Monthly Market Report

May 2025

CARTESIAN CAPITAL

Index	Open	Close	% Change
JSE FTSE ALSI Top 40	84,225.99	86553.42	2.76%
S&P 500	5,569.06	5911.69	6.15%
Nasdaq Composite	17,446.34	19113.77	9.56%
Dow Jones Industrial	40,669.36	42270.07	3.94%
FTSE 100	8,494.85	8772.38	3.27%
Nikkei	36,045.38	37965.1	5.33%
Hang Seng	22,119.41	23289.77	5.29%
DAX	22,496.98	23997.48	6.67%
CAC 40	7,593.87	7751.89	2.08%

Commodity	Open	Close	% Change
Gold	3,288.71	3289.25	0.02%
Platinum	969.96	1057.84	9.06%
Iron Ore	96.31	95.64	-0.70%
Brent Crude Oil	63.12	63.9	1.24%

Currency	Open	Close	% Change
USD-ZAR	18.6057	18.0027	-3.24%
EUR-ZAR	21.0746	20.4121	-3.14%
GBP-ZAR	24.9162	24.2204	-2.79%

Source: Bloomberg

Local and Global Macro Economic Perspectives

South Africa

26.1029°S, 28.0576°E

The South African equity market followed global markets higher in May, with the JSE FTSE All-Share index gaining 3% MoM. The rally was led by the Indi-25, up 3.9% MoM, driven by Naspers and Prosus, and the Resi-10, up 2.2% MoM, supported mainly by platinum group metal counters.

South African Reserve Bank (SARB) governor Lesetja Kganyago announced a 25 basis point cut to the repo rate, bringing it down to 7.25% following the May Monetary Policy Committee (MPC) meeting. Five of the six MPC members supported the 25bp cut, while one voted for a deeper 50bp reduction. April's inflation reading of 2.8% was mainly due to lower fuel prices, while core inflation also remained subdued at 3%. The SARB revised this year's inflation forecast down to 3.2% from 3.6% as a result of a stronger rand and lower global oil prices which are expected to offset the impact of the increased fuel levy announced in Budget 3.0. The prior inflation forecast also assumed a VAT increase which is now off the table. First-quarter GDP figures are still pending, but early data from sectors like mining and manufacturing has been disappointing, and unemployment has risen. The SARB has revised its GDP forecast lower, now expecting 1.2% growth in 2025, rising gradually to 1.8% by 2027.

Finance Minister Enoch Godongwana re-tabled the national budget on the 21st of May for the third time this year. The revised budget includes some spending reductions and acknowledges lower revenue expectations due to downgraded GDP growth forecasts. Unlike the previous two proposals, which faced pushback over a proposed VAT hike that was eventually scrapped, this latest version has already received approval from both the Cabinet and Government of National Unity (GNU) partners and is expected to pass through Parliament without resistance. For the first time in three years, the fuel levy will rise, and public debt is projected to climb to 77.4% of GDP in the 2025/26 fiscal year.

The S&P Global South Africa PMI climbed to 50.0 in April from 48.3 in March, marking a return to stability after four consecutive months of contraction. The uptick was supported by modest gains in output, new orders, and employment, with some businesses attributing the improvement to stronger demand and effective marketing. Growth was primarily driven by the services sector, while manufacturing remained under pressure with a drop in production. However, business confidence declined, with expectations for future output dropping to the second-lowest level in 19 months due to ongoing political and economic uncertainty.

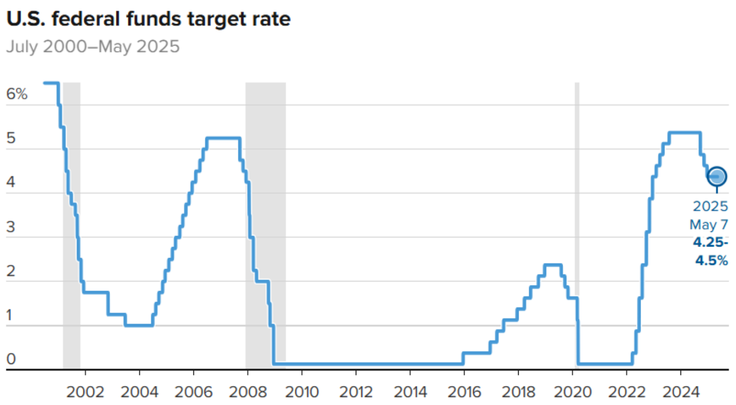
South Africa's official unemployment rate rose to 32.9% in the first quarter, up 1 percentage point from the previous quarter, bringing total employment to 16.8 million. The expanded unemployment rate, which includes discouraged work-seekers, rose 1.2 percentage points to 43.1%. Provincially, only the Western Cape (+49,000), Gauteng (+9,000), and Free State (+4,000) saw job growth, while the largest employment declines were seen in KwaZulu-Natal (-104,000) and the Eastern Cape (-83,000).

United States

40° 42' 24.7572" N, 74° 0' 40.554" W

U.S. equity markets delivered robust gains in May 2025, marking their strongest monthly performance since late 2023. The Nasdaq Composite Index led the rally with a 9.6% surge, driven by substantial advances in semiconductor and AI-focused stocks, including Nvidia and Broadcom. The S&P 500 climbed 6.15%, while the Dow Jones Industrial Average added 3.94%.

In May, the Federal Reserve left interest rates unchanged at 4.25% to 4.5%, citing growing uncertainty around the Trump administration's trade policies and their impact on an already slowing economy. While the Fed said the economy is still in decent shape, it flagged rising risks to both employment and inflation, hinting at the possibility of a stagflation-like environment. Fed Chair Jerome Powell acknowledged the pressure from tariffs, which are complicating the Fed's balancing act. First-quarter GDP fell 0.2%, partly due to a surge in imports ahead of the new trade measures. Still, the Fed struck a patient tone, with no sign of an imminent rate cut.



(Source: Federal Reserve Bank of New York)

Inflation showed further signs of easing in May, with core PCE cooling to 2.5% year-on-year—its lowest level since early 2021. The monthly increase of just 0.1% suggests that underlying price pressures are gradually subsiding, even as the Fed maintains a cautious stance. While this reinforces the disinflation trend, officials remain wary of declaring victory too soon, especially given lingering uncertainty around tariffs and services inflation.

The US labour market remained firm in April, with employers adding 177,000 jobs and the unemployment rate holding steady at 4.2%. While the headline figures suggest continued resilience, there are signs that momentum is slowing beneath the surface. Hiring was led by healthcare and transportation, while manufacturing shed jobs amid a broader contraction in output. Wage growth eased to 0.2% month-on-month, pointing to a gradual cooling in labour demand.

The US private sector lost momentum in April, with the S&P Global Composite PMI edging down to 50.6 from 53.5 in March. The Services PMI slipped to 50.8 (from 54.4), while Manufacturing remained steady at 50.2. Though both sectors remained marginally in expansion territory, the data signalled a noticeable slowdown at the start of Q2. Business confidence deteriorated, with respondents citing rising price pressures and economic uncertainty as headwinds.

United Kingdom

51°30'32.39" N, 0°05'33.90" E

The UK's blue-chip FTSE 100 Index followed its global peers higher, gaining 3.27% MoM.

The UK economy delivered a stronger-than-expected performance in the first quarter of 2025, with GDP rising by 0.7% QoQ between January and March—the fastest pace in a year and a marked improvement from the 0.1% growth recorded in the previous quarter. The expansion surpassed both the Bank of England and market expectations of 0.6%, offering a short-term boost to the government and finance minister Rachel Reeves. March alone saw unexpected monthly growth of 0.2%, against a flat consensus forecast. Growth was broad-based across the services and production sectors, supported by a surge in business investment and exports as firms rushed to front-load activity ahead of Donald Trump's newly announced trade tariffs. Export volumes jumped 3.5%, contributing 0.4 percentage points to overall growth, while spending on equipment, aircraft and IT helped lift fixed investment. While the government has attempted to counter global uncertainty through targeted trade deals, including accords with the US and India, the broader outlook remains clouded by protectionist pressures and structural tax burdens at home.

The Bank of England (BoE) cut its key interest rate by 25 basis points to 4.25% in May, but the decision exposed a rare three-way split among Monetary Policy Committee members, highlighting growing uncertainty around inflation and growth. Five members, including Governor Andrew Bailey, voted for the 0.25% cut, while two pushed for a steeper 50 basis point reduction, citing one-off energy and tax effects, soft domestic demand, and moderating wage growth. The remaining two voted to hold rates, pointing to persistent inflation risks, a resilient labour market, and continued cost pass-through by businesses. The BoE acknowledged that global trade tensions—particularly those stemming from U.S. tariffs under President Trump were weighing on global growth, though it expects a limited impact on UK inflation. Meeting minutes struck a cautious tone, reaffirming that rate cuts will proceed gradually as inflation moderates toward the 2% target. With the Bank having eased rates slowly since August last year, the latest inflation surprise may prompt a continued measured approach. While inflation is expected to remain above target through 2025, a decline is anticipated in 2026, supported by a recent US-UK trade deal that could relieve some price pressures.

UK consumer inflation surged more than expected in April, with CPI rising to 3.5% year-on-year, up sharply from 2.6% in March. This was its steepest monthly acceleration since 2022 - exceeding the BoE forecast of 3.4% and, fuelling investor concerns that interest rate cuts may be delayed. The upside surprise was driven by higher business rates, wage costs, and household bills, particularly in services, where core services inflation jumped to 5.4%, well above the BoE's 5.0% projection. Although clothing and footwear prices fell year-on-year, providing some relief, key categories like housing, transport, and recreation exerted strong upward pressure on prices. The latest figure has dampened expectations of a BoE rate cut in August, with the probability falling from 60% to 40%, while June is now seen as off the table.

The UK's private sector slipped back into contraction in April, with the S&P Global Composite PMI falling to 48.5 from 51.5 in March. This was its first sub-50 reading since October 2023. While both the manufacturing and services PMIs were revised slightly higher than their initial estimates, they still signalled declining activity across the economy. Manufacturing remained deep in contraction, with the PMI at 45.4, reflecting ongoing declines in output and new orders amid weak domestic and international demand. Job cuts continued for a sixth straight month, and backlogs were depleted at the fastest pace in over a year. Inflationary pressures intensified, as input costs rose at their quickest pace since December 2022 and output prices climbed to a 26-month high. Business confidence among manufacturers also fell to a 29-month low. In services, activity contracted for the first time in 17 months, with the PMI dropping to 49 from 52.5 in March. New business intake weakened, particularly from foreign clients, as the sector grappled with falling investment and client confidence due to rising global trade tensions and US tariff announcements. Employment declined for a seventh month, with firms increasingly cautious amid rising wage and tax burdens.

Eurozone

51°30'32.39" N 0°05'33.90" E

Eurozone equities performed strongly in May, with the STOXX Europe 600 index up 4.02%, supported by progress in the US–EU trade negotiations which eased recession concerns, while anticipation of fiscal stimulus and upward revisions to corporate earnings continued to boost investor confidence across the region.

Eurozone inflation held steady at 2.2% in April, coming in above forecasts of a 2.1% rise, adding complexity to the European Central Bank's (ECB) decision-making as it weighs a potential interest rate cut at its June meeting. April marked the sixth consecutive month that inflation in the euro area has remained above the ECB's 2% target. Core inflation, which excludes food and energy, rose to 2.7%, up from 2.4% in March and above expectations of 2.5%.

Meanwhile, services inflation, a key measure the ECB watches closely for signs of domestic pricing pressure, jumped to 3.9% YoY, up from 3.5% the previous month.

The HCOB Eurozone Manufacturing PMI edged up to 49 in April, from 48.6 in March, marking the slowest rate of contraction in manufacturing activity in over two years. New orders continued to fall, largely due to a sharp drop in export demand, which was impacted by the stronger euro and ongoing global uncertainty linked to trade tensions between the US and China. Despite this, reduced backlogs and a stabilisation in overall demand encouraged manufacturers to boost output, reaching the highest production levels in three years. The HCOB Eurozone Services PMI dropped to 50.1 from 51 in March. This indicates the sector has nearly stagnated, ending a four-month stretch of growth. New orders declined at the sharpest rate since November, and export demand also slipped slightly. The HCOB Eurozone Composite PMI slipped to 50.4 down from 50.9, beating market expectations of 50.3, and marked the fourth straight month of growth in private sector activity across the euro area.

China

31° 14′ 12.3″ N, 121° 30′ 31.5″ E

Uncertainty around global trade, particularly the Trump administration's proposed expansion of restrictions on the Chinese tech sector, weighed on market sentiment. However, markets saw a mid-month rally after news broke that China and the US would significantly reduce tariffs for a three-month period to facilitate further negotiations. In response, Hong Kong's Hang Seng Index (+5.29% MoM) and the Shanghai Composite Index (+2.09% MoM) ended the month firmly in the green.

In a bid to cushion the economy from intensifying trade tensions and sluggish domestic activity, China's central bank trimmed its benchmark lending rates in May for the first time since October 2024. The People's Bank of China (PBoC) lowered the one-year Loan Prime Rate (LPR) by 10bps to 3.00% and the five-year LPR which guides mortgage pricing to 3.50%, both now at record lows since the LPR system was revamped in 2019. The rate cuts, though modest, form part of a broader policy easing effort that includes coordinated moves by major state-owned banks to reduce deposit rates — aimed at protecting bank margins while nudging credit growth. While the cuts will help reduce borrowing costs and ease pressure on indebted corporates, economists remain sceptical about their ability to meaningfully boost credit demand or spur broader economic momentum without additional fiscal or structural support.

China's inflation picture remained subdued in April, with consumer prices falling 0.1% year-on-year for a third straight month, in line with market expectations. The decline reflects entrenched deflationary pressure stemming from weak domestic demand, high youth unemployment, and ongoing trade frictions with the US. Core inflation, which strips out food and fuel, remained stable at 0.5%. Food prices continued to contract but at a slower pace (-0.2% y/y), cushioned by weather-related disruptions that lifted fresh food costs. Non-food prices were flat, as minor gains in housing and healthcare were offset by a sharp drop in transport costs (-3.9%). On a monthly basis, CPI edged up 0.1%, ending a two-month run of declines.

Producer price inflation remained firmly in negative territory, with the PPI falling 2.7% year-on-year — the steepest drop since October and the 31st consecutive month of contraction. The decline was driven by weaker global commodity prices, tepid industrial demand, and persistent overcapacity in key manufacturing sectors.

China's private sector expansion slowed in April, with the Caixin Composite PMI falling to 51.1 from 51.8 in March — its weakest reading since January. While the index remained in expansionary territory for an 18th straight month, the deceleration reflects waning momentum in both manufacturing and services. The Caixin Manufacturing PMI dipped to 50.4 (from 51.2), still above the 49.8 consensus, but indicating the slowest growth since January. Output and new orders softened, with export demand hit by escalating US tariffs. Firms noted reduced capacity needs, prompting slight job cuts and declining backlogs, while input costs fell. Output prices dropped for a fifth month, and sentiment slipped to a multi-year low. Services PMI also eased to 50.7 (from 51.9), underperforming expectations and marking the slowest expansion since September 2024. New orders grew at the weakest pace in over two years, as global trade disruptions spilled over into services. Input cost pressures picked up due to rising wages and materials, but output prices continued to decline as firms discounted to attract business. While domestic tourism and some policy support is still providing a floor to activity, the ongoing US-China tariff standoff is beginning to erode both domestic and external demand.

Japan

35° 40' 34.55" N, 139° 46' 26.21" E

Japanese equities delivered strong gains in May 2025, with the Nikkei 225 advancing 5.33%, supported by a weaker yen and solid earnings from major exporters. Sentiment improved further after a U.S. federal court temporarily blocked the enforcement of sweeping tariffs—an outcome particularly welcomed by Japan's export-heavy economy, which stood to be directly impacted by the proposed measures. However, the initial optimism faded as markets grappled with renewed uncertainty over a possible reinstatement of the tariffs.

In May, the Bank of Japan held its short-term interest rate steady at 0.5%, as widely expected, while sharply lowering its economic growth forecasts amid growing uncertainty around U.S. trade policy. The BOJ now anticipates GDP growth of just 0.5% for the fiscal year ending March 2026, down from 1.1% projected three months earlier, with a similarly reduced forecast of 0.7% for the following year. These revisions reflect concerns that trade tensions are weighing on exports, dampening factory output and corporate profits, and prompting households and businesses to hold back on spending. Factory production declined in April, hit by tariffs and softer global demand, adding to the central bank's policy challenges.

At the same time, inflation remains firm. Core inflation in Tokyo reached a two-year high of 3.6% year-on-year, driven by a sharp rise in food prices—non-fresh food climbed nearly 7%, while rice prices surged by more than 90%. Services inflation also picked up, suggesting that companies are continuing to pass rising labour costs through to consumers. More broadly, the BOJ's preferred measure of trend inflation, which excludes both fresh food and energy, rose to 2.4% year-on-year in April. That's the highest reading since January and slightly above expectations, marking several consecutive months above the 2% target. The persistence of services inflation, with Services PPI running at 3.1%, reinforces the case for further tightening.

Governor Kazuo Ueda acknowledged the delicate balance the BOJ must strike between containing inflation and supporting growth in a fragile global environment. While the central bank remains open to further rate hikes if conditions allow, it has pushed back its timeline for achieving the 2% inflation target by roughly a year, now expecting to reach it around the latter half of fiscal 2026. With both growth and inflation forecasts revised lower and external risks still elevated, the BOJ is widely expected to remain on hold at its upcoming June meeting.