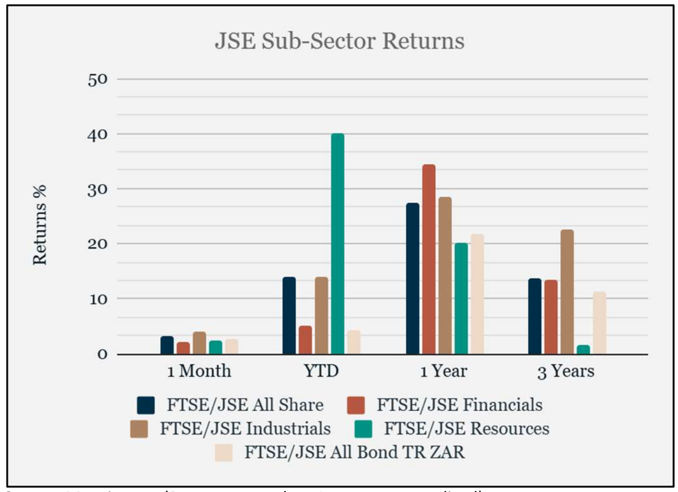
Monthly Review May 2025

STAR INVESTMENT PARTNERS

South African Market

The local equity market maintained its strong momentum during May, extending the recovery that began in late April. The FTSE/JSE ALSI index finished the month with a 3.14% gain. The industrial sector emerged as the top performer, climbing 3.98% on the back of rising manufacturing activity and expanding export industries. With China's economic recovery gaining traction, companies like Naspers/Prosus have benefitted through their Tencent exposure. This was more evident in May as China's Tencent Holdings reported better-than-expected earnings during the quarter, helping Naspers gain 6%. Gold valuations, which have helped support local market gains over the last two months, took a breather from their year-to-date surge, weighing on performance with a (3.89)% decline.

May saw a slight uptick in local inflation, primarily attributed to increased food prices, though levels stayed beneath the central bank's target range. YoY headline inflation reached 2.8%, up from the prior month's 2.7%. Food and non-alcoholic beverage inflation climbed to 4.0%, marking the steepest annual increase since September 2024. In contrast, fuel prices declined by (13.4)% YoY reflecting weaker international oil markets and a more stable Rand. Core inflation, which strips out volatile food and energy components, decelerated to 3%, the lowest level since July 2023, down from the previous 3.1%.



Source: Morningstar (Returns more than 1 year are annualized)

Following the May Monetary Policy Committee (MPC), South African Reserve Bank governor Lesetja Kganyago announced a 25 basis-point reduction in the benchmark repo rate, bringing the rate down to 7.25%. This latest reduction demonstrates the SARB's cautious approach to balancing economic stimulus with medium to long-term inflation management. Recent statements from the deputy governor and deputy finance minister suggested advancement in ongoing deliberations about reducing the inflation target band from its present 3%-6% range. Kganyago further acknowledged that the MPC views a 3% inflation targeting scenario as more favourable than the existing 4.5% midpoint. The upcoming MPC meeting is set for July, with analysts divided on the likelihood of additional rate reductions this year.

<u>Asset Class Performance (ZAR):</u>

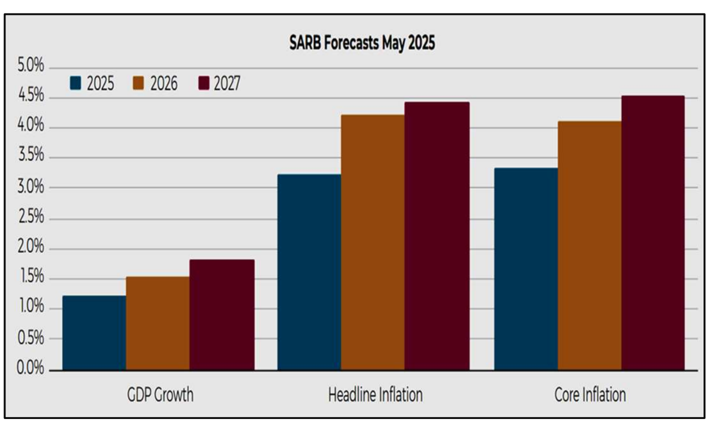
As of 31st May 2025	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity	2.73	0.77	8.78	17.79	14.14	13.88
Global Property	(0.59)	0.19	7.36	5.92	7.04	8.14
Global Bond	(3.39)	1.04	2.54	5.03	(1.71)	4.56
Global Cash	(2.59)	(2.55)	0.63	9.93	3.30	6.10
SA Equity	3.14	14.02	27.30	13.66	17.62	9.78
SA Property	2.32	6.22	32.47	15.90	19.83	3.05
SA Bond	2.73	4.24	21.78	11.36	10.13	8.92
SA Cash	0.61	3.05	7.86	7.44	5.91	6.23

ZAR/USD (negative = Rand strength)	(3.28)	(4.78)	(4.56)	4.83	0.49	3.99
Gold	(3.89)	16.79	28.03	20.88	9.73	11.88
Brent Crude Oil	(1.75)	(17.19)	(24.44)	(15.53)	13.12	3.76

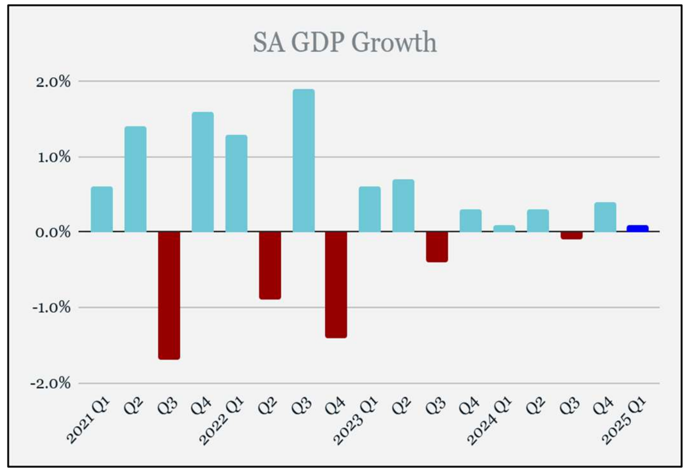
*Returns more than 1 year are annualized.

The South African Rand demonstrated resilience against the US Dollar during the month after heightened volatility during the last few months. A weaker Dollar – driven by trade tensions and a subdued US economic outlook – improved sentiment toward emerging markets, allowing the Rand to remain relatively stable amid continued global uncertainty. In the latter part of the month, the Rand hovered around the R18/$ level, initially reaching a five-month low before retreating to close the month at R17.98/$, marking a 3.28% gain. The currency's performance reflected a combination of local monetary policy support and improved investor risk appetite on the back of a successful adoption of a budget at the third attempt.

The South African bond market held firm in May, supported by monetary policy easing and favourable commodity prices. Despite ongoing market volatility, risk appetite has improved both globally and locally, leading to a 40 basis-point drop in 10-year government bond yields, which ended the month at 10.21% - the lowest level so far this year. Bonds have performed strongly since Finance Minister Enoch Godongwana presented the third version of the budget to lawmakers in May, with the All Bond Index (ALBI) closing the month up 2.73%. Growing optimism around the budget's adoption, following protracted debates over tax hikes and spending cuts, alongside reduced tensions within the coalition government, has strengthened confidence in South Africa's ability to meet its fiscal targets and rein in government debt.



Source: SA Reserve Bank

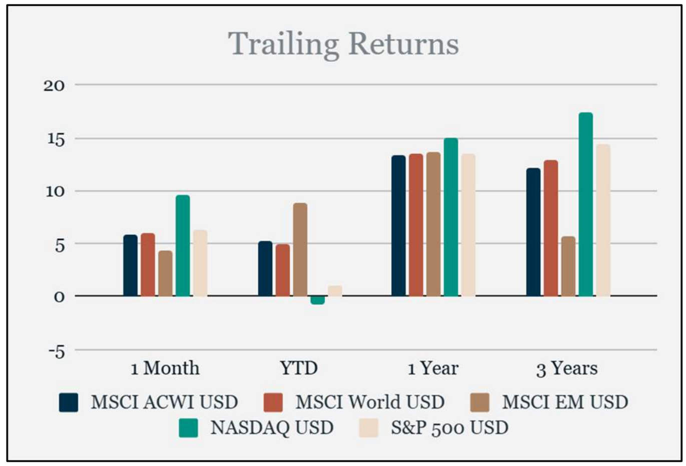


Source: Trading economics

South Africa's economy narrowly avoided contraction in the first quarter of 2025, with gross domestic product (GDP) growing by just 0.1%, down from 0.4% in the final quarter of 2024. Growth was driven primarily by strong performances in agriculture, transport, and finance, with agriculture expanding by 15.8%. However, declines in manufacturing (2.0%) and mining (4.0%) weighed on overall output. The recent passing of a previously contested national budget has provided some short-term relief for investor sentiment. Still, deeper structural and policy challenges (such as logistics constraints and persistently high unemployment), will have to be addressed to support sustainable growth. A weaker global environment, coupled with the sluggish start to the year, prompted the SARB to revise its 2025 growth forecast down from 1.7% to 1.2%. Both the IMF and OECD, in recent reports, echoed concerns that without decisive action, particularly in infrastructure reform, power sector stability, and logistics efficiency, South Africa could face stagnation or even renewed economic contraction.

The third version of the national budget, tabled on 21 May, is expected to pass through parliament without opposition. While the final version excludes a VAT increase which is improving short-term political cohesion, it also adds pressure to the fiscal outlook. Treasury now anticipates a wider budget deficit of 4.8% of the GDP and an increase in gross government debt to 77.4%. Overall, Budget 3.0 has been received as market-neutral, a notable shift from the negative reaction to the initial proposal presented in February.

Global Markets



Source: Morningstar (Returns more than 1 year are annualized)

Global financial markets extended their rebound throughout May, advancing from April's lows as investor confidence strengthened and trade tensions subsided. Developments in US-European Union trade discussions alongside a temporary delay of anticipated tariff increases alleviated global recession concerns and fuelled broad-based gains across risk assets. Against this backdrop, the MSCI ACWI gained 5.85%, with US equities leading global peers, propelled by a surge in major technology stocks. The conclusion of earnings season also contributed significantly to the recovery, as aggregate earnings exceeded analyst projections by 9%, representing the largest earnings surprise in three years. Emerging markets maintained their strong performance in Dollar terms, supported by US Dollar weakness, closing the month with a 4.31% gain, while developed markets posted gains of 5.97%.

US consumer price growth maintained its downward trajectory since the start of the year, dropping to 2.3% YoY – the lowest rate since February 2021 – from 2.4% in the previous month. The energy index, which experienced significant declines in april, posted a 0.7% increase in May as reported by the Labor Department, driven by substantial jumps in natural gas and electricity costs. Core inflation, excluding volatile food and energy prices, remained at a four-year low of 2.8%, holding steady from the prior month and aligning with analyst expectations.

The Federal Reserve held interest rates steady at the 4.25% to 4.5% range during its May meeting, where it has been since December and in line with expectations. Labour conditions continue to show resilience while inflation hovers modestly above the 2% target, marking significant progress over the past few years. However, the Fed has recognized that uncertainty regarding America's economic forecast has intensified since the previous meeting. Officials noted heightened risks encompassing both potential unemployment increases and inflationary pressures, creating a complex environment for monetary policy navigation. Rising unemployment might necessitate rate decreases, while accelerating inflation could demand tighter policy measures. Managing the balance is likely to become central to Fed decision-making during the second half of the year.

Asset Class Performance (USD):

As of 31st May 2025	MTD	YTD	1 Year	3 Years*	5 Years*	10 Years*
Global Equity	5.85	5.31	13.41	12.15	13.60	9.48
Global Property	2.43	4.70	11.94	0.84	6.53	3.95
Global Bond	(0.45)	5.59	6.91	(0.01)	(2.18)	0.51
Global Cash	0.37	1.83	4.92	4.66	2.81	2.00
SA Equity	6.28	19.15	32.72	8.21	17.06	5.53
SA Property	5.43	11.00	38.12	10.35	19.25	(0.94)
SA Bond	5.85	8.93	26.98	6.02	9.60	4.70
SA Cash	3.67	7.69	12.46	2.29	5.40	2.12
ZAR/USD (negative = Dollar strength)	3.39	5.02	4.78	(4.61)	(0.49)	(3.84)
Gold	(0.97)	22.04	33.49	15.09	9.20	7.55
Brent Crude Oil	1.24	(13.46)	(21.22)	(19.58)	12.58	(0.26)

*Returns more than 1 year are annualized.

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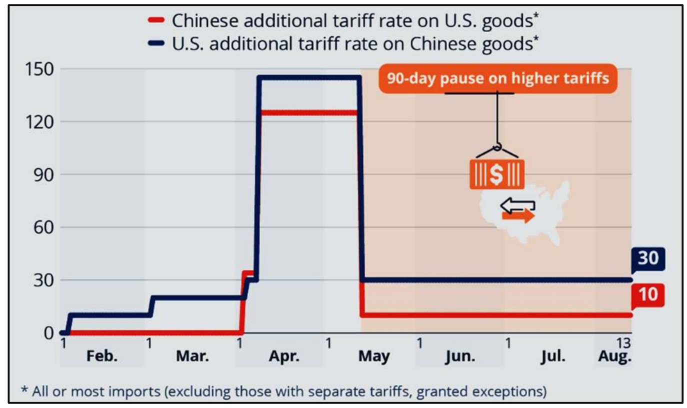
Uk inflation jumped by more than expected last month to 3.5%, its highest rate in over a year, from 2.6% the previous month. The largest upward contribution came from prices for housing and utilities, which rose 7.8% YoY, up from 1.8%, largely reflecting energy price increases that took effect in April. BoE officials reduced interest rates by 25 basis points to 4.25% in an effort to shield the UK economy against the impact of rising economic uncertainty. This anticipated decision by the Bank's monetary policy committee marked the fourth reduction since August and included cautionary guidance that the UK economy faces an additional 0.3% contraction over the coming three years, compounding the substantial forecast revisions issued earlier this year.

The US Dollar saw mixed performance in May initially finding support from the Federal Reserve's unchanged policy position early in the month. Nevertheless, inflation readings that fell short of expectations combined with a US sovereign credit downgrade triggered widespread Dollar sell-off, resulting in a decline of (0.14)%. The greenback has surrendered 4.54% of its vaule following President Trump's tariff announcement on second of April, and has dropped (7.55)% year-to-date. Gold experienced a pause in May, breaking its five-month rally and closing down (0.97)% for the month. Despite this pullback, ongoing trade uncertainties and escalating geopolitical tensions related to the Ukraine situation have helped cushion the downside in gold prices. The traditional link between real yields and gold prices has also broken down since Russia’s invasion of Ukraine. Despite rising real yields, strong demand for gold has been driven by central banks looking to diversify their holdings away from government bonds.

Source: JPMorgan Guide to the markets



Source: Statista

Global bond markets experienced continued volatility throughout May, caught between competing pressures from slowing economic activity and rising fiscal concerns. Bond markets staged a recovery toward month-end due to easing trade tensions, but this improvement failed to offset the early month sell-off, leaving global bonds with a (0.45)% decline. Yields climbed during the month's opening weeks following the reduction of America's sovereign credit rating, which sparked a retreat in long-term Treasury securities and intensified debates over government debt sustainability in the long run. Moody's emerged as the final member among the three major rating firms to remove the US's AAA status, with this May downgrade occurring over ten years after S&P was the first major rating agency to make that move in 2011.

Tariffs continued to dominate headlines and moved markets throughout the month, with continual proposed policy changes by President Trump adding to global uncertainty. The implementation (or lack thereof) of these policies is expected to remain a key market driver in the coming months. May brought some signs of de-escalation, as a recent agreement between the world’s two largest economies led to the suspension of most newly imposed tariffs for 90 days, while trade negotiations continue. Under the agreement, US tariffs on Chinese imports were reduced from 145% to 30%, while China’s tariffs on US goods fell from 125% to 10%. Expectations for US economic growth have continued to decline. Since the "Liberation Day" announcement, forecasts for US 2025 GDP have dropped from 2.3% to 1.4%. Although soft indicators, such as business and consumer confidence, and hard economic data showed improvement during May, analysts still anticipate that the full economic impact of US tariffs will begin to appear in the data in the months ahead.

Inside Portfolios:

Amid ongoing global economic and market uncertainty, we continue to seek solutions that offer downside protection without sacrificing the potential for returns well above inflation. Structured products remain a key component of our investment strategy across local and offshore portfolios. These instruments provide access to specific market exposures, and we design them to deliver predefined outcomes, such as capital guarantees and geared market-linked returns at maturity, or capital protection and annual coupons well above traditional fixed income instruments, during the products lifespan. For growth driven exposure we primarily use a mix of global and regional indexes such as MSCI ACWI, S&P500, ASX200 and EURO STOXX 50 as underlying reference assets. For coupon driven notes we use a blended approach including major global and or local equity indices and small baskets of super profitable, high cash generative, innovation driven company shares.

These products often feature Autocall mechanisms, triggered at set intervals (e.g. annually) if the underlying assets trade above their initial strike levels, allowing for early maturity with predefined returns. Income focused products have annual coupon payments even if the underlying asset prices are below their initial strike prices. We use Structured products to hedge out volatile outcomes in equity centric portfolios and to boost absolute positive returns during sideways trending and or negative markets, all with significant capital protection characteristics. Structured notes and their capital protection are underwritten by banks and therefore do carry issuer credit risk. As such we ensure that we only use the top tier of banks and never overexpose capital to a single issuer disproportionately.

Historic Asset Class Performance Matrix

The performance matrix below shows returns (colour coded) for the 4 main indicative sources of return per asset class and separated for SA and Global. **All performance figures here shown in ZAR.** The performances show the one-year performance of each asset class up to the displayed date (X-axis) except for the column showing YTD returns up to 31st May 2025.

	YTD	5/2025	5/2024	5/2023	5/2022	5/2021	5/2020	5/2019	5/2018	5/2017	5/2016	5/2015	5/2014
Best	SA Equity 14.0	SA Property 32.5	SA Property 20.3	Global Cash 31.7	SA Property 15.5	SA Equity 38.1	Global Fixed Income 27.5	Global Property 26.3	SA Fixed Income 10.4	SA Fixed Income 13.4	Global Property 40.5	SA Property 31.7	Global Equity 24.0
	SA Property 6.2	SA Equity 27.3	Global Equity 17.3	Global Equity 28.0	Global Cash 13.7	SA Property 37.3	Global Equity 26.9	Global Fixed Income 17.6	Global Equity 8.6	SA Cash 7.0	Global Fixed Income 38.3	Global Property 22.6	SA Equity 21.8
	SA Fixed Income 4.2	SA Fixed Income 21.8	SA Fixed Income 13.0	Global Fixed Income 20.1	SA Equity 11.0	Global Equity 12.5	Global Cash 22.9	Global Cash 17.5	SA Equity 8.0	SA Property 3.7	Global Cash 29.6	Global Equity 21.6	Global Property 17.1
	SA Cash 3.1	Global Equity 8.8	SA Cash 8.2	SA Equity 8.5	Global Property 10.2	SA Fixed Income 11.1	SA Fixed Income 6.4	Global Equity 12.7	SA Cash 6.8	SA Equity 2.2	Global Equity 23.1	Global Cash 15.1	Global Fixed Income 10.7
	Global Fixed Income 1.0	SA Cash 7.9	SA Equity 6.3	Global Property 7.8	SA Fixed Income 5.6	Global Property 7.3	SA Cash 6.3	SA Fixed Income 7.7	Global Property 0.9	Global Equity -1.0	SA Property 9.4	SA Fixed Income 9.4	SA Property 7.0
	Global Equity 0.8	Global Property 7.4	Global Property 2.7	SA Cash 6.3	Global Equity 5.4	SA Cash 3.6	Global Property 1.8	SA Cash 6.6	Global Fixed Income -1.8	Global Property -14.6	SA Equity 6.3	SA Equity 8.5	Global Cash 5.3
	Global Property 0.2	Global Fixed Income 2.5	Global Cash 0.2	SA Fixed Income 0.3	SA Cash 3.7	Global Fixed Income -19.0	SA Equity -6.0	SA Equity 2.4	Global Cash -2.6	Global Cash -15.7	SA Cash 6.2	SA Cash 5.6	SA Cash 5.0
Worst	Global Cash -2.6	Global Cash 0.6	Global Fixed Income -5.9	SA Property -2.3	Global Fixed Income -2.2	Global Cash -22.1	SA Property -45.9	SA Property -4.8	SA Property -6.5	Global Fixed Income -16.4	SA Fixed Income 1.0	Global Fixed Income 5.3	SA Fixed Income 2.8

Source: Morningstar Direct