

# INVESTMENT NOTE

24 NOVEMBER 2025

## SANTA SARB DELIVERS FESTIVE CHEER



**As the year draws to a close, many of us are reflecting on our achievements in 2025 and looking forward to a well-deserved break. Central bankers are people too — and no doubt looking forward to some rest and a chance to unwind. However, while everyone has been busy, not everyone will end the year feeling satisfied.**

This is particularly true of the US Federal Reserve, the most important of all central banks. It kept policy rates on hold for most of this year but made cuts in September and October. Over the course of 2025, it has faced four distinct challenges.

### A CHALLENGING YEAR

Firstly, it has been difficult to interpret the conflicting signals on where the US economy is headed, particularly the two components of the Fed's mandate: unemployment and the inflation rate. Secondly, being starved of data to do its job due to the US government shutdown was challenging. Thirdly, facing the prospect of internal dissent and political interference as the race to succeed Chair Jerome Powell heats up. Finally, navigating all of this in a market environment where there has been considerable froth in some pockets and emerging cracks in others.

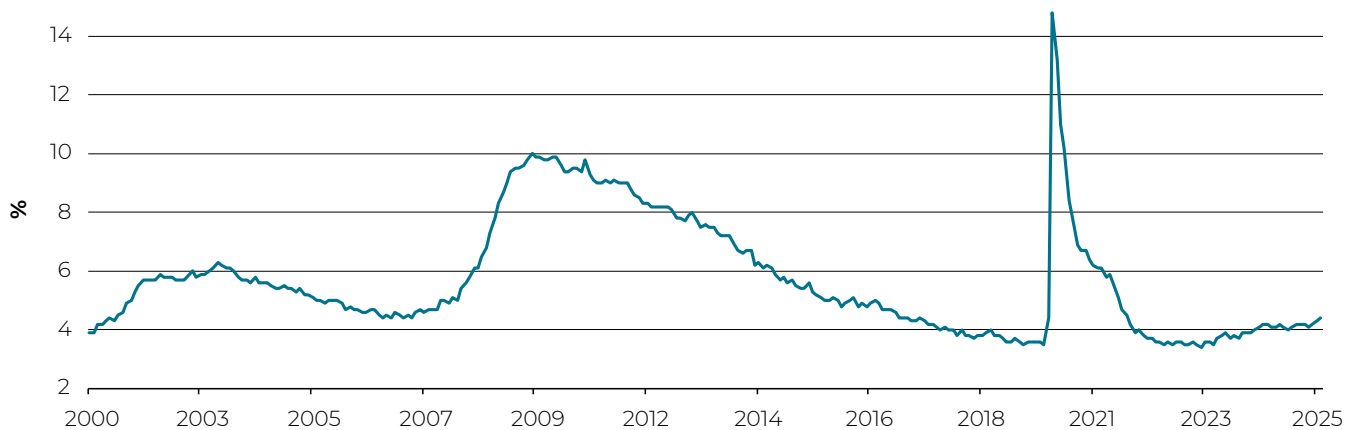
Of the four, at least the shutdown-induced data drought is coming to an end. However, given that fieldwork was disrupted in October and November, official statistics will probably only be trustworthy by December. On politics and succession, there isn't much to add, except to say that a round of speeches by top Fed officials over the past two weeks suggest the upcoming December FOMC meeting could see three dissenting votes, the most in recent years. Minutes from the October FOMC meeting released last week referred to "strongly differing views" over the path of rates in the near term.



In terms of the first problem, the waters are muddy. Inflation is above target, but some of the underlying gauges are easing, such as rental inflation. Tariff-induced inflation is likely to become less pressing given the most recent round of trade deals and exemptions for food items. Still, it is not a given that there won't be spillovers from tariffs to other items, in other words, companies may use tariffs as an excuse to raise unrelated prices. The Fed has rarely cut interest rates with inflation so far away from its target, but it did exactly that at the September and October meetings of the Federal Open Markets Committee. Its preferred inflation measure, the core personal consumption deflator, was at 2.9% year-on-year, well above the 2% target.

On the labour market, there have been high-profile layoff announcements, but not enough to show up in the weekly unemployment insurance claims data yet. These numbers were unaffected by the shutdown since it is collected by the states, not federal agencies. Other labour market indicators tell a mixed story of some weakening but no major red flags. Delayed employment data released last week showed that 119,000 jobs were added in September, more than expected, but previous months were revised down. The unemployment rate ticked up a bit to 4.4%, low by historic standards, but the highest since 2021. It is the modest upward trend in unemployment that the Fed would want to stop, though with underlying economic growth still resilient, it is not clear that unemployment will continue rising.

**CHART 1: US UNEMPLOYMENT RATE**



Source: LSEG Datastream

Then there is the challenge of market dynamics. Equities have wobbled over the past two weeks, mainly because of concerns over excessive AI-related capital expenditures. The Fed won't be worried about lower equity prices. Rather, this year's strong run in equities probably argues against

any urgent need for rate cuts. In fact, that might only further inflate what some are already calling a bubble (though to be clear, the bubble – if there is one – is in capex, not in equity valuations).

## LOOSER AND TIGHTER

Then there are other measures, such as the cost and availability of capital, captured in measures like "financial conditions" indices. Remember that the Fed's policy interest rate is the rate at which banks borrow from one another overnight. There are many other factors that influence whether households and corporates find it easy and/or cheap to fund themselves. The yield on corporate bonds,

for instance, has traded close to equivalent government Treasuries. In financial jargon, it means spreads are very tight and these companies are not struggling to access capital. These are all signs of loose financial conditions (a line below zero in chart 2), a situation that suggests there is no urgent need to cut rates.

CHART 2: CHICAGO FED FINANCIAL CONDITIONS INDEX



Source: LSEG Datastream

However, there is a problem with a long period of loose financial conditions. It tends to encourage reckless behaviour. It is not a central banks' role to police every single loan or bail out every investment decision that turns sour, but it should act when there are systemic risks. In other words, where losses in one area spill over into others.

One place where this might happen is in the world of "private credit." These are loans made by investment funds, stepping into areas where banks have been scaling back for regulatory reasons or where companies have been unable to raise money on public markets. As is often the case, the first generation of these products offered investors something unique and innovative, while helping borrowers in need of capital. However, as the asset class has grown rapidly, more money is inevitably chasing fewer deals. The risks here are both opacity and poor credit quality. Already a few have suffered losses, what JPMorgan's CEO Jamie Dimon called "credit cockroaches", as in there is seldom only one. Again, this is not reason for the Fed to act now, but it is reason to be vigilant.

## GOOD TIMES

In contrast to the Fed, the South African Reserve Bank had a very good year while its decisions have been more straightforward. A major positive is that inflation remains low, coming in at 3.6% year-on-year, a touch lower than expected. In fact, October's inflation rate sits in the bottom 10% of all monthly inflation readings since 1970. Though inflation has ticked up in recent months, it should start drifting lower again with few obvious risks currently visible.

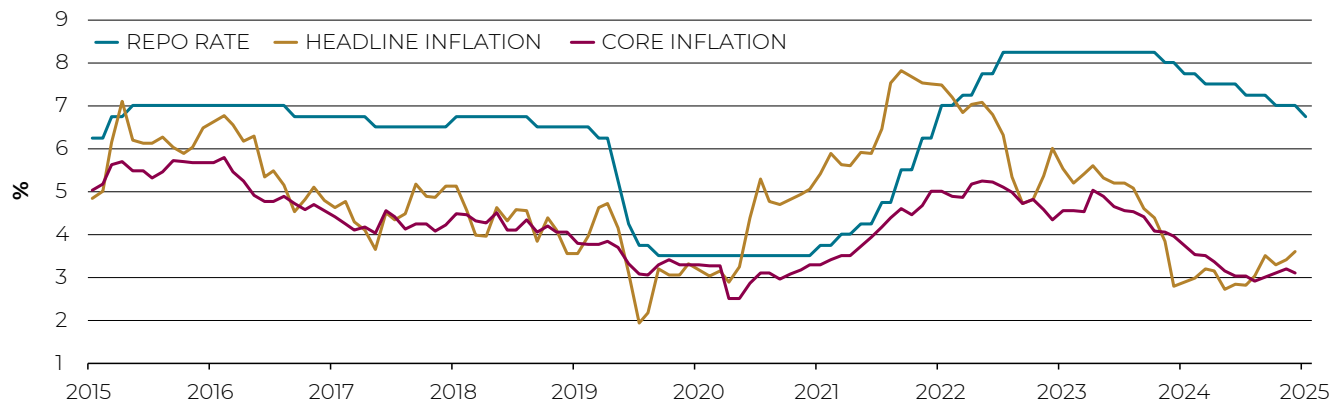
Where the Fed is likely to step in soon is in money markets, where banks lend to one another. Here we've seen interbank lending rates (notably SOFR) jump at times in recent weeks, a sign of insufficient liquidity. Essentially, the government has been issuing more short-term Treasury bills to fund its massive deficit, which in turn drains liquidity from these markets. But the Fed has also been shrinking its balance sheet, allowing the bonds it purchased during successive rounds of quantitative easing to mature. This has the effect of reducing bank reserves, the money used by commercial banks to settle payments with each other and to meet their obligations to the central bank. Bank reserves are considered the most liquid form of cash (though entirely within the banking system.) Tightness in interbank markets can spill over to other markets, notably the Treasury market. The Fed has therefore announced an end to quantitative tightening and may soon need to expand its balance sheet again, buying bonds to inject liquidity (when it buys a bond from commercial banks, it pays for it with reserves).

Inflation expectations as surveyed by the Bureau for Economic Research also declined this year, with the five-year-ahead expected inflation rate hitting its lowest level since the start of the survey. The rand has appreciated against the dollar and stabilised against the euro. Another promising development is that the Bank purchased a 50% stake in BankServ Africa, now called PayInc, kicking off what are expected to be significant changes in the national payments

landscape. Finally, and most importantly, National Treasury followed the Bank's suggestion in formally lowering the inflation target to 3%. This not only gives the Bank political cover to target a lower inflation rate but also helps to simplify

the communication around this goal (the earlier formulation of aiming for the bottom end of a 3% to 6% target was potentially confusing).

**CHART 3: SOUTH AFRICAN INFLATION AND INTEREST RATES**



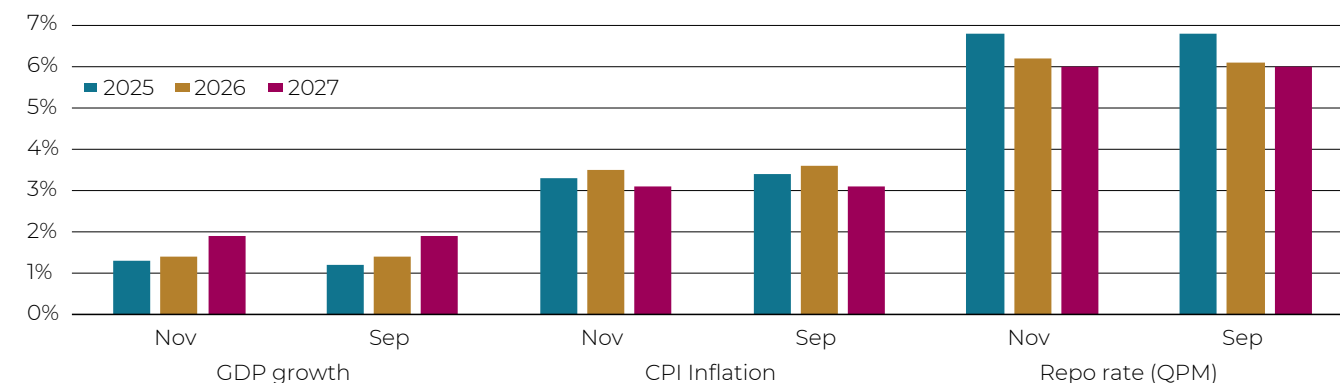
Source: LSEG Datastream

This was the backdrop to last week's Monetary Policy Committee (MPC) meeting. The members unanimously decided to lower the repo rate by 25 basis points to 6.75%. The rate cut is an early Christmas present that will further support households and businesses in South Africa, for instance by reducing monthly mortgage payments. It might not be the last cut.

The Reserve Bank expects inflation to peak at 3.8% in the second quarter of next year before falling towards 3%, with

an average rate of 3.5% in 2026 and 3.1% in 2027. If inflation behaves as expected, interest rates should continue falling. Its quarterly projection model (QPM) is a forecast of where the repo rate should be given all the other economic assumptions made by the Reserve Bank. The QPM points to rates declining to 6% by 2027. The Bank always reiterates that the QPM is merely a guide, and that decisions are taken on a meeting-by-meeting basis, but it does indicate what a reasonable path for interest rates looks like.

**CHART 4: INFLATION, GROWTH AND INTEREST RATE FORECASTS**



Source: South African Reserve Bank

The MPC will proceed gradually given the uncertain environment. Though it doesn't always follow the Fed, it keeps a close eye on it. In fact, last week's decision was proof that the MPC does not always have to wait for the Fed. This is partly due to domestic circumstances, but also because global financial conditions have mostly been supportive, notably a stable rand-dollar exchange rate (last week's wobbles notwithstanding). Ultimately, global markets determine how freely emerging market central banks can act. If the Fed turns hawkish at its upcoming meetings, not only pausing the cuts but also changing the outlook, it could lead to a stronger dollar and general market anxiety. That will close off space for the Reserve Bank and other central banks to ease. If, however, the Fed continues to gradually ease, the Reserve Bank will have more confidence to do the same. Therefore, if the dollar remains the dominant global currency, we need to keep close track of American politics and policy, whether liking it or not.

Nonetheless, the past few weeks have been good for South Africa. Fiscal policy is on the right path, as indicated by S&P Global's credit ratings upgrade and removal from the FATF grey list is a sign of improved local governance. Lower interest rates will continue to support the rebound in consumer spending. What is needed now is for the fixed investment cycle to also turn, which it should, given the reforms that are being implemented. All these things contribute to lowering the country risk premium, the additional compensation any foreigner demands to buy local assets. And given low domestic savings rates, we need these capital inflows. A sustained lower country risk premium will give the MPC even more reason to cut rates, since it is currently embedded in its models through a high "neutral real interest rate". There is still a lot that can go wrong, but the biggest risks seem to be external, rather than domestic for once. If these risks don't materialise, South Africa can continue to turn the vicious cycles of the past 15 years into virtuous ones.

## EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	4 243.0	-2.33%	-3.35%	14.43%	13.03%
United States	S&P 500	US\$	6 603.0	-1.95%	-3.46%	12.26%	10.99%
Europe	MSCI Europe	US\$	2 462.0	-3.15%	-1.99%	22.92%	22.24%
Britain	FTSE 100	US\$	12 495.0	-2.18%	-2.23%	22.16%	21.78%
Germany	DAX	US\$	2 232.0	-4.37%	-3.83%	13.89%	29.39%
Japan	Nikkei 225	US\$	311.0	-4.61%	-8.62%	22.54%	26.39%
Emerging Markets	MSCI Emerging Markets	US\$	1 334.0	-3.75%	-4.85%	24.09%	22.95%
Brazil	MSCI Brazil	US\$	1 627.0	-3.90%	2.46%	38.23%	19.63%
China	MSCI China	US\$	81.9	-5.51%	-4.72%	27.03%	28.02%
India	MSCI India	US\$	1 053.1	-0.69%	0.10%	2.84%	3.45%
South Africa	MSCI South Africa	US\$	659.0	-4.08%	0.46%	53.26%	41.11%

## 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	109 641.0	-2.08%	0.36%	30.38%	28.20%
All Share	All Share (Total Return)	Rand	20 665.0	-2.06%	0.39%	34.42%	32.54%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	50 478.9	-1.93%	0.63%	34.14%	32.21%
TOP 40/Large Caps	Top 40	Rand	18 986.0	-2.29%	0.23%	39.38%	36.51%
Mid Caps	Mid Cap	Rand	30 392.0	-0.93%	1.14%	20.87%	17.01%
Small Companies	Small Cap	Rand	51 553.0	0.58%	2.76%	16.42%	21.45%
Resources	Resource 20	Rand	9 566.1	-2.94%	1.28%	112.10%	96.77%
Industrials	Industrial 25	Rand	31 562.0	-2.46%	-2.00%	21.23%	23.83%
Financials	Financial 15	Rand	18 703.0	-1.03%	2.78%	19.11%	14.46%
Listed Property	SA Listed Property	Rand	3 080.0	1.64%	5.80%	28.17%	29.79%

## 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\$	76.4	-0.46%	-0.78%	3.41%	2.38%

## FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 319.2	-0.02%	2.31%	19.64%	20.04%
Government Bonds	BESA GOVI	Rand	1 295.1	-0.03%	2.28%	19.28%	19.69%
Inflation Linked Bonds	BESA CILI	Rand	417.9	0.52%	2.42%	10.97%	12.55%
Cash	STEFI Composite	Rand	634.7	0.13%	0.40%	6.72%	7.64%

## COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	62.6	-2.84%	-3.75%	-16.59%	-15.46%
Gold	Gold Spot	US\$	4 064.0	-0.49%	1.50%	55.35%	52.27%
Platinum	Platinum Spot	US\$	1 510.0	-2.27%	-3.27%	65.03%	56.80%

## CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	17.38	-1.70%	-0.29%	8.42%	4.22%
ZAR/Pound	ZAR/GBP	Rand	22.76	-1.10%	0.09%	3.82%	0.13%
ZAR/Euro	ZAR/EUR	Rand	20.01	-0.78%	-0.08%	-2.28%	-5.23%
Dollar/Euro	USD/EUR	US\$	1.15	0.87%	0.35%	-10.00%	-8.70%
Dollar/Pound	USD/GBP	US\$	1.31	0.56%	0.78%	-4.57%	-3.80%
Dollar/Yen	USD/JPY	US\$	0.01	1.19%	1.53%	-0.53%	1.19%

Source: I-Net, figures as at 21 November 2025

The Old Mutual Wealth Investment Note is published on a weekly basis to keep our clients and financial planners informed of what is happening in financial markets and the economy and to share our insights. Markets are often very volatile in the short term and similarly, economic data releases or central bank actions may cause concerns for investors. This does not mean that investors should take action based on the most recent events. It is better to be disciplined and remain invested in well-diversified portfolios that are designed to achieve long-term objectives. Our Strategy Funds are actively managed, with asset allocation changes based on valuations and in anticipation of future real returns, and not in response to the most recent market noise. The future is always uncertain and that is why our Strategy Funds are diversified and managed with a long-term focus.



## WEALTH

Old Mutual Wealth is brought to you through several authorised Financial Services Providers in the Old Mutual Group who make up the elite service offering. This document is for information purposes only and does not constitute financial advice in any way or form. It is important to consult a financial planner to receive financial advice before acting on any information contained herein. Old Mutual Wealth and its directors, officers and employees shall not be responsible and disclaims all liability for any loss, damage (whether direct, indirect, special or consequential) and/or expense of any nature whatsoever, which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of, or reliance upon any information contained in this document.