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# A tale of two crises

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In April 2025, South African investors were hit by two distinct shocks: the global impact of the US Liberation Day tariffs and a local crisis stemming from political tensions within the Government of National Unity. While global events dominated headlines, the sharp market reaction also reflected concerns about South Africa's policy direction. This piece explores how both crises really affected local assets—and what that means for portfolio construction.

**Two distinct shocks hit South African investors in April.**

It is my contention that SA investors experienced two big and distinct shocks to their portfolios in April.

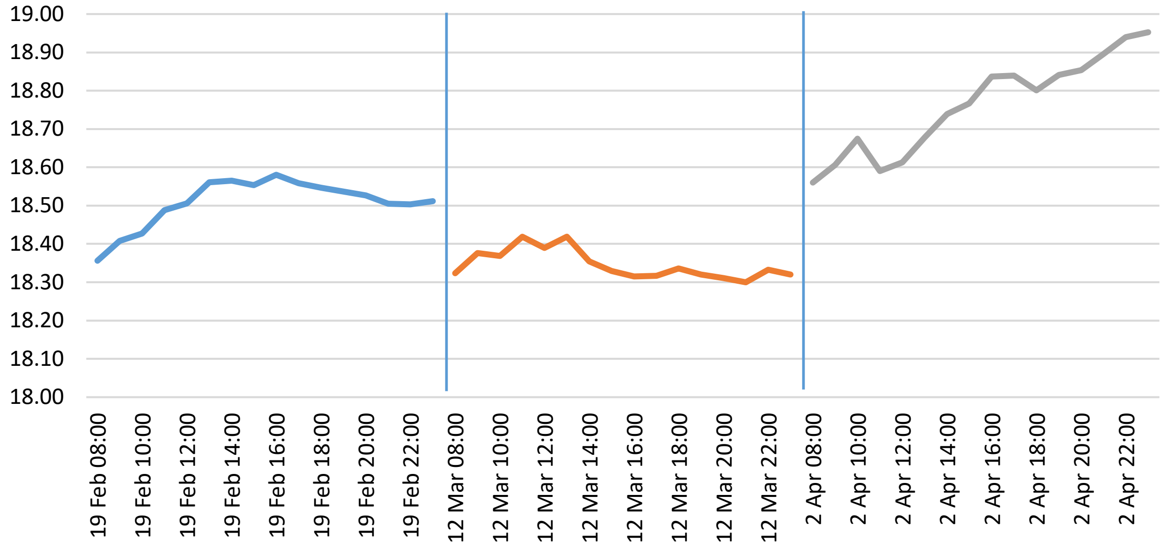
- The one was the Liberation Day tariff announcement and the negative impact of that on assets.
- The other, relatively less obvious and potentially obscured by global events, was the risk posed by SA politics to the economy and the value of assets dependent on the SA economy.

**For context, here is a timeline of local developments:**

- 19 February 2025
    - The initial budget is postponed due to internal disagreements within the Government of National Unity (GNU) about the proposal.
    - All budget documentation is released to the market despite the postponement. The budget proposes a 2% increase in VAT and robust spending growth.
    - Between 08h00 and 16h00, the exchange rate weakens by 1.2% against the US dollar, from R18.36 to R18.56.
    - Two days later the rand closes at R18.33 against the US dollar.
- 12 March 2025
    - Finance Minister Enoch Godongwana presents the updated budget framework in Parliament.
    - There remains intense opposition to the budget proposals within the GNU.
    - The new budget proposes a phased VAT increase.
    - From market opening, the rand-dollar exchange rate weakens 0.5% from R18.32 to R18.42 before closing the day out at R18.32.
    - Over the next two days, the rand strengthens to R18.18 against the US dollar.
- 2 April 2025
    - The ANC reaches out to ActionSA (a party outside the GNU) to secure support for the budget. The Standing Committee on Finance accepts the framework without amendments.
    - The DA and Freedom Front Plus, both members of the GNU, vote against the budget.
    - The budget framework passes in the National Assembly on 2 April with 194 votes for and 182 against, with zero abstentions.
    - Minister Godongwana concludes his speech in the assembly with the following words, “As I conclude, I don’t think you can vote against the budget, but tomorrow you want to be part of the implementation. I don’t think it’s right, I don’t think it’s right.”

- The rand weakens consistently throughout the day from R18.56 against the US dollar in the morning to R18.80 at SA's close, and then weakens further in US trade to close at R18.95.

Figure 1: ZAR/USD exchange rate on 19 Feb, 12 Mar and 2 Apr 2025




*Source: Refinitiv Workspace*

**The rand's performance suggests the budget itself wasn't the issue.**

So, what does figure 1 and the timeline tell us? To my mind, the relative stability of the exchange rate on and around the release of both budget proposals (19 February and 12 March) suggests that these budgets contained no market moving policy surprises. Therefore, one can deduce that the rand weakness (as well as weakness in other SA exposed assets) on the day was not related to the budget, nor the successful passing of the budget.

**Liberation Day tariffs delivered a global shock.**

Unfortunately for the SA investor, the vote on Budget 2.0 (as market participants like to call the 12 March budget) occurred on Liberation Day. President Trump first announced the proposal for reciprocal tariffs during his address to a joint session of Congress on 4 March – his first major speech since returning to office. The speech set the stage for the 'Liberation Day Reciprocal Tariffs' executive order announced on 2 April (Budget 2.0 day). The scale and scope of tariffs announced that day were much larger and more extensive than had been expected. We wrote an article at the time, 'Navigating these TARIFFying times', if you'd like to read more about our thoughts on Liberation Day.

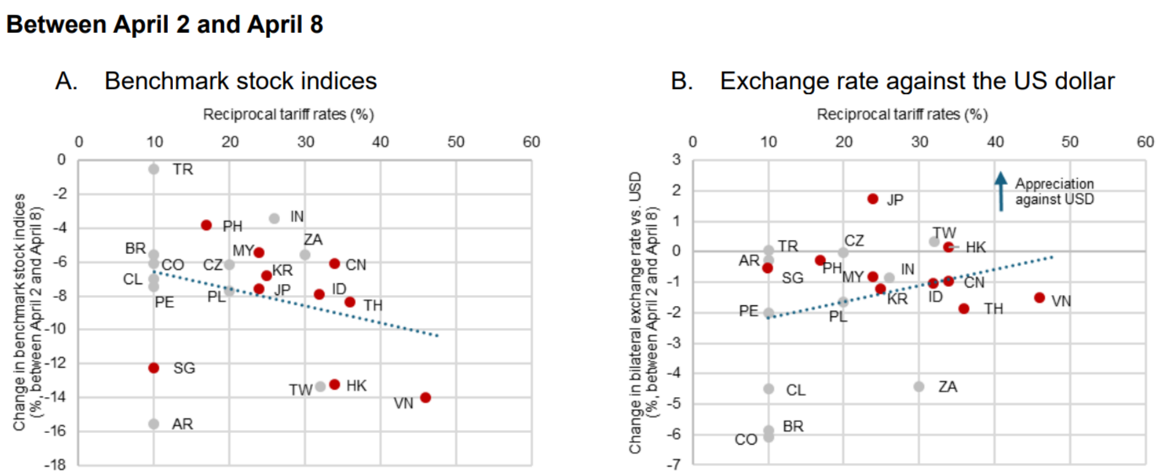
Some people have concluded that the weakness in the rand and SA assets on 2 April followed from this shock and not from any domestic concerns.  This is a view that I do not share.

**SA politics amplified the market's reaction to Liberation Day.**

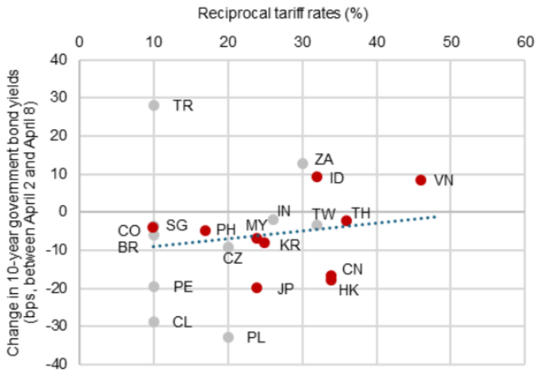
Yes, the budget itself did not move the SA asset markets. I think the evidence for that is compelling. What did worry investors was the tensions between the GNU partners. The market rallied on the formation of the GNU. Greater accountability is likely to improve government administration and service delivery. Political compromise is necessary to enable market-friendly, growth-enhancing reforms. What markets didn’t like was that the events that unfolded on 2 April suggested that these outcomes would be harder to obtain than originally anticipated.

To support my theory that the SA market experienced unique SA-specific risks (in addition to the global risks unfolding at the same time), figure 2 shows how several countries and their asset markets behaved after Liberation Day. The market reactions are plotted (y-axis) against the level of reciprocal tariff rate (x-axis) to which the country was subjected on the day. Tariff rates imposed on Liberation Day were generally higher the larger a country’s trade deficit. It follows that the greater the tariff rate, the relatively more important the US economy is likely to be to the exporting economy. The combination of large deficits (and relative importance) plus high rates suggests one would expect higher tariffs to have been associated with more negative market reactions. This is broadly what happened. Benchmark equity indices in countries with higher deficits tended to see larger losses, exchange rates of economies weakened more and funding rates on government debts increased the larger the tariff.

Figure 2: Changes in financial assets in the week following Liberation Day - some comparisons



C. 10-Year government bond yields




*Source: [AMRO-Asia Analytical Note]*

**SA asset performance in context - what stands out?**

<u>The JSE, or rand denominated equities, proved relatively resilient given the tariffs imposed.</u>

It is no surprise that the JSE equity market was relatively resilient. A large proportion of equity value on the JSE is independent of the SA economy. Some estimates suggest upwards of 70% of earnings generated by JSE listed companies are generated offshore.

<u>The rand/dollar exchange rate weakened much more than other markets that faced similar tariff levels.</u>

The economies that experienced large declines in the value of their exchange rates are large commodity exporters. Brazil and Colombia are fuel exporters and on 3 April OPEC announced large production increases which saw the value of crude oil fall by 14%. SA's most important commodity export, platinum, was exempt from tariffs.

<u>Only Turkey saw yields on government debt increase by more than SA.</u>

Despite only a modest tariff rate levied on Turkey, interest rates on government borrowing increased 30bps. To be fair, the Turkish bonds started to sell off mid-March. Between 18 and 21 March, yields on 10-yr maturity instruments rose from 26.4% to 31.1%. The 30bps increase following the Liberation Day tariffs is hardly of consequence.

South Africa's currency and bond markets were some of the worst performers in the week following 2 April. Every other country that suffered large losses had some unique reason for these losses. Is it likely that South Africa's losses were not the result of some uniquely South African risk?

**Understanding what moved the markets matters for investors.**

Why? Because understanding how particular events give rise to particular outcomes helps one to construct a carefully diversified portfolio. Such a portfolio continues to do what it is supposed to do—through budget cycles, rate hikes, and political transitions. It is built not on predictions, but on principles: diversification, valuation discipline, and a long-term perspective.

For instance, the benchmarked domestic equity index provides protection against SA specific risks, while rand and bond markets are heavily exposed to domestic growth and policy risks. A carefully considered and diversified portfolio would offset these risks with foreign assets. These provide valuable protection against losses associated with SA risks, even during times of market turmoil. Global diversification is not just a hedge—it's a source of resilience. It allows investors to participate in opportunity while insulating against localised shocks.

**Portfolio diversification remains essential.**

We remain of the view that SA assets offer attractive return opportunities to investors. Local investors are well placed to benefit from these attractive return profiles. The GNU is expected to help deliver some of the market friendly growth enhancing reforms that would be beneficial to SA assets. The SA investor can participate in these domestic returns while they remain diversified against any adverse domestic policy shocks. A portfolio constructed to deliver in all environments isn't all in on the likely success or failure (whichever it may be) of the GNU.

A carefully diversified portfolio means that it continues to do what it is supposed to do... when budgets get passed (or don't); when interest rates go up and come back down; and when presidents retire, and new ones are elected. It is compounding insights and limiting exposure to diversifiable risk.

At all times, balance matters.

**Glacier Research would like to thank Madalet Sessions for contributing to this week's *Funds on Friday.***

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Madalet co-manages the Denker SCI Balanced Fund and Denker SCI Stable Funds with Jan Meintjes.

She started her investment career at Investec Securities as a research assistant to top-rated investment strategist Brian Kantor. In 2008 she joined Element Investment Managers as an analyst responsible for fixed income, money market and property investments. She moved on to Nedgroup Investments in 2010, where she was responsible for managing the Nedgroup Private Wealth Bond and Property funds. She joined Denker Capital in 2016 to establish our range of multi-asset class funds. Madalet serves as an Alternate Director on our board.

In 2024, under Madalet and Jan's management, the Denker SCI Balanced Fund received a Morningstar Award as the winner in the Best Aggressive Asset Allocation Fund category.