Economic food for thought

Market Context: Entering 2025

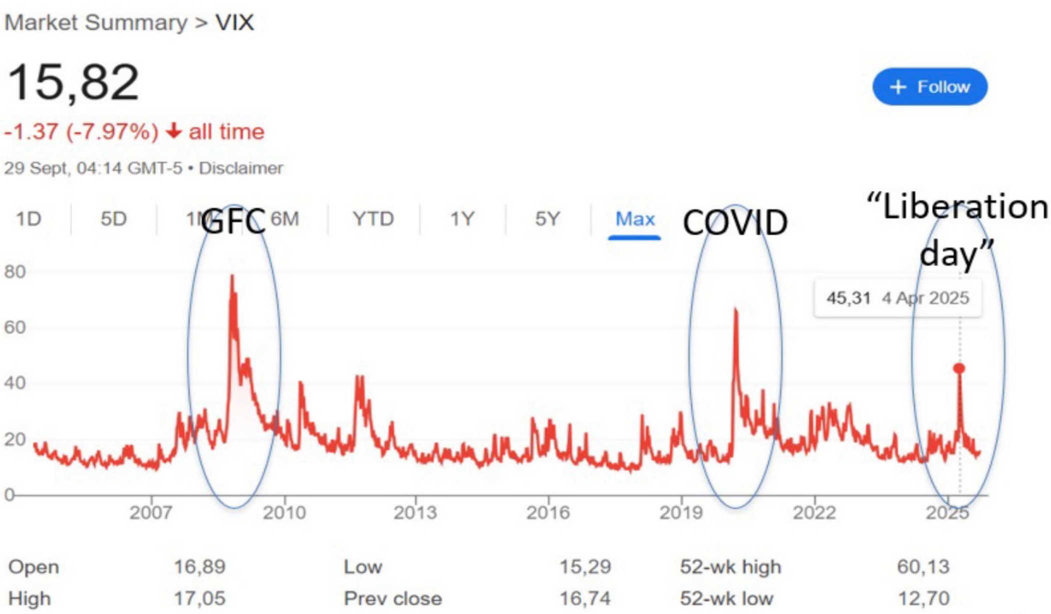
As we write this report, the third quarter of 2025 has just drawn to a close. With most of the year behind us, we now have a clearer view of the key events and drivers that have shaped markets so far, but also the early signs of trends that may shape what comes next.

Following Donald Trump's election in late 2024, it was almost inevitable that markets would begin the year with a bang- and they did. On 2 April, Trump declared the day "Liberation Day" and unveiled a sweeping new tariff policy: a baseline 10% tariff on most imports effective 5 April, alongside higher "reciprocal" tariffs aimed at specific countries from 9 April. He framed this move as freeing the U.S. from economic "enslavement" by trade deficits and restoring American industrial capacity and sovereignty.

Volatility and Global Risk Appetite

Markets thrive on stability, predictability, and certainty. Consequently, the new tariff regime plunged investors into muddied waters, making trade flows, operational costs, global supply chains, and corporate earnings projections far less predictable. While President Trump tested the world's power dynamics, the geopolitical backdrop-including escalating conflicts in the Middle East and Eastern Europe-only intensified the anxiety.

This extreme market nervousness was tangibly demonstrated by the VIX index (the market's measure of volatility): the April 2025 spike's size was surpassed only by the Global Financial Crisis and COVID-19. The key takeaway is clear: the start of the year was categorically defined by fear.



South Africa's Market Performance

Given the volatility of the first half of 2025 and the fact that the U.S. has sustained a bull market since 2008, a bearish pivot seemed fundamentally probable. Yet markets once again defied expectations. Following the initial shocks of the year, global equities mounted a powerful recovery, with most major indices, including the S&P 500 and Nasdaq 100 (U.S.), the Nikkei 225 (Japan), the FTSE 100 (U.K.), the TA-35 and TA-125 (Israel), and India's BSE Sensex and Nifty 50, reaching record highs by the end of the third quarter. The rally was broad-based and fuelled by renewed optimism, fiscal stimulus and rapid technological advances, underscoring the resilience of global risk appetite.

The "Terrific Ten" and the Gold Effect

South Africa's equity market joined the global upswing, with the JSE All Share Index surpassing 100,000 points for the first time in July and closing above 110,000 at the time of writing. However, unlike many of its global peers, the local rally was not rooted in confidence about domestic economic prospects. GDP growth expectations have been revised down to just 1% from 2% last year.

Instead, gains were driven primarily by the resources sector, particularly precious metals such as gold and PGMs, as well as Telcos and China-linked tech counters such as Naspers and Prosus. Gold hit a record high and platinum rebounded sharply, reinforcing the view that South Africa's market performance was buoyed by external forces rather than internal fundamentals.

This is illustrated by the concentration of market movers in a select group of ten stocks, South Africa's "terrific ten," if you will. The top movers include Gold Fields, AngloGold Ashanti, Naspers, MTN, Harmony Gold, British American Tobacco, Sibanye Stillwater, Impala, Prosus, and Northam Platinum.

The "terrific ten" shows that the JSE remains heavily influenced by forces outside the domestic economy, with gold clearly emerging as the main driver. But what drives gold? As noted earlier, anxiety was a key force behind markets in the first quarter. Even as most global indices returned to bull mode, that underlying sense of unease did not disappear-it simply shifted into the gold market.

For centuries, gold has been viewed as a safe haven during periods of economic uncertainty and market volatility. Historically, its rallies have been triggered by market fears, inflation or crisis events such as the Global Financial Crisis or the early 1980s when inflation surged and the dollar weakened. In those instances, gold's momentum was largely driven by investors seeking safety. In recent years, however, a new dynamic has emerged, with central banks themselves becoming significant buyers, signalling a broader and more structural shift in the forces supporting the gold price.

In recent years, particularly in emerging markets such as Russia, China, India and Turkey, central banks have been buying gold aggressively. Their aims are to hedge against geopolitical uncertainty, inflation and, most importantly, to diversify away from the US dollar.

This state-level accumulation forms part of a broader trend known as de-dollarization, where countries seek to reduce their reliance on the US dollar in global trade, reserves and financial transactions. Gold surges in this context are now more strategic than speculative, and demand is increasingly structural.

Implications of a Weaker Dollar

The US dollar has enjoyed its reign as the world's reserve currency since the end of World War II. While we are not suggesting that this dominance will end abruptly, it is important to consider the implications of a weaker dollar in the years ahead. Irrespective of other nations' ambitions, the Trump administration is actively pursuing a weaker dollar to boost US exports and improve America's terms of trade. This reflects a modern mercantilist approach that emphasises trade balances as a means of building national wealth.

What we find most striking is not the potential impact on the United States itself, but how a structurally weaker dollar could reshape capital flows, commodity prices and currency dynamics in emerging markets. A dollar-bearish environment typically benefits these economies by easing dollar-denominated debt burdens, attracting capital inflows and supporting export revenues through higher commodity prices and stronger local currencies.

For South Africa, the effects could be especially pronounced given its export-oriented economy and close ties to global commodity cycles.

What would a dollar-bearish world mean for emerging markets, and South Africa in particular? Generally, a weaker dollar benefits emerging markets by easing dollar-denominated debt burdens, attracting capital inflows and boosting export revenues through higher commodity prices and stronger local currencies. For South Africa, the impact could be especially significant.

South Africa is among the most dollar-sensitive markets in the world, with movements in the US dollar having a direct and often amplified effect on the rand, commodity prices and local asset valuations. When the dollar weakens, the rand typically strengthens as global investors rotate into higher-yielding emerging market assets. This also raises the dollar value of South Africa's commodity exports, providing a meaningful tailwind to both the economy and fiscal revenues.

The country's dollar sensitivity is rooted in its economic structure. South Africa's equity market and export base are heavily skewed toward commodities such as gold, platinum, coal and iron ore, all of which are priced in dollars.

A softer greenback generally supports commodity prices, improving export revenues, profitability and tax collections. At the same time, a weaker dollar reduces the cost of servicing dollar-denominated debt for both government and corporates, improving balance sheets and market sentiment.

Given these dynamics, South Africa stands out as one of the markets most leveraged to a weaker dollar environment. Resource companies such as Anglo American, BHP Group, Gold Fields, and Sibanye Stillwater would benefit from higher commodity prices and stronger margins. At the same time, a firmer rand and lower imported inflation would support banks and retailers through improved consumer spending and credit growth.

Other companies could also benefit indirectly from a stronger emerging market theme, including asset managers like Ninety-One and Coronation, banks such as Standard Bank and FirstRand, and tech or trade-linked firms with exposure to global EM flows, such as Naspers, Prosus, or Bidcorp. In short, in a scenario of a significantly weaker dollar, investors would likely want exposure to foreign assets, commodities, and EM-linked domestic counters.

SARB and Inflation Targeting

Following the theme of central banks, our very own SARB made a monumental announcement this year. It kept the official inflation target band unchanged at 3% to 6% but shifted its focus towards the lower end of the range, around 3%, instead of the long-standing midpoint of 4.5%. The move aims to lock in low inflation after CPI hovered near 3%, helping to lower borrowing costs over time and anchor expectations. Formal adoption still requires Treasury approval.

In July 2025, the SARB announced its preference to target 3%, the bottom of the 3%–6% band. By September, the SARB and National Treasury issued a joint statement, with Treasury expected to formalise the change. At present, 3% serves as the operational target but has not yet been legally adopted. Inflation is forecast to peak at 3.6% by mid-2026 and settle at 3% by the end of 2027.

This might sound technical, but it's actually a big deal. The SARB isn't just aiming to keep inflation under control; it's signalling a real shift towards building a low-inflation environment for the long run. That matters because lower and more stable inflation can ease borrowing costs, boost business confidence, and make long-term investment decisions easier. It also helps shape behaviour, as people who believe inflation will stay near 3% are likely to adjust how they price goods or negotiate wages.

That said, the shift does not come without risks or trade-offs. A more aggressive inflation target could mean interest rates stay higher for longer to keep price pressures contained, which is not an ideal outcome for South Africa's already fragile growth outlook. In an economy still grappling with weak demand and high unemployment, tighter monetary conditions risk stifling momentum just as recovery begins to take hold. While we can remain hopeful, we are under no illusion about the constraints South Africa faces. With administered prices still elevated, government debt standing at around 77% of GDP (high for an emerging market), and various cost-push pressures at play, the ideal scenario of low inflation and low interest rates is far from guaranteed.

Conclusion

With most of the year behind us, it is clear what has driven markets in 2025 and how quickly conditions can shift. Emerging markets, and South Africa in particular, have been among the bright spots, with the JSE All Share Index up 32% year-to-date, the MSCI Emerging Markets Index gaining around 28%, and the S&P 500 rising approximately 15%. If these trends continue, this could signal a new dawn for South African and emerging market assets. Our strong exposure to quality small and mid-cap companies, resilient industrials, and a refreshed approach to mining and resources positions us to benefit from this momentum. And if markets shift, we remain confident in our ability to navigate South Africa's ever-changing waters.