

PCAM Perspectives: Monthly market review

February 2025

by PCAM Investment Team

All Share: 2024/01/31 to 2025/01/31



Resources: 2024/01/31 to 2025/01/31



Industrials: 2024/01/31 to 2025/01/31



Financials: 2024/01/31 to 2025/01/31



Local market: A positive start to 2025

The South African equity market kicked off 2025 on a strong note, with the JSE All Share Index (ALSI) gaining 2.3% in January. The resource sector led the charge, surging by an impressive 17.9%, driven by a robust recovery in commodity prices. Platinum saw strong demand (+15.6%), closing January at \$1,033 per ounce. **Gold was also a standout performer ending the month at an all-time high of \$2,813 per ounce.**

Due to the leveraged nature of our commodity miners, we saw some impressive moves for the month. Of the PGM miners, Northam was up 30% in January with Impala and Amplats somewhat lagging but still rallying by more than 15%. The locally listed gold counters performed even better with Harmony, AngloGold, and Goldfields all posting more than 30% gains in January.

Luxury conglomerate, Richemont (+31% in Jan), was a standout performer on the JSE, driven by a trading update that revealed a 10% year-on-year revenue increase in the latest quarter—far surpassing expectations of just 1% growth. Meanwhile, telecom giants, MTN and Vodacom, which rallied 25% and 8% respectively also shone in January. MTN benefited from favourable tariff hikes approved by Nigerian regulators, which **allowed them to increase their pricing by 50% after it had been capped for the past 10 years.**

However, it was not all rainbows and sunshine for investment companies Naspers and Prosus, which ended the month down 5%, alongside their largest underlying investment, Tencent (-5% in rand terms). This was after the U.S. Department of Defence (DoD) had added the tech conglomerate to a list of companies allegedly working with China's

military. This spooked investors and the share sold off rapidly with Naspers and Prosus being collateral damage. A similar story unfolded with Xiaomi in January 2021 but, before the ban could take effect, a federal judge granted a temporary reprieve to the Chinese company by ruling that Washington lacked “substantial evidence” to support its claim that Xiaomi is owned or controlled by China’s military. In May of that year, the U.S. DoD and Xiaomi reached an agreement to set aside the ban. Therefore, **we don’t expect the U.S. DoD to keep Tencent on this list for very long** unless they can provide “substantial evidence”, which we believe is unlikely.

In line with market expectations and much to the relief of SA consumers, **the South African Reserve Bank (SARB) announced a 25 basis point rate cut** at its Monetary Policy Meeting held on the 30th of January, bringing the repo rate down to 7.75%. This decision was largely influenced by the decline in inflation, which had fallen to the lower end of the SARB's target range of between 3% and 6%.

Economic indicators and market trends

December’s CPI print undershot consensus forecasts, recording a 3.0% year-on-year increase versus the consensus forecast of 3.2%. Food inflation remained in line with projections at 1.7% helped along by declining fuel prices. The SARB's composite leading business cycle indicator improved by 0.6% in November 2024, **signalling a positive economic outlook**. This increase was driven by improvements in the business confidence index, a rise in the number of building plans approved, as well as an increase in the average number of hours worked per factory worker in the manufacturing sector. Investors are keeping a keen eye on this indicator and a few more prints like this will provide a much clearer picture that the South African economy is heading in the right direction.

Sector and stock highlights

Amongst corporate news for the month of January, Reinet announced its decision to sell its 2% stake in British American Tobacco (BAT), marking the end of its long-standing investment in the company. This exit triggered a 2.9% decrease in BAT’s share price as a result of a R28 billion selloff, exhibiting its sharpest intraday decline since October 2024. Reinet’s share price moved in the opposite direction, suggesting that shareholders had grown weary of its association with the global tobacco company and the ongoing associated regulatory uncertainties.

Global markets: A volatile start to the year

U.S. politics and trade policies

Global markets remain focused on the return of former U.S. President Donald Trump. So far, his second term has taken a more cautious approach to tax and tariff policies than expected. However, Trump confirmed new tariffs: 25% on imports from Mexico and Canada and 10% on Chinese goods, set to take effect on the 4th of February. Just a day later, Trump paused these tariffs on Mexico and Canada for a further 30 days after reaching a border control agreement with Canadian and Mexican leaders. This decision **reaffirmed the Trump administration’s strong stance on immigration policies**. As a result, the Dow Jones and S&P 500 regained some of their previous day’s losses.

Despite volatility over the course of January, the S&P 500 has remained on an upward trajectory, gaining a further 2.8% over the past month and adding to its gains accumulated in 2024.

China’s AI breakthrough and market volatility

Global markets faced another shock in late January when Chinese startup, DeepSeek, announced a new AI large language model (LLM), claiming it was both cheaper and performed better than OpenAI’s technology. This **triggered a sharp sell-off in Nvidia, wiping out \$589 billion in market cap as shares plunged 17% overnight**. However, Nvidia rebounded nearly 9% the following day after investors started to challenge DeepSeek’s account of working on a shoestring budget, suggesting that the firm likely had access to more advanced chips and more funding than it had acknowledged. Alibaba also benefited from late January AI news releases. The company unveiled its own model, Qwen 2.5, claiming it outperformed DeepSeek’s model, leading to a 5.1% surge in Alibaba’s Hong Kong-listed shares.

The AI news flow that flooded headlines in January underscored just how competitive the AI landscape has become, with new LLMs emerging at a rapid pace, constantly reshaping industry benchmarks and redefining what users expect from cutting-edge models.

Eurozone inflation and monetary policy

In the Eurozone, inflation rose to 2.5% in January, up from 2.4% in December, marking the third consecutive month above the European Central Bank’s (ECB) 2% target. This persistent inflation has cast doubt on the likelihood of further monetary policy easing by the ECB in the near future. The 2025 economic outlook for the euro area is forecast to be challenging as the manufacturing sector continues to face headwinds from high energy costs and subdued external demand, particularly from China. Additionally, potential U.S. tariffs on European goods pose a risk to trade, which could adversely affect the euro area's export-driven economies. The ECB has a challenging year ahead as they will need to navigate through a fragile economy, stubborn inflation, possible U.S. tariffs hindering further growth, labour market shortages, all while a war rages on their doorstep.

Market indicators

Index	Value		Jan (%)		YTD (%)
All Share	85,957	▲	2.3%	▲	2.3%
S&P 500	6,041	▲	2.8%	▲	2.8%
FTSE 100	8,674	▲	6.2%	▲	6.2%
Rand/USD	19	▼	1.1%	▼	1.1%
Rand/GBP	23	▼	1.8%	▼	1.8%
Gold (\$)	2,813	▲	7.0%	▲	7.0%
Plat (\$)	1,033	▲	15.6%	▲	15.6%
Brent (\$)	77	▲	2.8%	▲	2.8%

CCM rates

Fund	Balance	Rate
CALL ACCOUNT	0.00 – 9 999.99	7.15%
	10 000 – 24 999.99	7.15%
	25 000 – 49 999.99	7.15%
	50 000 – 99 999.99	7.15%
	100 000 – 249 999.99	7.15%
CALL MONEY FUND: <i>Individuals</i>	250 000 – 999 999.99	7.57%
	1 000 000 – 9 999 999.99	7.57%
	250 000 – 999 999.99	7.57%
CALL MONEY FUND: <i>Non-individuals</i>	1 000 000 – 9 999 999.99	7.27%
	10 000 000 upwards	7.27%

Company results

Hudaco Industries Limited – Annual financial results for the period ended 30 Nov-24

Earnings per share	R19.7	<p>Time Period: 01/02/2024 to 31/01/2025</p>
Historical PE	11.3	
EPS growth	-5.0%	
Turnover growth	-5.8%	
ROE	15.1%	
Debt/Equity	37.7%	
NAV per share	R120.1	
Dividend yield	R0.1	
Share price	R200.2	

Nature of business

Hudaco Industries Ltd. engages in the importation and distribution of branded automotive, industrial, and electronic consumable products. It operates through the following segments: Group; Head Office, Shared Services; Consumer-Related Products; and Engineering Consumables. The Consumer-Related Products segment comprises automotive aftermarket products, batteries, power tool and fasteners, security equipment, and communication equipment. The Engineering Consumables segment consists of diesel engines and spares, bearings, mechanical power transmission, thermoplastic pipes and fittings, specialized steel, and electrical power transmission. The company was founded by J. Hubert Davies in 1891 and is headquartered in Edenvale, South Africa.

Latest results

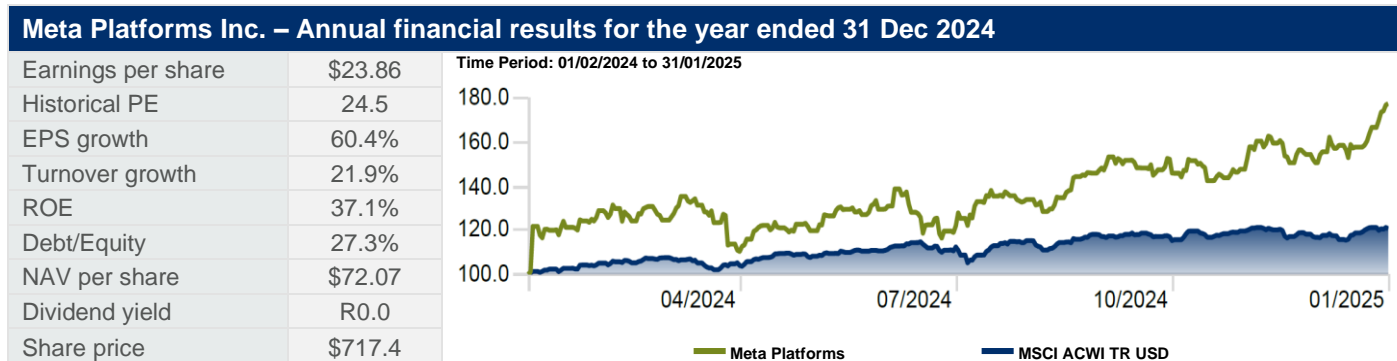
Hudaco faced a challenging first half in FY2024, with earnings declining by 15% but managed to claw back to 6% down at year end, thanks to a much stronger second half performance. A substantial reason for the difference in performance stems from the timing of the national election. The economy was in a state of flux in the months leading up to the elections and the establishment of a GNU, with most economic participants sitting on the sidelines until the results became clear. SA's port disruptions also weighed on performance over recent years. However, management is encouraged by recent improvements in the operation and infrastructure of South African ports through government collaboration, as well as a boost in consumer sentiment expected from the country's declining interest rate cycle and political stability post the GNU announcement.

Looking ahead, Hudaco remains optimistic about its growth opportunities in South Africa. The company plans to drive expansion through strategic acquisitions and the integration of new businesses to facilitate growth. Most notably, the recent acquisition of Isotec, which operates in the electrical and thermal insulation industry, provides greater exposure to a fast-growing sector within the South African economy.

We find Hudaco to be a large beneficiary of Operation Vulindlela due to the nature of the products and industries in which it operates, namely, manufacturing, mining, railway, generation and switchgear. We believe Hudaco is trading at attractive valuations and remain happy holders of the business within our portfolios.

Dividend

Hudaco has kept their dividend at a flat rate of 1025c per share following their FY2024 results released on the 6th of February 2025. We expect this dividend to rise in the years to come as debt and debt servicing costs are paid down and new acquisitions are fully integrated into current operations.



Nature of business

Meta Platforms Inc. engages in the development of social media applications. It builds technology that helps people connect and share, find communities, and grow businesses. It operates through the Family of Apps (FOA) and Reality Labs (RL) segments. The FOA segment consists of Facebook, Instagram, Messenger, WhatsApp, and other services. The RL segment includes augmented, mixed and virtual reality related consumer hardware, software, and content.

Latest results

Meta's Q4 earnings report showcased record profitability for the 2024 fiscal year, driven primarily by ad revenue and the successful monetization of its AI investments across its core social media and digital advertising platforms. As a result, Meta reported a 21% year-over-year increase in sales, reaching an impressive \$46.8 billion, while also expanding operating margins by 700 basis points to 48%.

Looking ahead, Meta's generative AI tools position the company well to reduce ad creation costs, ultimately enhancing advertisers' returns on ad spend and strengthening its foothold in the growing AI boom. Meta ramped up capital expenditure in 2024 and plans to continue investing heavily in AI research and development in 2025 with management planning to spend \$65b in research and development, with these investments already starting to pay off. In the future, leveraging AI could further reduce operating expenses, resulting in a win-win scenario for Meta.

Dividend

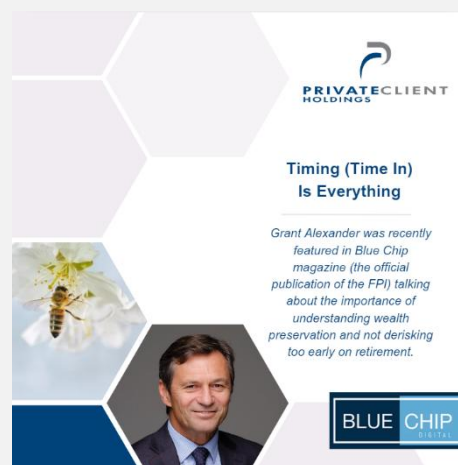
Meta has a low dividend yield of 0.34% as expected from most U.S. tech mega cap stocks that reinvest heavily in research and development for future growth opportunities.

Snippets

Timing (Time In) Is Everything

Given current longevity trends, it is not unusual for people to live to 95, which means they can spend up to 30 years living off the capital they spent 40 or so years generating. For many investors, the wealth preservation phase is likely to be longer than they had planned for. It's important therefore that investors do not derisk their portfolios too early and reduce their potential returns as they could face financial shortfalls in their later years.

Read the full article on pages 30 & 31, written by Grant Alexander (Director of Private Client Holdings) on the importance of understanding wealth generation and preservation [here](#).



Dividends payable

Dividends in LDT order					
Company	Decl	LDT	Pay	Amt	Curr
KAL Group Ltd. (KAL GROUP)	26-Nov	11-Feb	17-Feb	126	ZARc
Nampak Ltd. (NAMPAK 6.5)	24-Jan	11-Feb	17-Feb	6.5	ZARc
Exchange Traded Funds (PIPAMETF)	06-Feb	11-Feb	17-Feb	5.85	ZARc
Exchange Traded Notes (NEWWVEEUR)	04-Feb	18-Feb	24-Feb	28	ZARc
Exchange Traded Notes (NEWWVEGBP)	04-Feb	18-Feb	24-Feb	50	ZARc
Exchange Traded Notes (NEWWVEUSD)	04-Feb	18-Feb	24-Feb	40	ZARc
Trencor Ltd. (TRENCOR)	28-Jan	18-Feb	24-Feb	730	ZARc
Hudaco Industries Ltd. (HUDACO)	06-Feb	25-Feb	03-Mar	700	ZARc
Tharisa plc (THARISA)	28-Nov	25-Feb	21-Mar	3	USDc



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