M&G Insights

Resilience and valuations: Lessons from recent market turbulence

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Alet Fick
Senior Multi-Asset Analyst

The second quarter of 2025 was a valuable reminder that in markets – as in life – short-term noise can often obscure long-term signals. Amid a volatile time of tariff announcements and heightened geopolitical tension, a story of resilience emerged. Despite a turbulent backdrop, South African asset classes outperformed global peers, demonstrating notable resilience across equities, bonds, and listed property.

Global markets rattled but recover losses

Investor sentiment took a sharp turn in early April following the "Liberation Day" reciprocal tariff announcements by the U.S. administration on 2 April. This triggered a swift global equity sell-off, with the MSCI All Country World Index (ACWI) forward P/E contracting from 17.25x to 16x within a week. The S&P 500 saw a similar pullback, trading down from 20x to around 18.5x on a forward P/E basis.

However, markets recovered much of their losses by quarter-end. The MSCI ACWI and MSCI World Index both returned 11.5% (in US$) for the quarter. US markets were buoyed by tech sector strength, with the NASDAQ returning 18% and the S&P 500 10.9%. Strong performances were also seen in developed markets like Germany (DAX: 17.1%) and Japan (Nikkei: 17.3%), all in US dollars. Despite the strong price action, equity valuations across global markets remain stretched, with forward P/E ratios elevated and increasingly sensitive to downside surprises.

SA markets show resilience

Against this challenging global environment, South African markets stood out. The FTSE/JSE Capped SWIX Index returned 9.7% for the quarter (in rand), outperforming the 7.7% return from global equities (MSCI ACWI, in rand). This outperformance is underpinned by attractive valuations, with the local market trading at a price-to-book ratio of 1.79x and a forward P/E of 10.1x, continuing to offer a significant discount relative to global averages.

Precious metal stocks, particularly in the platinum group metals (PGM) and gold sectors, were among the top performers, supported by safe-haven demand and resilient commodity prices. Rand hedge counters such as Naspers, British American Tobacco (BTI), and Anheuser-Busch InBev also added to the strong equity market performance.

In contrast, domestically focused sectors such as banks and retailers lagged due to persistent economic headwinds. While there were some earnings upgrades, these were largely confined to precious metals & mining, and communication services.

The SA listed property sector continued where it ended off in 2024 with strong price moves following the first quarter's lacklustre returns.

SA bonds remain attractive despite short-term pressures

The SA bond market was not immune to the volatility. Yields spiked amid market concerns over the newly formed Government of National Unity (GNU) and delayed budget announcements in early April. The benchmark 10-year bond yield rose by 50 basis points to touch 11.1%, its highest level since the GNU's formation.

Nevertheless, local bonds delivered a strong 5.8% return for the quarter (in rand), significantly ahead of the flat performance in global bonds (Bloomberg Global Aggregate Bond Index, in rand). Real yields are still trading above our fair value estimates.

Targeted exposure in global fixed income can add value

While global bonds were flat overall, we continue to find value in select markets offering higher real yields and holding a mix of global bonds, including long-dated US, UK, German and Brazilian government bonds (in local currency), which are offering higher real yields and for the potential diversification benefits it offers.

Credit markets currently appear less attractive. Global corporate credit spreads are still trading at very compressed levels. Although credit spreads briefly widened during the early April volatility, liquidity was low and quickly reverted to spreads tightening again. In our view, the risk-reward for holding those instruments is still unappealing at current levels.

Valuation-based approach key in navigating volatility

Recent market turbulence has been a timely reminder for investors that valuation remains a powerful anchor in uncertain times. We believe that SA assets continue to offer compelling opportunities, with attractive valuations and improving fundamentals offering attractive entry points for long-term investors.

As investors continue to navigate an unpredictable world, the lessons of the past quarter reaffirm what we have long believed – that a disciplined, valuation-driven investment approach helps to weather ongoing market volatility and can position investors well for long-term success across both local and global markets.