in 2025 suggests a sentiment phase may have been reached with ETF demand now being a primary driver. We think this creates conditions ripe for a correction. Central bank demand however remains. Per last month's commentary Chart 3 below presents central bank demand. The sustained increase in demand since 2022 is clear.

Chart 3. Central bank gold demand

Chart 9: Central banks have been net buyers for 15 consecutive years
Annual central bank net purchases, tonnes*



Source: FT

Summary

In summary conditions remain uncertain. We are in a policy-driven environment where US administration pronouncements are primary drivers of markets. We also think the risk of a slowdown is maturing and present – this was demonstrated in market movements prior to April. The new uncertainty provided by US tariff policy has been a primary destabiliser, yet this is forward-looking. Should there be economic weakness this will be blamed on the tariffs, whereas the policies culminating in a current slowdown originated in the response to the Covid pandemic.