



▲ +35.38%

INVESTMENT VIEWS

Market watch: The disconnect between geopolitical turmoil and market performance

By CHARLES DE KOCK

▲ +18.38%

▼ -8.38%

▼ -8.38%

THE QUICK TAKE

Geopolitical risks escalated with conflicts intensifying in Ukraine and the Middle East, yet global markets ended the quarter near record highs

Uncertainty around US tariffs and rising fiscal strain continue to weigh on investor confidence

Our portfolios remained anchored in valuation, with high offshore exposure and strong equity selection contributing to returns



Charles is a portfolio manager with 39 years of investment industry experience.

VIEWED FROM A geopolitical perspective, the second quarter of 2025 was tumultuous. Tension in two major war zones escalated sharply. In the Russia-Ukraine war, an audacious drone attack on Russian airfields deep inside the country led to retaliatory attacks on Kiev. Peace or ceasefire talks have stalled.

The Mideast conflict escalated into direct military engagement between Israel and Iran, followed by US airstrikes on Iranian nuclear facilities. While oil prices briefly spiked, they quickly settled after a ceasefire was announced by President Trump. How lasting the ceasefire proves to be remains uncertain.

The quarter began with President Trump's "Liberation Day" announcement of wide-ranging tariffs on nearly all US trade partners. Markets sold off sharply but recovered as the administration softened its stance. At the time of writing, the 90-day suspension of these tariffs is nearing its end, with the final outcome still unclear. Our base case is that the final tariffs will likely be lower than initially announced, with individual country deals expected. Nevertheless, huge uncertainty remains, and it is my view that it will continue to weigh on business and consumer confidence. Global growth expectations have been lowered as a result.

A public spat on social media appeared to mark the end of the relationship between Elon Musk and Donald Trump. Meanwhile, the DOGE (Department of Government Efficiency) initiative to reduce government spending seems to have ended with little success and the budget passed

>



by Congress adds further to the already sizeable US fiscal deficit. Consistent overspending will need to be financed by issuing more government bonds which is likely to lead to higher yields over time. Therefore, in our view, ten-year US Treasury yields remain unattractive.

SOUTH AFRICA: POLITICAL UNCERTAINTY AND POLICY SHIFTS

South Africa faced continued uncertainty during the quarter. The meeting between President Ramaphosa's delegation and the Trump team in the Oval Office could have gone the way of the Zelenskyy meeting earlier in the year, but ultimately, I believe helped defuse some of the tensions and misunderstandings between the two governments. The fragility of the GNU was tested again when the President fired a DA deputy minister at the end of June. The rand weakened on the news but held up reasonably well, all things considered.

At policy level, the South African Reserve Bank (SARB) appears keen on getting National Treasury to lower the inflation target to 3%, with a 1% band around it. If achieved, sustained lower inflation would be positive for the economy - potentially lowering nominal interest rates and stabilising the currency. However, real interest rates remain very high and are likely to remain so for as long as the SARB believes that inflation expectations have not been adequately addressed. With government debt now estimated at 76% of GDP, growing the economy remains by far the best way to overcome our fiscal challenges. Unfortunately, years of underspending in critical infrastructure have lowered our potential growth rate, making it difficult to see a meaningful increase in economic growth in the absence of meaningful policy reform.

MARKETS HOLD FIRM AMID THE NOISE

Considering the escalation in tension in global conflict zones, as well as the domestic problems between the two largest parties in the GNU, global and domestic financial markets performed remarkably well. The MSCI All Country World Index rose 11.5% in USD for the quarter, while the JSE All Share Index gained 10.2% in ZAR. Many major indices ended the quarter near, or at, all-time highs.

Our investment style continues to be driven by a clear valuation approach, resulting in well-diversified portfolios across asset classes, geographies, and sectors. It is an approach in which we firmly believe. As the past quarter once again demonstrated, attempting to forecast macro events or their impact on markets is an exercise in futility. The unpredictability of macro events and policy decisions under President Trump makes top-down investing even more difficult than usual.

After lagging other precious metals, platinum group metals (PGMs) staged a sharp and very welcome rally. Our multi-asset class portfolios have some exposure to the platinum group metals largely through Northam Platinum, which we added to our funds over the past year. We are, however, mindful that over the longer term, the shift from internal combustion engines to battery electric vehicles will reduce the demand for auto catalysts and, by extension, for these metals. Our analysis suggests that platinum supply constraints will likely result in a period of shortages ahead, but we remain alert and will look to reduce our holdings timeously if valuations no longer justify the exposure.

The higher platinum price is also good for South Africa's balance of trade and the rand, as it remains one of the country's biggest exports by value. South Africa's terms of trade have improved, as the prices of our export basket have recently performed far better than our imports, the largest component of which is oil.

PORTFOLIO POSITIONING

Our multi-asset class funds remain positioned with near-maximum offshore exposure, and within that a high exposure to equities. Our active stock selection contributed positively to performance over the period. We continue to avoid global sovereign bonds, given our concerns about unsustainable government debt levels.

Naspers/Prosus remains the largest single stock in the South African portion of our funds. We believe the market continues to underestimate the potential of its non-Tencent portfolio, which



is now generating strong free cash flow. We believe the market will begin to recognise its value over time.

Within South Africa, we favour domestic-facing businesses that can grow earnings even in a weak economy. In our view, a low-growth environment amplifies the divergence between strong and mediocre businesses.

The income-earning portion of the portfolios features a range of government bonds and offshore credit offering attractive yields. We also maintain some exposure to inflation-linked bonds, which provide diversification and a hedge against unexpected inflation.

As always, the future is unpredictable. We remain confident that our long-term, valuation-driven approach will continue to deliver the desired outcome for our clients. +



DISCLAIMER

South African Readers

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result, there may be limitations as to the appropriateness of any information given. It is therefore recommended that the reader first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the reader prior to acting upon such information and to consider whether any recommendation is appropriate considering the reader's own objectives and particular needs. Neither Coronation Fund Managers Limited nor any subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Any opinions, statements or information contained herein may change and are expressed in good faith. Coronation does not undertake to advise any person if such opinions, statements or information should change or become inaccurate. This document is for information purposes only and does not constitute or form part of any offer to the public to issue or sell, or any solicitation of any offer to subscribe for or purchase an investment, nor shall it or the fact of its distribution form the basis of, or be relied upon in connection with any contract for investment. In the event that specific funds and/or strategies (collectively "funds") and/or their performance is mentioned, please refer to the relevant fact sheet in order to obtain all the necessary information regarding that fund (www.coronation.com). Fund investments should be considered a medium-to long-term investment. The value of investments may go down as well as up, and is therefore not guaranteed. Past performance is not necessarily an indication of future performance. Funds may be allowed to engage in scrip lending and borrowing. To the extent that any performance information is provided herein, please note that: Performance is calculated by Coronation for a lump sum investment with distributions, to the extent applicable, reinvested. Performance figures are quoted gross of management fees after the deduction of certain costs incurred within the particular fund. Fluctuations or movements in exchange rates may cause the value of any underlying international investment to go down or up. Coronation Fund Managers Limited is a full member of the Association for Savings and Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017.

US Readers

Coronation Investment Management International (Pty) Limited is an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). An investment adviser's registration with the SEC does not imply a certain level of skill or training. Additional information about Coronation Investment Management International (Pty) Limited is also available on the SEC's website at www.adviserinfo.sec.gov. The information in this document has not been approved or verified by the SEC or by any state securities authority. The opinions expressed herein are those of Coronation Investment Management International (Pty) Limited at the time of publication and no representation is made that they will be valid beyond that date. Certain information herein has been obtained from third party sources which we believe to be reliable but no representation is being made as to the accuracy of the information obtained from third parties. This newsletter contains references to targeted returns which we believe to be reasonable based on current market conditions, but no guarantees are being made the targets will be achieved or that investors will not lose money.

This article is for informational purposes and should not be taken as a recommendation to purchase any individual securities. The companies mentioned herein are currently held in Coronation managed strategies, however, Coronation closely monitors its positions and may make changes to investment strategies at any time. If a company's underlying fundamentals or valuation measures change, Coronation will re-evaluate its position and may sell part or all of its position. There is no guarantee that, should market conditions repeat, the abovementioned companies will perform in the same way in the future. There is no guarantee that the opinions expressed herein will be valid beyond the date of this presentation. There can be no assurance that a strategy will continue to hold the same position in companies described herein.

Global (ex-US) readers

The information contained in the publication is not approved for the public and is only intended for recipients who would be generally classified as 'qualified', 'professional', 'accredited' or 'institutional' investors. The information is not designed for use in any jurisdiction or location where the publication or availability of the information would be contrary to local law or regulation. If you have access to the information it is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction and it is recommended any potential investor first obtain appropriate legal, tax, investment or other professional advice prior to acting upon the information. The value of investments and any income from them can go down as well as up and investors may not get back all that they have invested. Please be advised that any return estimates or indications of past performance in this publication are for information purposes and can in no way be construed as a guarantee of future performance. Coronation Fund Managers accepts no liability of any sort resulting from reliance being placed upon outdated information contained in this publication by any user or other person. Whilst every effort is made to represent accurate financial and technical information on an ongoing basis, inadvertent errors and typographical inaccuracies may occur. Information, laws, rules and regulations may also change from time to time. Information contained in the publication is therefore made available without any express or implied representation or warranty whatsoever, and Coronation Fund Managers disclaims liability for any expenses incurred, or any damage, claims or costs sustained by users arising from the reliance being placed on the use of links, services or any information or representations contained in the publication. Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017. Coronation International Limited is authorised and regulated by the Financial Conduct Authority. Coronation Global Fund Managers (Ireland) Limited is authorised by the Central Bank of Ireland under the European Communities (UCITS) Regulations 2011 and the Alternative Investment Fund Managers Directive 2011, with effect from 22 July 2014. Unit trusts are generally medium to long-term investments. The value of units may go up as well as down. Past performance is not necessarily an indication of the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Unit trusts may invest in assets denominated in currencies other than their base currency and fluctuations or movements in exchange rates may have an adverse effect on the value of the underlying investments. Performance is measured on NAV prices with income distribution reinvested.

This article is for informational purposes and should not be taken as a recommendation to purchase any individual securities. The companies mentioned herein are currently held in Coronation managed strategies, however, Coronation closely monitors its positions and may make changes to investment strategies at any time. If a company's underlying fundamentals or valuation measures change, Coronation will re-evaluate its position and may sell part or all of its position. There is no guarantee that, should market conditions repeat, the abovementioned companies will perform in the same way in the future. There is no guarantee that the opinions expressed herein will be valid beyond the date of this presentation. There can be no assurance that a strategy will continue to hold the same position in companies described herein.