August 2025

Navigating a Complex Economic and Investment Environment

Richard Harris | August 2025

So far, 2025 has once again proven to be a year with many market-moving headlines that have underpinned volatility and left many investors scratching their heads when it comes to selecting long-term structural positions that offer the best risk-adjusted returns over the medium to long term.

Global markets are operating in an increasingly complex environment characterised by trade uncertainties, diverging central bank policies and shifting economic dynamics. While equity markets have proven resilient, with the S&P 500 and Allshare index approaching record highs, and emerging markets outperforming developed markets, significant concerns remain over increased tariffs, geopolitical tensions, artificial intelligence disruptions and uneven economic recovery patterns.

Trade Policy Developments and Market Implications

At the top of the list of issues that have hit the headlines this year is trade policy in the form of US tariffs, which continue to influence sentiment and economic forecasts. These tariffs have created significant uncertainty for international governments and businesses as Trump has placed strengthening US manufacturing at the centre of his crosshairs to the detriment of global trading partners.

Echoing the contents of his book "The Art of The Deal", Trump has imposed extreme tariffs on US trading partners to get them round the table for further negotiations. Even uninhabited islands such as Herd Island and McDonald Island, which are inhabited by penguins, were hit with tariffs as Trump unleashed his global fury. Many of the original tariffs have since been negotiated down and the effective tariff rate levied by the US is now around 18%, a sharp increase from around 2.4% in early 2024, leading to expected revenue from tariffs of over $300bn in 2025. Many will be in favour of Trump's actions, but the draconian nature of his measures has taken most by surprise.

It should be noted that a US appeals court has ruled these tariffs illegal, although they will remain in place until 14 October 2025, adding further uncertainty and complexity to the investment landscape. The matter will now most likely be heard before the supreme court.

Economic strength, Central Banks and Inflation

Another key theme this year has been the strength of global economies and their ability to stand on their own without monetary stimulus (interest rate cuts and money supply increases). Since the COVID pandemic, many economies have been running at full speed consumers and economies.

As a result, the US Federal Reserve, chaired by Jerome Powell, has taken a hawkish stance (keeping rates higher for longer), much to the displeasure of President Trump, who has made clear the need for further rate cuts to stimulate growth and reduce the government debt burden.

This picture changed recently when Powell spoke at the Jackson Hole Economic Symposium, signalling openness to rate cuts, acknowledging increased risks to employment while showing vigilance on inflation. This was well received by equity markets and provided a further tailwind for asset prices from expected stimulus to come.

In contrast, the European Central Bank (ECB) and the Bank of England (BOE) have already initiated cycles of interest rate cuts in response to a more pronounced fall in inflation and weaker growth in their economies. The ECB cut interest rates by 25 basis points in June as inflation in the eurozone levelled off at its 2% target and is now holding rates at current levels, albeit with an open-ended, data-dependent stance. Meanwhile, the Bank of England recently cut rates to 4%, signalling that further rate cuts could follow in the face of sluggish growth and softening labour markets.

The Bank of Japan, with the knowledge of inflation being prominent locally, has left its short-term interest rate at 0.5%, citing global risks and tepid domestic demand as reasons for postponing further rate hikes until significant wage growth and sustained inflation are evident. The People's Bank of China has eased gradually, lowering its key interest rates to 3% for one-year loans and 3.5% for five-year loans in May 2025 and keeping them constant since then. It is focussing on supporting growth in a weakening consumer demand environment while carefully managing currency and financial stability issues.

Fiscal Spending

Robust fiscal spending in the United States and other advanced economies has played an important role in fueling growth and supporting financial markets in 2025. In the US, legislation such as the One Big Beautiful Bill has extended tax provisions and provided targeted government transfers. This provided additional stimulus that boosted GDP by roughly 0.2 to 0.3 percentage points in 2025 and helped labour markets remain healthy despite domestic and global headwinds. Similarly, many other countries have focussed on public spending, direct support for households and infrastructure investment. These measures have not only supported consumer confidence and the recovery but have also helped to limit volatility and provide a buffer for markets in times of trade disruption and uncertain monetary conditions.

Geopolitics

2025 has been characterised by major geopolitical turbulence driven by the division of world powers and the impact of ongoing wars. Under President Trump, the US recalibrated its foreign policy by pushing ahead with the contentious Ukraine talks while maintaining a tense trade and Taiwan conflict with China. Global trade faced renewed threats of tariffs and protectionism, unsettling alliances. The EU struggled with internal fragmentation and external pressure from both Washington and Beijing. Instability was exacerbated by record-breaking weather extremes and urgent climate regulations calling for stronger emission controls.

Armed conflicts escalated in Ukraine, Gaza, Myanmar and Congo, all marked by severe humanitarian crises and weak prospects for peace. The war between Israel and Gaza reached its climax with famine being declared a national emergency, while the fall of Assad reshaped the dynamics in the Middle East. India and Pakistan engaged in their most violent clash in decades, fuelling fears of nuclear escalation. Meanwhile, battles over digital sovereignty, biotech rivalries and misinformation deepened global instability. With so many ongoing wars, 2025 became one of the most divided years since the Cold War.

An Update on South Africa

remains subdued at around 0.9% for 2025 and macroeconomic data continues to be flooded with less than satisfactory updates. Since The announcement of the GNU for 2024, the nation continues to hope for improvement at a government level, but disappointment continues as delays in progress and bickering between parties makes headlines on a weekly basis. Unemployment continues to rise, and the manufacturing sector is under pressure, exacerbated by the significant tariffs imposed by the US.

Despite this, the Allshare Index has risen to new highs, supported by strong gains in precious metals and Naspers and Prosus (both proxies for Chinese technology through Tencent), which have performed incredibly this year. Loadshedding has been largely unnoticeable (touch wood) and there seems to be much needed developments between public-private partnerships in our railway systems.

In past newsletters, we have been vocal about what needs to be done. We have placed emphasis on the need for reforms that allow for pro-growth policies in the country in which all can participate, and that lead away from colour-based policies that have proven to be a disaster for decades. Asset valuations on the ground have largely priced in the dire state of the country and any green shoots could lead to exciting investment opportunities in the future, especially given that our blue-chip companies have done so well given the environment in which they trade.

Positioning for Uncertainty

Despite the volatility created by the forces mentioned above, a prudent strategy remains the best way to manage potential turbulence, which can recur at any time. As custodians of our clients' investments, we have maintained diversification across our portfolios that spans multiple asset classes and geographies, with a focus on tactical defensiveness. We have made investments in equities, bonds and alternatives such as gold or emerging technologies to balance exposure to specific countries, sectors and currencies, reducing vulnerability to local market shocks and unpredictable economic cycles.

In addition, we have emphasised geographic diversification, including investments in North America, Europe, Asia and selected emerging markets, which is likely to insulate portfolios from unique risks faced by individual economies and cushion against any volatility that may be triggered in specific regions that may be perceived expensive or "priced to perfection".

We have maintained adequate liquidity and cash reserves as investors are rewarded for holding cash and short-term bonds due to current elevated interest rates globally. We will utilise this liquidity to take advantage of global opportunities that are likely to offer the best risk-adjusted returns should markets decline from this point.

Another final point to note is that the likelihood of central banks and governments continuing to do whatever it takes to defend economies through fiscal and monetary stimulation and that tax cuts are unlikely due to the affect it has on votes for the government in power. These forces will likely create further tailwinds for equities over the long run.

Market Update

American equity markets advanced in August, with the S&P 500 briefly breaking above the 6,500 mark for the first time before ending the month slightly lower from that peak, up 3.56% over the month. The Dow Jones Index gained 4.49% and the Nasdaq rose 2.86%. The Russel 2000 had a strong rally of 9.22%. The rally reflected optimism around likely Federal Reserve rate cuts after Chair Jerome Powell flagged labour market weakness at Jackson Hole. Better-than-expected Q2 GDP growth (+3.3% annualised) also helped sentiment. However, President Trump's abrupt dismissal of Fed Governor Lisa Cook unsettled markets, raising questions about central bank independence. The move weighed on the dollar and bolstered Treasuries as investors priced in imminent policy easing. Inflation remained steady in July, with headline CPI at 2.7% YoY, while the Fed's preferred PCE measure edged higher to 2.9%.

stayed level at 2.0% YoY, in line with the ECB's target. In the UK, the FTSE 100 rose 0.9% and reached a record high mid-month, before banking shares dragged back performance amid fears of a potential profit levy. UK inflation came in higher than expected again, rising to 3.8% YoY in July.

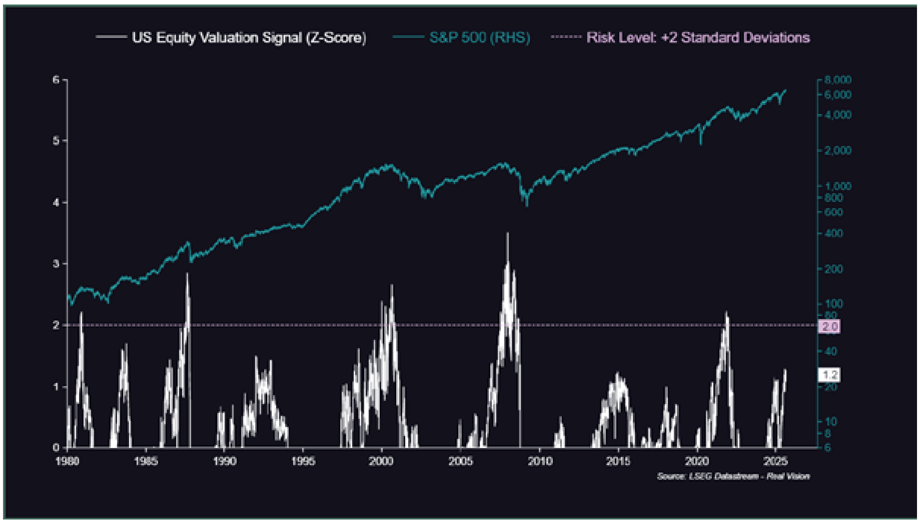
China's equity markets performed strongly, with the Shanghai Composite jumping 7.57% in August, while Hong Kong's Hang Seng added 2.33%. Gains were driven by government support measures, particularly around local chip manufacturing, and renewed hopes of further stimulus. However, economic indicators remained sluggish. Retail sales slowed to 3.7% YoY in July, down from 4.8% in the previous month, underscoring weak consumer demand linked to the depressed housing market. Manufacturing activity remained in contraction in August as the PMI fell to 49.4, it marks the fifth consecutive month in contraction.

Commodity performances were mixed in August. Brent crude slipped by 6% to US$67 per barrel as weaker demand concerns outweighed trade-related supply risks. Gold, on the other hand, surged 4.7%, benefitting from dovish Fed signals, a weaker dollar, and safe-haven demand. Similarly, the price of Silver and Platinum increased by 8.17% and 6.15% respectively.

South African markets gained in August, supported by resilience in global metals and mining stocks. The JSE advanced 4.1%, while local bonds rallied as yields moved lower alongside global markets. The government's 10-year bond yield eased to 9.6%. The rand strengthened 3.1% against the US dollar, reversing July's decline, driven by buoyant export revenues and improved sentiment towards emerging markets.

Chart of the month

The chart below shows the valuations of US equities compared to past periods. Although valuations are 1 standard deviation above their mean, they are not at the extreme valuation levels of the 2000s and 2008s. Because the mega cap technology companies make up such a large proportion of the indices, it is often assumed that the overall equity market is overvalued, although there are still many opportunities for favourable valuations in other sectors in the US. Looking at global (non-US) opportunities, this is even more true.



"Successful investing takes time, discipline, and patience."
- Warren Buffett

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