UMTHOMBO
WEALTH

UMTHOMBO ACTIVE BOND FUND REPORT FOR QUARTER ENDED 30 SEPTEMBER 2025

Fixed Income summary

The global economy is performing "better than feared" despite ongoing risks. Disinflationary momentum continues in advanced economies, though geopolitical tensions and financial market volatility temper optimism.

Investor sentiment swings between relief over stabilizing inflation and concerns about fragile global demand. The IMF has raised its global growth forecast to 3.0% for 2025 (up 0.2 percentage points) and 3.1% for 2026 (up 0.1 percentage points).

Monetary policy prospects are diverging. The Federal Reserve and many global peers appear poised to continue cutting interest rates for the remainder of the year, while Europe is moving toward a pause. Markets are currently pricing in 25–50 basis points of cuts by year-end and around 100 basis points over the next 12 months. Global government bond markets were mixed in Q3: US Treasury yields ended the quarter lower, while UK, German, and Japanese yields all rose over the period.

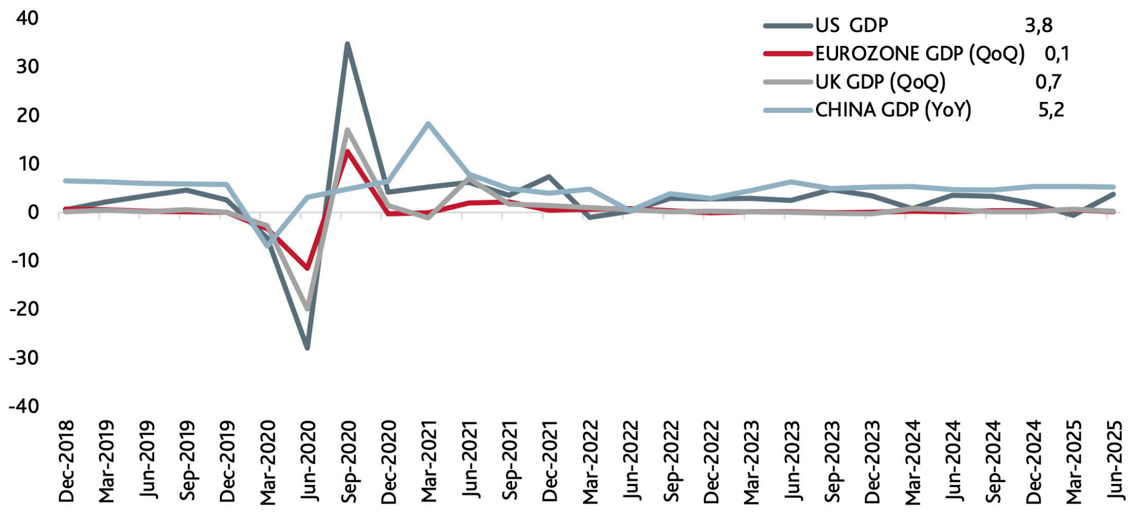
Domestically, the rand is benefiting from broad-based USD weakness, a surge in gold prices, and steady central bank policy signals. The global risk-on environment supports expectations that the ZAR will continue outperforming other emerging market currencies. Foreign demand for South African government bonds (SAGBs) persisted in Q3, helping to offset weak offshore demand for South African equities.

The ALBI gained 3.32% in local currency and 5.58% in US dollars, as the rand closed 2.19% firmer, supported by broad-based USD weakness and lower market volatility. This puts ALBI's returns above the WGBI (0.61%) and the EMBI (1.62%) for the month. We remain constructive on the rand and long-duration bonds.

Global Economy

The US economy grew at a revised 3.8% annualized pace in Q2, stronger than the previously reported 3.3%. The rebound followed a first-quarter contraction, supported by consumer spending rising 2.5% and business investment expanding 7.3%.

The global economy is performing "better than feared" despite ongoing risks



Source: Umthombo Research, Bloomberg (as at 30 September 2025)

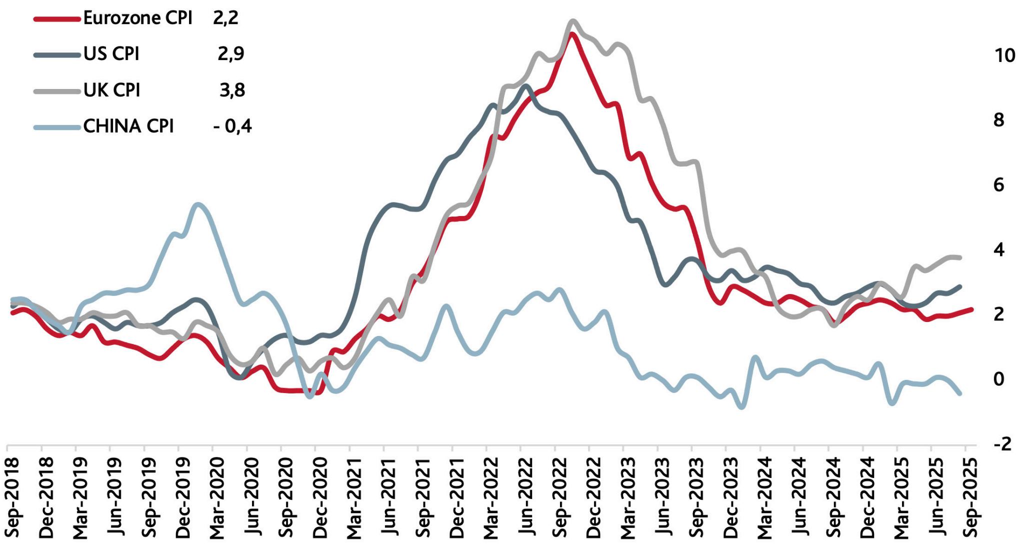
The euro area grew slightly in Q2, driven by inventories as well as government and household spending. Output rose 0.1% between April and June, with inventory build-up contributing 0.5 percentage points to growth.

The UK economy grew 0.3% in the quarter, supported by a surge in trade and government spending, while gross capital formation weighed on growth.

China's economic growth exceeded expectations in Q2, but a more pronounced slowdown is emerging, exacerbated by global trade risks and weak consumer demand. GDP expanded 5.2% in April–June, following a 5.4% gain in Q1. The world's second-largest economy has so far held up amid higher tariffs, front-loading by exporters, and resilient shipments outside the US. However, deflationary pressures are intensifying, with retail sales falling short of forecasts and home prices declining rapidly.

Global Inflation

Global Inflation's Persistent Grip: 30 September 2025



Source: Umthombo Research, Bloomberg (as at 30 September 2025)

US core inflation rose as expected, keeping the Federal Reserve on track for potential rate cuts. The core CPI increased 0.3%, while headline CPI rose 0.4%, its highest since early 2025. The report indicates that inflation remains persistent, with global tariffs impacting some goods and rising services costs continuing to exert pressure. Headline inflation reached 2.9%, driven by elevated core services and food prices.

Euro area inflation accelerated, with consumer prices rising 2.2%, driven by energy base effects and higher services costs. Core inflation, which excludes volatile energy and food prices, remained at 2.3%. ECB officials expressed satisfaction with current borrowing costs, noting that inflation is not deviating significantly from target and that the 20-nation economy is holding up despite higher US tariffs.

UK inflation remained at 3.8% year-on-year, as lower airfares were offset by higher motor fuel costs and rising prices at restaurants and hotels. Food inflation continued its upward trend, reaching 4.8%.

China's factory deflation eased for the first time in six months, even as consumer prices slipped below zero again, raising questions about the lasting impact of government measures to ease overcapacity. Producer prices fell 2.9%, remaining in negative territory for the 35th consecutive month.

Monetary Policy Dynamics – Global

The Federal Reserve cut rates by 25bps at the September FOMC meeting, as widely expected, bringing the federal funds target to 4.0%–4.25%. The committee showed divisions: while the median participant anticipated two more 25bps cuts this year, nearly half expected one or no further cuts. The policy statement and updated Summary of Economic Projections (SEP) revealed several contradictions: it flagged increasing downside risks to employment while acknowledging rising inflation, and officials raised their growth estimates for the year while lowering unemployment rate projections over the forecast horizon.

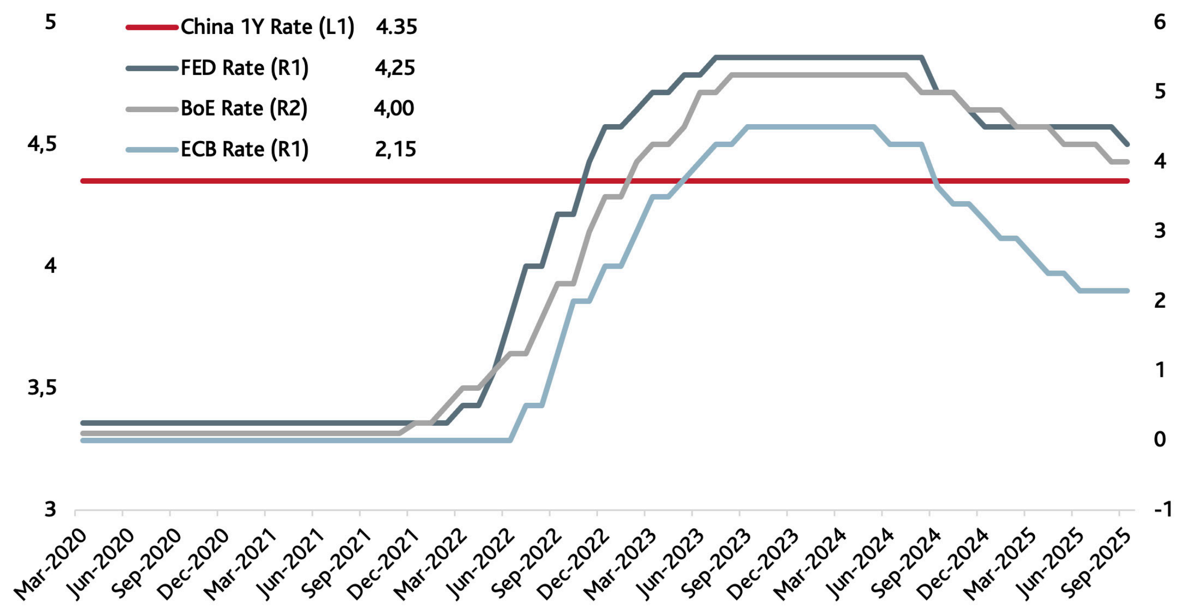
The European Central Bank (ECB) kept borrowing costs unchanged, citing contained inflationary pressures and easing economic risks. The deposit rate remained at 2%, with policymakers offering no guidance on future moves, emphasizing a meeting-by-meeting approach based on incoming data. President Christine Lagarde noted that inflation is at the desired level, but the price outlook remains unusually uncertain due to the volatile trade environment.

The Bank of England (BoE) cut rates at its August meeting, though the decision had a hawkish tilt, reflected in a narrower-than-expected vote split.

The central bank emphasized that further easing is likely to be gradual and cautious. While a November cut is possible, with inflation nearing 4%, it remains uncertain and would likely depend on further signs of labour market weakness.

The People's Bank of China (PBOC) kept rates unchanged during the quarter, as it evaluated the effects of earlier stimulus measures from H1 2025. Markets anticipate that additional stimulus may be introduced to support the 5% growth target for 2025.

The Fed appear poised to continue cutting interest rates for the remainder of the year

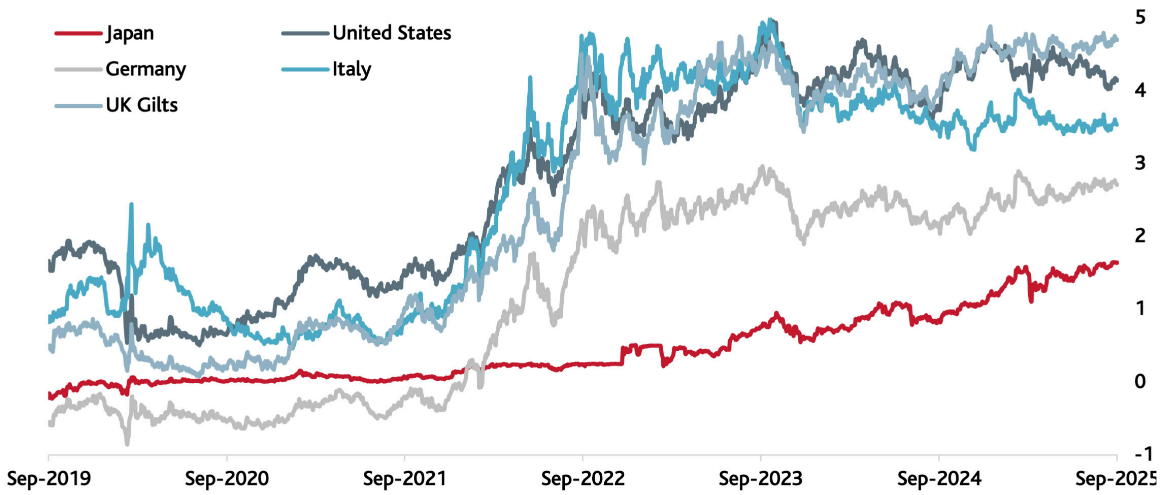


Source: Umthombo Research, Bloomberg (as at 30 September 2025)

Market Trends – Global

US Treasuries rallied as the cooling labour market slowed hiring, while the Fed cut rates to support the economy and is expected to implement further cuts in Q4. EU bond yields rose after the ECB paused interest rate cuts, with inflation anchored near its 2% target. UK government bonds fell, driven by rising inflation, prompting the BoE to keep rates steady to rein in inflation well above its 2% target.

Global government bond markets were mixed in Q3: US Treasury yields ended the quarter lower



Source: Umthombo Research, Bloomberg (as at 30 September 2025)

Global equities rose, supported by accommodative Fed commentary and strong corporate earnings, with the MSCI World Index gaining 7% during the quarter, reaching all-time highs. The DXY rose 1% to 97.78, while gold surged 16.83% to USD 3,858, buoyed by its safe-haven status and increased central bank stockpiling. Oil prices fell 0.87% to USD 67.02, pressured by rising OPEC+ supply and weak global demand

Local Economy

Broad-based sectoral support for the strong Q2 GDP print

Sectoral GDP (real) Q2 2025

Sector	Q3 24 q/q	Q4 24 q/q	Q1 25 q/q	Q2 25 q/q
Mining	0.7	-0.1	-4.1	3.7
Agriculture	-20.5	17.7	18.6	2.5
Manufacturing	0.1	-1.1	-2.0	1.8
Domestic Trade	-0.8	1.3	0.3	1.7
Govt Services	-0.2	-0.3	-0.2	0.7
Personal services	0.4	-0.4	-0.3	0.5
Finance, business	1.1	0.9	0.1	0.3
Utilities	1.3	-1.4	-2.6	0.2
Construction	0.8	-0.5	-3.7	-0.3
Transport and Comms.	-0.3	-1.1	2.4	-0.8
GDP	**-0.3**	**0.4**	**0.1**	**0.8**

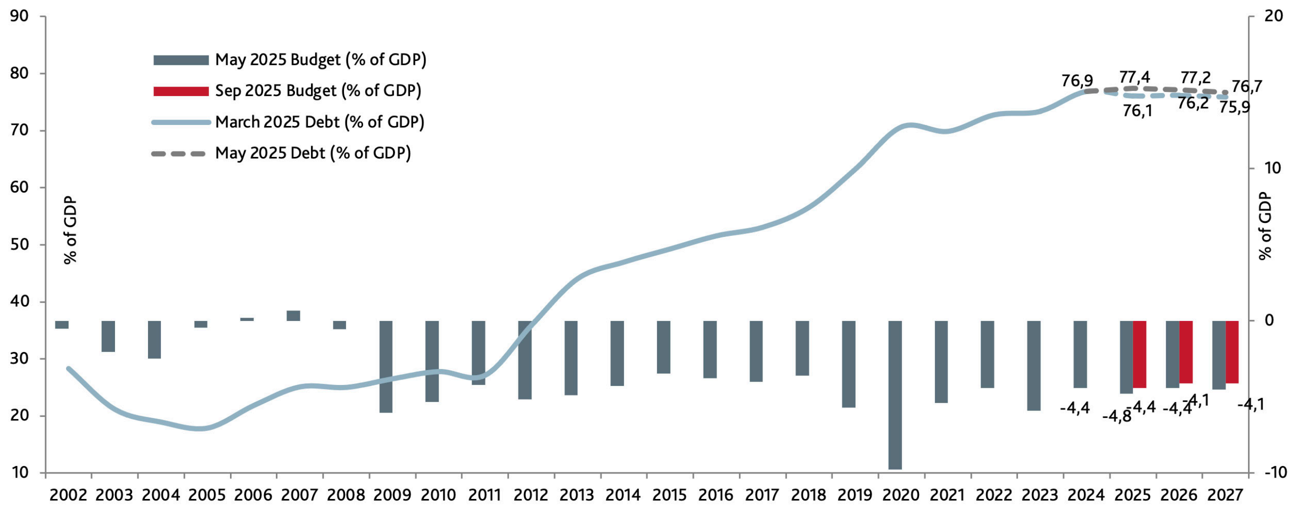
Source: Umthombo Research, Bloomberg (as at 30 September 2025)

South Africa's GDP rose 0.8% q/q in Q1 2025, up from 0.1% in Q4 2024. Growth was supported by manufacturing, with trade, catering, and accommodation also contributing. Amid challenging global conditions, these figures demonstrate the resilience of the South African economy. The government views this as a positive sign of the impact of ongoing initiatives aimed at stimulating growth, supporting local industries, and creating jobs.

However, growth is still expected to be around 1% for 2025, which remains insufficient to meet the country's urgent socioeconomic needs. While economic expansion has disappointed this year, it may accelerate in the medium term, with economic reforms described as "encouraging" and investors viewing the country favorably. Following the Q2 print, the SARB lifted its 2025 growth forecast to 1.2%, from 0.9%, despite a weaker export outlook. We are broadly in line with the SARB's forecast for 2026, but slightly more cautious on 2027. While we are in line with the SARB's forecast for 2026, we are slightly more downbeat on 2027. The SARB assesses that the risks to the growth outlook are balanced.

National Treasury remains on course to meet key fiscal targets in the current fiscal year

South Africa Government Debt to GDP| 2002-2027 Forecast



Source: Stats SA, Nedbank, Umthombo Research (as at 30 September 2025)

The National Treasury's (NT's) preliminary data suggests a surprising budget surplus in August of around R11bn. The country also has a firm grip on expenditure and the pace of revenue collection is high, suggesting fiscal improvements. With that said, we believe South Africa may record its lowest main budget deficit since 2016 in the current fiscal year; sees shortfall at 4.1% of gross domestic product, compared with National Treasury's gap of 4.6% of GDP.

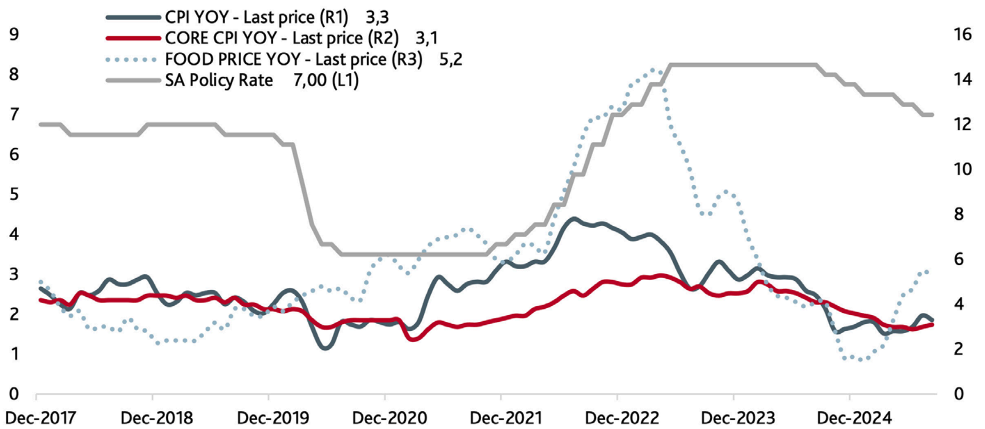
Fiscal outlook is "even more positive" from 2026, once Eskom financing is largely completed; headline deficits of less than 4% of GDP support large primary surpluses that should put debt-to-GDP back on a downward trend.

South Africa Inflation

Consumer inflation eased below consensus, falling to 3.3% y/y in August from 3.5% in July, mainly due to sharper fuel deflation and a decline in food inflation. Meat prices continued to rise but at a slower 0.4% m/m in August, following a cumulative 9.0% increase from April to July, reflecting ongoing supply chain pressures. Core CPI inflation rose 0.1pp to 3.1% y/y, in line with both our forecast and consensus.

Following this, we have revised our CPI forecasts downward to 3.4% for 2025, below the SARB's September MPC assumptions. The SARB expects inflation to peak around 4% in 2025, with a meaningful upward revision to 3.6% in 2026 based on higher food, fuel, and electricity projections. Risks to the inflation outlook are assessed as balanced.

Food and overall inflation surprise on the downside



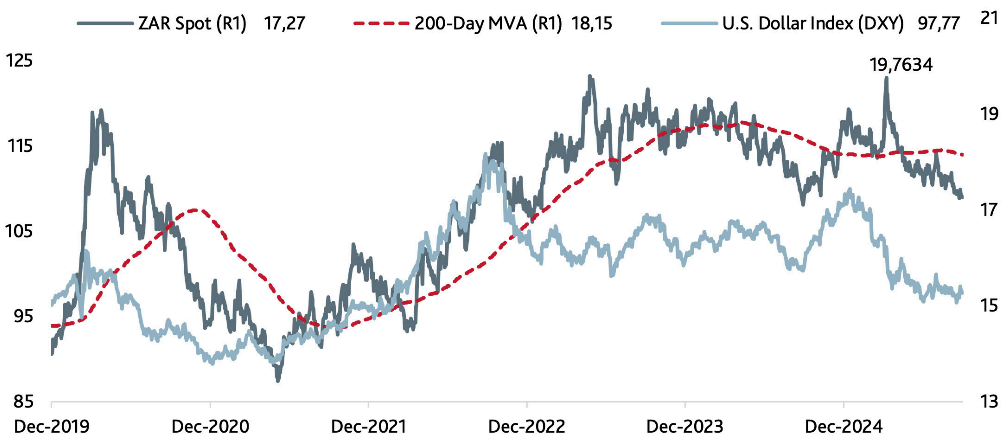
Source: Stats SA, Umthombo Research, Bloomberg (as at 30 September 2025)

Monetary Policy Dynamics – South Africa

The South African Reserve Bank (SARB) opted to keep the repo rate on hold at 7% in September in line with our expectations. The SARB paused its easing path amid 'administered prices crisis', and also waits for the impact of the preceding five interest rate cuts to trickle through. This decision signals its continued commitment to price stability despite pressure from borrowers and slowing growth. In our view, headline inflation is set to rise in the near term, but we anticipate the MPC will look through this and keep the repo rate on hold for the remainder of 2025.

Matrix - South African Rand

ZAR still benefiting from the weaker USD and low vol environment

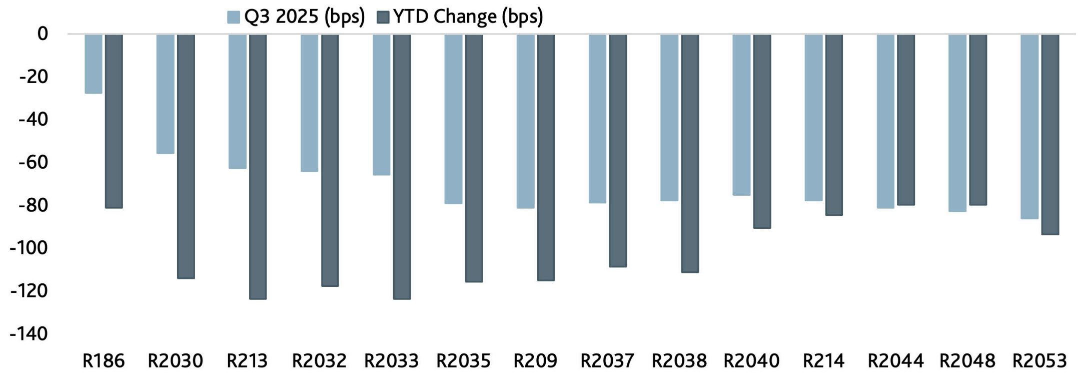


Source: Umthombo Research, Bloomberg (as at 30 September 2025)

The South African rand climbed 2.19% in September, bolstered by a softer U.S. dollar, a surge in gold prices, and steady central bank policy signals. Gold surged 11.92% in the same month and 47.04% for the year, driven by renewed geopolitical tensions, bolstered the rand and other commodity-linked currencies. We believe central banks and investors seeking protection from potential market shocks will continue to driving the gold rally. The SARB's decision to hold rates, reinforced market confidence and further supporting the rand's appreciation. Improved foreign exchange reserves and stable interest rates from the South African Reserve Bank support the rand's long-term recovery potential. SA's growth and interest rate differentials with the US are expected to improve over the coming quarters, which also explains why we expect the ZAR to continue strengthening against USD and outperform the forwards.

Bond Market Trends – South Africa

Boosted by the dovish US policy rate implications and a stronger currency

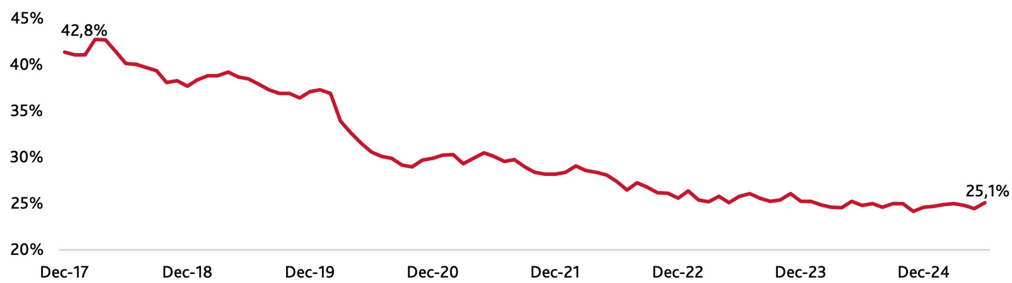


Source: JSE Ltd, Umthombo Research (as at 30 September 2025)

Yields fell across the South Africa sovereign curve in September, with long dated bonds leading the rally as investors continued to maximise returns at the longer end of the curve. The SAGB rally was boosted by the dovish US policy rate implications and was further supported by a stronger currency. The Q2 sentiment benefited from a more supportive macro environment, aided by interest rate cuts and lower inflation, contributing to a more optimistic consumer outlook. Given that bonds have rallied 60 bps in Q2 and a further 80 bps in Q3 2025, sustained progress implementing economic and fiscal reforms and continued discipline from the GNU are needed to sustain the bond market bull run from current levels. Looking ahead, market participants are closely watching the outcome of SA's ongoing trade negotiations with the US after tariffs imposed and the Medium-Term Budget Policy Statement (MTBPS).

Even though SA's fiscal dynamics are improving, there has been only a marginal reduction in the fiscal risk premium embedded into the SA 10y yield in recent months. In other words, many investors are not yet convinced that the NT will cut weekly issuance at the MTBPS due to SA's sizeable redemption commitments over the coming years.

Flows benefited from supportive global conditions, though risks remain underpriced



Source: National Treasury, Umthombo Research (as at 30 September 2025)

Foreign Investors were net buyers of 77 billion rand of South African Government Bonds in September. Foreigners effectively bought a few belly and back-end bonds, increasing the relative duration of their portfolios again. These persistent foreign bond inflows have continued to compensate for the lack of offshore demand for SA equities.

Please join us in **welcoming the newest member** of the Umthombo Wealth Fixed Income team this quarter.

We're excited to have fresh talent on board, bringing valuable skills and perspectives that will strengthen our capabilities and, hopefully, add a touch of alpha along the way.

Mpho Mampane
Fixed Income Analyst
BScEng (Mechanical)

Mpho joins Umthombo Wealth as a Fixed Income Analyst. He brings expertise in fixed income, money markets, and quantitative research from roles at Rand Merchant Bank, Ashburton Investments, and First National Bank. A UCT Mechanical Engineering graduate, Mpho combines technical rigour with practical market know-how to strengthen our Fixed Income team.

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30 September 2025

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WEALTH

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