

# INVESTMENT NOTE

15 DECEMBER 2025

## HOT, COLD AND JUST RIGHT



**Congratulations, you've almost reached the end of a remarkable year. It will mostly be remembered for wild policy shifts as US President Donald Trump started his second term. This was most evident in import tariffs, but certainly not limited to trade policy.**

Looking ahead to 2026, Trump can certainly amplify the risks in either direction, but he won't necessarily be the centre of attention like in 2025. With midterm elections looming in November, and his approval rating plunging, he is moving into lame-duck territory. He has repeatedly shown that he backs down when faced with market or political pressure, earning the unflattering acronym "TACO" – Trump always chickens out. Republican politicians increasingly appear likely to constrain any extreme actions from his side in the interest of longer-term self-preservation, while the Supreme Court may further limit his ability to set tariffs.

Whether the outlook for the US economy depends on Trump or more "normal" factors, it remains the most important thing for global investors to pay attention to. Markets still revolve around America.

The consensus seems to be that 2026 will be a goldilocks year – not too hot, not too cold. Growth will be resilient, inflation won't run away and the Federal Reserve will lower rates a few times. Against this backdrop, Wall Street strategists are forecasting solid earnings growth and double digit returns from US equities. This in turn creates a supportive environment for markets elsewhere.

Therefore, in very simple terms, the main risks to this reasonably optimistic outlook are that the US economy either cools significantly or heats up. Too cold, and the economy slips into recession causing earnings to fall and equities to slump. Too hot, and inflation picks up, with upward pressure on interest rates.

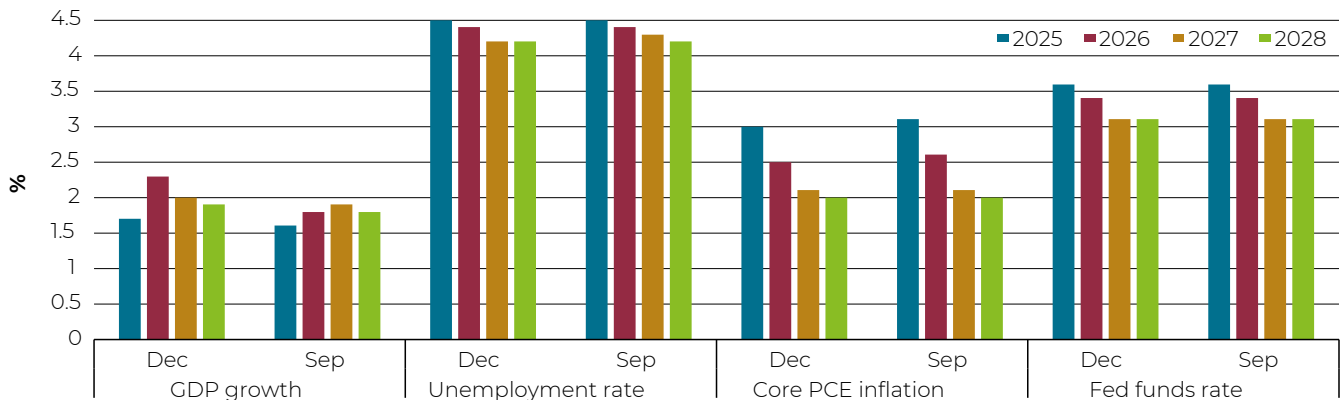
For now, the Federal Reserve also seems to think things are neither freezing nor melting. It cut rates last week, and its so-called dot plot of projections, summarised in chart 1, point to something like the goldilocks environment



described above. Even though current inflation is high, it expects a decline over time, while economic growth hovers around 2% and unemployment remains low. However, it is attuned to the risks in both directions. Since

it considers its policy stance to have moved into broadly neutral territory, there is no urgency to move further, and Chair Jerome Powell suggested that it is now in wait-and-see mode.

**CHART 1: FOMC SUMMARY OF ECONOMIC PROJECTIONS**



Source: Federal Reserve

Complicating the outlook further is that Powell's term in office expires in May, with Trump expected to announce a successor in the next few weeks. Trump wants much lower interest rates, even though he thinks the economy is stronger than it's ever been, rating its performance as "A-plus-plus-plus-plus-plus". Powell's successor is therefore likely to be dovish, but only up to a point. Even a Trump loyalist will be careful not to set policy too loose, since they will still be in office long after Trump leaves the scene. Interest rate

decisions are made by a committee, and the Fed quietly renewed the terms of the regional bank presidents last week, ensuring a degree of continuity in the years ahead. Though the Fed under Trump will probably lean towards lower rates next year, it is unlikely to lose its independence entirely, an assessment current market pricing seems to agree with.

What could cause the economy to cool down or heat up significantly and get the Fed off the fence?

## TOO COLD

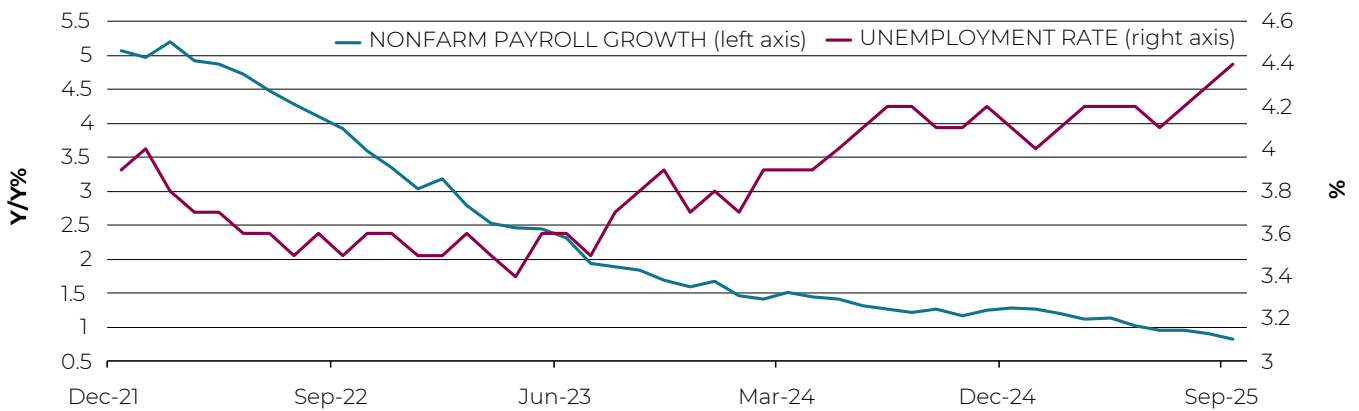
The main concern remains the labour market, where hiring rates have declined meaningfully. Powell noted that employment statistics are probably overstated, meaning the picture is even worse than the headline numbers suggest. Basically, jobs growth in the US economy has slowed to a crawl, possibly due to uncertainty over economic policy, and as firms experiment with labour-saving artificial intelligence (AI).

However, the US also lost workers this year due to immigration crackdowns. Indeed, by some accounts, 2025 could become only the second year in the country's 250-year history – after 1918 when the Spanish flu hit and World War 1 disrupted migration flows – in which the population declined.

Therefore, the US economy doesn't need to create as many jobs to keep the unemployment rate stable. Though the unemployment rate has ticked up over the past few months, it remains low in absolute terms at 4.4%.

Any further increase in unemployment could spiral out of control, however. As people lose their jobs and struggle to find alternative employment, they cut back spending, in turn threatening the jobs of others.

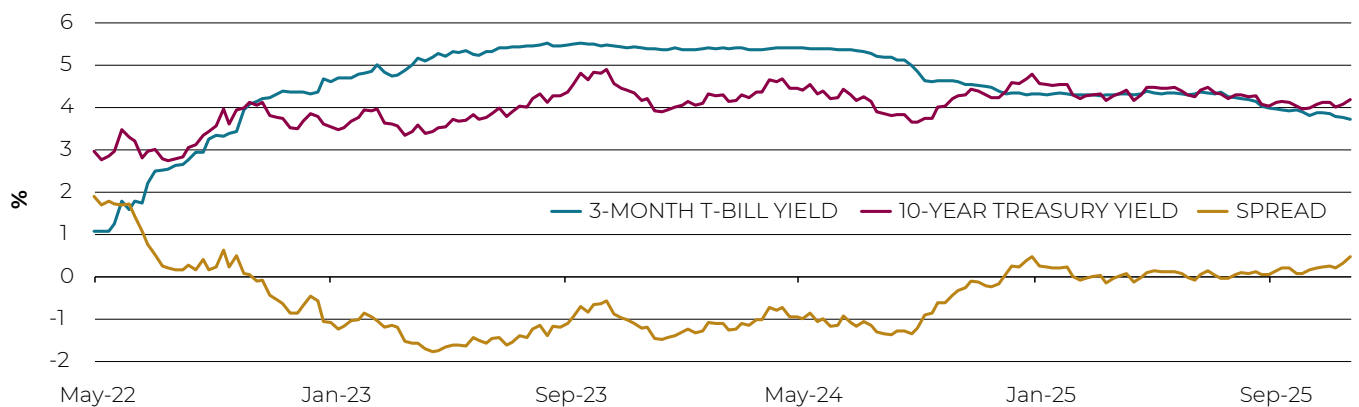
This process can be accelerated early next year when millions of mostly lower-income Americans will see their healthcare insurance costs rise rapidly due to the expiry of Obamacare credits, forcing them to choose between losing cover or cutting back spending elsewhere. This would further deepen the K-shaped nature of consumer spending, which has seen higher income consumers live large, while lower-income groups have struggled with affordability. This dynamic contributed to Trump's election victory in 2024, but now sits behind the collapse in his approval rating.

**CHART 2: US EMPLOYMENT GROWTH AND UNEMPLOYMENT RATE**

Source: LSEG Datastream

A sharp rise in unemployment would be met with Fed rate cuts and declining long-bond yields. However, there is probably a limit to how far bond yields can decline, given the deteriorating fiscal position. The reality is that the US government deficit is already at a massive 6% of GDP, even

though there is no war, recession or other crisis underway. A severe slowdown in economic growth will lead to falling tax revenues which must be offset by a sharp rise in government borrowing and a double-digit deficit.

**CHART 3: US YIELD CURVE**

Source: LSEG Datastream

Already, it is notable how the yield curve has steepened. In other words, Fed cuts have pulled short-rates lower while longer-term rates have remained broadly unchanged. A steepening yield curve is usually a sign that markets expect faster economic growth in the future. However, it could also

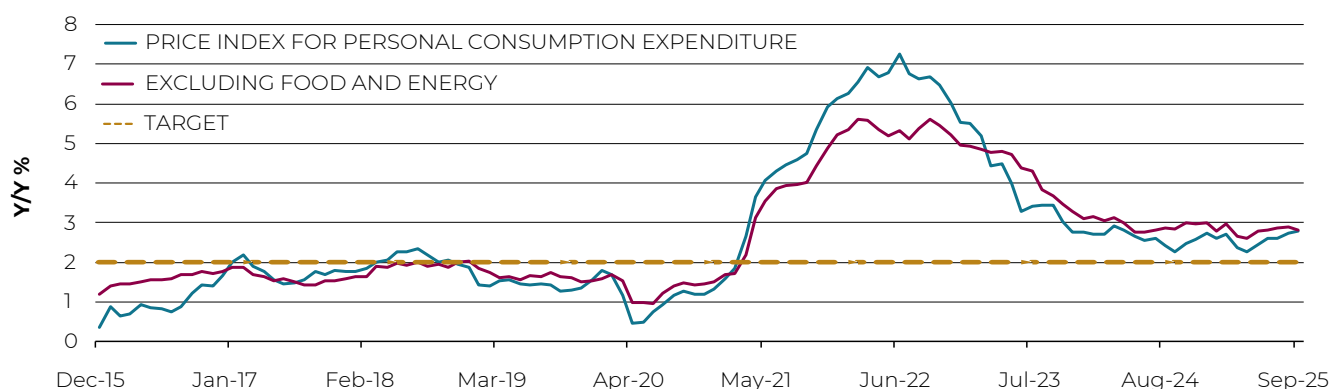
be that investors are demanding more compensation for holding longer-dated bonds given the deteriorating fiscal outlook. This is why South Africa had a steep yield curve over much of the past decade despite a soggy growth outlook.

**TOO HOT**

An economy that heats up is normally good news, but not if inflation is already above the central bank's target. The

Fed's preferred inflation gauge was 2.8% in September and was last aligned with the 2% target in February 2021.

CHART 4: THE FED'S PREFERRED INFLATION MEASURE



Source: LSEG Datastream

The elevated inflation rate partly reflects tariffs. While the tariff impact on inflation is likely to be one-off, it doesn't mean it happens all at once. It takes time for businesses to adjust their prices, and quite a few might do it in January. Nonetheless, it is the outlook for service inflation that matters more, since it is a much bigger component of the inflation basket. Within the service component, rental inflation has steadily declined, but there are question marks about other areas. Non-housing service inflation is running between 3.5% and 4% over the past three years, whereas it averaged 2% before Covid.

For now, market-based inflation expectations are still around 2% over the medium term, and don't signal cause for concern. The Fed will continue to pay close attention to inflation expectations and will halt rate cuts if there are signs of these becoming unmoored. At the extreme, rate increases will come back onto the table, but only if the economy is booming and the labour market looks solid.

The loose fiscal policy described above is one reason why the US economy has been resilient. Due to the passing of the One Big Beautiful Bill Act earlier in the year, taxpayers

will be entitled to refunds early next year, which could boost spending. Wealthier taxpayers will be entitled to larger refunds, again reinforcing the K-shaped dynamic. Further stimulus ahead of the mid-term elections cannot be ruled out either. For instance, Trump has floated the idea of giving people "tariff dividend" cheques.

However, the big swing factor in the economic outlook is likely to be business fixed investment, particularly AI-related capex. Most companies have indicated that AI spending will increase in 2026, though they could quickly reassess these plans if the market starts pushing back. Oracle's share price slumped last week when it announced further debt-funded datacentre expansions. Whether this is a company-specific matter or says something about the broader AI-theme remains to be seen.

No-one doubts that AI is a transformative technology, but how, when and where it transforms economic activity also remains uncertain. The Fed's long-term outlook for economic growth remains at 1.8%, suggesting that the economy is currently performing better than its steady state.

## IN SEARCH OF GOLDILOCKS

A hot economy would normally be good for equities and bad for bonds as long-term yields rise (bond prices and yields move in opposite directions). However, there is a tipping point where bond yields can put pressure on equity valuations (price: earnings multiples) even as profit growth is strong. Valuations in the US markets are already stretched,

and therefore vulnerable to higher inflation and interest rates.

For South Africa, a "too hot" scenario implies a stronger dollar and weaker rand. It could also threaten the rally in South African bonds, while the Reserve Bank would probably pause on rate cuts.

A “too cold” outcome invokes the adage that the world catches a cold when the US sneezes. A sharp economic growth slowdown in the US could lead to weakness on global markets as money tends to rush to the US in search of a safe haven. However, the resultant Fed cuts should ultimately pull the dollar down and possibly move the gold price up.

In other words, South African investors should hope that the US economy in 2026 is neither too hot or cold. Where things stand today, however, it seems likely that we remain in goldilocks territory. However, this year’s fantastic returns won’t necessarily repeat, and there are bound to be surprises next year. Filtering out the noise will be as important as it was in 2025. If this year taught us anything, it is the importance of staying invested even in a very uncertain environment.

**Thank you for reading this note in 2025. We will return on 19 January 2026. Wishing you a safe and joyful festive season!**

## EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	4 408.0	-0.25%	0.23%	18.88%	15.21%
United States	S&P 500	US\$	6 827.0	-0.63%	-0.32%	16.07%	12.82%
Europe	MSCI Europe	US\$	2 582.0	0.66%	1.45%	28.91%	24.55%
Britain	FTSE 100	US\$	12 903.0	0.12%	0.28%	26.15%	22.50%
Germany	DAX	US\$	2 404.0	1.65%	3.13%	22.03%	31.65%
Japan	Nikkei 225	US\$	326.2	0.37%	1.38%	28.55%	24.96%
Emerging Markets	MSCI Emerging Markets	US\$	1 390.0	0.36%	1.68%	29.30%	24.89%
Brazil	MSCI Brazil	US\$	1 675.0	0.18%	-1.82%	42.31%	29.95%
China	MSCI China	US\$	84.1	-0.70%	0.37%	30.42%	26.98%
India	MSCI India	US\$	1 043.0	-0.90%	-1.61%	1.85%	-3.07%
South Africa	MSCI South Africa	US\$	713.0	1.86%	4.70%	65.81%	48.85%

## 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	113 302.0	0.73%	2.11%	34.73%	30.28%
All Share	All Share (Total Return)	Rand	21 402.0	0.78%	2.23%	39.22%	34.74%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	52 457.3	0.68%	2.22%	39.40%	34.93%
TOP 40/Large Caps	Top 40	Rand	19 690.0	0.94%	2.50%	44.55%	39.18%
Mid Caps	Mid Cap	Rand	31 617.0	-0.09%	0.37%	25.74%	20.89%
Small Companies	Small Cap	Rand	52 826.0	0.30%	0.55%	19.29%	19.41%
Resources	Resource 20	Rand	10 921.1	3.11%	4.69%	142.15%	122.74%
Industrials	Industrial 25	Rand	30 410.0	-0.24%	-0.28%	16.81%	14.64%
Financials	Financial 15	Rand	19 182.0	-0.23%	3.12%	22.16%	17.93%
Listed Property	SA Listed Property	Rand	3 034.2	-1.29%	-3.21%	26.27%	24.25%

## 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\$	76.5	-0.06%	-0.40%	3.59%	1.58%

## FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 343.6	-0.50%	0.78%	21.86%	21.38%
Government Bonds	BESA GOVI	Rand	1 318.6	-0.50%	0.75%	21.45%	20.98%
Inflation Linked Bonds	BESA CILI	Rand	433.2	-0.61%	2.40%	15.02%	14.96%
Cash	STEFI Composite	Rand	637.2	0.13%	0.26%	7.15%	7.58%

## COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	61.1	-4.13%	-1.42%	-18.51%	-16.27%
Gold	Gold Spot	US\$	4 300.0	2.41%	1.94%	64.37%	58.20%
Platinum	Platinum Spot	US\$	1 757.0	6.61%	4.90%	92.02%	84.75%

## CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	16.89	0.26%	1.35%	11.57%	5.36%
ZAR/Pound	ZAR/GBP	Rand	22.58	-0.04%	0.31%	4.65%	-0.09%
ZAR/Euro	ZAR/EUR	Rand	19.83	-0.59%	0.12%	-1.39%	-6.08%
Dollar/Euro	USD/EUR	US\$	1.17	-0.85%	-0.85%	-11.54%	-10.26%
Dollar/Pound	USD/GBP	US\$	1.34	-0.30%	-1.29%	-6.52%	-5.03%
Dollar/Yen	USD/JPY	US\$	0.01	0.31%	-0.22%	-0.87%	2.09%

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

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