



Wood for the Trees

May 2025

The adage goes “Sell in May and go away” which essentially refers to the onset of summer holidays in the U.S. and lacklustre markets as most senior traders and portfolio managers head to their beach houses. If you had followed through on this, you would have missed out this May. Global markets regained momentum with the S&P 500 posting its biggest monthly return since November 2023. Tech stocks again led from the front and U.S. markets approached their February highs.

May Performance



After allowing a 90-day pause which supported equity markets in April, U.S.-China trade discussion in early May provided the main catalyst behind the powerful movement in equity markets.

While tariffs remain the main focal point, other events are also beginning to demand attention. Toward the end of the month, Trump’s trade tariffs were dealt a blow as the U.S. Court of International Trade ruled President Trump had exceeded his presidential authority in imposing the April 2nd tariffs. The court found that the tariffs enacted under the IEEPA (International Emergency Economic Powers Act) to be an overreach of his powers, and subsequently set them aside. President Trump quickly appealed the judgment and was granted a stay while the U.S. Court of Appeals examines the ruling.

To be clear, if the Court of Appeals rules in favour of the U.S. Court of International Trade, Trump will likely take the matter to the Constitutional Court. A ruling against tariffs instituted under the IEEPA, does not mean the end of tariffs as a whole, as President Trump has several other avenues to apply tariffs. However, these other options involve a more multi-lateral approach which would require some degree of consensus among Senators, thus ensuring a more rational and considered approach.



May also saw the One Big Beautiful Bill (OB BB) pass through the House of Congress. This bill is a cornerstone of Trump's presidency. Of concern is the financial pressure it will place on the U.S. if it passes through the Senate. It will increase national debt by \$2.6trln over the next decade taking U.S. Debt to GDP way above 100% and push the fiscal deficit up to 7%. If Trump loses the incremental revenues generated by tariffs, the fiscal outlook could deteriorate further. The U.S. dollar and treasury yields continue to be under pressure.

May marked the end of the 1st quarter reporting season. Liza will go through the companies that matter to us in more detail later. 1st quarter earnings growth came in 6.1 percentage points above expectations at 13.3% Y/Y, with 78% of companies beating expectations.

However, given the imposition of tariffs in April and the changing dynamics in the operating environment, all eyes were on outlook statements from management teams. While most management teams avoided giving forward guidance, they did acknowledge the heightened volatility in the current environment, putting negative pressure on their operations. We have seen analysts lower their expectations for 2Q by 4.2 percentage points, currently estimating 2Q earnings growth of 4.9% Y/Y versus expectations for 2Q growth of 9.3% in March. Analysts are currently expecting earnings growth for 2025 to come in at 9.1%, I would venture a bet that the 2025 number risks further downside revisions.

As we move through the next few months, there are some important dates that are worth noting that have the potential to have large market impacts.

On the Horizon



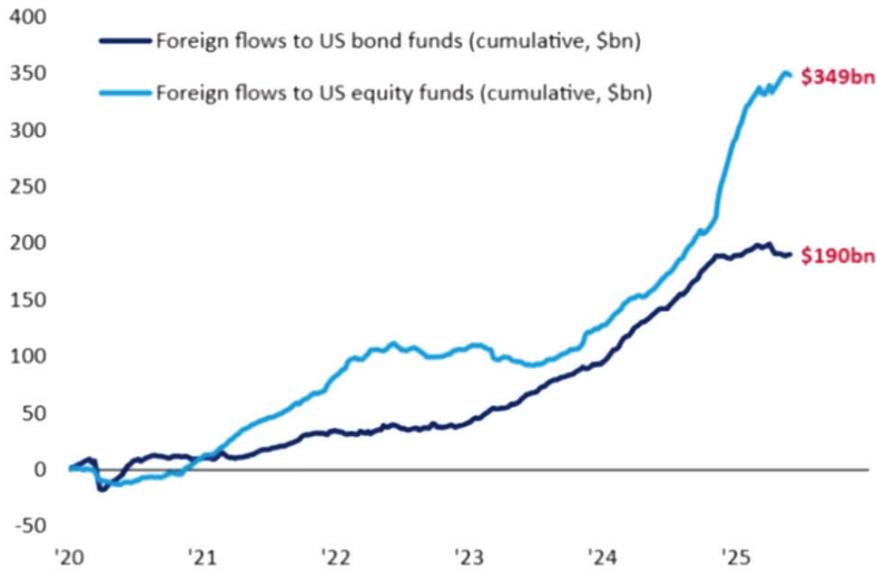
Is the Era Of U.S. as the Investment Destination of Choice Over?

With all that is currently going on in the U.S., investors are questioning what the correct exposure to U.S. assets is. Over the last decade, investors have added to their U.S. holdings and have been rewarded. Around \$350bln has been invested in U.S. equities by foreign investors since 2020, as U.S. exceptionalism become the dominant theme.



Chart 7: Since 2020, \$540bn in inflows to US bond & equity funds

Cumulative foreign flows to US assets since 2020: stocks vs bonds

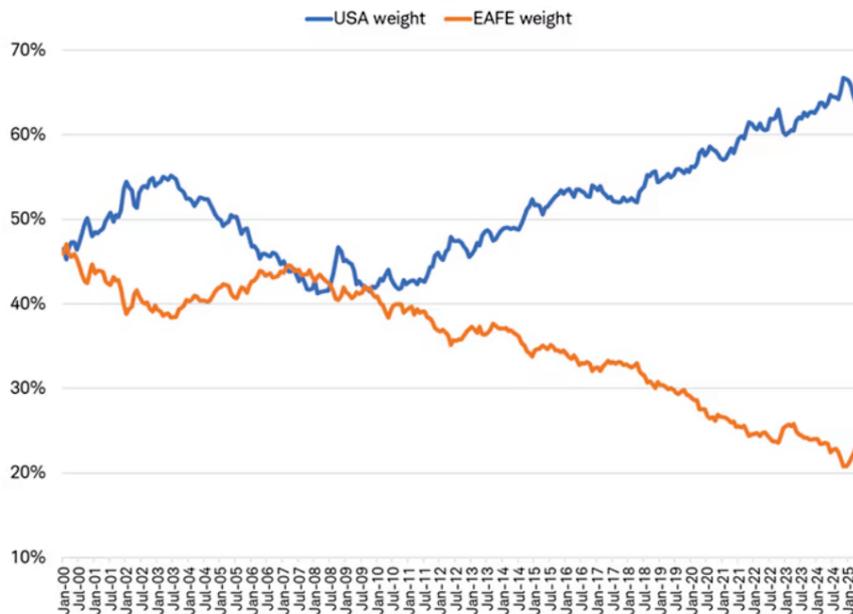


Source: BofA Global Investment Strategy, EPFR

BofA GLOBAL RESEARCH

The weight of U.S. stocks in the World Index has gone from 40% in 2007 to 65% in 2025, on the back of superior U.S. growth and high-flying U.S. Tech stocks.

U.S. weight in ACWI has increased, while EAFE has decreased



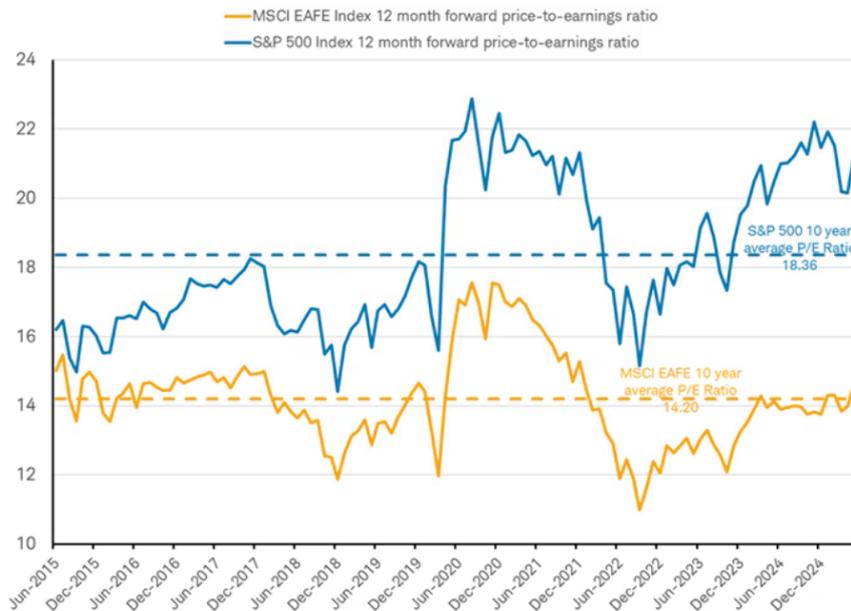
Source: Charles Schwab, MSCI, as of 5/27/2025, weights in the MSCI All Country World Index (ACWI).

Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. Past performance is no guarantee of future results.



It was this superior growth that justified valuation premiums that investors were prepared to pay for U.S. assets over those of other regions. The question going forward is, is this valuation premium still justified in an environment where the growth differential narrows.

International stocks attractively valued relative to U.S. and history



Source: Charles Schwab, FactSet, as of 5/30/2025.

Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. Forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. **Past performance is no guarantee of future results.**

While the full impact of tariffs and other Trump policies remain uncertain, we have seen economists begin to cut GDP growth forecast for 2025 and 2026. U.S. growth is currently receiving relatively larger downgrades versus its developed-market peers.

Additionally, we are beginning to see other countries taking a more proactive approach to their own economies in order to stimulate growth via positive fiscal initiatives. The Euro has been a big beneficiary as investors sell U.S. Dollars, having gained 10% YTD.



At NVest Securities, we too are analyzing our preferred weighting of U.S. assets within Portfolios. We currently hold 70% in U.S. exposure and believe a more diversified geographical mix to be preferential.



International Section

By the Numbers

Global equities continued its move higher, as tariff threats continued to de-escalate with the announcement that China and the U.S. would materially lower tariffs for 90 days. U.S. equities – S&P 500(+6.2%), Nasdaq (+9.0%) – outperformed its European counterparts – FTSE 100 (+3.3%), EU 600 (+4.0%).

In the U.S., Constellation Energy rallied (+37.0%) after Meta signed a 20-year deal to purchase nuclear power. This deal highlights how big tech are increasingly looking to secure long-term electricity supply as power demand rises, driven by AI and data center growth. NRG Energy also moved higher (+42.3%) after announcing it will acquire natural gas generation facilities.

On the other hand, UnitedHealth fell (-26.6%) after suspending its annual forecast, announcing its CEO would be stepping down immediately, as well as being subject to a DOJ investigation for possible Medicare fraud. Pharmaceuticals moved lower after Trump announced his plan to sign an executive order to reduce drug prices. Eli Lilly (-17.9%) and Becton Dickinson (-16.7%) fell after cutting full-year outlook.

In the UK, Imperial Brands fell (-8.6%) after announcing the CEO's retirement, and Auto Trader declined (-5.4%) after reporting weaker-than-expected revenue. In Europe, Burberry surged (+43.0%) on the back of better-than-expected results, with a significant improvement in sales and strong progress in their turnaround strategy.

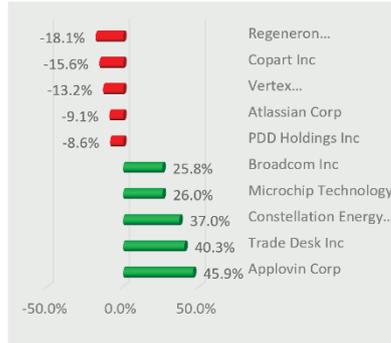
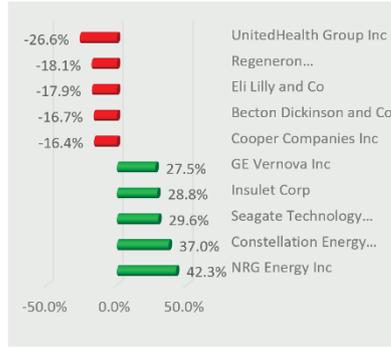
Asian equities also moved higher – Shanghai (+2.1%), Hang Seng (+5.3%). Logistics companies rallied after the China-U.S. tariff announcement, led by Hanjin Kal (+77.7%) and Orient Oversea (+24.5%). CSPC Pharmaceutical moved higher after disclosing it is in talks to develop and manufacture products valued at \$5 billion.

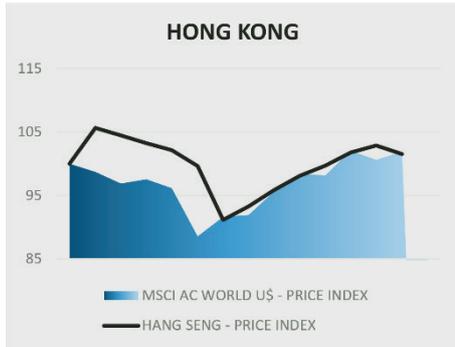


LAST QUARTER IN USD



1 MONTH UPS AND DOWNS





Earnings Season Snapshot

With first quarter earnings season now in the rearview mirror, the overall earnings picture proved to be positive. Given shifting market dynamics and ongoing tariffs concerns, investors were eager to delve into financial performance and management insights.



Tech Sector: AI and Cloud Continue to Drive Growth

Tech companies were once again standout performers, underpinned by growing demand for AI infrastructure and cloud computing. Executives across the industry reiterated their commitment to capital investment, even as macro headwinds persist. Investors responded positively to the continuation of capex plans, as tech leaders remain focused on long-term secular trends, looking beyond short-term volatility.



Microsoft surpassed analysts' expectations, with continued strength in cloud and AI services. Azure, the company's closely watched cloud computing platform, reported 33% revenue growth – an acceleration from 31% in the previous quarter – and evidence of rising demand. The company also reaffirmed its capex plans and expects momentum to continue into the next quarter. CEO Satya Nadella highlighted Microsoft's ongoing AI integration across its product portfolio, noting that they are “creating the most powerful AI platform for developers”.

Alphabet delivered double-digit revenue and profit growth, supported by strong momentum in both its cloud and advertising segments. CEO Sundar Pichai highlighted advancements in AI, across product offerings. Alphabet maintained its capital expenditure plans (\$75 billion) and announced a \$70 billion share buyback.

Apple also reported solid numbers, driven by record performance in Services and strong iPhone sales. However, tariff concerns remain in the spotlight. While Apple manufactures most iPhones in China, it has moved some production to India in an effort to mitigate tariff impacts. Additionally, CEO Tim Cook, announced a \$500 billion investment plan over the next 4 years to expand facilities in the U.S. The company also announced a massive \$100 billion buyback program.

TSMC continues to grow from strength-to-strength, with CEO C.C. Wei reiterating a bullish long-term outlook, and noting that AI demand is still very strong and outpacing supply. The company noted that AI-related orders from U.S. clients such as Apple remain exceptionally strong, and are driving expansion at its Arizona fabrication facility. Speaking at the AGM in early June, Wei highlighted the growing importance of multifunctional robots as a key focus for TSMC's future. He shared insights from discussions with industry leaders, noting the accelerating development of robotics. This shows the growing interest in robotics as the next major growth driver.

Infineon reported a better-than-expected quarter, with an improvement in its automotive and industrial segments, posting sequential revenue growth across the board. Margins outperformed expectations, and management noted that business dynamics are unfolding as predicted, with the inventory overstocking now easing. The auto segment remains supported by design wins and a healthy order backlog, particularly in China. While management continues to monitor potential tariff risks, they emphasized that there aren't any impacts currently visible in the order book. Infineon remains ahead of its peers in key technologies and continues to invest in R&D for long-term competitiveness.

Financials: Resilient Amid Market Volatility

The financial sector remained resilient in Q1, benefitting from improved trading performance, high levels of capital, as well as resilient consumer and business activity in Europe and Asia. However, executives had a cautious tone amid policy uncertainty, gradual dealmaking, and tariff volatility.

Goldman Sachs saw trading operations benefit from increased market volatility, while investment banking and M&A activity remained subdued. Political analysts anticipate that while the Trump administration is currently focused on trade policy and the tax bill, the next leg in Trump's policies is deregulation – benefitting Goldman Sachs. Unfortunately, while management remains positive about long-term prospects, CEO David Solomon acknowledged near-term challenges. He noted that clients are “concerned by the significant near-term and longer-term uncertainty that has constrained their ability to make important decisions”.



Blackstone's Assets Under Management (AUM) continue to hit record levels, now sitting at \$1.2 trillion. CEO Steve Schwarzman emphasized the firm's resilience amid market turbulence. He pointed to \$177 billion dry powder available for attractive capital deployment opportunities. Management reiterated its focus on areas benefitting from secular tailwinds such as digital infrastructure, energy, and private credit.

HSBC delivered a notable profit beat of \$9.5 billion versus an expected \$7.8 billion. They announced a \$3 billion share buyback (increase from last quarter's \$2 billion), with the bank's CET1 ratio – a measure of capital strength – remaining above target. Management emphasized strong performance in Asia, with CEO Georges Elhedery saying "there is a lot of potential for China to take measures to stimulate the economy... We're confident about the outlook for China... We believe in the foundational strength of the Chinese economy."

ING reported a strong quarter, supported by gains across the Netherlands, Germany, Spain, and Poland. The bank is well positioned to capture European growth opportunity, with management noting that "the German fiscal stimulus package and the broader European initiatives to spend more on defence, technology and infrastructure offer significant opportunities". The bank reaffirmed its capital guidance, with above-target CET1 ratio, as well as launching a €2 billion share buyback. In total, ING has bought back over €10 billion worth of shares over the last 2 years; equivalent to a quarter of its market cap.

Consumer Sector: A Balance of Challenges and Opportunities

Consumer-facing companies posted mixed but generally positive results, supported by strong brand equity and pricing power. However, tariff-related challenges present headwinds.

Disney reported better-than-expected results, with Disney+ continuing to add subscribers and the Parks business remains stable. The streaming business continues to grow, with accelerating profitability and a strong pipeline of content. Management remains optimistic about the full-year outlook – raising EPS guidance – and announced plans to open its seventh theme park in Abu Dhabi. Encouraging, CEO Bob Iger said, "our focus must always be on building for tomorrow, as much as it is on managing for today."

Philip Morris delivered a strong start to 2025, with robust growth in its reduced-risk products, particularly Zyn and IQOS. Demand for Zyn nicotine pouches continues to outpace supply, prompting the company to raise full-year volume outlook. U.S. production expansion is progressing ahead of schedule and remains a strategic priority. Management highlighted tailwinds from margin expansion, supported by higher margins of smoke-free products. The company has showcased their ability to push pricing while still seeing volumes accelerate in all areas.

Diageo's trading update showed sequential improvement, which management expects will continue through the year. All regions delivered positive price/mix, except for Asia Pacific where continued consumer downtrading and challenging market conditions impacted net sales. Management noted that Spirits imports to the U.S. were pulled forward ahead of expected tariffs, with a reversal anticipated in the next quarter. In Latin America – where they previously faced inventory overstocking – has seen a stabilization in consumer environment. Management remains focused on long-term efficiency and simplification through its recently launched \$500 million Accelerate program.

Nike posted a better-than-expected decline in revenue; after facing challenges in China as well as a lack of pipeline innovation. CEO Elliott Hill has recently joined the team and emphasized progress on the new "Win Now" strategy aimed at repositioning Nike's wholesale business and brand. He noted early positive consumer responses to new products. The company saw stabilizing inventories and reaffirmed its



outlook, although margins are expected to remain under pressure impacted by tariffs. Nike has substantial exposure to South Asia, particularly Vietnam accounting for 50% of global output. U.S. President Trump and Vietnam officials agreed to reduce tariffs shortly after Liberation Day, which saw the share price move sharply higher.

Energy Sector: Capital Discipline Amidst Lower Oil Prices

Energy companies faced softer conditions in Q1, with lower oil prices and weaker refining margins. Despite this, firms maintained capital discipline, with Shell increasing its shareholder distribution target.

Shell reported another solid quarter and announced \$3.5 billion in share buybacks over the next three months – in line with its newly increased shareholder distribution target of 40-50% of cash flow from operations (up from the previous 30-40%). A key attention point across the energy sector is the breakeven oil price of around \$60 per barrel. Producers will only increase drilling when it is profitable to do so. However, Shell is better positioned than peers with management noting on the earnings call that buybacks would continue even if oil fell to \$50, and dividends would remain intact at \$40. Shell's consistent capital discipline and resilience in a volatile macro environment, reinforces its leadership position in the sector.

Focus Now Turns to H2

With earnings season in the rearview mirror, it's important to remember that results provide a snapshot of the past and should be used as such when making forward-looking decisions. We continue to monitor macroeconomic indicators and company guidance to position portfolios for the remainder of 2025.



Local Section

By the Numbers

The ALSI rose 3.0% in May, tracking global market strength, with gains across all sectors. Industrials led the rally, up 3.9%, driven by standout performances from Blue Label (+41.7%) following the announcement of a proposed Cell C listing to unlock value, and Karooooo (+24.1%) after reporting a 33% rise in adjusted EPS on strong subscriber growth. Tiger Brands added 19.4% after reporting better-than-expected interim results and declaring a special dividend, while Prosus (+6.3%) and Naspers (+5.6%) gained following a strong sales beat from Tencent.



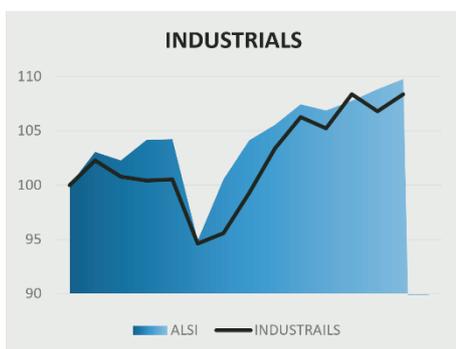
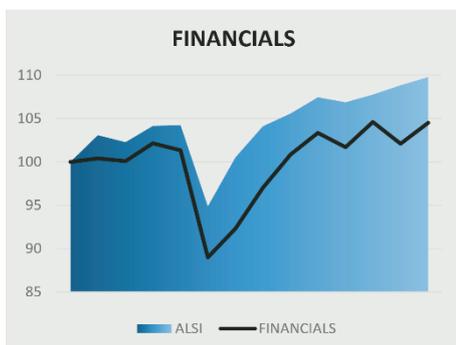
Retailers were also strong, up 3.0%, with Lewis Group jumping 21.6% on results ahead of expectations, supported by solid topline growth and a healthy credit book. Pepkor rose 8.8% on a better-than-expected interim print, with management guiding for continued momentum into the second half. Boxer, however, was the notable laggard in the space, declining 5% after its maiden post-IPO results missed expectations.

The resource sector gained 2.4%, supported by strength in PGMs and a recovery in Sasol (+26.6%) after its well-received capital markets day, where it outlined a new three-year turnaround plan. Sasol was further buoyed by confirmation of a R5bn settlement from Transnet. Sibanye-Stillwater (+27.5%), Tharisa (+22.3%), Northam (+21.6%) and Glencore (+16.5%) all benefitted from firmer metal prices, while gold counters took a breather after recent strength.

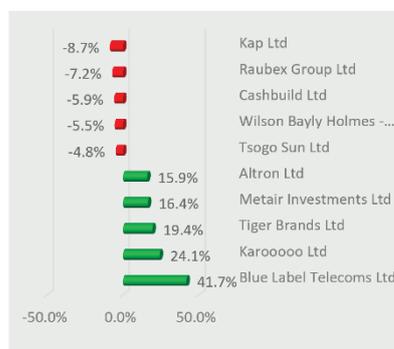
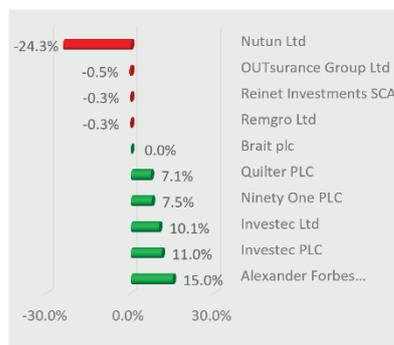
Property rose 1.9%, with results generally indicating resilient operational performance and improving fundamentals. Equites climbed 10.0% after delivering FY results in line with DPS growth guidance of 5–7%. MAS rose 7.3% after an updated offer from PKI, which increased the maximum cash consideration to €80m and improved the per-share cash offer to €1.10. Emira added 6.7% after posting earnings ahead of expectations and delivering a NAV uplift.

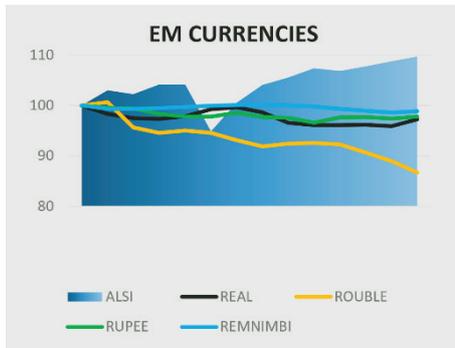
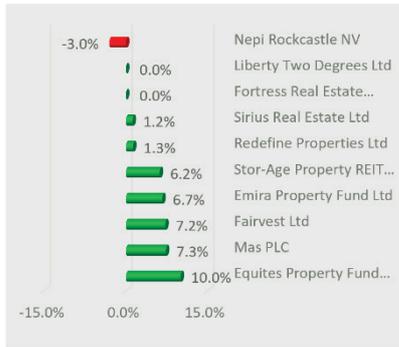
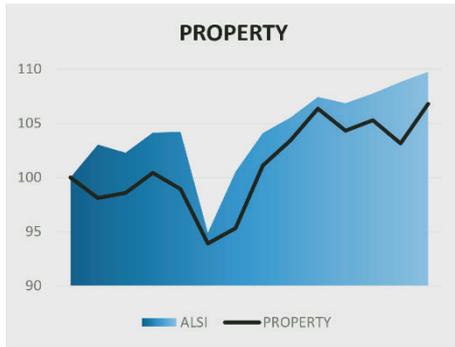
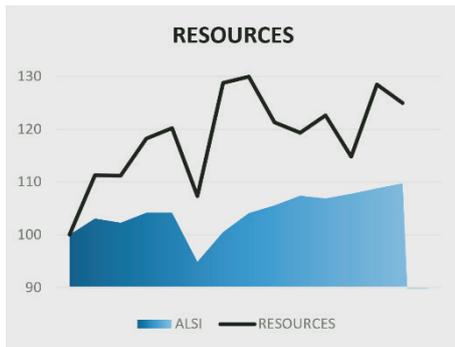
Financials gained 1.8%, led by Alexander Forbes (+15.0%) which issued a trading update guiding to HEPS growth of 10–20%. Investec climbed 11.0% following strong FY results and a constructive outlook, supported by improving credit quality, loan book growth, and positive momentum in overall business. Nutun was the worst performer in the sector, down 24.3%, after posting continued losses and announcing a suspension of dividends until its restructuring is complete.

LAST QUARTER IN ZAR



1 MONTH UPS AND DOWNS





Global Uncertainty Weighs on South Africa's Growth Prospects

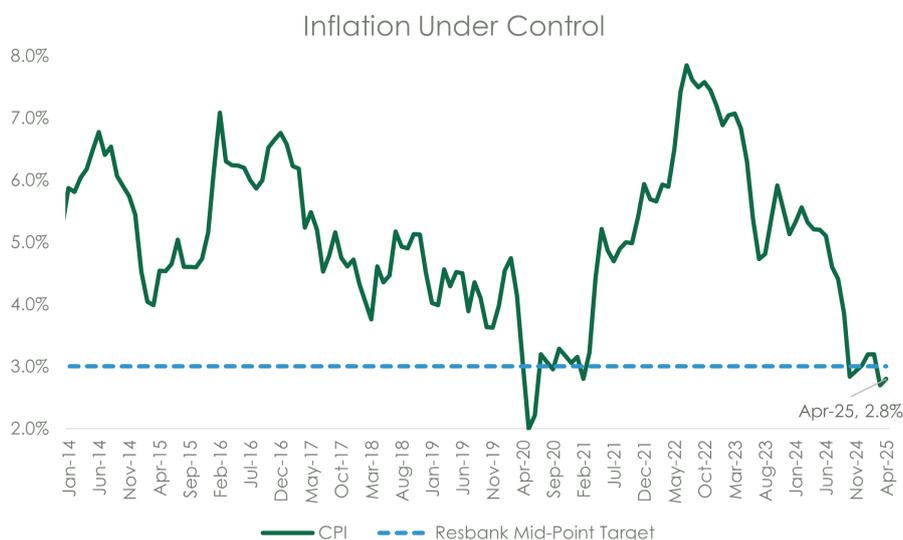
U.S. President Donald Trump's tariff stand-off has cast a long shadow over global growth expectations. His unpredictable leadership style continues to inject risk and uncertainty into global equity markets. In the wake of this instability, gold has soared as investors seek safety in traditional havens, pushing prices to record highs. Meanwhile, back home in South Africa, we remain in search of a noticeable change in our economic climate as investors question South Africa's growth trajectory following a soft start to the year.



As we move into the second half of the year, South Africa's economic outlook continues to underwhelm, struggling to unlock the latent potential many hoped would begin to surface. Earlier "blue-sky" forecasts of 3.0% GDP growth in the coming years now seem increasingly far-fetched. The tariff induced slowdown of the global macroeconomic climate is casting even more gloom over a local landscape already clouded by uncertainty.

First-quarter economic data failed to ignite much investor enthusiasm, despite a few encouraging developments. Parliament finally passed the long-awaited "SA Budget 3.0," reversing the planned VAT hike and maintaining the stability of the Government of National Unity (GNU). On the consumer front, there are signs of resilience: retail sales remain solid, household debt levels are healthy, vehicle sales show promise and several major retailers have posted strong results, often exceeding market expectations. Yet, the buoyant optimism that characterised the end of 2024 appears to have faded.

Inflation remains well contained, and May's 25 basis point cut by the South African Reserve Bank (SARB) was warmly welcomed. Hopes for further easing are growing. Still, the economy continues to drift, stuck in the shallows.



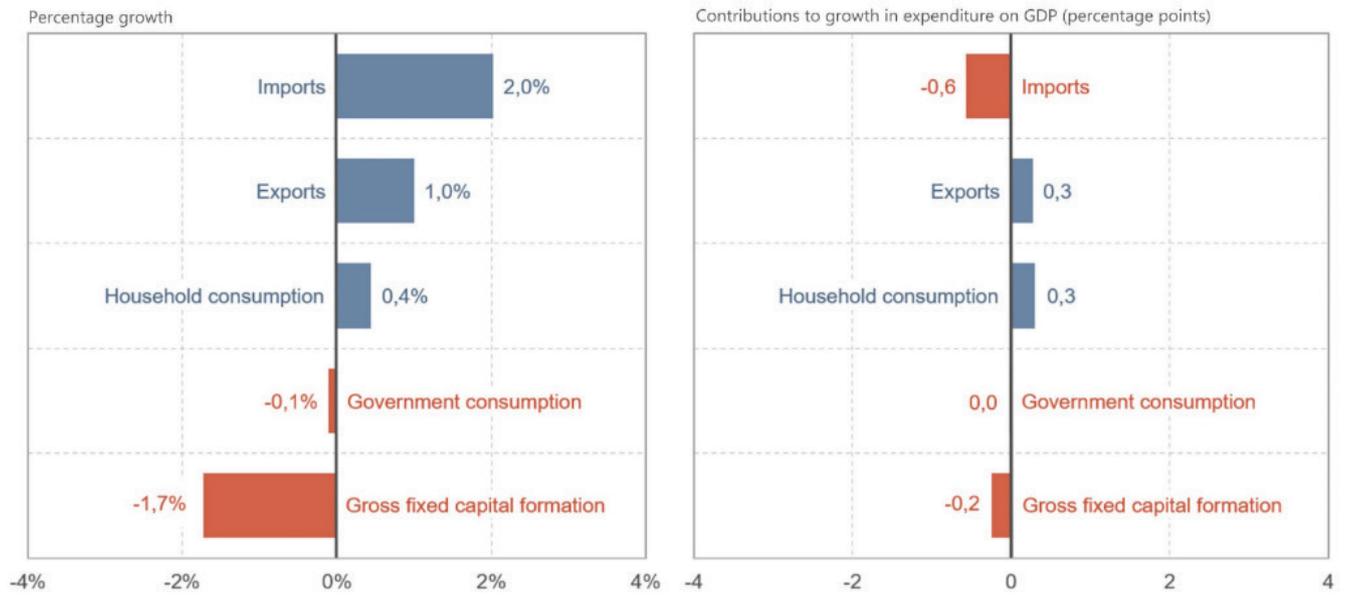
Business confidence, too, has slipped. The second-quarter index dropped 5 points to 40, reflecting growing concerns around international trade tensions and persistent domestic logistical bottlenecks. This lack of clarity has businesses reluctant to commit to capital expenditure—investment that is critical if we hope to lift GDP growth to more sustainable levels.

South Africa's latest GDP figures tell a sobering story. First-quarter growth edged up just 0.1% quarter-on-quarter, with agriculture providing the only meaningful contribution. Most other sectors offered little support or worse. From an expenditure perspective, while consumer spending offers some stability, gross fixed capital formation remains alarmingly weak. Without a notable uptick in investment, economic momentum will remain elusive.



Figure 2: Expenditure on GDP: Three components increased in Q1: 2025

Component growth rates and contributions. Q1: 2025 compared with Q4: 2024

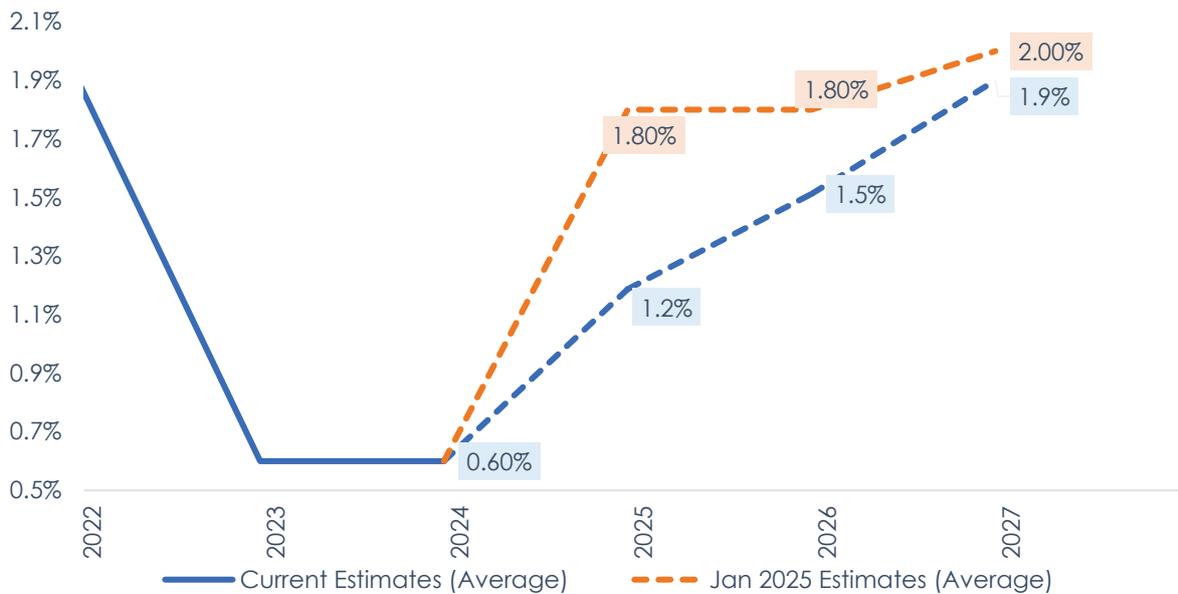


Change in inventories: -R9,0 billion (contribution: 0,3 of a percentage point) Constant 2015 prices, seasonally adjusted Source: Gross domestic product (GDP), First quarter 2025



In light of this, full-year GDP forecasts are now being revised lower, as both domestic challenges and global headwinds dim the prospects of a meaningful recovery. Economists and market participants alike are tempering expectations, acknowledging that the path to growth will likely be slower and more difficult than initially hoped.

SA GDP Forecast



The turmoil abroad, particularly in the U.S., has created a global environment marked by elevated uncertainty and low investor confidence. On the local bourse investors remain cautious given the macro



climate and tempering of our GDP expectations. It is clear, the second half of the year will need a significant shift to reignite market enthusiasm.

In response to an increasingly challenging backdrop, we view a more defensive stance may be necessary relative to our view at the beginning of the year, preferring stable, high-quality companies over more cyclical names.

Anglo American Platinum Demerger from Anglo American Cheat Sheet

The demerger of Anglo American Platinum (AMS) from Anglo American Plc (AGL) took place towards the end of the month. This corporate event impacted a large majority of our clients and to assist in any questions you may have, we have put together a cheat sheet.

The details include:

- AGL shareholders will receive 110 AMS for every 1075 AGL shares held
- AMS will change its name from Anglo American Platinum to Valterra Platinum
- Following the demerger, AGL had a share consolidation where shareholders will receive 96 new shares for every 109 previously held
 - This is to provide consistency to the AGL share price
- DATES
 - Last day to trade Friday 30th May 2025
 - Demerger and share consolidation Monday 2nd June 2025
 - Fractional entitlements will be paid by no later than Friday 13th June 2025

The demerger saw our managed shareholders receive less than 1% in Valterra Platinum (assuming their weight is in line with the model). In our opinion, at less than 1% we either need to add to the position or sell it.

At present we are not bullish on PGM miners. The recovery in EU vehicle sales in addition to the potential impact of Trump Tariffs on US vehicle sales being the main concerns to the PGM basket price. Further, there are concerns around the potential demerger cost impact for Valterra in addition to the strength of its balance sheet in a lower PGM price environment without the historical backing of Anglo American. As such, it is our inclination to sell out the Valterra Platinum position at this stage.

Investec (INP) – Strong South African Core and a UK Business Yet to Rerate

We continue to see value in Investec, particularly when comparing the current share price to our estimates. Based on a Group ROE of 15% and a 14% cost of equity, we arrive at a target price of **R151.74**, implying a total return of **19.2%** from the 6 June closing price. This return is underpinned by a healthy **7.5% dividend yield** and **11.8% capital upside**.

Investec continues to deliver steady growth, tight cost control, and solid returns to shareholders. Importantly, we believe the market is still not fully recognising the value of the UK business, which creates



further upside potential. With a strong balance sheet, robust performance in South Africa, and clear momentum in the UK, we remain positive on the investment case.

Valuation Breakdown: Still Room to Run

Our conviction is supported by a closer look at the valuation split, which highlights the strength of the South African core and the significant headroom for rerating in the UK business:

- **South Africa** remains the group's engine, delivering an 18% ROE. Using a price-to-book (P/B) multiple of **1.57x**, we value the SA business at **R83.84**.
- For the **UK**, we apply a conservative **P/B of 0.68x** (aligned with the sector's 10-year average), which yields a value of **R58.37**.
- However, based on the current share price, the market is only attributing **R43.41** to the UK business — implying a **0.50x P/B and 8.1% ROE**. This is a steep discount, especially given that UK banks are currently trading closer to **1.0x P/B**, well above their historical average.

What Could Unlock More Value?

We see a few key catalysts that could help close this valuation gap — particularly in the UK:

- **Stronger cross-sell execution:** Investec is shifting gears in the UK, with a greater focus on providing transactional services to its corporate clients. This should help grow non-interest revenue (NIR), a more stable and higher-margin income stream.
- **Credit quality improving:** Even as interest rates begin to fall, the quality of the loan book remains robust. This means fewer bad debts and lower credit losses — a direct boost to earnings.
- **Supportive monetary policy:** We are a year, and four cuts, into a cutting cycle in the UK. The impact of these will begin to show up positively on loan growth and quality, helping to boost earnings growth. Markets are pricing in a further two cuts over the next 12 months.

FY25 Results and Outlook: Solid Delivery, Positive Momentum

Investec delivered a strong set of results, with earnings underpinned by solid revenue growth, good cost control, and stable credit performance. The Group achieved a return on equity (ROE) of 13.9%, supported by double-digit returns in both South Africa (18.3%) and the UK (11.2%). A 6% increase in the full-year dividend reflects the Group's healthy capital position. Looking ahead, management remains constructive on the outlook, targeting ~14% ROE for FY26 and continuing to deepen client relationships across both core markets.

Conclusion

The U.S. economy faces a confluence of challenges in the latter half of 2025. Tariff-induced inflation, fiscal imbalances, and signs of labour market cooling contribute to an environment of heightened uncertainty and instability. With stocks nearing all-time highs driven mainly by tariff rates edging lower, a stable labour market and positive earnings to growth, all eyes will be on the medium-term impact on growth given still significant policy uncertainty.

