

INVESTMENT NOTE

15 SEPTEMBER 2025

BEHIND THE HEADLINES



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If you've followed the news recently, you'd probably say that South Africa is falling apart. The fight against organised crime and corruption seems to be going backwards. However, if you look at local financial markets, there is an upward trajectory. What gives?

BAD NEWS SELLS

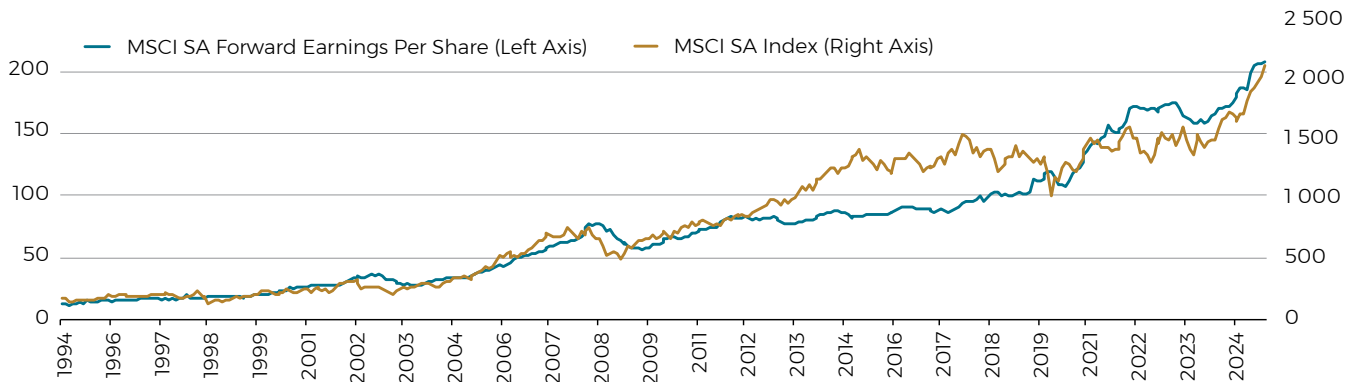
Firstly, we are very lucky in South Africa to have a free press and dedicated investigative journalists working on exposing truths. Many corrupt schemes have been cracked open by brave reporters, and often it is the media that pushes government agencies into action. However, the news doesn't give the full picture. Negative or shocking headlines will always grab more attention, and attention sells newspapers. You will never see a headline along the lines of "things were fine today". Yet many things still work well every day in a R7 trillion per year economy of 60 million people. People go to work, children go to school, families celebrate and mourn together, communities gather in churches and mosques and so on. Millions of daily interactions and transactions go unreported because they are unremarkable, but they are also the bedrock of the economy and society.

Secondly, financial markets also do not reflect the full picture. It is only the largest companies that list on the JSE, and sometimes the strong get stronger in tough economic conditions as weaker players fall by the wayside. Good companies don't need a robust economic environment to be profitable, but smaller firms often do. Moreover, few JSE-listed companies are reliant only on the South African business climate. For instance, the announced merger of Anglo American and Teck Resources will pull Anglo further from its South African roots to being a Canadian headquartered global mining giant. But it will retain its listing in Johannesburg. Of the top 10 companies by market value on the JSE, only Capitec and FirstRand really count as local companies if we consider where most revenues are generated. The biggest property company on the JSE by market value, NEPI, runs an Eastern European real estate portfolio.



WEALTH

CHART 1: SA EQUITY PRICE AND EARNINGS



Source: LSEG Datastream

The hodge podge of local and international firms listed on the JSE is collectively growing profits at a steady pace despite a lacklustre South African economy (more on this below). The surge in precious metal prices clearly helps, with gold up 38% year-to-date and platinum 50%. The gains in local equities this year have been on the back of strong earnings

growth, and the bottom-up analyst consensus view is that this continues next year. It means that despite the rally, the local market still trades on an attractive forward price: earnings ratio of around 10x, a starting point that has historically delivered solid long-term real returns.

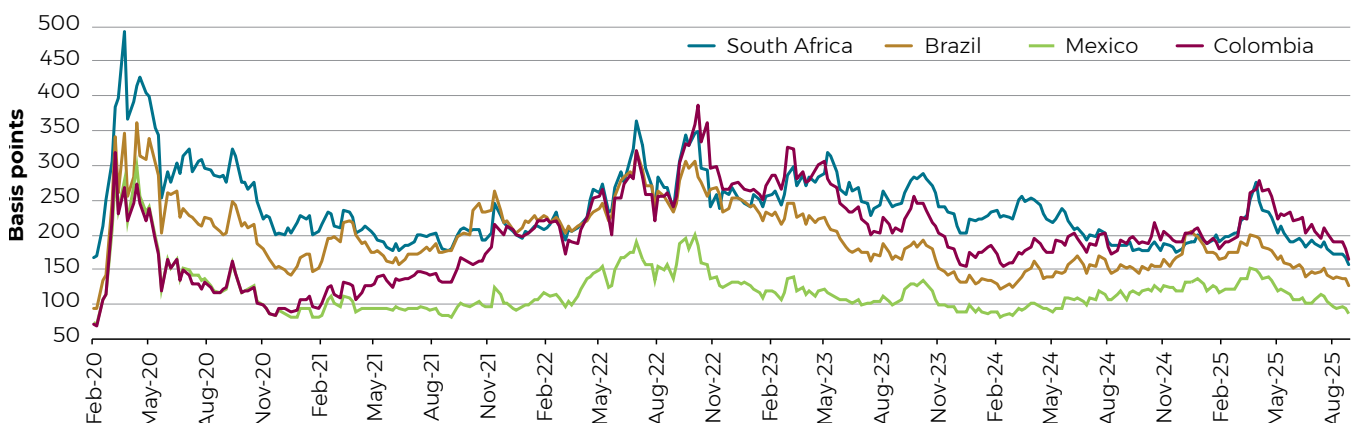
BOND BOOST

The bond market, on the other hand, is very much SA-focused since it is dominated by government issuance. The 10% year-to-date return from the All-Bond Index suggests that there is some good news locally. Traditionally, a rally in bonds is not always a good omen, since investors often pile into bonds when the economy weakens and they expect interest rate cuts. This is what has happened to US bonds over the past few days, as weak employment growth numbers point to the Federal Reserve resuming its rate cutting cycle this week. However, riskier investment destinations like South Africa face a different dynamic, especially if they have high levels of government debt. Investors demand compensation for the perceived risk, and that can increase at times of economic weakness when government tax revenues come under pressure. It is a particular curse of emerging economies

that interest rates must sometimes rise when there is a crisis to prevent capital flight even if domestic conditions demand lower borrowing costs. The alternative is a disorderly depreciation of the currency.

That is clearly not what has happened in the local bond market. The Reserve Bank has cut interest rates 50 basis points this year, pulling down the short end of the yield curve, while the longer-end of the yield curve has benefited from a broad decline in risk premia across emerging markets as measured by credit default swaps. These credit default swaps spreads do not yet suggest that South Africa's rating has improved substantially relative to other emerging markets. For this to happen, we'll need faster economic growth and more evidence of progress on fiscal consolidation.

CHART 2: FIVE-YEAR US DOLLAR CREDIT DEFAULT SWAPS



Source: LSEG Datastream

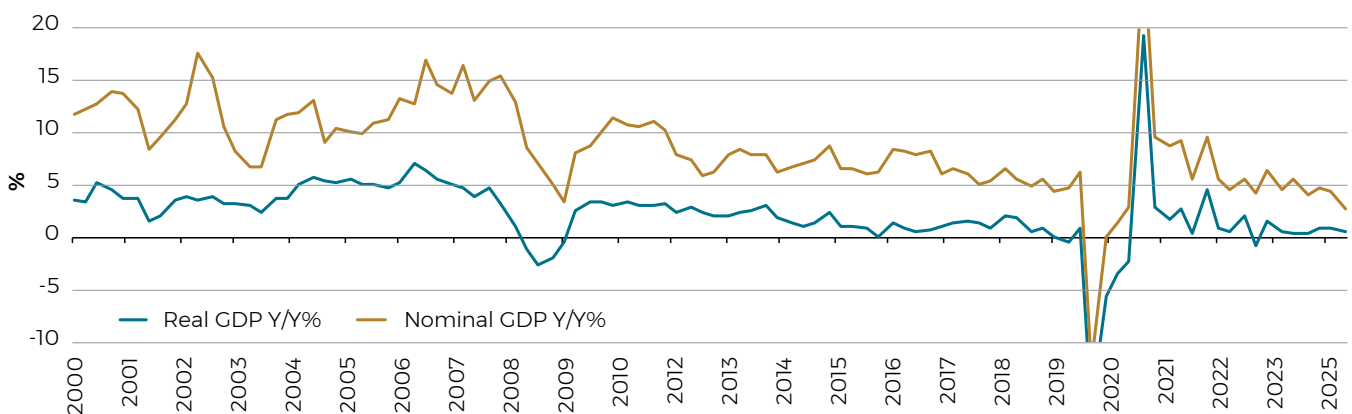
That said, South Africa is one of the few countries that is trying to get its fiscal house in order. Efforts to tighten belts have just led to the collapse of France's government, and the appointment of the fourth prime minister in 12 months.

BETTER BUT NOT GOOD

At the same time, fiscal consolidation cannot rely on cost-cutting or tax rate hikes alone, since both are politically unpopular and weigh on the economy. Improved efficiency at SARS will also only go so far. Faster economic growth is needed to raise tax revenues organically and painlessly.

The news on this score is mixed. After basically flatlining in the first quarter, real gross domestic product growth picked up to 0.8% in the second quarter. Better, but not good. The

CHART 3: SOUTH AFRICAN ECONOMIC GROWTH



Source: Stats SA

This means the GDP deflator – a broad inflation measure that cuts producers and consumers – was only 1.4% year-on-year in the second quarter, the lowest rate since the 1970s. While probably a cyclical low point, it suggests that maintaining a 3% inflation target is not that far-fetched. Nonetheless, the Reserve Bank will not cut rates further until it is confident that inflation and inflation expectations will hover around 3%. Several commentators have argued that it should rather be cutting rates aggressively now to boost the economy.

That would make sense if the biggest problem was a lack of demand, instead of supply side challenges. However, demand seems to be improving modestly already. Consumer spending rose almost 3% year-on-year in the second quarter in real terms. Credit growth seems to have bottomed, suggesting that interest rates, while elevated, are not crushing consumer demand. A large mortgage originator recently noted that they are seeing double-digit increases in

In the US, fiscal discipline has gone out the window, though tariffs are bringing in additional tax revenue. If tariffs are partially blocked by the Supreme Court, it will bring relief to businesses and consumers but further widen the deficit.

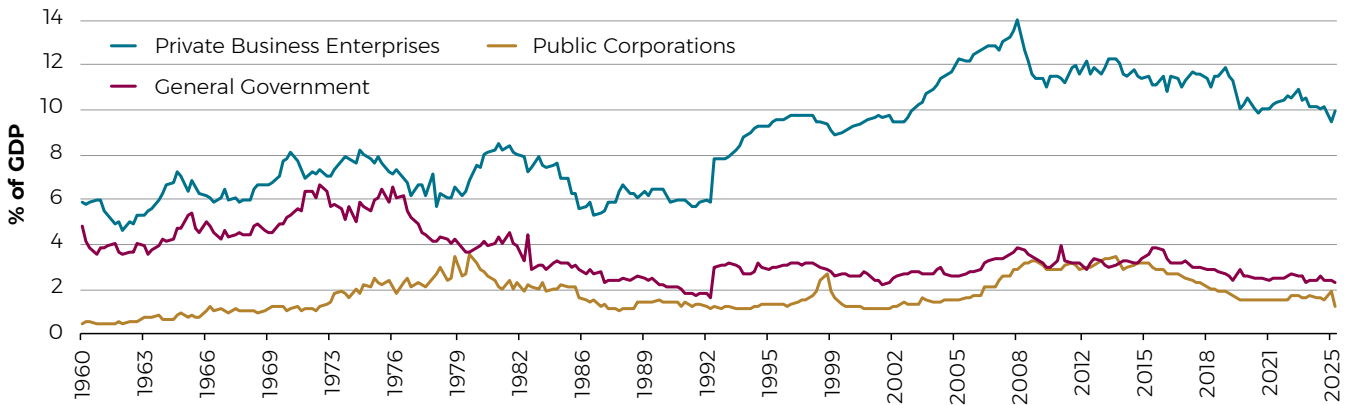
economy was only 0.6% larger compared to a year ago in the second quarter in real terms.

Notably from government's point of view, nominal growth – i.e. adding back inflation – was only 2.5% year-on-year. This is essentially broad income growth in the economy that the government taxes. This number must rise for tax revenues to grow organically.

applications, again not a sign of depressed demand. New car sales growth is also strong according to industry body Naamsa.

Where demand is weak is in terms of fixed investment. It remains below pre-Covid levels in real terms, and as expressed as a percentage of GDP, is about half the 30% rule of thumb where it sustains rapid economic growth. Interest rates are a factor in fixed investment decisions, but the biggest consideration is probably the size of the opportunity. Confidence in the future also matters a lot, particularly confidence that the regulatory and political environment will be stable. This includes the state of US import barriers, which are still up in the air and will constrain opportunities for some firms. Companies also require confidence in the rule of law, protection of property rights and the safety of staff and suppliers.

CHART 4: SOUTH AFRICAN FIXED INVESTMENT SPENDING



Source: Stat SA

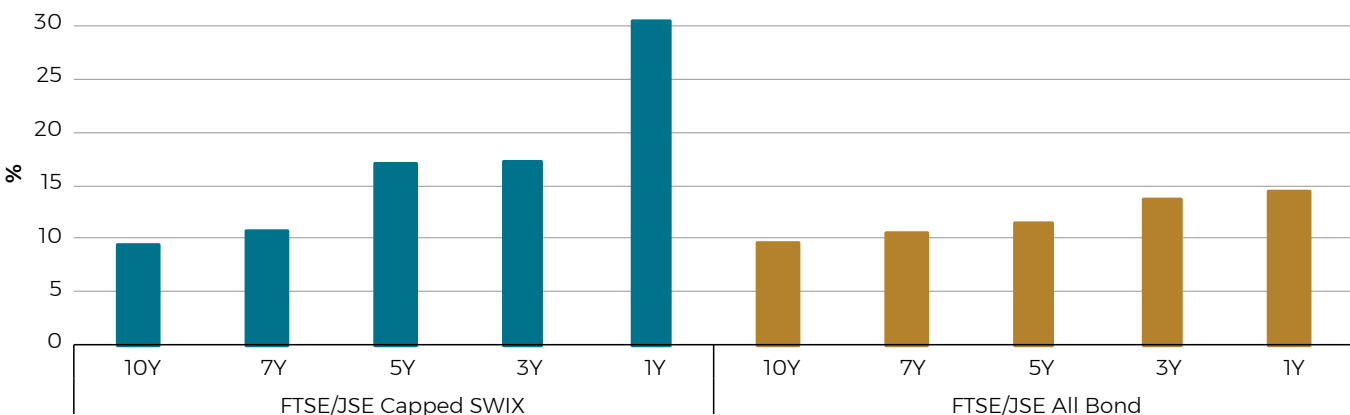
The good news here is that opportunities are emerging in sectors previously monopolised by the state. Following the ongoing deregulation of the electricity sector, eleven firms have now been selected to run their own trains on Transnet rail corridors. When finalised and implemented, this will not only unlock tens of billions in new investment funded by the private sector (train sets are not cheap) but also boost trade volumes and export earnings.

This remains the biggest bright spot in the South African story: after decades of the state controlling the commanding heights of the economy through the likes of Eskom and Transnet, it is letting go, even if reluctantly. Space is opening for the private sector to step in and do what it does best. Whether the South African government can step up and do what governments theoretically do best, namely providing public goods like safety and security, remains to be seen. Things surely can't get any worse, but the upcoming inquiry into SAPS will be an important marker. The private sector only solves problems where there is a profit to be made.

Other problems must be addressed by the government and civil society.

No country is perfect, and anybody waiting for perfection before investing will not only wait long but miss out. That is because the best returns are made when sentiment is depressed and investors are braced for bad things to happen. In a pessimistic environment, surprises are more likely to be to the upside than the downside. The opposite is true in optimistic environments, such as the excitement around artificial intelligence. South African returns have already improved substantially. The period between roughly 2015 and 2021 saw global and local factors conspiring to drag down returns, but the post-pandemic recovery has been good. Looking at chart 5, the 10-year return numbers for local bonds and equities are muted but look much better over more recent periods. Returns for 2025 are really nothing to be sneezed at. Investors who sat through local political uncertainty, slow economic growth, loadshedding and much more have been rewarded for their patience.

CHART 5: ANNUALISED RETURNS FOR SOUTH AFRICAN ASSET CLASSES



Source: LSEG Datastream. As at 31 August 2025

Since domestic valuations remain reasonable and the economic growth should gradually improve as reforms bear fruit, the real return outlook is positive though 2025's bumper returns won't necessarily repeat. The shift to a lower inflation target will eventually deliver lower interest rates, further

boosting the value of bonds and equities, while limiting the long-term downward pressure on the rand. Having said all that, diversification remains important, spreading risks and widening the net for new opportunities. Just avoid managing your portfolio based on news headlines.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	4 253.0	1.48%	1.80%	14.70%	17.78%
United States	S&P 500	US\$	6 584.0	1.57%	1.92%	11.93%	17.66%
Europe	MSCI Europe	US\$	2 476.0	0.90%	1.10%	23.61%	14.84%
Britain	FTSE 100	US\$	12 583.0	1.17%	1.43%	23.03%	16.35%
Germany	DAX	US\$	2 355.0	0.21%	-0.97%	18.63%	33.05%
Japan	Nikkei 225	US\$	303.2	3.88%	4.35%	19.47%	16.73%
Emerging Markets	MSCI Emerging Markets	US\$	1 326.0	3.92%	5.41%	23.35%	23.23%
Brazil	MSCI Brazil	US\$	1 530.0	1.19%	2.07%	29.99%	3.87%
China	MSCI China	US\$	86.7	4.24%	6.21%	34.49%	58.61%
India	MSCI India	US\$	1 035.9	1.66%	3.28%	1.16%	-8.25%
South Africa	MSCI South Africa	US\$	621.0	4.37%	5.61%	44.42%	38.31%

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	104 458.0	2.88%	2.57%	24.21%	27.91%
All Share	All Share (Total Return)	Rand	19 567.0	3.21%	3.01%	27.28%	32.33%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	47 679.9	3.23%	3.08%	26.70%	31.52%
TOP 40/Large Caps	Top 40	Rand	17 940.0	3.43%	3.51%	31.70%	35.12%
Mid Caps	Mid Cap	Rand	28 901.0	1.26%	1.64%	14.94%	21.42%
Small Companies	Small Cap	Rand	48 055.0	2.02%	1.51%	8.52%	20.76%
Resources	Resource 20	Rand	8 836.7	6.33%	13.32%	95.93%	92.03%
Industrials	Industrial 25	Rand	30 946.0	1.34%	-0.68%	18.87%	28.26%
Financials	Financial 15	Rand	17 256.0	3.78%	1.08%	9.90%	10.24%
Listed Property	SA Listed Property	Rand	2 751.9	3.04%	0.99%	14.52%	15.97%

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\$	77.8	0.03%	0.50%	5.32%	-1.23%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 237.1	1.36%	1.72%	12.19%	15.35%
Government Bonds	BESA GOVI	Rand	1 216.2	1.31%	1.65%	12.02%	15.18%
Inflation Linked Bonds	BESA CILI	Rand	395.7	0.93%	1.33%	5.06%	5.68%
Cash	STEFI Composite	Rand	626.3	0.14%	0.27%	5.31%	7.85%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	67.0	2.27%	-0.01%	-10.68%	-6.96%
Gold	Gold Spot	US\$	3 643.0	1.39%	6.77%	39.26%	44.79%
Platinum	Platinum Spot	US\$	1 397.0	1.45%	3.56%	52.68%	45.98%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	17.39	1.15%	1.61%	8.34%	2.25%
ZAR/Pound	ZAR/GBP	Rand	23.58	0.76%	1.19%	0.21%	-1.02%
ZAR/Euro	ZAR/EUR	Rand	20.40	1.01%	1.20%	-4.19%	-3.50%
Dollar/Euro	USD/EUR	US\$	1.17	0.00%	-0.09%	-11.54%	-5.13%
Dollar/Pound	USD/GBP	US\$	1.36	-0.35%	-0.41%	-7.78%	-3.36%
Dollar/Yen	USD/JPY	US\$	0.01	0.18%	0.43%	-6.07%	4.12%

Source: I-Net, figures as at 12 September 2025

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WEALTH

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