



INVESTMENTS

# SOUTH AFRICA’S TURNING POINT: CAN POLICY MOMENTUM OUTFRAN GLOBAL HEADWINDS?

*Written by Terebinth Capital, Manager of the PPS Defensive Fund*

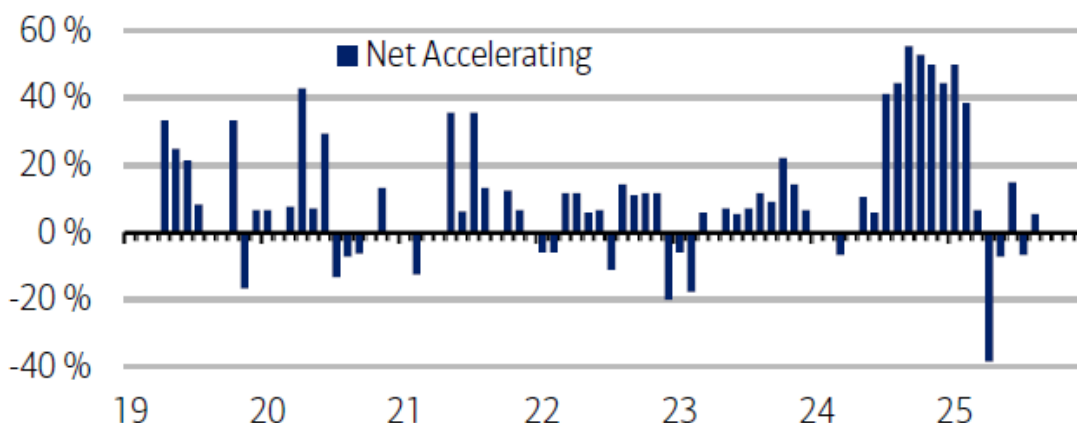
South Africa stands at a pivotal moment as domestic policy momentum clashes with global uncertainties. Can domestic reform truly outpace external pressures?

## GNU AND REFORM ARE SYNONYMOUS

We participate in the monthly BofA South Africa Fund Manager Survey, which includes a question on the pace of reform: Do you expect it to accelerate, decelerate, or stay the same? On reading financial market headlines you would think significant progress is being made given the often-myopic focus on the big interventions in electricity and rail. However, if you live in one of the many dysfunctional municipalities, then you would have a vastly different point of view.

Domestic optimism surged in the wake of the formation of the Government of National Unity (GNU) based on the BofA survey (Figure 1). This optimism waned sharply in March when the government failed to table a budget due to tensions within the GNU around the proposed VAT rate hike. Since then, the net response has oscillated around 0% as investors have taken a more circumspect approach to the durability of the GNU and government’s commitment to reform. Foreign investors have also been paying particular attention to the GNU, given that the survival of the GNU is seen as a necessary (albeit not sufficient) condition for ongoing reform.

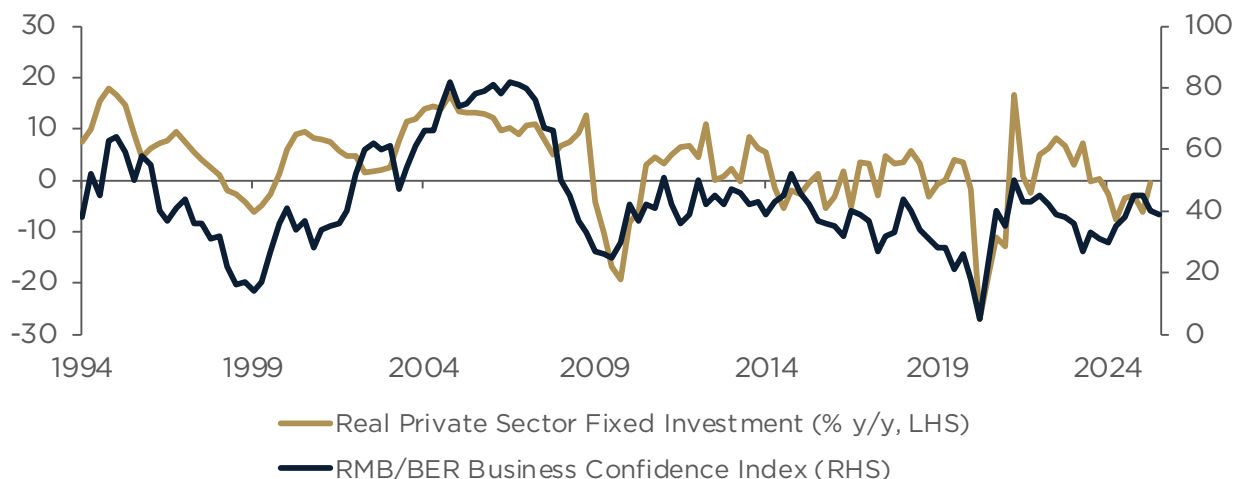
**FIGURE 1: NET % OF INVESTORS SEEING ACCELERATING**



Source: BofA Global Research, South Africa Fund Manager Survey

While investor sentiment is an important factor given that savers (via banks) and investors (via equity and bond markets) provide capital to business, the crucial growth lever is private fixed investment. Since 2009, the majority of survey respondents to RMB/BER Business Confidence Index (BCI) have been negative, with confidence falling from 45 in 1Q25 to 39 in 3Q25 (Figure 2). The short-term outlook might be encouraging based on the lagged investment response, but the steady decline in per capita investment must be reversed to lift productivity and create jobs.

**FIGURE 2: BUSINESS CONFIDENCE AND PRIVATE FIXED INVESTMENT REFORMS**



Source: iress, Stats SA, Terebinth Capital

With numerous government departments and agencies being part of the reform process, institutional strength remains paramount to success. The South African Reserve Bank remains the stalwart of credibility. The South African Revenue Service has, in recent years, repaired its reputation, supporting the turnaround in the fiscal position with National Treasury delivering primary surpluses over the past two years. And there has been some progress on criminal justice reform and bolstering the National Prosecuting Authority, which may be a contributing factor in South Africa's potential exit from the Financial Action Task Force Greylist.

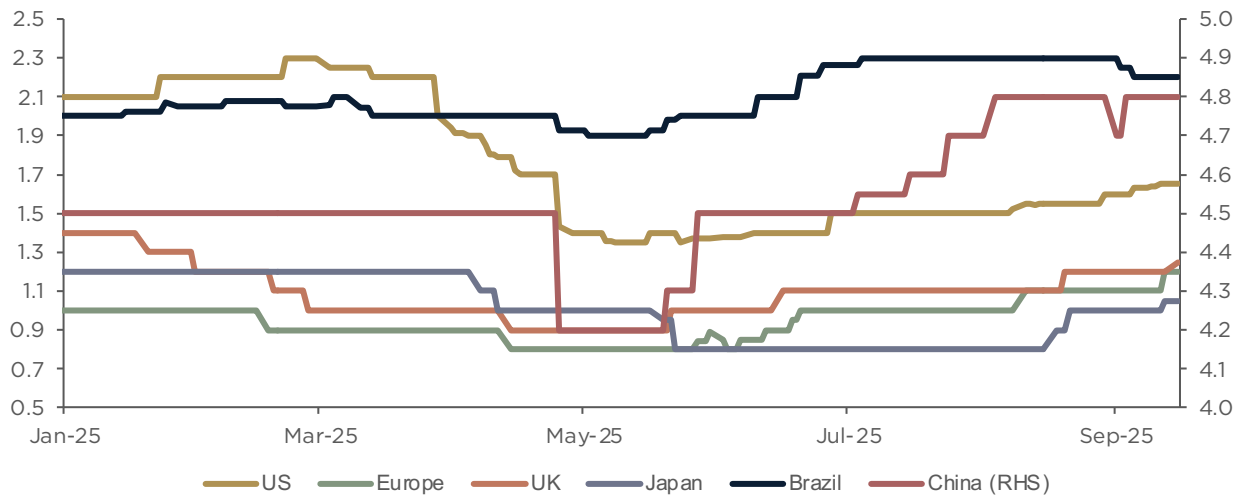
## GLOBAL HEADWINDS MAY NOT BE ALL THAT STRONG

Interest rate hikes, select fiscal tightening, and tariff uncertainty have resulted in moderating global growth momentum over the past 18 months. However, it has become increasingly difficult to talk of a single global cycle. Where able, central banks have already responded to disinflation and slowing growth, with policy easing allowing some economies to recover.

The US, China, UK, and Japan are pulling global growth lower, but there is some positive offset from a growth inflection in Europe and select Middle and Central Eastern economies. Importantly, the downward growth revisions in the midst of the Q2 trade turmoil may have been overdone, with growth forecasts for many countries being revised higher (Figure 3). Following the Q2 upside surprise in GDP growth, even South Africa is benefiting from this trend.

It may be that it is no longer the case that when the US sneezes, the world catches a cold.

**FIGURE 3: CONSENSUS GDP GROWTH FORECASTS FOR 2025**



Source: Bloomberg, Terebinth Capital

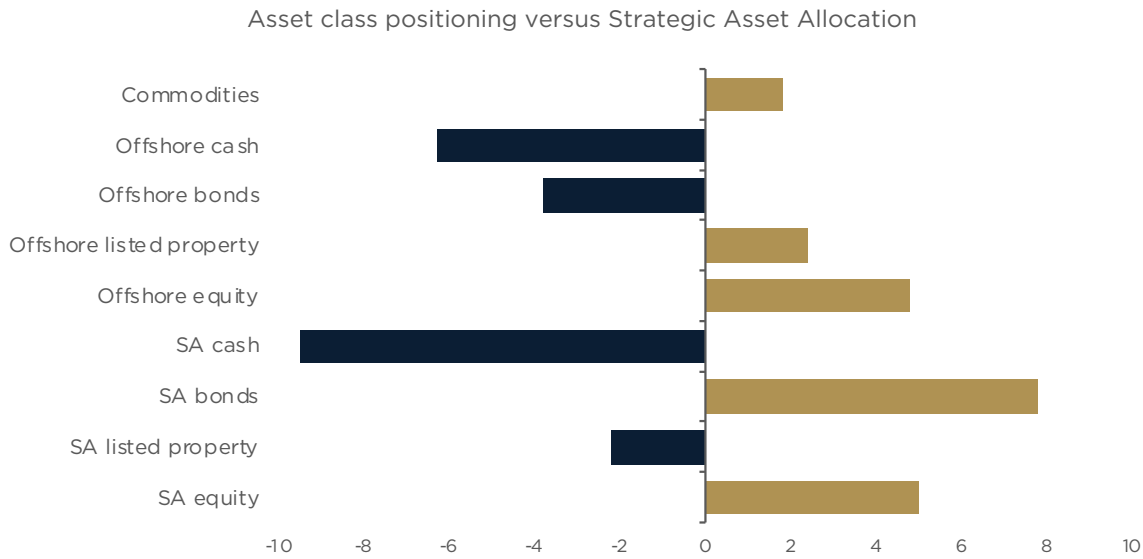
## OPTING FOR THE DIVERSIFICATION DIVIDEND

Geopolitical fragmentation is leading to economic decoupling - accelerated by the Covid supply-chain disruptions and the Liberation Day tariffs. What will follow is financial diversification as various economic blocs try to find alternatives to the dollar and its payment system. Investors and traders will move beyond watching only US data releases to look more broadly at asset markets as counters to the S&P500 and TINA (there is no alternative).

As South Africa navigates the duality of local optimism and global caution, the PPS Defensive Fund's balanced approach offers a resilient path, positioned to thrive whether policy momentum surges or global winds shift (Figure 4):

- **Diversification:** By biasing exposure towards non-US equities in EM, Japan, and Europe, the fund mitigates US-centric risks while capturing growth in recovering regions.
- **A home bias:** Given that South Africa is at an inflection point where the J-curve associated with reform will pay off with stronger growth and rising employment, there is still value to unlock across domestic asset classes. As such, the fund is overweight South Africa, with a preference for SA assets over offshore assets across equity and fixed income.
- **Growth over income:** The fund is overweight growth assets and underweight income assets given the pending policy support from the Fed and easing financial conditions from ongoing US dollar weakness, which should benefit equities over bonds in the medium term.

**FIGURE 4: PPS DEFENSIVE FUND ASSET CLASS POSITIONING (31 JULY 2025)**



Source: Bloomberg, Terebinth Capital

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