



Wood for the Trees

July 2025

Mid-Year Outlook: We remain optimistic

Wood for the Trees takes a slightly different turn this month. In this edition we take a look back at our 2025 forecasts we made at the beginning of the year and adjust our outlook as we head into year end, from both an offshore and local perspective.



International Section

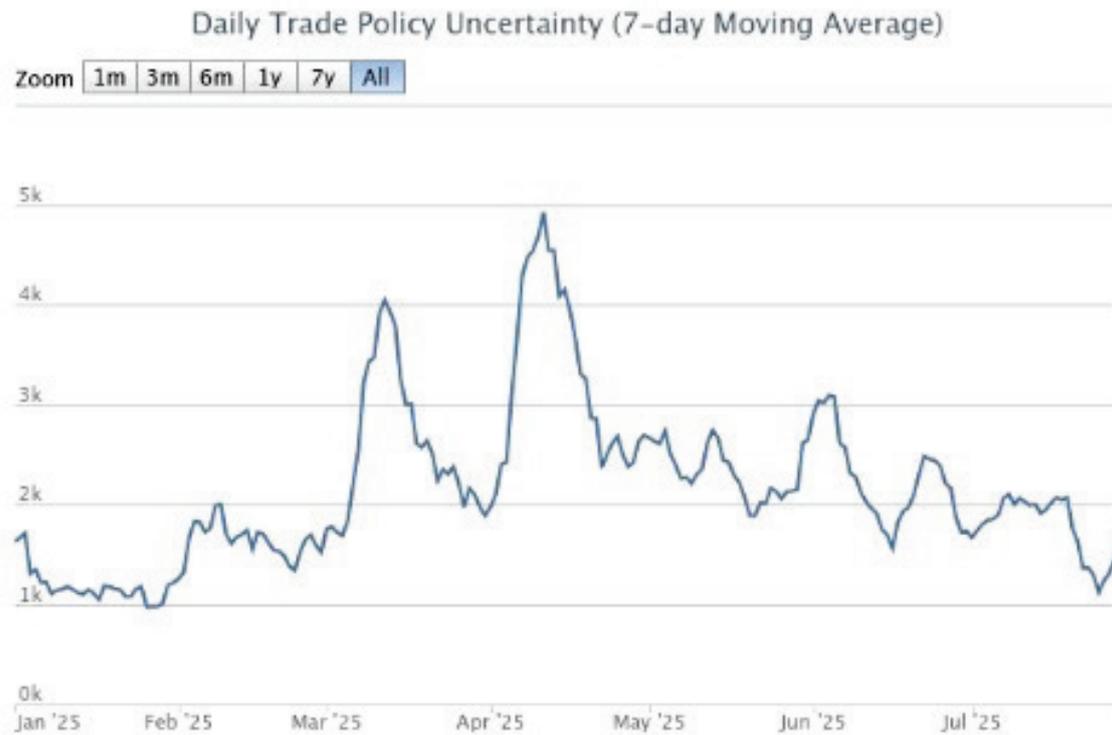
Global Mid-Year Update

As we pass through the halfway point of the year, it's time to look back at our expectations at the start of 2025, assess how these have unfolded and how we see things progressing for the remainder of the year.

As we entered 2025, we made the case that global equity markets were poised to deliver a respectable 13-15% return for the year; mainly driven by mid-teens earnings growth versus the valuation-driven returns we saw over the previous two years. We also suggested the U.S. would remain the leading contributor to global returns maintaining its "No Alternative to The U.S." growth premium. On the political front, we expected Trump's market-friendly policies in the form of tax cuts and deregulation would outweigh any tariff-related pessimism.

If we had to describe the first half of 2025 in two words, it would be "political uncertainty". President Trump has ridden roughshod over almost every major issue. As the Political Uncertainty index began rising in February and peaked on April 2nd – coined "Liberation Day" – we saw both the Dollar and U.S. equity markets come under pressure.





This heightened period of uncertainty, accompanied by fiscal stimulus from European countries through increased infrastructure and military spending, began to test the “No Alternative to the U.S.” thesis. The Stoxx 600 handsomely outperformed the S&P 500 in the first 3 months of the year, up until April 1st.

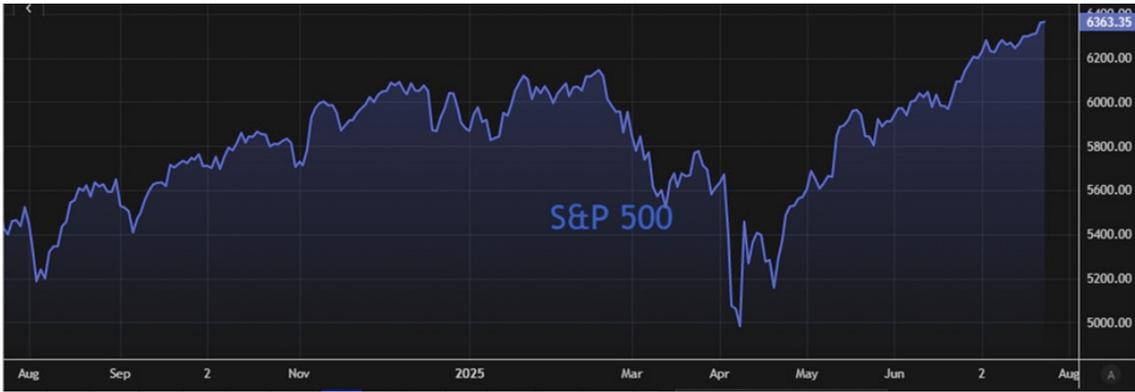


This leadership changed on April 7th when President Trump granted countries a 90-day reprieve from the imposition of his harsh trade tariffs, to allow for negotiations. This marked the point of maximum uncertainty. From that point forward, optimism increased as market participants began to price in more palatable tariff rates; limiting the potential damage to global GDP.

Despite all the trade and political volatility year-to-date, the S&P 500 has continued to break through new all-time highs, having quickly recovered from its Liberation Day sell-off.

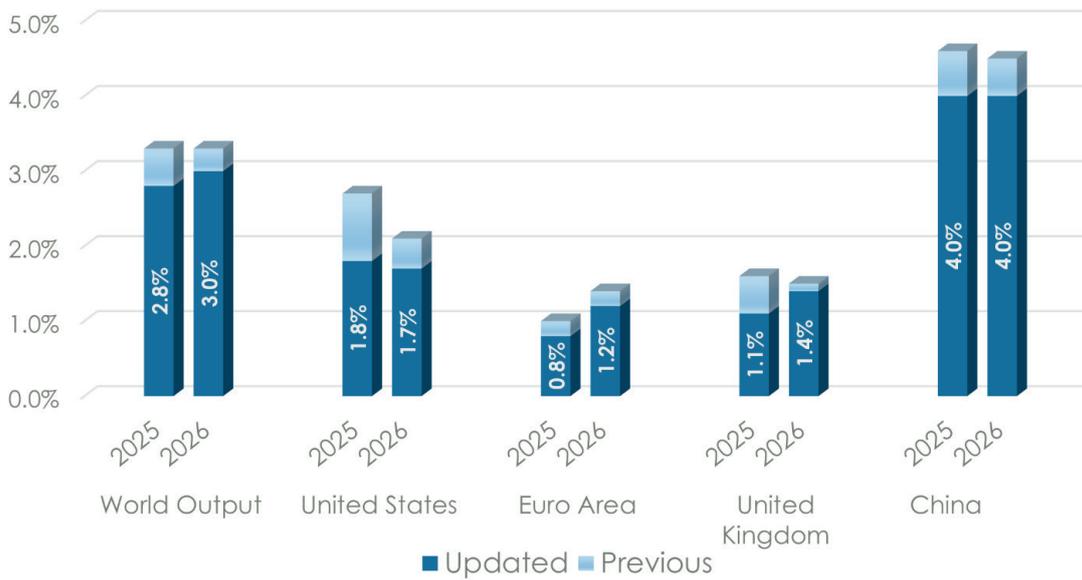
If you just took an off-the-grid, delightful six-month sabbatical and looked at the beginning and mid-year financial snapshots, you could easily come to the conclusion that you missed very little – and, if anything, the excitement of our constructive new year's outlook remains intact.





The introduction of U.S. tariffs has weighed on global GDP growth forecasts. In its first report after Liberation Day (May outlook review), the IMF suggested that U.S. growth would slow to 1.8% down from 2.7%, and Global GDP growth would slow to 2.8% from 3.2% – predominately due to the impact of tariffs.

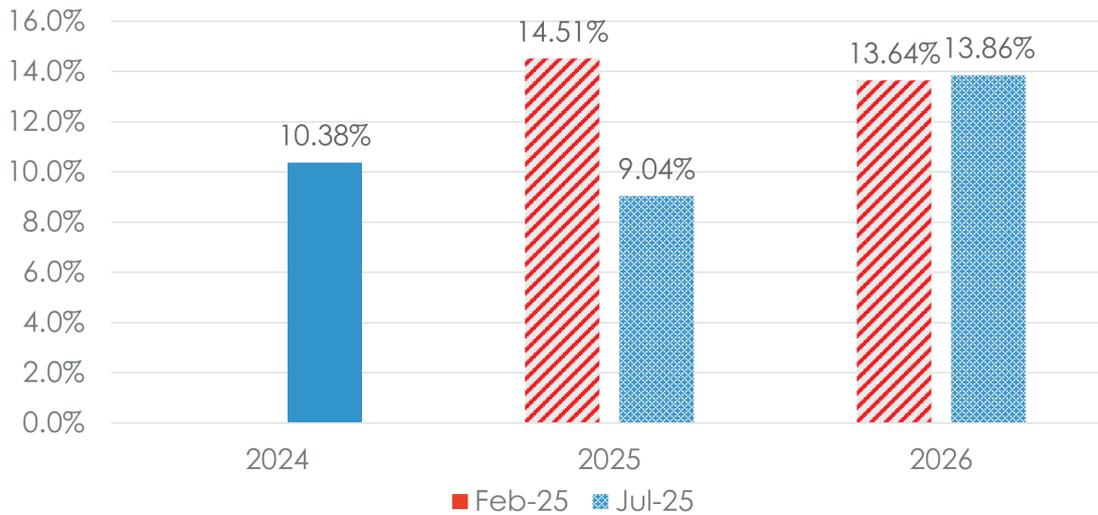
IMF GDP Forecasts



In conjunction with the slowing GDP growth forecasts, we have seen estimates for 2025 earnings growth for S&P 500 companies slow from 14.5% in February 2025 to 8.8% currently.



S&P 500 Y/Y Earnings Growth



With the S&P 500 at all-time highs and earnings estimates coming down, most of the performance is being driven again by multiple expansion. The S&P 500 is currently trading at 22x earnings; 10% higher than the 5-year average.

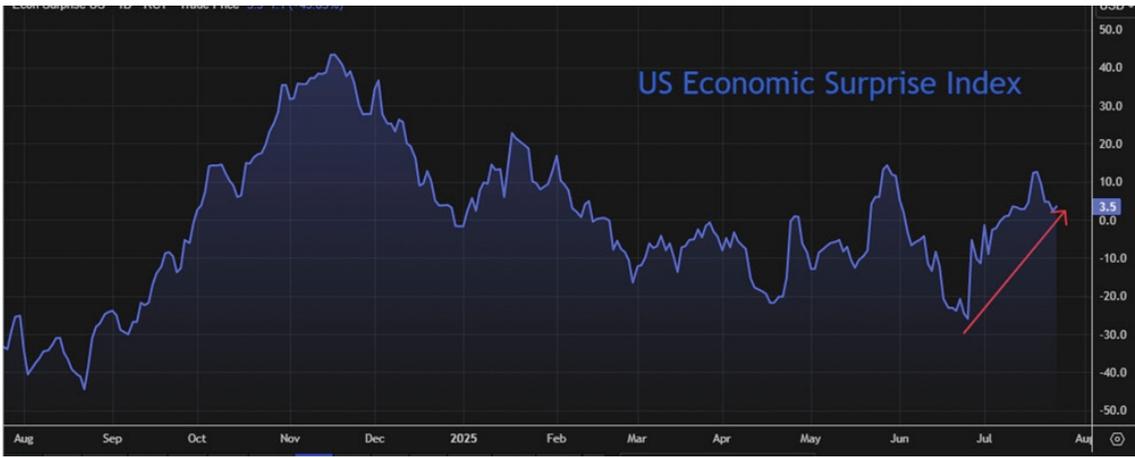
S&P 500 Forward 12-Month P/E Ratio: 10 Years (Source: FactSet)



As we move toward the end of the year, the most important things to consider for stock performance are: Firstly, have we passed the point of maximum pessimism? And secondly, are expectations beginning to improve from here?

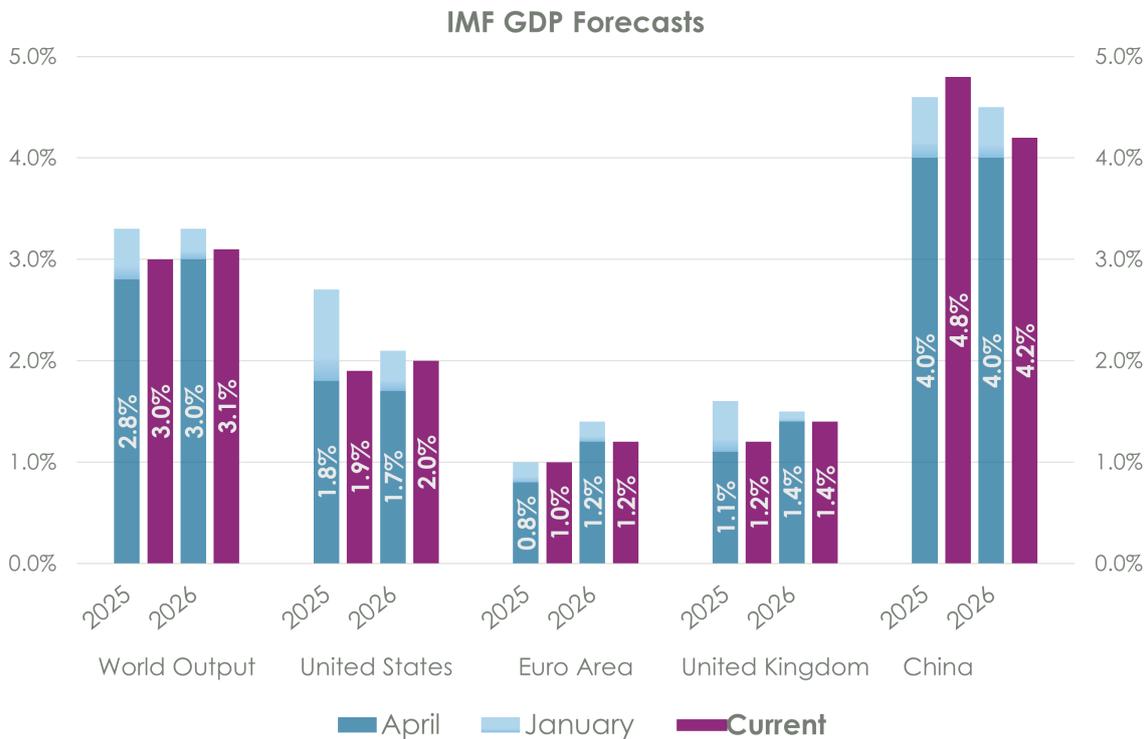
Looking at the Economic Surprise Index – which tracks how actual economic data is performing compared to forecasts – it's clear that economists have become a little too pessimistic with recent data exceeding expectations.





There is a market adage that goes **“never bet against the U.S. consumer”**. And as things stand currently, the U.S. consumer seems to be in a good position to withstand any tariff-related price increases, without having to pull back on purchases. This will be key to the U.S. maintaining its healthy labour market. The U.S. Fed has indicated that they believe inflation is more of a risk than a weakening labour market. With the rates markets only indicating one, possibly two, interest rate cuts this year.

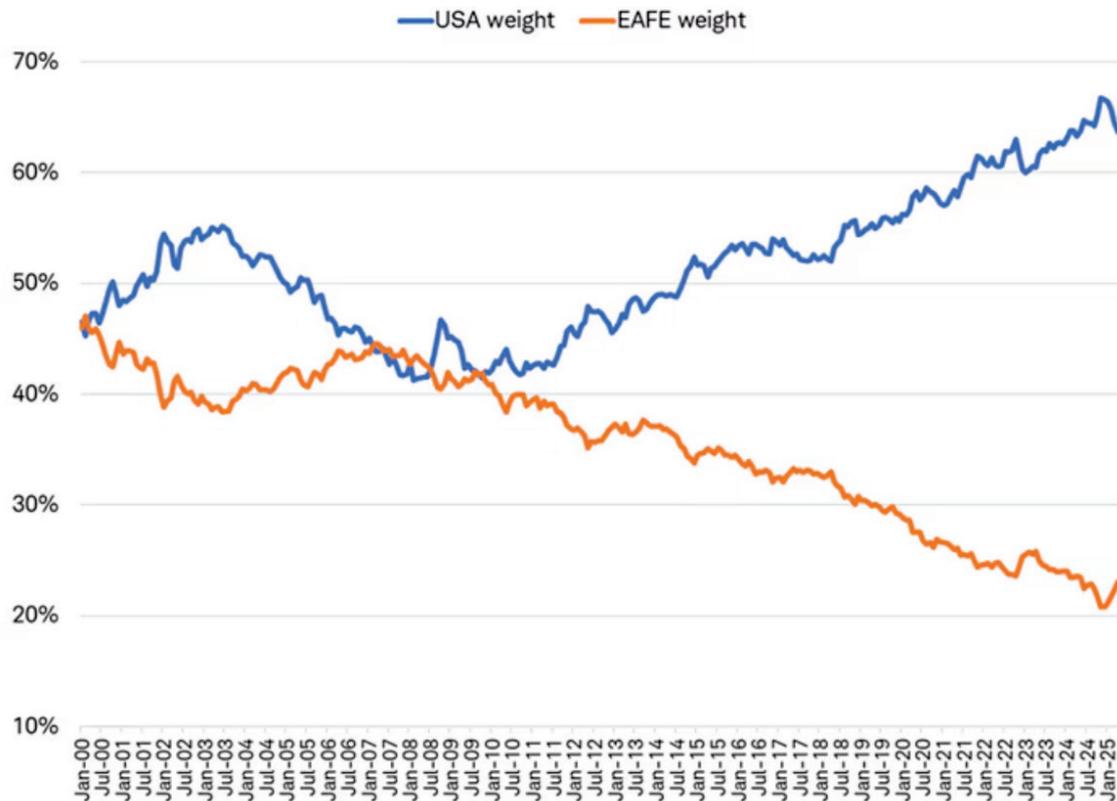
In a scenario where we see upgrades to growth forecasts and a consumer that is undeterred by tariff-related price creep, we believe the U.S. equity markets can continue to deliver positive performance into year-end. As we are writing this update, the IMF has just upgraded its Global GDP forecasts based on, **“stronger-than-expected front-loading in anticipation of higher tariffs; lower average effective U.S. tariff rates than announced in April; an improvement in financial conditions, including due to a weaker U.S. dollar; and fiscal expansion in some major jurisdictions”**.



Companies with strong pricing power and the ability to manage costs will outperform. The secular growth in AI-related companies shows no signs of slowing, and we expect them to maintain their market leadership.

As we discussed in the [last WFTI](#), we see a structural shift underway that promises to drive upside in European stocks over the foreseeable future. Global investors have found themselves overexposed to U.S. equities due to years of U.S. outperformance and superior growth dynamics versus the EU.

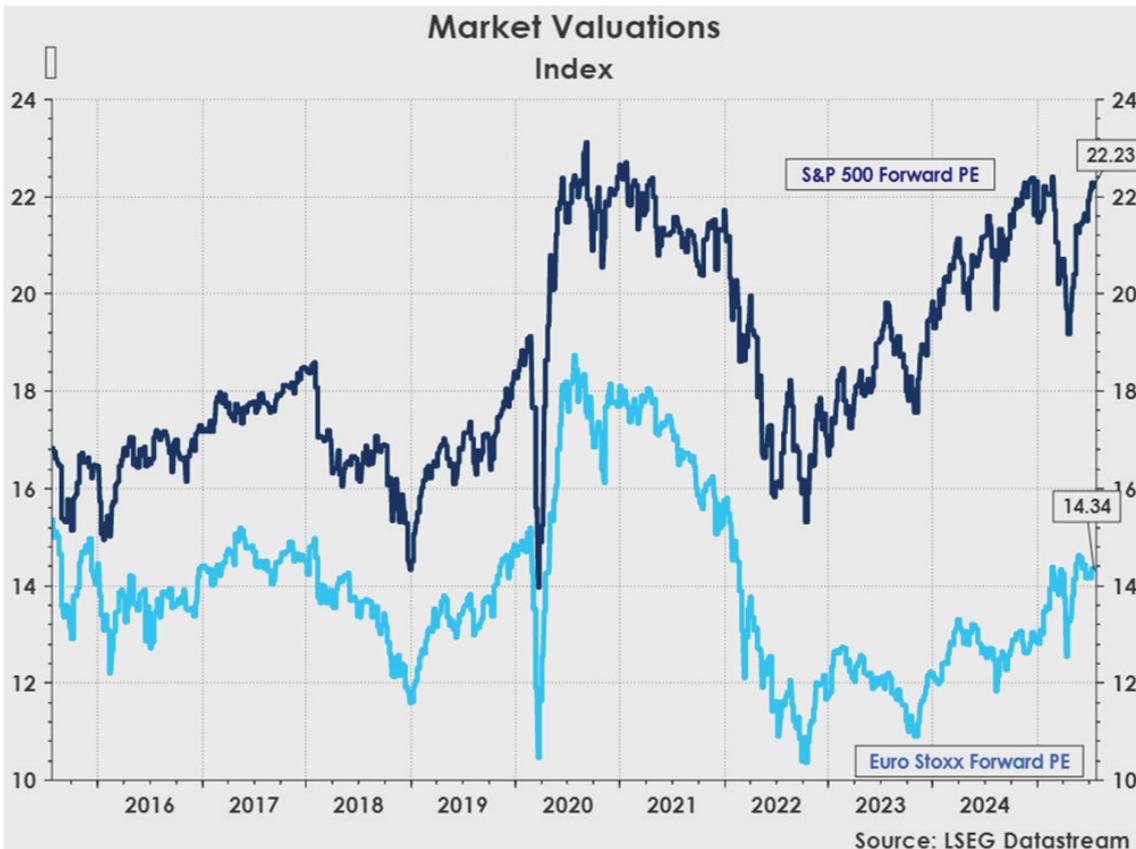




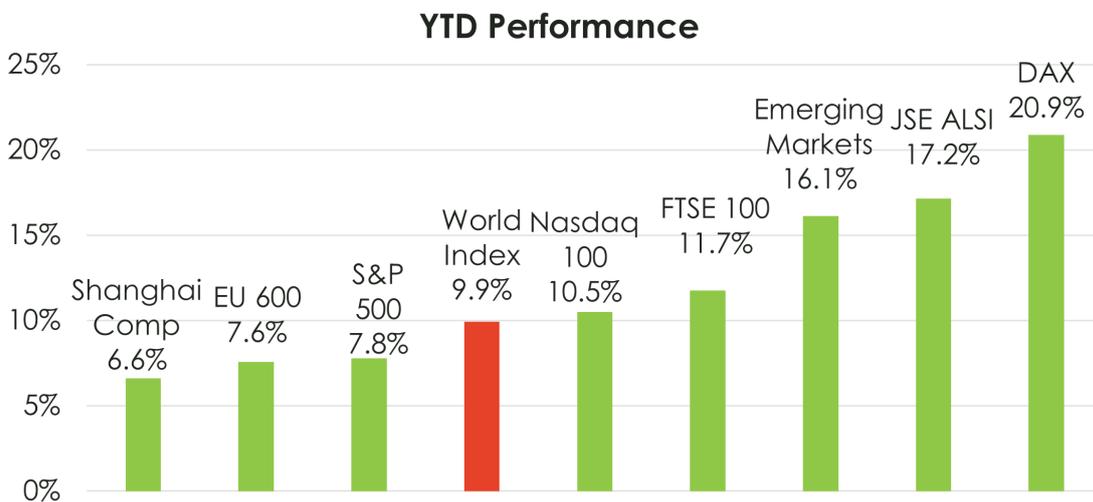
However, with the onset of President Trump's second term and his 'beggar-thy-neighbour' strategy, has made investors conscious of the risks of being too exposed to the U.S.

The potential for EU countries to increase their GDP growth via previously mentioned fiscal stimulus efforts, coupled with the relatively more attractive valuations, has provided the catalyst that global investors needed to add to European exposure in their portfolios. In line with this shift, we have recently increased our European weighting within the portfolio by 7.5%.





Our expected return for 2025 of 13-15% has already almost been achieved in the first half of the year. The World Index is up 9.9% year-to-date, with Germany (DAX) and Emerging Markets being the standout performers.



When you step back, take a non-emotional deep breath and look at the reality of where we are today versus six months ago, it's clear that the financial world today is just fine. Despite patches of overvaluation, we continue to see compelling opportunities for outperformance both in and outside the U.S. Looking towards the end of the year, we believe the prospect of achieving the top end of our January forecast of 15% is achievable within our portfolio of selected stocks.



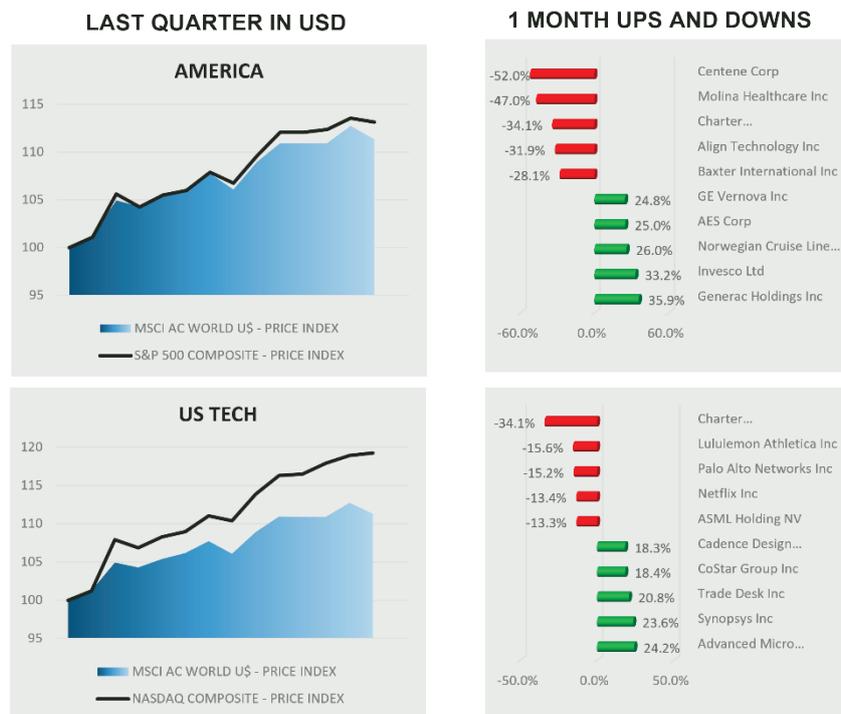
By the Numbers

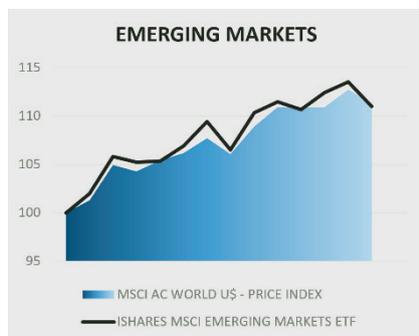
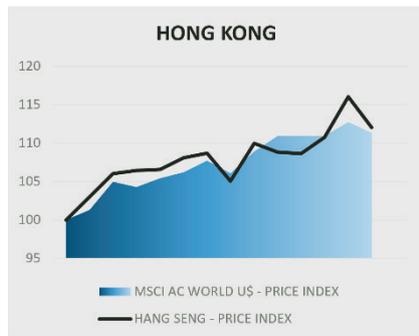
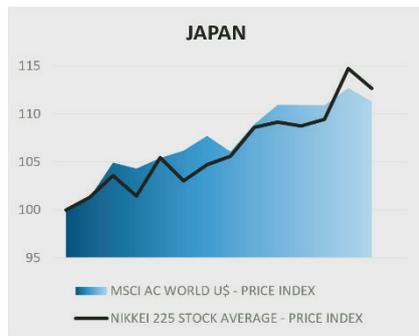
Global equities moved higher in July, with both the S&P 500 (+2.2%, +7.8% YTD) and Nasdaq (+3.7%, +9.4% YTD) reaching all-time highs and outperforming their European peers – EU 600 (+0.9%, +7.6% YTD) and DAX (+0.7%, +20.9% YTD). U.S. gains were supported by strong corporate earnings, positive economic data, and easing trade tensions. However, on the last day of the month, equities lost some ground after President Trump reignited concerns with new tariff announcements.

Big Tech was among some of the outperformers, with Alphabet (+8.7%), Microsoft (+7.3%), and Meta (+4.8%) all reporting better-than-expected results and forecasting solid AI capex spend. On the other hand, Netflix (-13.4%) moved lower with analysts concerned about its stretched valuation given its recent share price rally. Lululemon also moved lower (-15.6%) on the back of analyst downgrades, based on elevated levels of markdowns and cautious consumer spending.

In Europe, Novo Nordisk fell (-28.5%) after the company lowered its full-year guidance, citing slower U.S. growth for its GLP-1 medication and increased competition. In the UK, British American Tobacco gained (+16.7%) after reporting better-than-expected results and issuing solid full-year guidance.

In China, pharmaceuticals and medical research stocks rallied driven by breakthroughs in pharma development and licensing deals. Namely, Akeso (+68.1%), Sino Biopharmaceutical (+43.0%), WuXi AppTec (+34.3%), CSPC Pharmaceutical (+28.8%), and WuXi Biologics (+25.5%).







Local Section

Local Mid-Year Update

As we head into the second half of the year, we take stock of the current situation versus our expectations from the beginning of the year and reassess where the local markets will take us into year end.

Our Original Outlook

Our initial thesis for 2025 was underpinned by a step change from the sub 1% GDP growth SA has seen through the last decade to 2% growth, as confidence returned to the SA economy.

A favourable election outcome and the peaceful establishment of a coalition government, material progress on our structural reform program, a surge in spending due to the introduction of the two-pot system, as well as the beginning of a rate-cutting cycle, all provided a favourable tailwind to drive GDP growth higher.

The risks were always going to be centered on politics. The potential for heightened volatility stemming from the re-election of President Trump, while locally, the potential for a collapse in the GNU was always going to hang over the market. Additionally, slower-than-expected progress on structural reforms slowing growth potential.

Coming off the back of low-double-digit total returns from local equities in the aftermath of the election, driven predominantly by a re-rating of multiples, with earnings revisions remaining flat, our expectation was for an improvement in business and consumer sentiment to boost earnings, heading into 2025. This would be the key driver for the next leg higher, helping to achieve low-to-mid-teens returns in 2025.

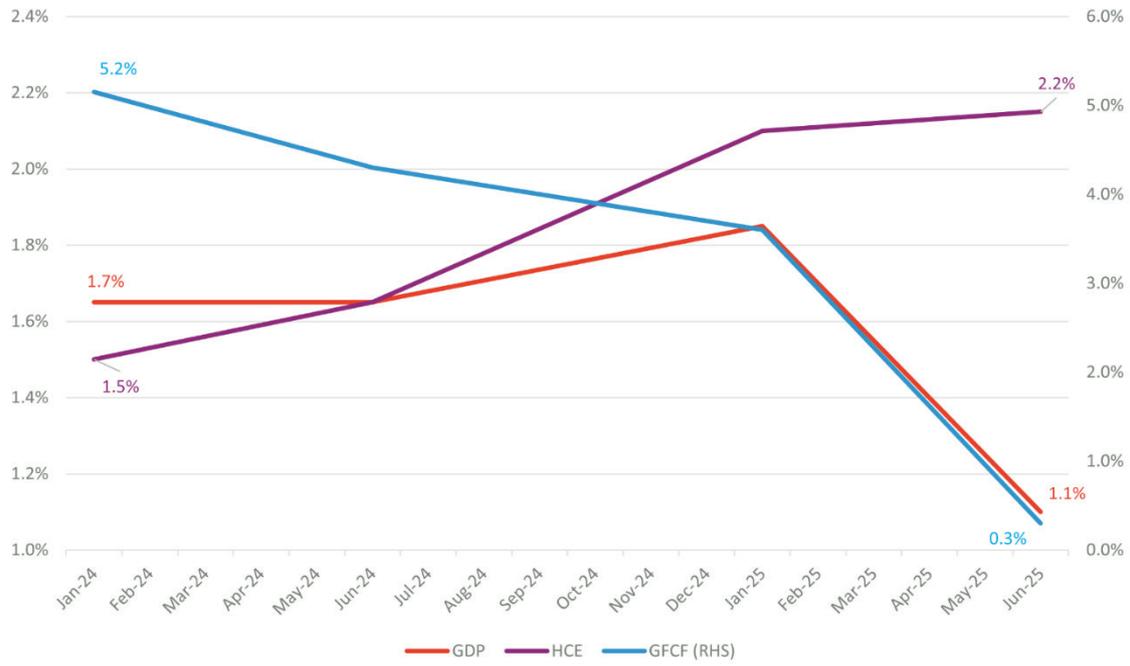
What Has Unfolded in the First Half?

The first half of the year has been dominated by Trump's assault on global trade. The heightened political uncertainty sapped global investor confidence, with South Africa following suite. South Africa has done itself no favours, having experienced a host of self-inflicted challenges, with the GNU coming under immense pressure due to internal issues; the most impactful of those being the budget deadlock in February.

Within this climate of uncertainty, economists have significantly downwardly revised their forecasts of SA GDP growth in 2025 from 1.7% to 1.1%; mainly driven by a fall-off in capital investment expectations.

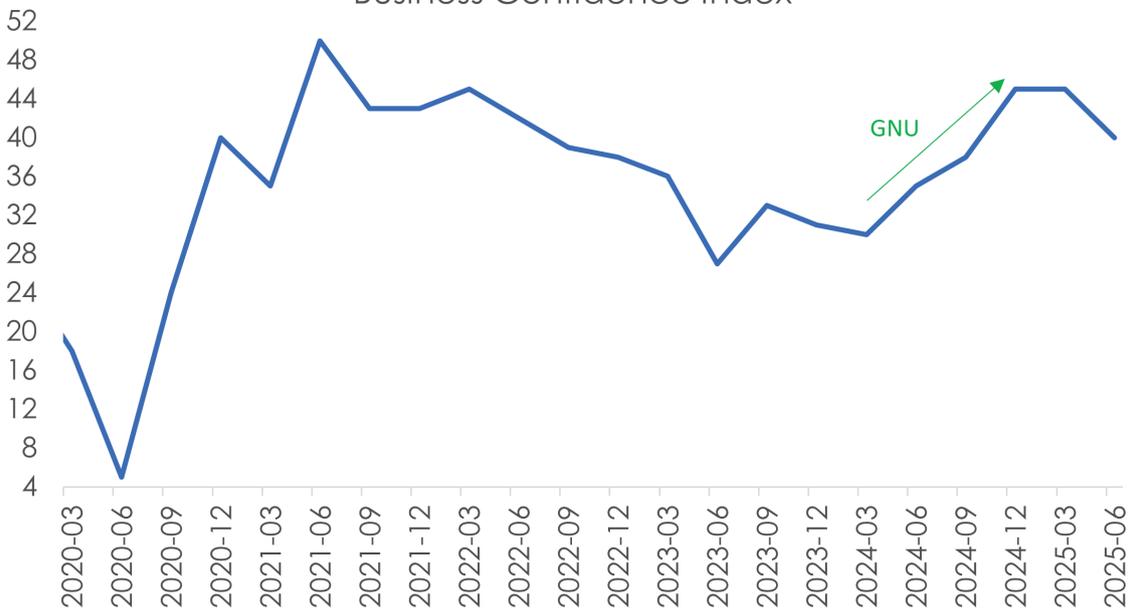


Average 2025 GDP Growth Forecasts



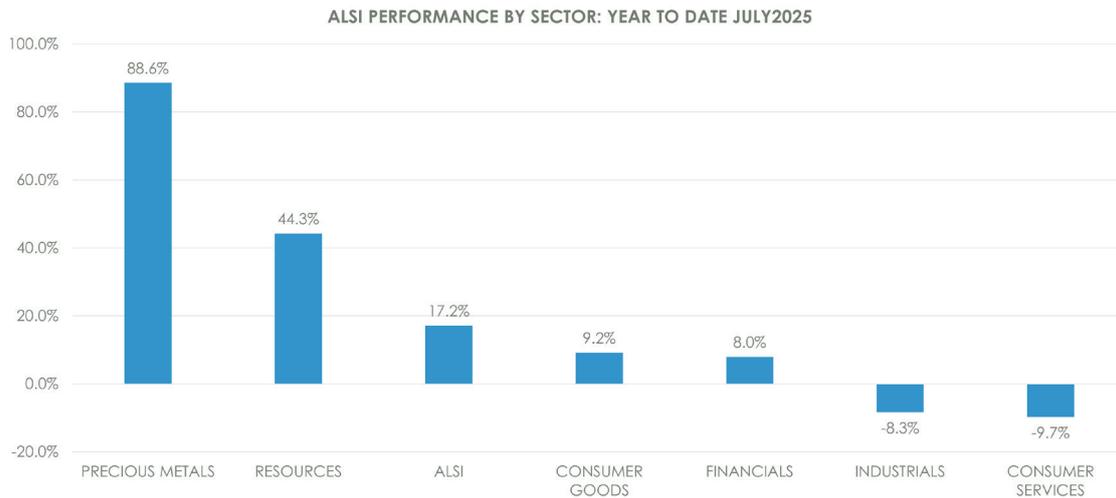
Business and consumer confidence have led the growth expectation slowdown, both falling sharply in the early part of the year. Consumer sentiment has rebounded slightly at the end of the first half, though both measures remain below long-term averages. Improving sentiment will be a key underpin to any bullish outlook for South Africa.

Business Confidence Index



In this environment of elevated uncertainty, muted local growth, suppressed confidence, and a weaker U.S. dollar, the JSE ALSI has returned 17.2% as of the end of July, driven almost exclusively by gold and platinum miners (up 88%). Over the reviewed period, the Rand strengthened by 3.4%, against the U.S. Dollar, while our bonds returned 9.6% as our sovereign yields continued to compress.



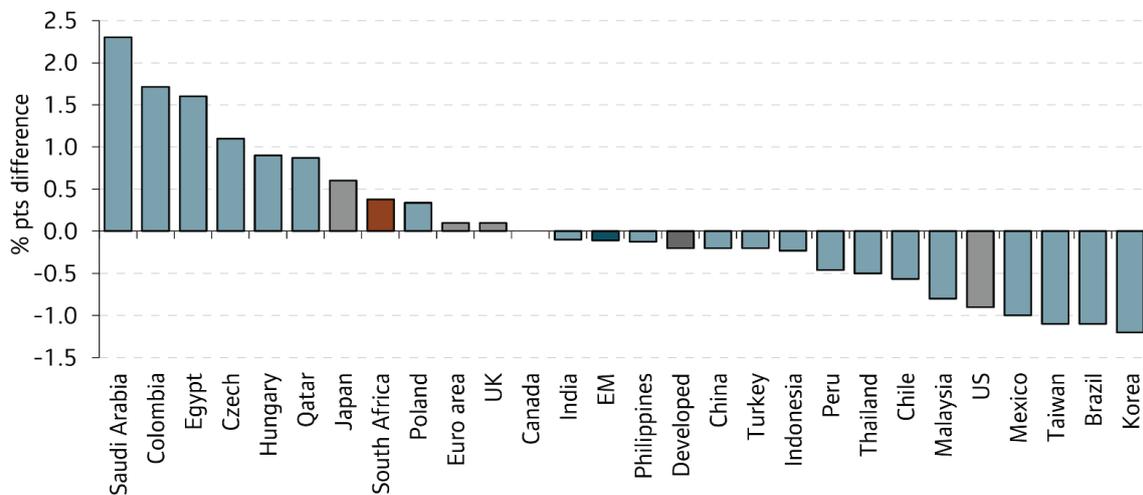


What Are We Seeing for the Rest of the Year?

Despite the GDP downgrades we have seen throughout the year, we remain sanguine about the prospects for the South African economy, with several positive developments setting the stage for optimism in the second half of the year.

South Africa remains one of a handful of countries forecast to deliver an acceleration in both GDP and earnings growth.

Global real GDP growth difference: 2025E vs 2024

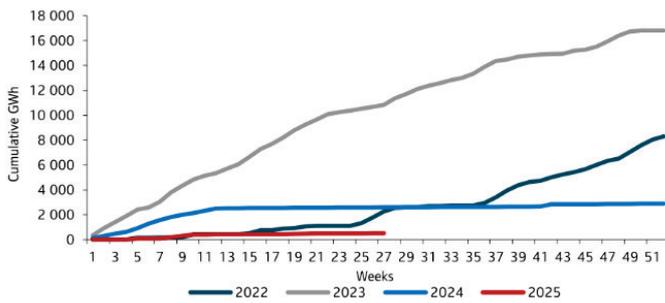


Source: IMF, SBG Securities analysis

From an infrastructure reform perspective, we continue to experience improvements within the electricity and transport sectors. While we still have a way to go, we are in a better position than we have previously seen for many years. This steady improvement provides the building blocks that are essential if SA is to reach its growth potential.

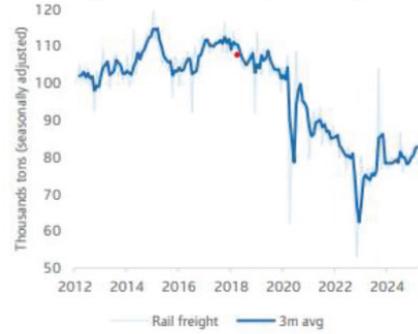


SA cumulative loadshedding



Source: Eskom, SBG Securities analysis

Rail freight volumes and port delays



Source: Standard Bank Research

Progress continues on Operation Vulindlela Phase Two, which is focused on water infrastructure and municipal reform.

Commercial lending is on a meaningful upward trend so far this year, having experienced a sharp downtrend since late 2022. Treasury's Budget Facility for Infrastructure is gaining momentum, driven by an operational overhaul which has increased the speed and scale of bankable projects in the pipeline. We expect this to contribute to an uptick in business confidence as the year progresses – positive for stocks.

PSCE YoY % change



Turning our attention to the consumer, they continue to display resilience. Retail sales continue to muddle through at a mid-single-digit pace, despite stagnant employment data. In the short term, analysts expect consumers to benefit from tailwinds in the form of solid real wage growth, lower food inflation, lower interest rate, lower fuel prices and further two-pot pension withdrawals, which could provide an incremental R47.5bn in consumer disposable income — equating to 3% of formal retail spend.

South African Consumer Tailwinds 2H25	
Measure	Impact
Real Wage Growth	R29bn
Interest Rate Cuts	R18bn
Fuel Price Cuts	R23bn

Lastly, political risk in SA is set to improve, in light of the following developments:

- GNU durability: Despite a tumultuous year, they have survived, and we see this as the base case scenario for the rest of the election cycle.

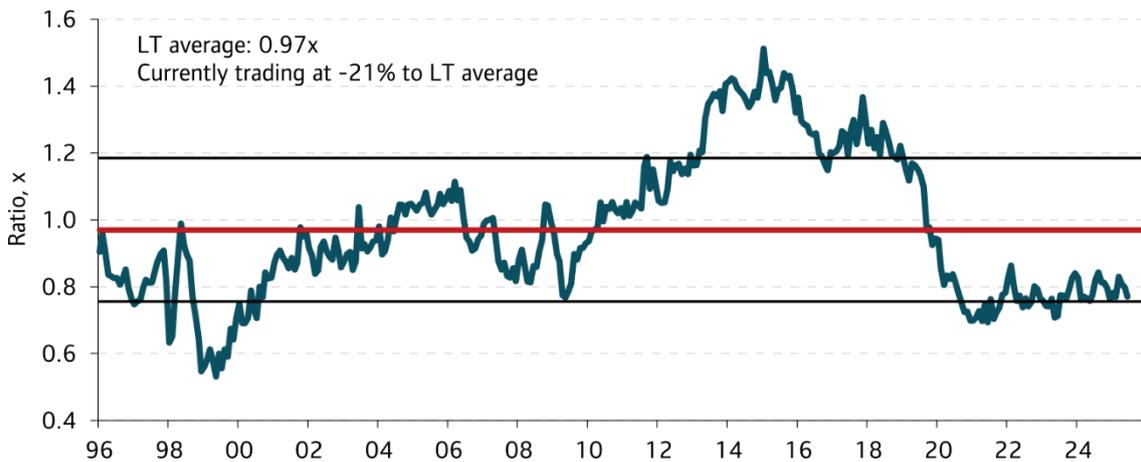


- Fiscus is looking healthier than it has in years, with government indebtedness expected to improve.
- Removal from the Financial Action Task Force grey-list in October of this year.

Valuations Remain Attractive

SA equities continue to trade at a significant discount relative to emerging markets. The MSCI SA index is currently trading at a 21% discount to its long-term average versus the MSCI Emerging Markets Index.

MSCI South Africa vs MSCI Emerging Markets: 12 month forward P/E ratio



Source: MSCI, FactSet, SBG Securities analysis

On a sector basis, all sectors within the JSE ALSI are trading at discounts to their long-term averages.



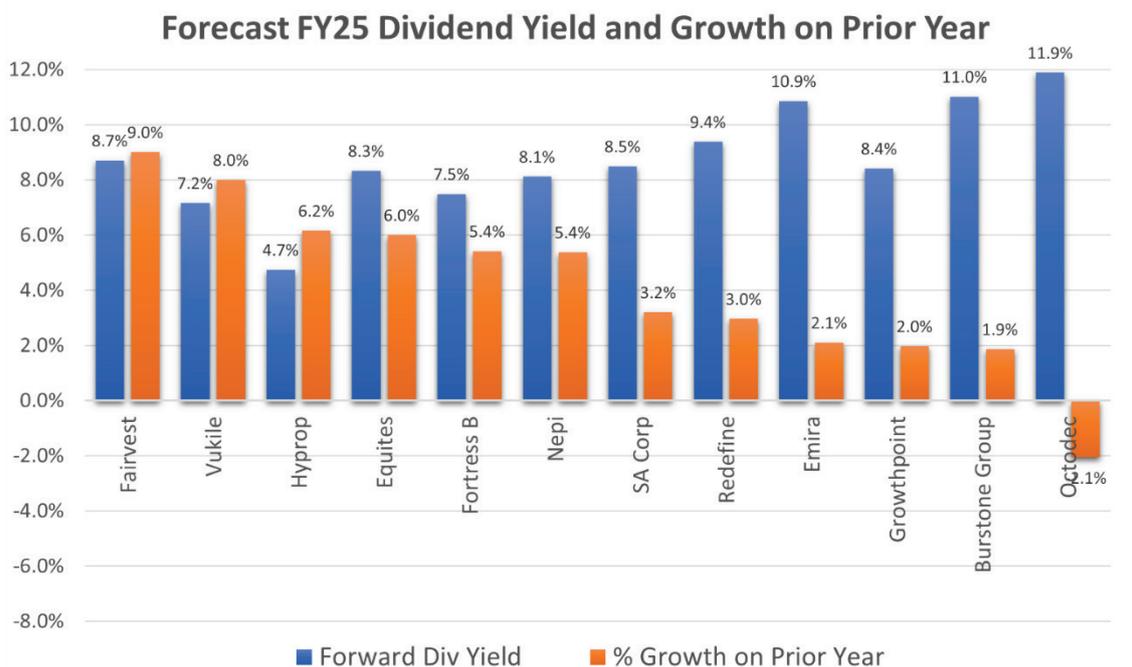
While valuations have derated – reflecting sentiment in the real economy – market analysts' expectations for earnings and fair values have remained unchanged; suggesting the SA market remains in oversold territory, with scope for material upside.

Credit quality is improving across the lending sector, giving banks scope to ease lending standards and increase loan growth. The retailers stand to benefit from a more favourable consumer environment. Forecast growth across SA market sectors remains in double-digit territory.



ALSI Earnings Growth Forecast		
Sector	2025	2026
Consumer Facing	10.0%	11.1%
Industrials	14.7%	11.7%
Financials	13.6%	10.3%
ALSI (ex Materials)	12.3%	11.0%

SA property market continues to move from strength to strength after the dark days of COVID. REITs are looking poised for another strong performance, with ever improving balance sheets, exceptional portfolio management, and a return to distribution growth. We expect high-single-digit to low-double-digit yields, along with distribution growth and large discounts to NAV to continue to drive performance.



Ever Present Risks

Even though we believe we have passed the point of maximum political uncertainty; the geopolitical environment continues to pose the greatest risk heading into the second half of the year. South Africa remains in Trump's crosshairs which could negatively affect sentiment and the performance of our assets. Locally, prospects of the GNU falling apart will also continue to niggle at investor confidence.

Any further softening in economic growth prospects could impact investors willingness to add to risk-assets; hampering any outperformance for South African equities, as investors go in search of growth opportunities in competing emerging markets.

Constructive on SA Equities

It is our view that conditions exist for a continuation of positive performance for local equities. The combination of short-term consumer tailwinds and the emergence of a strong upward trend in commercial lending can underpin economic growth. As suggested, we are now past the point of maximum political uncertainty, both local and offshore, and therefore expect a much more stable



climate conducive to good returns heading into year end. We do not believe this is reflected in current valuations.

With SA earnings growth expectations still solid, we continue to believe the NVest General Equity portfolio is poised to deliver mid-teens growth for the year; having delivered 7% in the first half.

From a portfolio construction perspective, we have shifted from a more cyclical positioning at the beginning of the year to a focus on quality, particularly among the SA retailers, where fundamentals and defensible, idiosyncratic growth stands out. SA banks continue to look attractive from a valuation and operational perspective. We remain conservatively positioned in basic materials and maintain our exposure to the NVest Global Equity AMC to provide access to growth in offshore markets.

Looking at the medium term, the real upside potential for SA equities will materialize if the government / private sector can successfully implement planned infrastructure projects that will drive SA GDP growth above 2%. Combined with progress on the reform agenda and an improving fiscal situation, we believe the risk premium currently being priced into SA equities will recede; offering the potential for significant upside to SA assets.

By the Numbers

July was a historic month for the ALSI, crossing the 100,000-point mark for the first time before retreating to close 2.2% higher. Resources continued to dominate, rallying 5.1%, followed by solid gains in Property (+4.4%). Financials (+1.4%) and Industrials (+1.1%) held firm, while Retailers lagged, ending the month down 2.4%.

Sasol led the resource pack, surging 19.0% supported by oil prices. Further, the company released a solid trading update, guiding for over 20% year-on-year EPS growth and reaffirming disciplined cost and balance sheet management — bolstering confidence in its turnaround strategy. Sibanye (+18.9%), Pan African (+15.8%) and Northam (+9.4%) continued to benefit from rising commodity prices.

Property stocks posted broad-based gains as investor sentiment improved, supported by continued signs of fundamental recovery. Emira (+9.9%), Resilient (+8.7%), Hyprop (+7.4%), and Growthpoint (+6.6%) all delivered solid returns. MAS P.L.C. was the notable laggard, down 6.3% amid a flurry of acquisition interest, with a bidding war emerging for a controlling stake. Hyprop ultimately withdrew its offer on 25 July.

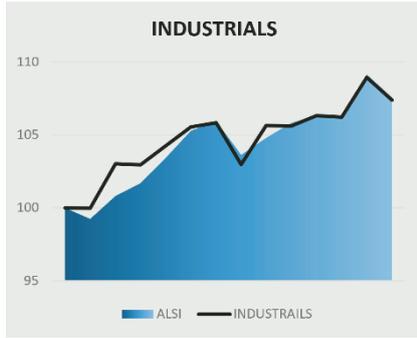
Financials were supported by gains in PSG (+6.1%), Old Mutual (+5.8%) and Remgro (+5.2%). While Reinet declined 8.6% following the announcement of its planned exit from PIGC, expected to close in early 2026. The stock was further pressured by a Q1 FY26 update showing a 4.6% quarter-over-quarter decline in net asset value.

In Industrials, Adcock Ingram was the standout, soaring 36.9% after receiving a firm offer from India-listed Natco Pharma to acquire the business at R75 per share. Blue Label rose 14.3% on positive restructuring progress, while Telkom gained 12.1% as momentum continued. On the downside, Anheuser-Busch fell 12.4% despite beating EPS expectations, as concerns lingered over soft volumes in Brazil and China. Richemont dropped 10.6%, despite a solid update, as sentiment turned cautious.

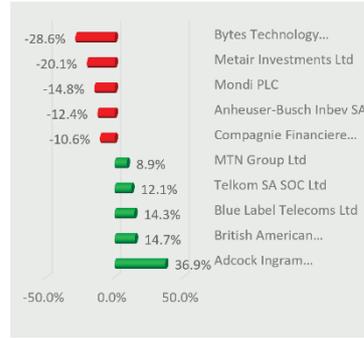
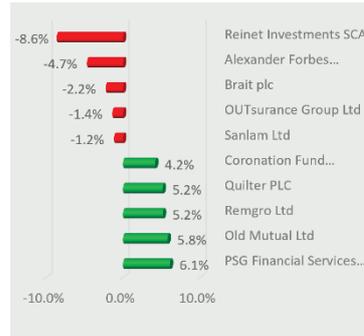
Retailers remained under pressure amid weak sentiment towards SA Inc. TFG and Mr Price both declined 4.6%, while Woolworths lost 3.4%. Boxer bucked the trend, rising 4.1% after delivering a strong 17-week sales update, beating expectations and tracking within guidance.

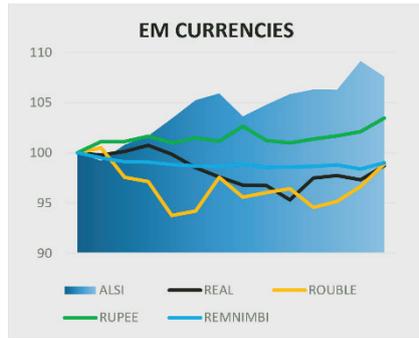
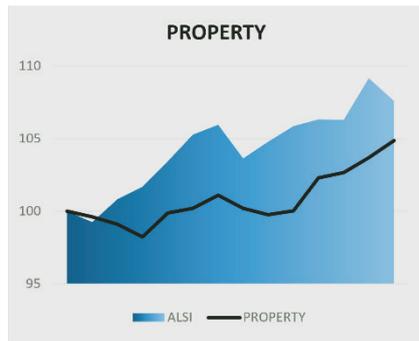


LAST QUARTER IN ZAR



1 MONTH UPS AND DOWNS





Conclusion

It is easy to let emotions – particularly when it comes to politics and policy – roil the markets in the short term, but eventually common sense and fundamentals win. There does seem to be an “Invisible Hand” that pushes our system away from the extremes, even when all momentum appears to be on one side. The most difficult part lies in maintaining calmness and perspective in moments when the noise caused by pessimism is deafening.

Quality companies with exceptional management teams adapt and succeed in a variety of market conditions.... **The show must go on!**

