Prosperity

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Private Clients
by Old Mutual Wealth

ECONOMIC UPDATE

It has been a year of twists and turns, and tariff uncertainty has added another layer. In late August, a US appeals court ruled that many of President Trump's tariffs were invalid, saying he overstepped his authority by using "economic emergency" laws. Some duties, like the 50% tariffs on Brazil and India, appear more political than economic. The tariffs remain in place until 14 October while the administration appeals to the Supreme Court, which may limit or overturn them. This raises the odds that tariffs won't persist at extreme levels, though the timing of the resolutions remains unclear.

Despite the noise, tariffs have not derailed global growth. Low interest rates, a softer dollar, AI-related spending and fiscal stimulus are providing support. Businesses have absorbed much of the tariff cost, shielding US consumers for now. Household spending is still firm, though easing, while employment growth has slowed. Revised data shows weaker job creation than initially reported, and immigration crackdowns are curbing labour force growth, keeping unemployment broadly steady.

At Jackson Hole, Fed Chair Jerome Powell warned that labour market risks are rising. While tariffs push prices higher, he views the inflation impact as temporary, suggesting that rate cuts could resume in September. Still, the Fed must balance uncertainty on both inflation and employment. This is complicated by unprecedented political pressure: Trump has openly demanded deeper cuts and even fired a senior Fed official, despite questionable authority. Markets now expect a more dovish Fed, which could lift growth and equities in the short term but undermine long-term central bank independence. A less independent Fed risks higher inflation and reckless activity in the financial sector since in addition to setting interest rates, the Fed is also key regulator. Ultimately, this would lead to higher long-term interest rates, the opposite of Trump's goal.

Elsewhere, central banks from the UK to Australia, New Zealand, Indonesia and others continued cutting rates in August, facing no tariff-driven inflation pressures.

SA is unlikely to follow soon. With the SARB targeting the lower end of the 3% - 6% inflation range, further cuts require more certainty that inflation will stay near 3%. Consumer inflation rose to 3.5% in July, driven by higher food prices, while core inflation (excludes food and fuel) was 3%. An Eskom-Nersa settlement points to steep electricity hikes in 2026 and 2027, adding pressure. However, the SARB has met its targets before and is expected to again, supporting lower rates over time.

Structural reforms are also taking shape. The transport minister announced that 11 private bids were accepted to operate 41 routes across Transnet's six rail corridors, potentially unlocking R100 billion in investment. Breaking Transnet's monopoly is a vital step toward improving infrastructure, boosting exports and strengthening SA's long-term competitiveness at a time when global trade patterns are shifting.

MARKET UPDATE

Global markets rallied in August, driven by strong US corporate earnings, improved risk sentiment and growing expectations of a Fed rate cut. The MSCI World Index rose 2.6%.

US equities gained steadily: the S&P 500 ended the month up 1.9%, the Dow Jones climbed 3.2% to a record, and the Nasdaq rose 1.6%, marking its fifth consecutive monthly gain. The FTSE 100 in the UK posted a more modest 0.6% increase.

In Asia, Chinese equities surged, with the Shanghai Composite up 8% and the Hang Seng ending the month 1.2% higher. Japan's Nikkei rose 4%.

Locally, the JSE All Share Index extended its winning streak to six months, up 3.4%, led by the Resi-10 (+11.6%). The Indi-25 (+1.2%) and Fini-15 (+1%) posted smaller gains. The rand strengthened 3.1% against the US dollar. Brent crude fell 6.1% to US$68.12 per barrel, while gold surged 4.8%.

S&P Global

S&P Global posted a solid second quarter, with revenue up 6% to US$3.8bn and adjusted earnings per share (EPS) rising 10% to US$4.43. Strong performance came from S&P Dow Jones Indices and Market Intelligence.

The Ratings segment, now the largest profit contributor, showed muted growth as bond spreads widened and issuers were cautious about refinancing. Management expect low single-digit bond issuance growth for the rest of the year, but remain optimistic long term. With an estimated US$12tr in debt to refinance over the next five years, S&P Global is well positioned to benefit.

Microsoft

Microsoft exceeded expectations in the fourth quarter, with revenue up 18% to US$76.4bn, operating income 23% higher, and net income up 24% to US$27.2bn. Intelligent Cloud led growth (+26%), with Azure up 39%, while Productivity and Business Processes rose 16% on strong Microsoft 365 demand. More Personal Computing grew 9%, driven by search, news advertising, and gaming.

Capital expenditure reached US$24.2bn, mostly in AI and cloud infrastructure, while free cash flow rose 10% to US$25.6bn. Management expect double-digit revenue and operating income growth in full year 2026, with stable margins. Capex will continue rising, weighted toward the first half.

Stryker

Stryker delivered strong second quarter results, exceeding expectations. Organic sales rose 10.2%, with reported revenue up 11.1% and adjusted EPS rising 11.4% to US$3.13. MedSurg and Neurotechnology led growth, with the US posting 12.5% organic growth.

Strategically, Stryker sold its slower-growing Spinal Implant business to focus on higher-margin areas, while maintaining a healthy M&A pipeline and strong balance sheet. Guidance was raised to 10% revenue growth and 10% – 12% EPS growth for the year. Long term, the company is well placed to benefit from demand for innovative, minimally invasive surgical solutions.

Amazon

Amazon delivered solid half-year results, with sales and operating income exceeding guidance. All divisions reported double-digit growth, with sales up 11% and operating profit rising 25%. Pre-purchasing inventory ahead of anticipated tariffs impacted operating cash flow and may have driven frontloading of consumer purchases. Management remain uncertain about tariff effects in the second half amid ongoing trade negotiations.

Amazon Web Services (AWS) continued to expand, securing new contracts and adding capabilities. While growth was slower than some peers, AWS retains the largest global cloud market share. Management emphasised continued investment in capacity to support future growth.

Berkshire Hathaway

Berkshire Hathaway reported second quarter net earnings of US$12.4bn, down from US$30.3bn a year ago, largely due to a US$5bn impairment on Kraft Heinz and smaller equity gains. Total revenue edged lower to US$92.5bn, reflecting softer performance at BNSF and manufacturing.

The company's financial position remains strong, supported by growing insurance earnings and a robust balance sheet. Operating earnings stayed solid, with insurance underwriting and premiums showing stability. BNSF and utilities were flat to weaker due to lower volumes and rising costs, while manufacturing and retailing were impacted by softer demand.

The equity portfolio declined slightly to US$267.9bn, led by Apple. Investment gains of US$6.4bn were offset by the Kraft Heinz write-down. Cash rose to a record US$96.2bn in the insurance segment, with total cash and T-bills at around US$340bn. No share repurchases were made, reflecting Buffett's view of stock valuation.

Zoetis

Zoetis delivered strong second quarter results, with total revenue up 8% organically to US$2.5bn. US revenue increased 7% and international operations rose 9%. Companion animal and livestock sales grew 8% and 6%, respectively. Operating expenses grew 5%, mainly from higher selling and administrative costs, supporting a 10% rise in organic net income.

Growth was driven by companion animal products, particularly Simparica Trio and dermatology treatments, and by livestock sales across key species internationally, including swine in China and vaccines in Latin America.

Management raised guidance modestly, expecting operational revenue growth of 6.5% – 8% and adjusted net income growth of 5.5% – 7.5%, reflecting strong first-half performance.

LOCAL EQUITIES

Anglo American

Anglo American's interim results showed a clear split between strong core assets, like copper and iron ore, and weaker non-core businesses. Revenue fell 7% to US$8.95bn and underlying EBITDA dropped 20% to US$3bn, largely due to a US$500m decline at De Beers. EBITDA margins contracted to 32%.

Copper and premium iron ore delivered strong margins of 48% and 44%. Platinum was demerged, and agreements are in place to sell steelmaking coal and nickel, with De Beers also being sold. Operating cash flow fell to US$3.3bn, but free cash flow rose to US$322m due to lower capex. Net debt rose slightly to US$10.8bn, with liquidity at US$12bn.

Management reaffirmed full-year guidance, with copper production expected to support stronger second-half results. Portfolio simplification and investment in Chile and Peru aim to boost margins and EBITDA contribution from copper to over 60%.

Mondi

Mondi's half-year results fell short of expectations. Underlying EBITDA was flat at €564m, with gains in Corrugated and Flexible Packaging offset by weaker Uncoated Fine Paper. Revenue rose 4.6%, but EBITDA margin fell from 15.1% to 14.4%. Underlying EPS declined 18.3% to €42.7 cents. Operational cash flow increased 11.8% to €416m. Net debt rose 52% to €2.64bn due to portfolio investments.

Management expect some relief on input costs and working capital inflows during the second half. Guidance incorporates the Schumacher acquisition, with full-year capex unchanged at €750m–€850m.

Glencore

Glencore's first half saw adjusted EBITDA fall 14% to US$5.4bn, with industrial earnings down 17% to US$3.8bn due to weaker coal prices and lower copper production. Marketing EBIT declined 8% to US$1.4bn.

Management is targeting US$1bn in recurring cost savings and expect copper production to rebound in the second half. The sale of Viterra generated US$900m in cash and Bunge shares worth US$2.6bn, funding a US$1bn share buyback. Long-term marketing EBIT guidance was raised 16% to US$2.3bn–US$3.5bn, and strong cash flow should enable debt reduction and further capital returns.

Standard Bank

Standard Bank's interim results exceeded guidance, with HEPS up 10%, return on equity at 19.1%, and positive jaws of 60bps. Growth was driven by Corporate & Investment Banking and the rest of Africa, while SA Retail and Commercial Banking remained under pressure. The interim dividend rose 10% to R8.17.

Full-year guidance remains for mid-single-digit HEPS growth, stable cost-to-income, and ROE of 17–20%. The rest of Africa is expected to continue driving growth amid a challenging SA credit environment.

MTN

MTN reported strong interim results, supported by favourable macro conditions. Service revenue rose 22.4% to R105.1bn, EBITDA grew 42.3% to R45.8bn, and the EBITDA margin improved to 44.2%. Subscribers reached 297.7m (+4.7%), with 164.4m active data users and 29.1% higher data traffic.

Medium-term service revenue guidance was raised to "at least high teens." Despite strong results, shares fell 8% after news of a US DOJ inquiry into operations in Iran and Afghanistan, a risk being closely monitored.

Bidcorp

Bidcorp delivered solid full-year results, with revenue up 6.8% in constant currency and EPS rising 9.6% to R26.36. Performance was strongest in SA and the UK, while Greater China remained subdued. The board declared a final dividend of R6.00 per share (+6.2%).

Four bolt-on acquisitions were completed, with more under consideration. Management remain optimistic about medium-to-long-term growth, maintaining a cautious approach to ensure alignment with strategic objectives.

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