

**OPINION**

COBUS CILLIERS: SA retailers' optimism trumps tariff worries

'GNU trade' has resulted in some SA-centric company's share prices rising anywhere between 50% and 100% from trough to peak

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by COBUS CILLIERS



Donald Trump

"When it rains gold, put out the bucket, not the thimble". This famous quote by Warren Buffett on deploying a decent amount on capital on

good ideas is as valid today as it was a decade-and-a-half ago.

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“You don’t need to swing at every pitch,” is another example of Buffett’s wisdom. Given his analogy that the market is a “no-called-strike game”, his baseball analogy becomes even more meaningful. Investors can keep waiting for the perfect pitch before deploying capital, and once all the stars align, you can take a swing at the pitch.

We believe the stars are aligning for SA retailers in the current environment, and sticking to the two quotes above we are taking a swing at this pitch and also getting ready to put out more than one bucket as the stars keep aligning.

Our current optimism for the SA retail sector is rooted in our enjoyable experience in 2024. As Mark Twain said, “History doesn’t repeat itself but it often rhymes.”

In 2024 we took a decent swing at what is now referred to as the “GNU trade”. SA asset managers that were receptive and expeditious in identifying this trade and were able to take a swing at this pitch, would have been handsomely rewarded for their efforts.

The “GNU trade” caused by the favourable outcome post the May 2024 elections, saw some SA-centric company share prices rise by anywhere between 50% and 100% from trough to peak. Hindsight being 20/20, everyone in the SA market wished they had put out more buckets during this positive return period.

We believe a similar situation is currently developing, with potentially similar return outcomes. The environment for SA retailers, in particular SA discretionary retailers, is evolving in a very positive

manner. If this positive narrative evolves as we anticipate, it will create a situation where some of the SA retailers could deliver spectacular returns between now and the end of the year.

With the enormous amount of global and local political noise, it becomes easy to not see the forest for the trees. So these are some reasons we think companies such as Truworths, The Foschini Group, Pepkor, Mr Price, Lewis and even Motus could do so well.

We believe the rand will continue to appreciate against the dollar. The dollar has been, and continues to be, weaker against all major currencies, as illustrated by the decline of the DXY index (the dollar index) of late.

We have also seen SA inflation coming in at low levels. With expectations of even lower food inflation due to declining input costs from lower maize, wheat and sugar prices, consensus inflation forecasts are for further declines in 2025 (from the recent print of 3.3%). Subsequently, economists are also now predicting one or even two rate cuts this year. That is incredibly good for SA discretionary income.

The VAT hike has been scrapped and that, combined with further potential cuts to petrol and diesel prices due to lower oil prices, will also support higher levels of disposable income.

Another incrementally positive development for the discretionary retailers was the change in the *de minimis* tax rule that used to allow small online purchases under R500 to be taxed only at a flat 20% customs duty, without levying VAT. This rule changed in September 2024, and now all purchases are also subject to an additional 15% VAT, which helps level the playing field between the SA retailers and companies such as Temu and Shein.

Turning to politics and geopolitics, the GNU is holding for now but its fragility is keeping foreign investors nervous. A healthy reset would be significantly positive, while its demise would undoubtedly be negative for SA assets.

The US tariffs are having a ripple effect globally. For SA, due to the effective US tariff wall on Chinese imports we expect the resulting supply surplus on apparel to look for other markets, and SA could very well benefit from lower prices. This, combined with significantly

lower shipping rates, could materially benefit local retailers with global supply chains.

Finally, the regime change brought about by the tariff war is likely to cause reallocation of global capital flows. The US currently represents a highly undiversified 65% of MSCI World index, and it is highly unlikely that it would continue to attract two out of every three global equity dollars. Reallocation to rest of world equities could see passive foreign inflows into emerging markets, and thus SA.

Emerging market consumers are also benefiting from lower oil, food and manufactured goods prices, which should result in more rate cuts in emerging markets. These markets are more rate sensitive than the US.

We see a healthier environment for SA consumers and SA discretionary retailers. We have our buckets ready and we are ready to take a swing. Batter up!

- *Cilliers is a fund manager for the All Weather BCI Best Ideas Equity Fund and equity analyst at All Weather Capital.*