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OLD MUTUAL MULTI-MANAGERS

MARKET MATTERS

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NOBODY KNOWS ANYTHING

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We tend to see movies as pure entertainment, but of course it is a big business too. Film studios across the world pour millions into new projects, hoping to produce a blockbuster or at least earn a decent return. Many films do not, however. In this regard, one of the most famous quotes in the industry is from the late Oscar-winning screenwriter William Goldman, known for classics such as 'All the President's Men' and 'The Princess Bride' as well as 'Butch Cassidy and the Sundance Kid'.

"Nobody knows anything," he said, "not one person in the entire motion picture field knows for a certainty what's going to work." Predicting whether a movie would crash or soar is hard. Filmmakers must do their best to produce an entertaining product, but ultimately the viewing public will decide whether or not it will be successful. And people can be fickle.

Markets are fickle too, and when it comes to the current economic outlook, Goldman's statement rings true. Even the US Federal Reserve with its army of top economists is unsure of what to do next. This in turn is weighing on our own Reserve Bank, despite benign domestic inflation data.

SCENE ONE, TAKE ONE

Let's start with the Fed, whose policymaking body, the Open Markets Committee (FOMC), met last week. The FOMC left its policy interest rate unchanged, as expected, but did decide to slow the pace at which it shrinks its bond portfolio (quantitative tightening).

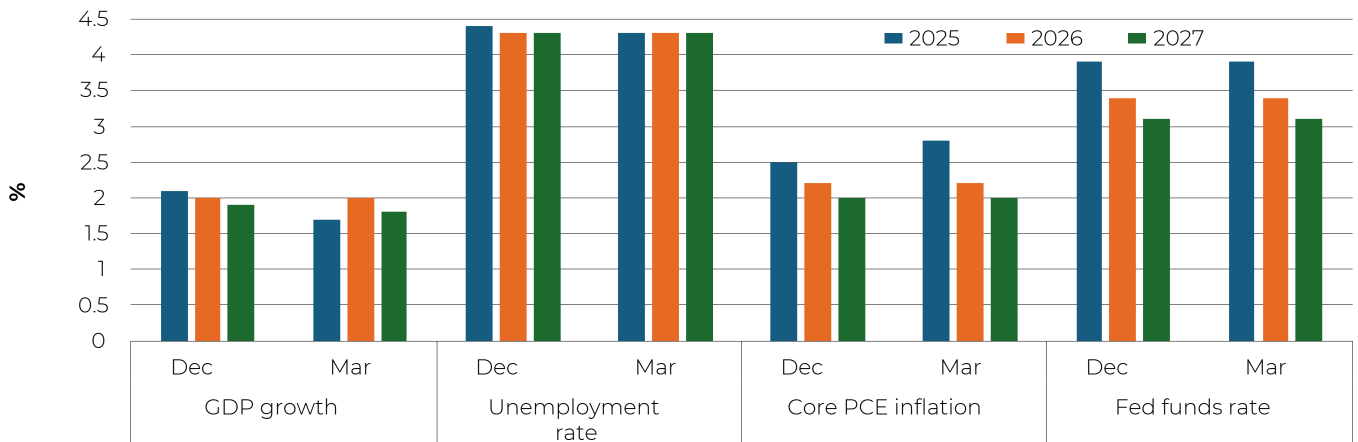
The Fed's problem is that it does not know how tariff increases will impact economic growth and inflation, since no one knows what exactly will be implemented as yet. President Trump has a habit of announcing and then postponing tariff increases, and it is unclear what is a threat meant to extract concessions, and what is likely to stay. All the president's men cannot seem to agree on the actual policy plan. With the appointment of a Trade Representative, a Cabinet-level official, perhaps trade policy will solidify into something more strategic and less tactical. It seems possible, for instance, that the US will seek to match whatever tariffs other countries impose on its exports, which is fair enough.

It will still cause disruptions to supply chains and administrative hassles, but then other countries would basically be able to lower US tariffs by reducing their own.

In the meantime, it is the uncertainty that weighs heavily. Businesses are very adaptable – though adaptation is not costless – but they need to know what to adapt to. The default position for many will be to hold back on making any big decisions. This means economic activity slows down.

The FOMC's quarterly summary of economic projections, commonly known as the 'dot plot' estimate is a useful guide. It displays the anonymous forecasts of officials across the Federal Reserve System. Normally, analysts focus on the median 'dot', but this time dispersion between dots is also notably wide. There is little agreement on what lies ahead.

CHART 1: FOMC MEDIAN OF US ECONOMIC PROJECTIONS



Source: US Federal Reserve

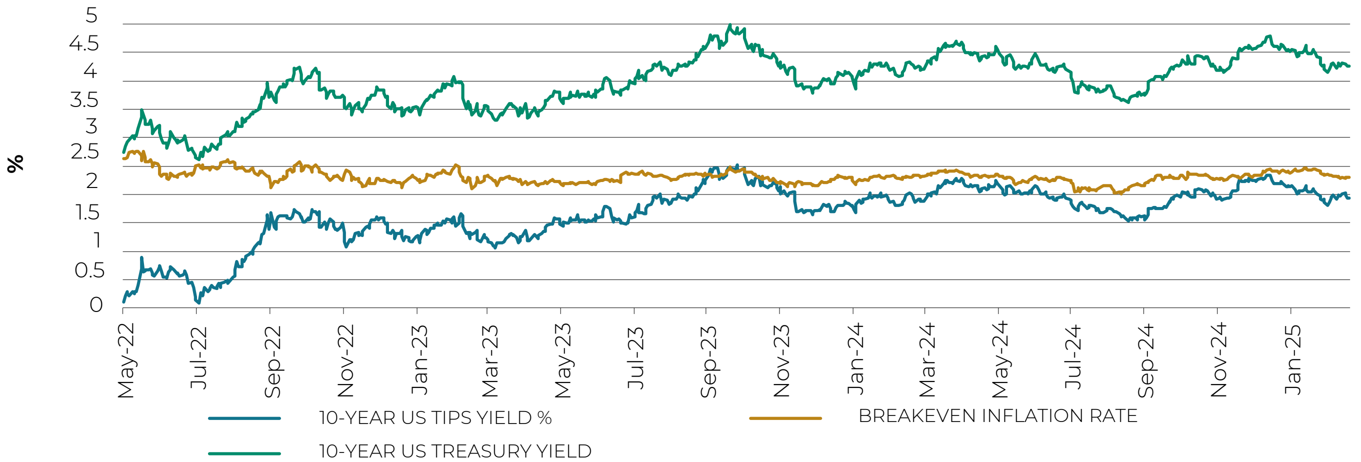
The median dot points to slower economic growth and somewhat higher inflation compared to the December version. It also points to two rate reductions this year, which investors cheered, since a hawkish rate stance would really unsettle markets that are currently pricing in between two and three 25 basis points cuts. It also risks picking a fight with the White House, something no-one relishes.

The risk assessment, in other words the most likely direction in which the forecast might be wrong, is firmly to the downside for growth and to the upside for inflation.

Some refer to the combination of higher inflation and slower growth as 'stagflation' – the dreaded combination of stagnation and persistent inflation. Not quite. Growth is still positive, but slower, while tariffs will probably not cause inflation as much as a one-off jump in the price level (similar to the VAT increase we are about to experience in South Africa). The Fed's concern, however, is that companies could use tariffs as an excuse to raise prices and expand profit margins. This would be inflationary, similar to what happened during the 2021/22 global supply chain disruptions. But if companies worry about losing sales, they might instead absorb tariff increases through lower margins. The world was awash with cash in 2021/22 following Covid stimulus and forced savings. Not anymore. Already, consumer confidence has declined sharply in the US, and retailers will be careful not to take advantage of consumers who are this jittery. The same consumer sentiment surveys also ask households about what they expect future inflation to be. The Fed used to pay close attention to such surveys, since expected inflation can feed into actual inflation – a self-fulfilling prophecy. Central banks the world over want inflation expectations to be 'anchored' close to their target. The latest survey results are exaggerated and therefore unreliable. This makes life even more difficult for policymakers.

Market-based inflation expectations implied by the difference between the yields on nominal and inflation-protected (TIPS) bonds, also known as the breakeven inflation rate, have not moved much. Both nominal and real yields have declined since the start of the year, though not dramatically so, indicating that the market is more concerned about weaker growth than inflation. Weaker growth should eventually drag inflation lower, tariffs or not. But the tariffs do add a lot of noise and uncertainty.

CHART 2: MARKET-BASED INFLATION EXPECTATIONS



Source: LSEG Datastream

Ultimately, the Fed has a lot of room to cut rates to stimulate the economy should things spiral out of control. Again, the tariffs by themselves will not cause a recession, but the combination of tariffs, retaliation against US exporters, other disruptive policies, business uncertainty, still-elevated interest rates, and a confidence shock for consumers might. Whether the Fed responds in time will be crucial, considering that monetary policy always operates with lags.

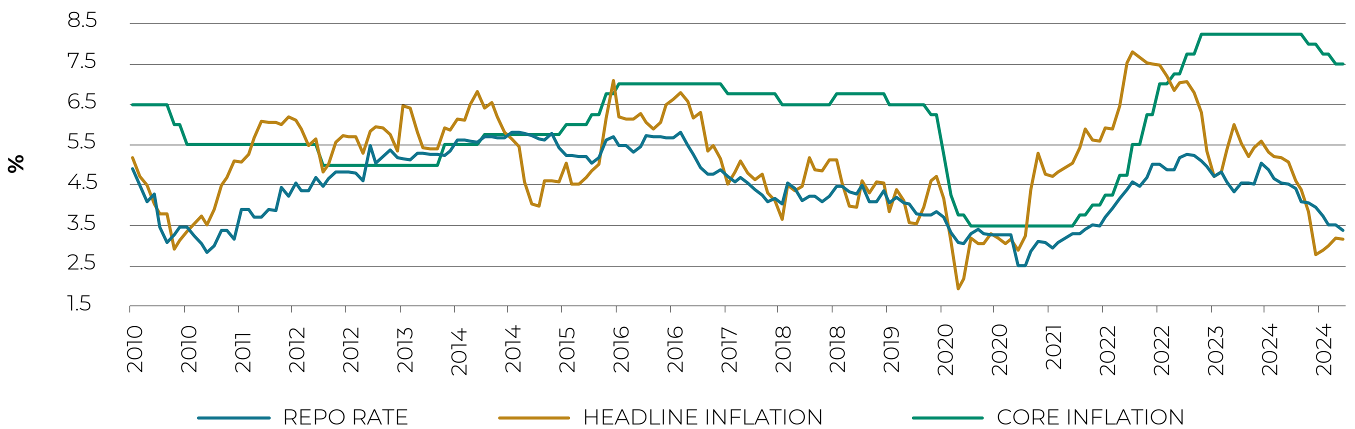
LIGHTS, CAMERA, NO ACTION

Meanwhile, the South African Reserve Bank's Monetary Policy Committee (MPC) voted four to two to keep the repo rate unchanged at 7.5%.

This despite consumer inflation surprising to the downside in February, remaining unchanged at 3.2% year-on-year in February, well below the midpoint of the 3% to 6% target range. Core inflation, excluding food, fuel and energy prices, was 3.4% in February.

The Reserve Bank also lowered its inflation forecast for 2025 to 3.6%, while 2026 and 2027 remain at 4.5%. A lower assumed oil price and somewhat stronger currency more than makes up for the 0.2 percentage points the proposed VAT increases are likely to add.

CHART 3: SA INFLATION AND RATES



Source: LSEG Datastream

If we take the current repo rate and subtract the Reserve Bank's inflation forecast, we get a forward-looking real repo rate of 3.9% this year. It declines to 3% in 2026 and 2027 as inflation rises somewhat. This is still high, given that the Reserve Bank's estimate of the neutral real rate (which is already high) hovers slightly above 2.5%. Real rates are therefore closer to being "restrictive" than being "accommodative." In fact, the MPC statement has dropped any reference to whether rates are "restrictive" or "accommodative". It is all about the global environment, or so it seems. The inflation outlook has improved, but the uncertainty around that outlook has widened. Like the Fed, MPC members do not know exactly what lies ahead and are following a cautious approach. It should be noted that the Bank of England's MPC also kept rates unchanged for broadly similar reasons last week.

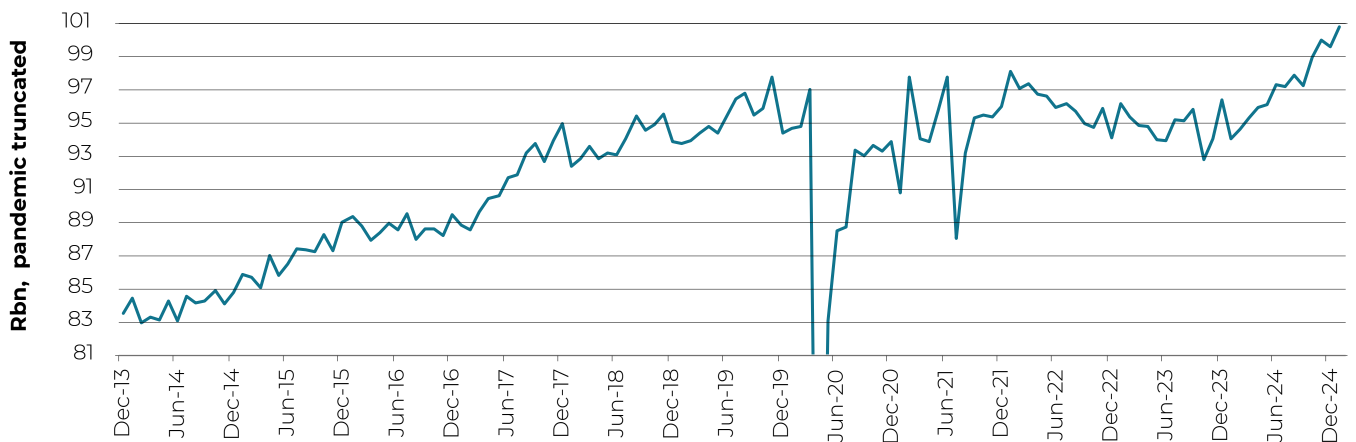
FOLLOW THE MONEY

Put simply, if the gap between South African and US interest rates is too small, money will leave our shores and flow to the US. This could lead to a disorderly depreciation of the rand, higher inflation, and unmoored inflation expectations. What the appropriate spread is will depend on market conditions. The more anxious investors are, the higher the interest rate required for the risk of investing in an emerging market like South Africa. This is the main reason why the Reserve Bank's estimate of the neutral real rate is so high to begin with.

Nonetheless, if things settle down internationally, it implies that there is room for another rate cut.

There are risks to the growth outlook too. If South Africa loses AGOA access and America levies tariffs on South African exports, the Reserve Bank estimates it could shave 0.2 percentage points off the growth rate. If these tariffs were associated with a confidence shock, growth could be 0.7 percentage points lower. For now, however, the Reserve Bank's growth projections are broadly unchanged. It expects the economy to expand by 1.7% this year, 1.8% next year and 2% in 2027. This is similar to National Treasury's forecasts in the recent Budget Speech. This resilient growth outlook (by South African standards) is probably one of the reasons why the MPC is not in a hurry to cut rates. Consumer spending for instance, seems to be doing quite well as chart 4 shows. If the Reserve Bank's growth and inflation forecasts materialise, it should support a further value unlock for domestic assets, more so if there a further rate cut left in the cycle.

CHART 4: SOUTH AFRICA REAL RETAIL SALES



Source: Stats SA

With the advent of streaming services like Netflix, producers of films and TV series have incredibly rich data on how viewers respond to their products. They know, for instance, how to pace the storyline to keep viewers engaged. Rather than gambling on new concepts, as in Goldman's time, they can play safe and stick to a formula, backed up by experience and data. Sequels, prequels and reboots of classics abound. Whether this makes the ultimate viewing experience better or worse is probably subjective. Perhaps it delivers the goods for the majority of viewers, while frustrating the true movie buffs. When it comes to investing, however, a formulaic approach is not bad at all. The basics of diversification and patience don't go out of style. Creativity and emotional engagement are fantastic on screen, but those same emotions tend to let us down when making investment decisions, especially when things get really uncertain, as they are now.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US$	3 694.0	2.61%	-2.92%	-0.38%	8.17%
United States	S&P 500	US$	5 663.0	2.55%	-4.90%	-3.72%	8.38%
Europe	MSCI Europe	US$	2 288.0	2.19%	3.30%	14.23%	9.26%
Britain	FTSE 100	US$	11 284.0	2.00%	1.82%	10.32%	14.06%
Germany	DAX	US$	2 133.0	2.01%	6.76%	20.99%	26.29%
Japan	Nikkei 225	US$	253.7	1.93%	2.85%	-0.02%	-4.07%
Emerging Markets	MSCI Emerging Markets	US$	1 141.0	3.16%	4.01%	6.14%	10.56%
Brazil	MSCI Brazil	US$	1 366.0	7.14%	9.28%	16.06%	-17.61%
China	MSCI China	US$	77.7	3.57%	7.10%	20.45%	41.78%
India	MSCI India	US$	971.7	5.11%	7.13%	-5.11%	2.39%
South Africa	MSCI South Africa	US$	495.0	4.65%	8.79%	15.12%	32.35%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	89 519.0	2.82%	4.16%	6.45%	23.61%
All Share	All Share (Total Return)	Rand	16 422.0	2.84%	4.42%	6.82%	27.91%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	40 140.8	2.94%	4.40%	6.67%	27.71%
TOP 40/Large Caps	Top 40	Rand	14 878.0	2.80%	4.77%	9.22%	28.16%
Mid Caps	Mid Cap	Rand	25 447.0	3.71%	4.85%	1.21%	22.21%
Small Companies	Small Cap	Rand	41 371.0	2.00%	0.26%	-6.58%	30.20%
Resources	Resource 20	Rand	5 964.9	6.96%	19.54%	32.26%	30.05%
Industrials	Industrial 25	Rand	27 334.0	0.64%	0.48%	4.99%	26.77%
Financials	Financial 15	Rand	15 717.0	3.27%	2.04%	0.10%	31.60%
Listed Property	SA Listed Property	Rand	2 350.4	2.09%	0.44%	-2.19%	22.54%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government Overall (USD Unhedged)	S&P	US$	75.4	0.08%	0.44%	2.05%	-0.29%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 109.9	-0.12%	0.15%	0.66%	19.22%
Government Bonds	BESA GOVI	Rand	1 093.4	-0.10%	0.19%	0.71%	19.20%
Inflation Linked Bonds	BESA CILI	Rand	379.8	-0.10%	0.16%	0.83%	9.22%
Cash	STEFI Composite	Rand	604.6	0.14%	0.41%	1.66%	8.31%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US$	72.0	3.03%	-1.37%	-4.00%	-16.28%
Gold	Gold Spot	US$	3 044.0	3.71%	6.55%	16.36%	41.12%
Platinum	Platinum Spot	US$	996.0	1.84%	5.84%	8.85%	9.57%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	18.15	1.07%	3.02%	3.83%	3.06%
ZAR/Pound	ZAR/GBP	Rand	23.53	0.93%	-0.04%	0.42%	1.61%
ZAR/Euro	ZAR/EUR	Rand	19.70	0.99%	-1.55%	-0.74%	3.73%
Dollar/Euro	USD/EUR	US$	1.09	0.00%	-4.77%	-5.05%	0.00%
Dollar/Pound	USD/GBP	US$	1.30	-0.13%	-2.83%	-3.60%	-1.29%
Dollar/Yen	USD/JPY	US$	0.01	0.67%	-1.21%	-5.36%	-1.62%

Source: I-Net, figures as at 21 March 2025

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