More Return-Free Risk – Market Commentary

May saw strong positive returns across markets. The Nasdaq in the US returned +9.1%, while the S&P 500 was less exuberant at +6.3%. Unsurprisingly, Growth outperformed Value at +8.7% vs +3.1%.

The MSCI World is driven by the US market, and therefore returned +5.9%, while Emerging Markets were behind, but still positive, at +4.3%.

South Africa returned +3.1% in ZAR terms, but +6.3% in USD on 2.9% in ZAR appreciation, outperforming Emerging Markets.

South Africa remains a strong outperformer for the year-to-date.

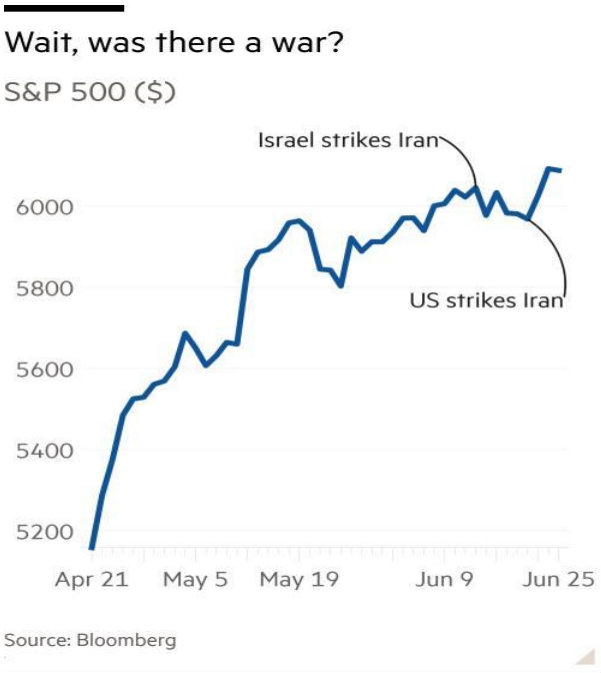
The various market returns are summarised in Table 1 below.

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

	May-25	YTD 2025
FTSE/JSE ALSI (ZAR)	3.1%	14.0%
FTSE/JSE ALSI (USD)	6.3%	19.1%
MSCI World	5.9%	4.9%
MSCI EM	4.3%	8.7%
MSCI Value	3.1%	6.5%
MSCI Growth	8.7%	3.5%
S&P 500	6.3%	0.9%
Nasdaq 100	9.1%	1.9%

*Total return indices, Source: Factset

The Financial Times wrote this week that "there was a war, and the US markets didn't care". So the first order of business in this commentary is to address this particular assertion. We start by adding the FT's chart below, sourced from Bloomberg.



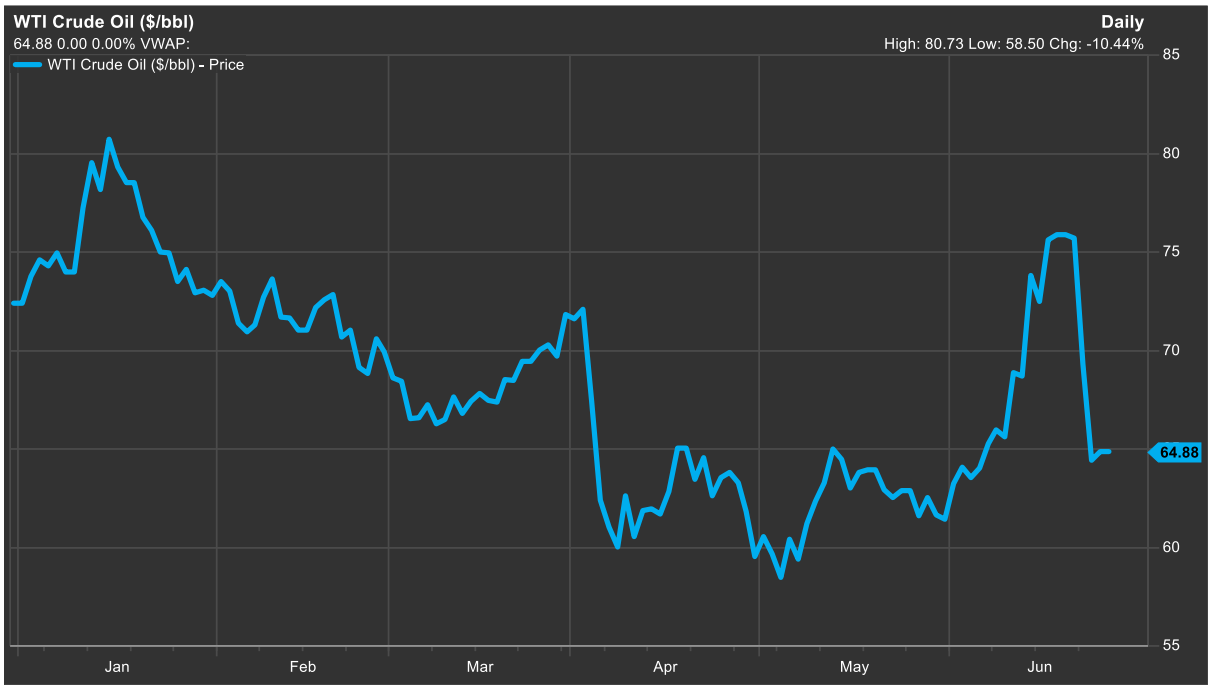
We note from the above that the S&P 500 was down -1.3% over the period, so we could say the market was at the very least concerned, waiting for more clarity and/or durable economic consequences.

Incidentally we heard this comment more than once through the duration of the war, and each time felt the explanation is not complicated. Equity valuations depend on profit growth and interest rates, so for markets to be affected, interest and/or growth rates need to be affected. Neither was, sustainably, hence no material impact.

As an explanation an obvious first order target would have been the Oil price.

Chart 1 below illustrates the Oil price for the year to date.

Chart 1. Oil price for the year-to-date

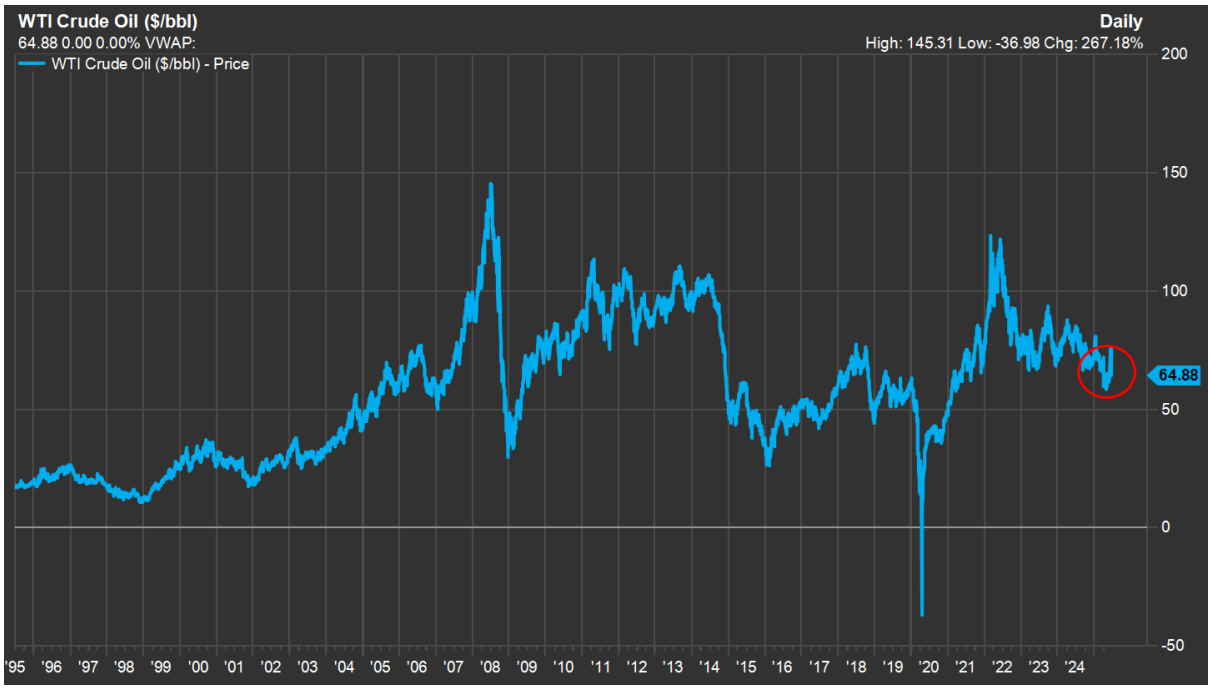


Source: Factset

Hostilities broke out on 13 June. In hindsight it is fair to say the oil price rose +20.1% from the beginning of June as the possibility of conflict grew. The price than fell on 16 June (possibly a case of buy on the rumour, sell on the news) before rising again to over $75. As has been well-covered in the media, it fell again sharply, to below $65, prior to the end of the war, correctly predicting the end of the (current phase of the) conflict. So the market correctly anticipated the start as well as the end of the war. Importantly for our brief discussion, it also correctly anticipated no sustained economic impact.

The +20% price increase was also miniscule in historical terms. Just how miniscule is contextualised by the longer term price history in Chart 2 below.

Chart 2. Longer term Oil price chart



Source: Factset

From a technical perspective the price in fact appears to still be in a downward trend begun in early 2023, war in the Persian Gulf notwithstanding.

Suppose there had been a sustained increase. Rising input costs would have affected global growth. If the same sustained increase had led to inflation, long interest rates would likely have responded. Pressure on growth and rising interest rates are both bad for valuations and a more significant market decline would have been expected.

As it is, neither growth nor interest rates were materially affected, therefore there was no market decline. Perhaps a small risk premium led to the -1.3% we actually saw over the period, but overall no particular mystery, in our view.

More mundane matters

Now that the (this) war is behind us (the other two are still raging, is our understanding), markets can return to more mundane matters e.g. is the Treasury yield rising or not, why the USD is declining, and is there still a threat of recession.

Financial media continue to have us believe that Treasury yields are rising, a likely response to US trade policy, also the US debt to GDP is increasingly being perceived as unsustainable, and that investors are disinvesting from US assets.

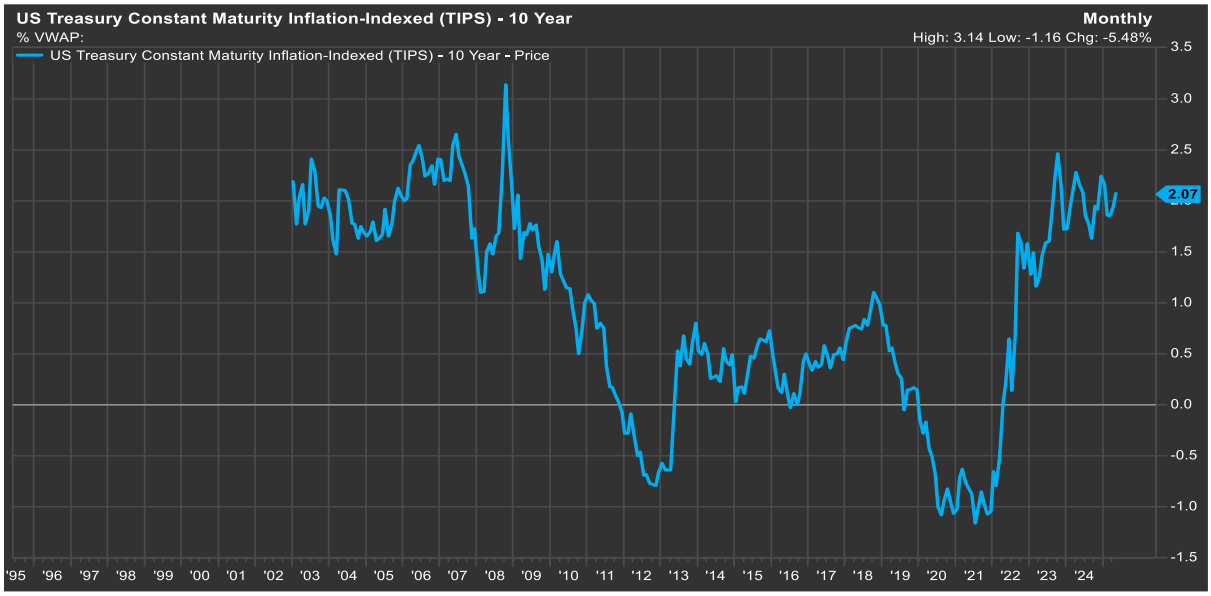
We continue to be puzzled by most of the above. The debt to GDP is a concern but US Treasury yields are not rising. This is evidenced in Chart 3 below. At most they are level, although a case could be made that they are declining slightly. We suspect the next move is down, as short term rates come down, until such time as we see any inflation resurgence.

Chart 3. US 10-year Treasury yield

Source: Factset

We also consider the real yield on Treasury Inflation-Protected Securities in Chart 4 below.

Chart 4. Real yield on US 10-year TIPS



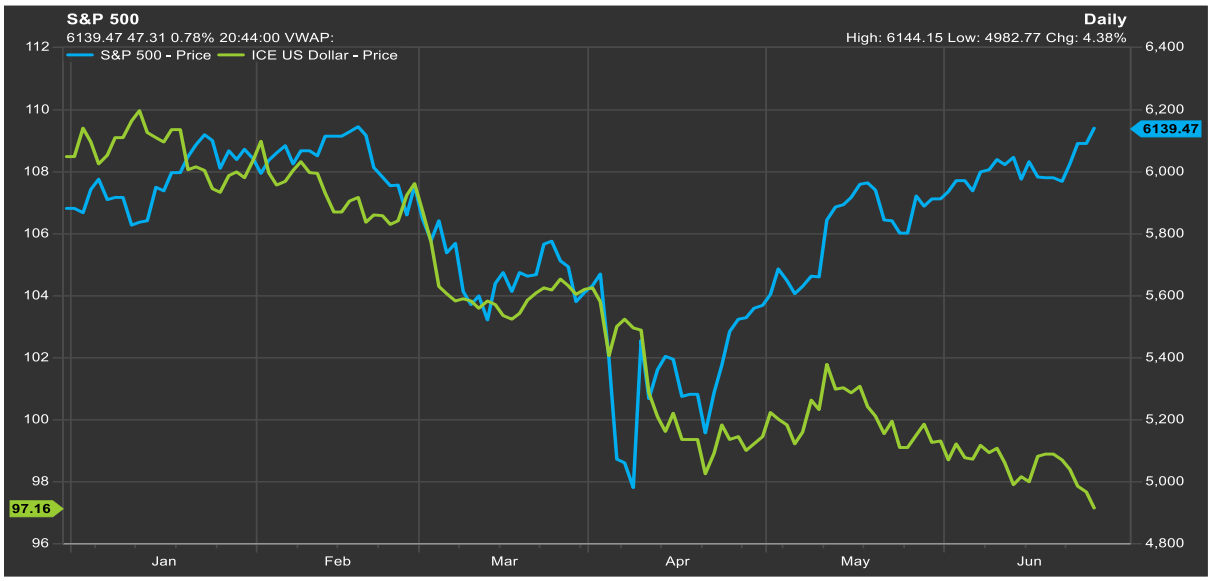
Source: Factset

So both nominal and real yields are flat to mildly declining – no sign of an increasing risk premium for the US here.

Next, if we consider the USD as a flow, the USD weakness should be reflected in US assets de-rating, part of the narrative of negative sentiment towards US assets. Chart 5 presents the S&P 500 against the DXY (the USD Index). There was some correlation-based

possibility of credibility to the argument leading up to the tariff volatility. The weakness has however continued even as the equity market recovered. The same is true of the bond / Treasury market.

Chart 5. DXY weakness vs the S&P 500



Source: Factset

If we consider the USD against Gold however, the story changes. This is presented in Chart 6 below.

Chart 6. DXY vs Gold year-to-date

Source: Factset

The negative correlation is clear, if not necessarily the causality. But it is plausible. As discussed in our previous commentary, global central banks, no doubt led by China, are de-dollarising at a sustained pace.

What about South Africa?

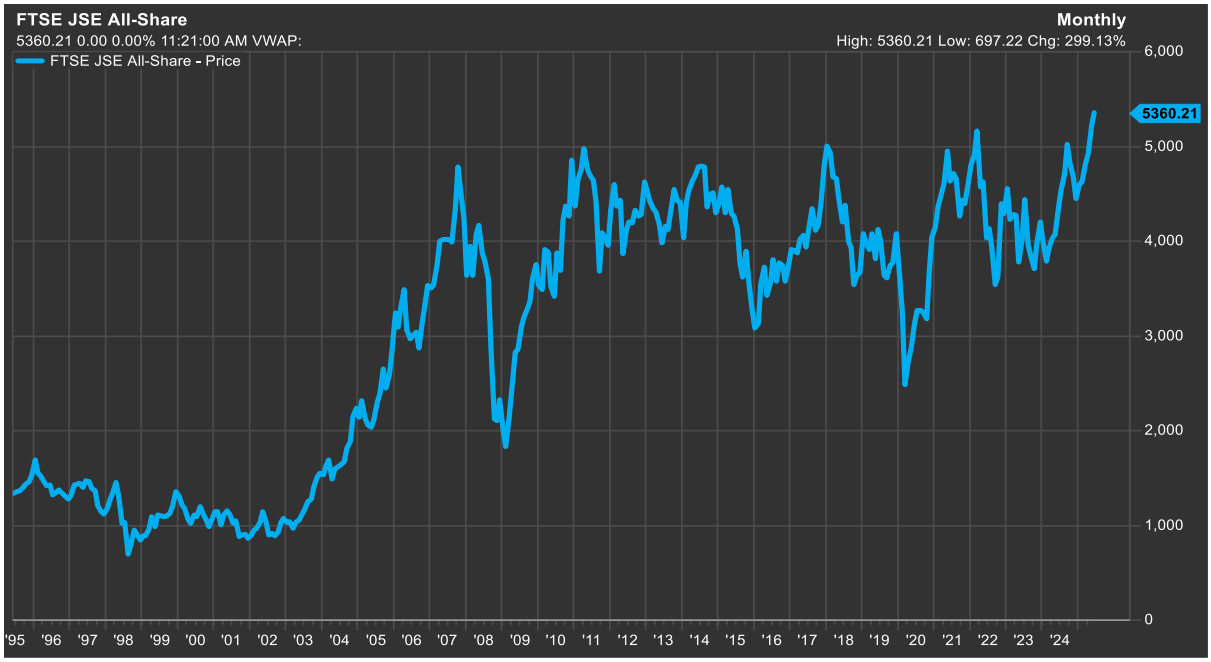
We close off with brief comment on the SA market. Per Chart 7 below, local investors have enjoyed a near-doubling of return since the pandemic in 2020. This however is in local currency terms.

Chart 7. FTSE/JSE All Share Index in ZAR

Source: Factset

When considered in USD, the same Chart, in Chart 8 below, presents an altogether different picture.

Chart 8. FTSE/JSE All Share Index in USD



Source: Factset

Per Chart 8 above, from 2010, or one could even extend the period further back to 2007, USD-based investors, the drivers of our market, have realised a capital return of near 0%, with a lot of volatility in-between. This is consistent with the narrative we have developed in previous commentaries – of low credit extension and poor economic growth, stemming from over-indebtedness built up to 2007.