

INVESTMENT NOTE

3 NOVEMBER 2025

INTEREST RATE RIDDLES

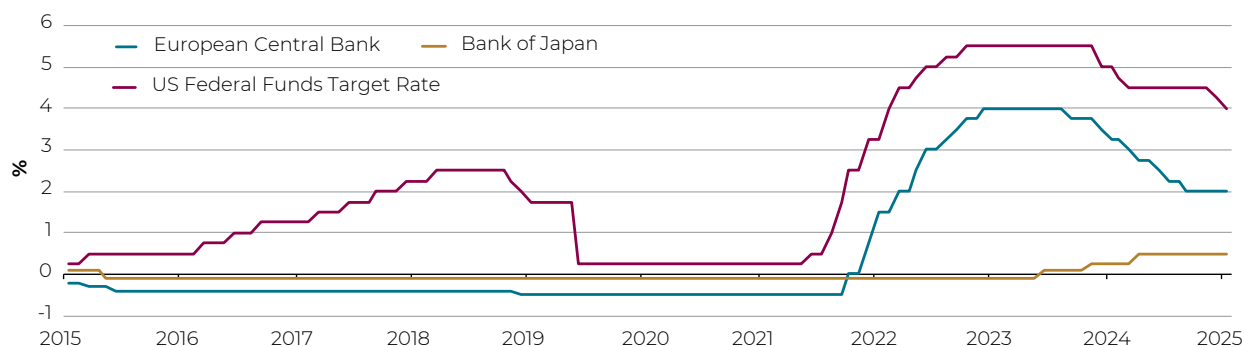


IZAK ODENDAAL

The past week was a busy one for central banks in three major economies. These scheduled policy meetings took place against the backdrop of somewhat easing concerns over the health of the global economy, despite ongoing uncertainty. However, each of the three central banks faces a unique set of challenges, leading to different responses.

Let's start with the most important one, the US Federal Reserve cut its policy rate by 25 basis points to a range of 4% to 4.25%. While the decision was expected, it doesn't mean it was straightforward. Two committee members dissented, which is rare enough, but they dissented in different directions. Stephen Miran, an economic adviser to US President Donald Trump and temporary member of the Fed Board of Governors wanted a larger rate reduction. The president of the Federal Reserve Bank of Kansas City, Jeff Schmid, voted for no change.

CHART 1: POLICY INTEREST RATES



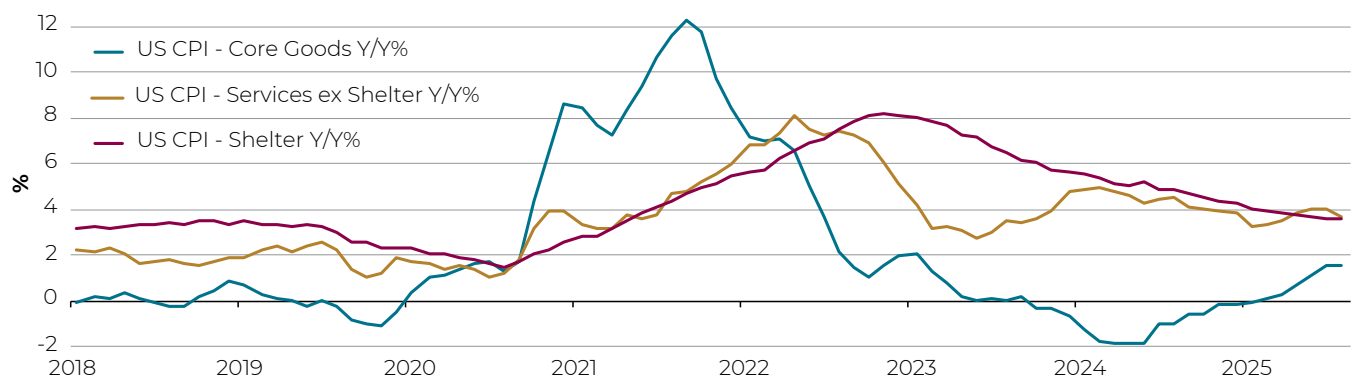
Source: LSEG Datastream



Apart from internal disagreement, the Fed faces the additional problem of a lack of official data on the state of the US economy as the government shutdown drags on. The consumer price index for September was released because it has important practical implications beyond economic analysis: social security benefits are indexed to the CPI, as are inflation-protected bonds. However, it is not a given that October CPI data will be released if the shutdown continues, and there is still no sign of a breakthrough in Washington.

Consumer inflation rose to 3% in September. While economists expected a slightly higher number, the fact remains that inflation is rising away from the 2% target, and it is highly unusual for the Fed to be cutting rates when inflation is increasing. Then again, these are unusual times. The silver lining is an ongoing steady decline in rental inflation, which partly, due to the way it is measured, has long been elevated and slow to decline. Non-housing service inflation did not rise further but remains sticky around 4%, however.

CHART 2: US INFLATION DRIVERS



Source: LSEG Datastream

Even with an abundance of data, the Fed's decisions would still not be simple. It has a dual mandate of stable prices and low unemployment, and the scorecard on these two goals is mixed. Tariffs are placing some upward pressure on inflation, even though the impact has been muted to date. Employment growth has been cooling, but given the sharp drop in immigration, the US economy needs fewer new jobs to maintain a low unemployment rate. There are no indications of a widespread increase in retrenchments, a few high-profile announcements notwithstanding. The housing market remains in the doldrums, but other sectors

are holding up well, as suggested by privately produced purchasing managers' indices.

Adding to this mixed picture is of course the constantly evolving trade policy landscape. Trump and his Chinese counterpart, Xi Jinping, agreed to a one-year trade truce last week. It will keep open the flow of rare earths from China, while the US will cut tariffs on China somewhat. This does not resolve any of the underlying tensions but will relieve some of the inflationary pressures Powell and company are worried about and, more importantly, reduce downside growth risks.

FAR FROM FOREGONE

At the post-meeting press conference, Fed chair Jerome Powell made it clear that a December rate cut was far from a "foregone conclusion". Having lowered interest rates to a more accommodative level, it seems possible that the Fed can pause a bit and assess the situation, though it would be wishful thinking that there will be clarity any time soon. This is at odds with market expectations for ongoing rate cuts.

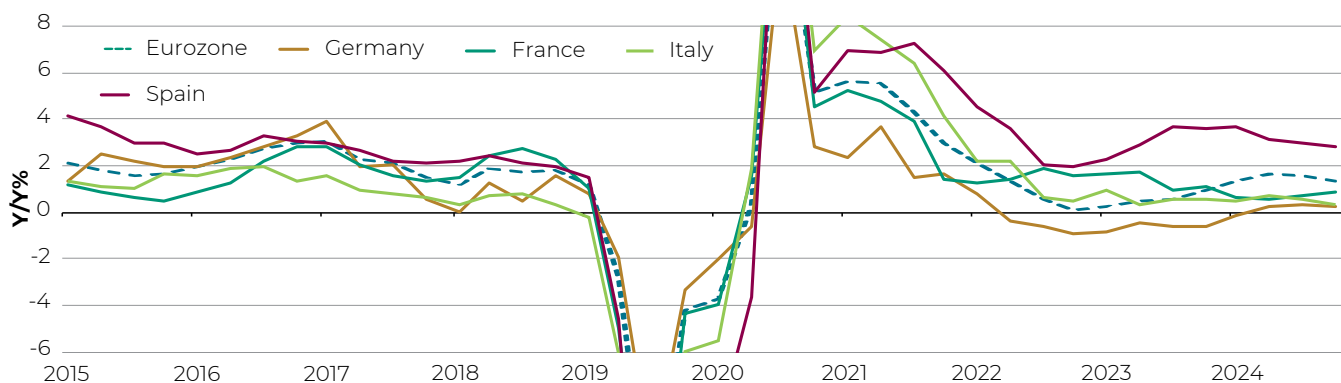
For the technically minded, it should also be noted that the Fed decided to stop shrinking its balance sheet. Whereas in the past, decisions to expand or contract its balance sheet was a direct policy intervention to influence long-term interest rates, it is increasingly about ensuring that banks have enough of a special form of cash known as reserves so that the financial system can function properly.

ONE RATE, MANY COUNTRIES

Across the Atlantic, the European Central Bank (ECB) left rates unchanged at 2% in a widely expected decision. Its core difficulty is not that its twin mandates are pushing in different directions, as in the case of the Fed. The ECB has

a single objective: to keep inflation at 2%. However, its problem remains that it must set policy for 19 different countries, each usually at a slightly different point in its business cycle.

CHART 3: EUROPEAN REAL ECONOMIC GROWTH



Source: LSEG Datastream (Note truncated axis around the pandemic)

Overall economic growth in the eurozone has been decent, expanding by 1.3% in the four quarters to end September. However, among the four biggest Eurozone members, France grew by 0.9%, while Italy has been crawling along at only 0.3%. Germany also grew 0.3%, barely recovering from the 2022 to 2023 energy crisis-induced recession. In contrast, Spain has been booming, posting almost 3% growth. With a stronger economy, Spain has firmer inflation of 3.1% in October, while Germany's inflation rate was 2.3% and France at 1%. Overall, eurozone inflation was 2.1% in October.

The ECB started its cutting cycle well before the Fed, and reduced rates by 200 basis points between May 2024 and June 2025. It has been on pause for the last three meetings. With inflation near target and the Eurozone economy on a sounder footing, it can be patient in assessing how the economic and inflation outlook responds to its earlier rate cuts.

THE OUTLIER

Alone among major central banks, the Bank of Japan (BoJ) has been gradually increasing its policy interest rates after three decades of low and even negative borrowing costs. Its problem in the 21st century has been that inflation is too low. Therefore, it was uniquely relieved when the global post-Covid inflation surge also pushed Japanese inflation upwards. However, since this was mostly due to food and energy prices and a weak yen, there are question marks whether it will be sustained. For firms to continue increase prices by around 2% a year, there will have to be the kind of wage growth that gives consumers enough purchasing power to absorb such price increases. Therefore, the BoJ has proceeded very slowly, with only three small increases in the past 18 months, taking its policy rate from -0.1% to 0.5%.

There was no change at last week's meeting, which came soon after the election of Sanei Takaichi, Japan's first female prime minister. Takaichi is a proponent of "Abenomics" (named after her mentor, the late Shinzo Abe), a policy package of structural reform, fiscal spending and very loose monetary policy. She has previously stated that the BoJ should align itself with the government's economic policy and once called its rate hikes "stupid". As prime minister, she is likely to be more tactful and give the BoJ space to do what it needs to, but the market is scaling back expectations of future rate increases, weakening the yen.

Nonetheless, closer cooperation between monetary and fiscal policymakers could be something that spills over from Japan to the rest of the developed world. It would not be

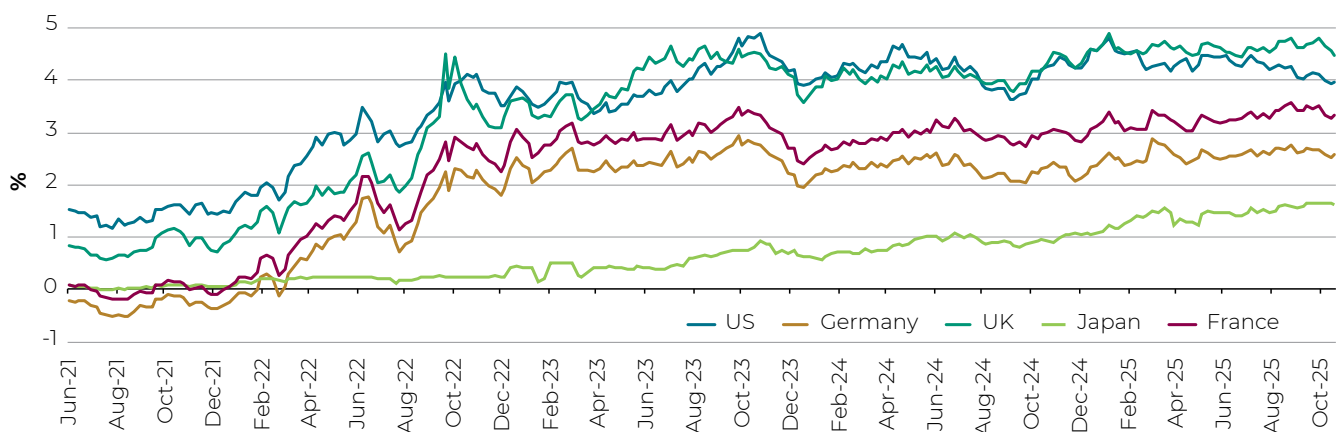
the first time that Japan is a leading indicator, as its long battle against deflation made it a bit of a policy laboratory.

Fiscal dominance, as academics call it when a government's spending, taxation and borrowing needs dictate or constrain what central banks can do, could be making a comeback. In the years following the 2008 global financial crisis, central banks were "the only game in town" to borrow the title of a prominent book on the subject. Fiscal policy was in retreat due to an unnecessary (at the time) obsession with government debt, and central banks stepped into this vacuum. The Fed embarked on several rounds of quantitative easing, and it was the ECB that ultimately ended the eurozone debt crisis with President Mario Draghi's "whatever it takes" commitment. When the Covid crisis hit, central banks again stepped in forcefully, but this time there was

fiscal stimulus too. By 2025, most of the talk has been about fiscal matters, such as US tax cuts and German defence spending.

Central banks remain important, but this importance could be fading in two important respects. Firstly, central banks only control short-term interest rates, but what matters for the economy is broader financial conditions, including market-based interest rates. One prominent example was how the Fed's hiking cycle in 2022 was blunted by the fact that most American homeowners had fixed their mortgage rates at very low levels and were largely unaffected. More recently, we saw government bond yields increase across several developed countries even as central banks lowered short-term rates.

CHART 4: 10-YEAR GOVERNMENT BOND YIELDS, LOCAL CURRENCY



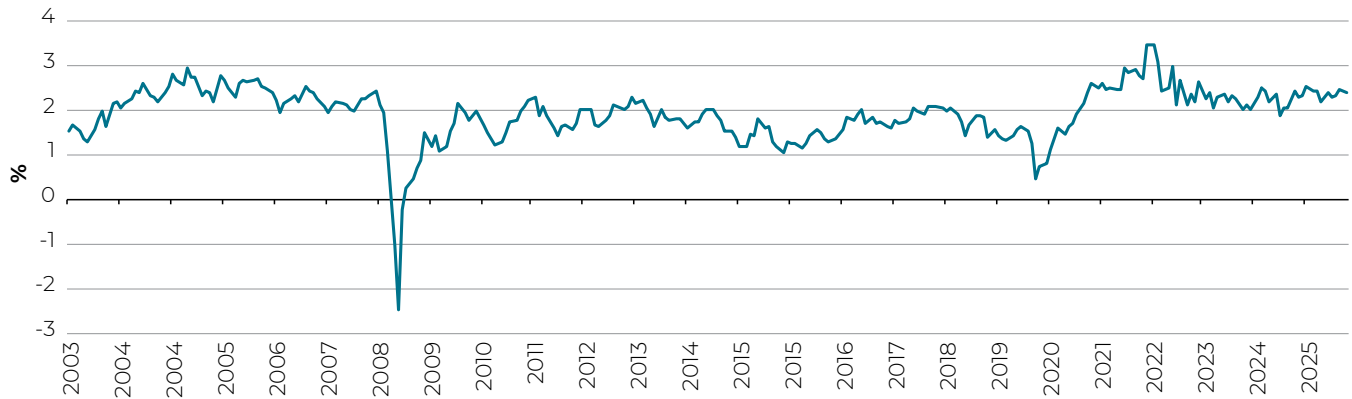
Source: LSEG Datastream

Secondly, central banks have been criticised for overstepping their mandates. Trump's Treasury secretary, Scott Bessent, has made this claim, but he is far from the first. Recent years have seen central banks involved in discussions around inequality and climate change, for instance, which some argue is beyond the scope of monetary policy. Moreover, there will always be tension between unelected technocrats in the central bank making important decisions, and democratic accountability. This points to a narrower focus from the Fed when Powell's successor is appointed early next year. The longer-term question of how the Fed will help the Treasury manage its debt load remains to be answered but comes with risks.

The reason why central banks were given independence to set policy without political interference is because elected officials will almost always prefer lower interest rates and a hot economy. An independent central bank can take a view

beyond the next election cycle to keep inflation in check longer-term.

But we should also acknowledge that the role of central banks has continuously evolved over time and will continue to do so. The oldest central banks such as the Bank of England simply existed to help the government borrow money. By the early 20th century, crisis fighting became more important and the Fed was created in the wake of the Panic of 1907. The early 1950s were an era of financial repression, where central banks kept rates low to help governments reduce debt incurred to fight the war. The global wave of central bank independence around the 1980s and 1990s was largely in response to the inflation crisis of the 1970s, while the unorthodox policies of the 2010s were in response to the 2008 crisis. The next crisis might well be related to government debt, which could require a different reaction function and toolkit.

CHART 5: US 10-YEAR BREAKEVEN INFLATION RATE

Source: LSEG Datastream

For now, markets seem relaxed about all this. Longer-term inflation expectations embedded in bond markets (the difference between nominal and inflation-protected yields) have moved sideways over the past three years as chart 5 shows. Though the implied inflation rate is higher than before Covid, it is not rising, suggesting that the market is not pricing in a strategy of inflating away government debt over the next decade. At least not today. What actually happens ten years from now is unknowable.

For now, we can summarise the picture as follows: outside of Japan, interest rates across the world have declined notably from the 2022/23 peaks. This is supportive for

economic activity and has been an important offset to recent tariff-related headwinds. Lower rates are also typically good for equity valuations. If the rate-cutting cycle is now near its end, it will disappoint some investors, but it will matter why. A continuation of the cycle can be for good or bad reasons. Rate cuts due to economic weakness and rising unemployment would not be a good sign, but if the cuts are due to subdued inflation, markets will cheer. Similarly, if central banks in major economies stop cutting rates because economic growth is holding up, that is not a bad thing. However, if they stop out of concern of a revival of inflation, particularly in the US, it would be a different matter altogether.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	4 390.0	0.43%	1.93%	18.39%	20.37%
United States	S&P 500	US\$	6 840.0	0.71%	2.27%	16.29%	19.89%
Europe	MSCI Europe	US\$	2 512.0	-1.37%	0.60%	25.41%	20.02%
Britain	FTSE 100	US\$	12 780.0	-0.46%	1.65%	24.95%	22.18%
Germany	DAX	US\$	2 321.0	-2.23%	-2.11%	16.43%	29.74%
Japan	Nikkei 225	US\$	340.3	5.53%	12.04%	34.10%	32.40%
Emerging Markets	MSCI Emerging Markets	US\$	1 402.0	0.94%	4.16%	30.42%	25.18%
Brazil	MSCI Brazil	US\$	1 588.0	2.12%	0.70%	34.92%	12.94%
China	MSCI China	US\$	86.0	-1.53%	-3.87%	33.32%	30.71%
India	MSCI India	US\$	1 051.7	-1.12%	4.34%	2.71%	-0.78%
South Africa	MSCI South Africa	US\$	656.0	-2.09%	0.15%	52.56%	37.53%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	109 244.0	-1.09%	1.21%	29.91%	27.94%
All Share	All Share (Total Return)	Rand	20 584.0	-1.08%	1.64%	33.90%	32.25%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	50 164.8	-1.09%	1.81%	33.31%	31.65%
TOP 40/Large Caps	Top 40	Rand	18 943.0	-1.14%	1.34%	39.06%	35.85%
Mid Caps	Mid Cap	Rand	30 049.0	-1.72%	1.36%	19.51%	17.12%
Small Companies	Small Cap	Rand	50 167.0	-0.34%	5.04%	13.29%	21.22%
Resources	Resource 20	Rand	9 445.3	-1.64%	-5.41%	109.42%	83.69%
Industrials	Industrial 25	Rand	32 207.0	-0.67%	1.68%	23.71%	26.86%
Financials	Financial 15	Rand	18 198.0	-1.62%	8.39%	15.90%	14.60%
Listed Property	SA Listed Property	Rand	2 910.7	1.46%	7.84%	21.13%	23.60%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government S&P Overall (USD Unhedged)		US\$	77.0	-0.51%	-0.73%	4.23%	1.54%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 289.4	0.36%	2.56%	16.94%	20.09%
Government Bonds	BESA GOVI	Rand	1 266.2	0.35%	2.51%	16.62%	19.77%
Inflation Linked Bonds	BESA CILI	Rand	408.0	0.36%	1.46%	8.34%	10.37%
Cash	STEFI Composite	Rand	632.2	0.13%	0.59%	6.30%	7.70%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	64.8	-1.77%	-1.86%	-13.64%	-11.27%
Gold	Gold Spot	US\$	4 004.0	-2.63%	4.11%	53.06%	43.87%
Platinum	Platinum Spot	US\$	1 561.0	-1.33%	-2.32%	70.60%	54.71%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	17.33	-0.32%	-0.34%	8.74%	1.64%
ZAR/Pound	ZAR/GBP	Rand	22.78	0.83%	1.93%	3.73%	-0.35%
ZAR/Euro	ZAR/EUR	Rand	19.99	0.41%	1.41%	-2.20%	-4.20%
Dollar/Euro	USD/EUR	US\$	1.15	0.87%	2.00%	-10.00%	-5.22%
Dollar/Pound	USD/GBP	US\$	1.32	1.21%	1.89%	-4.96%	-1.92%
Dollar/Yen	USD/JPY	US\$	0.01	0.74%	4.11%	-2.03%	1.29%

Source: I-Net, figures as at 31 October 2025

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