MENTENOVA

# ECONOMIC OVERVIEW

QUARTER 2, 2025

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# MARKET OVERVIEW

The second quarter of the year was characterised by persistent investor apprehension as markets contended with heightened volatility, driven primarily by evolving trade policies and culminating in renewed Middle East tensions. The period concluded with additional uncertainty following South Africa’s President Cyril Ramaphosa's unexpected cabinet reshuffle, which introduced fresh concerns regarding the stability of the Government of National Unity (GNU). Against this backdrop, the International Monetary Fund (IMF) revised its global growth projections downward for several major economies, including the United States (US), the United Kingdom (UK), Canada and Mexico. Notably, however, South Africa received an upward revision, a rare positive development for the domestic economic outlook, albeit from a very low base. Despite these headwinds, the majority of asset classes posted gains for the quarter, demonstrating resilience in the face of macroeconomic and geopolitical challenges.

Equity markets exhibited notable strength despite escalating geopolitical risks, with the Middle East conflict taking centre stage as the quarter came to a close. However, equity markets seemed to shrug it off, as the MSCI World Index advanced 11.6% over the quarter, rising from the ashes of first-quarter anxieties. This recovery was largely driven by robust performance in US equities, where initial volatility stemming from trade policy disputes, including Liberation Day tariff tantrums and a subsequent 90-day cooling-off period by the Trump administration, gave way to improved investor sentiment. The technology sector proved particularly resilient, with the Bloomberg Magnificent 7 Index surging 21%, supported by a strong earnings season and the heavy-tech Nasdaq 100 Index posting a comparable gain of 17.9%. The S&P 500 followed suit, delivering a quarterly return of 10.9%.

In the face of tariff-related trade uncertainties, a downward revision in the GDP forecast and softening inflation expectations, Europe’s equity market for the quarter saw the STOXX 600 up 2.8 %, where the biggest driver was the healthcare and oil & gas sector rally in May. The heavy exposure to energy, however, weakened the performance. Across the ocean, Asian markets shone over the quarter, with Japan’s Nikkei 225 up 13.9%, although sustainable wage growth remains a concern. While the PMI showed improvement, it remains in contraction. Korea’s KOSPI Index was up 24%, Taiwan was up 8.5% and India’s Nifty 50 Index was up 9.1%

The initial tit-for-tat tariff war between the US and China saw tariffs ratcheting up to 125%, causing havoc in the markets. However, trade tensions between the two countries eased, and they called a tariff truce, with dollar weakness acting as a tailwind for emerging markets. The MSCI EM Index outperformed its developed market counterpart, returning 12.2% over the quarter. China was up 2.4%, although economic fragilities are still of concern as industrial activity remains in a slump. South Africa, on the other hand, stood out this quarter, delivering a stellar double-digit return of 10.2%. While this rally was concentrated in the resource sectors (up 9.77%), other sectors did come to the party, such as financials (up 7.82%) and industrials (up 12.03%).

Dollar slumps persisted over the quarter, with the Dollar Spot Index declining by 7% and delivering a depressing 10.7% to date, contributing to shifting dynamics in global fixed-income markets. Investor concerns were compounded by Moody’s decision to downgrade the US sovereign credit rating from AAA to AA1, citing deteriorating fiscal conditions and concerns over the expanding government debt. The foreign currency market saw the rand perform against other major currencies with an appreciation against the US dollar by 3.3%, 5.3% against the Euro, 2.8% against the British pound and 0.7% against the Japanese yen. US Treasury yields on an aggregated level remained flat as the bond market assessed the implications of expansive fiscal policies, including the potential for significant long-term debt accumulation in the face of the “One Big Beautiful Bill Act”. Over the quarter, the WGBI returned 4.6%, while the Bloomberg US Aggregate Bond Index posted a more subdued gain of 1.2%. South African nominal bonds stood out from the crowd, up 5.9%, while our inflation-linked bonds managed a modest 0.9% gain. This saw South Africa’s current 10-year nominal yield decline by 77bps over the quarter, while the current 10-year inflation-linked yield crept up by 20.9bps.

Global real estate markets reflected divergent blueprints. The S&P Global Property Index was relatively strong over the quarter, up 5.4%, while underlying countries showed mixed results. The US property market struggled over the quarter, with the MSCI US REITs Index down 1.2%. Meanwhile, on the other side of the pond, Europe was up 10.2%, with declining house prices an ongoing trend, and South Africa, following a similar trajectory, was up 9.1%, although the local sector remains undervalued, with underlying subsectors growing while vacancy rates decline.

The commodity complex faced its own paradox with industrial metals faltering, even as precious metals gleamed. The Bloomberg Commodity Index was down 3.1%, largely driven by weakness in iron ore (down 3.7%) and crude oil (down 9.5%), which are struggling to return to previous quarter highs. The conflict escalation translated into higher oil prices in June. However, US intervention and the negotiation of a ceasefire agreement between Israel and Iran prompted a fall in oil prices. The increased output by OPEC+ did alarm investors who worried that another accelerated output hike could suffocate prices and see them decline once again. Industrial metals palladium and platinum delivered stellar performances over the quarter, up 11.7% and 36.2% respectively, largely driven by tightening market conditions amid rising investor interest. As the gold rally mellowed, gold's quarterly performance was up 5.3% as its traditional safe-haven appeal dimmed in the face of rising risk appetite and declining real yields. Despite a supportive macro backdrop of increased risk, the yellow metal looked fatigued as the quarter came to an end and is now facing an increased risk of deeper correction.

# US

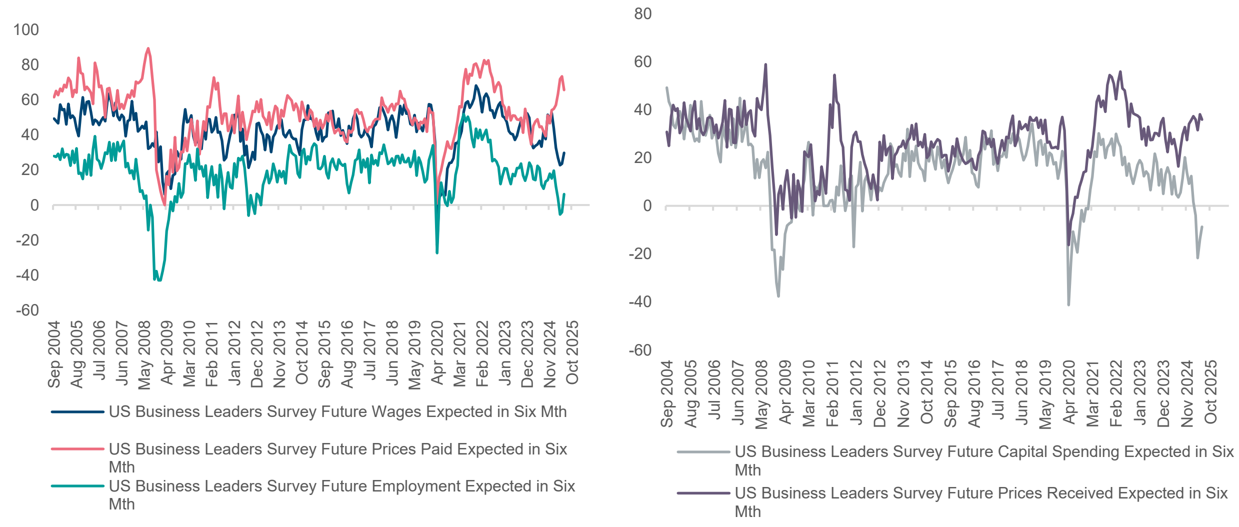
The second quarter of 2025 was turbulent for US markets, with policy developments remaining the primary source of volatility. The quarter began with a sharp sell-off following the Liberation Day tariff announcement on 2 April, which prompted a 12% drop in the S&P 500 and a 50bps spike in 10-year Treasury yields. However, the Trump administration's subsequent decision to pause the tariff rollout and initiate trade discussions with China helped calm investor nerves. Despite geopolitical tensions in the Middle East and initial fears of a broader conflict, economic data held firm and markets rebounded strongly. The S&P 500 ended the quarter at an all-time high, returning 10.9% in local currency, with mega-cap tech stocks driving much of the performance.

The US economy walked a fine line in Q2, resilient on the surface but showing subtle signs of fatigue underneath. After the early April tariff drama which shook confidence, hard data held surprisingly steady. Soft data, such as consumer confidence dropped in Q2 on concerns about inflation uncertainty and a pessimistic labour market outlook, but improved towards the end of June. While excess demand for labour has dropped to zero, jobless claims trends were not a cause for alarm, with the unemployment rate sitting at 4.2% for May. The US economy continued to see job growth and positive real wage growth year on year over the past quarter.

There is, though, an emerging imbalance in the US labour market as different segments of the workforce face divergent pressures. On the one end, the government's intensifying deportation activities have disproportionately affected blue-collar sectors, particularly agriculture, construction and service industries, where undocumented or migrant labour has historically played a critical role. On the other hand, major corporations, including Microsoft, Amazon and other tech giants, and banks, are implementing white-collar job cuts, driven in part by efficiency gains from AI adoption and to contain costs. As the automation of knowledge work accelerates, it is causing disruption not just at the low end of the skills spectrum but also among highly skilled professionals. This bifurcation risks distorting labour supply dynamics, with shortages in hands-on, operational roles alongside an oversupply of displaced knowledge workers. Left unaddressed, this could lead to structural mismatches that weigh on wage growth, productivity and broader economic stability.

Business sentiment also weakened during Q2, with both the ISM Manufacturing and Services PMI numbers dropping to below 50 in May. The services sector was stronger, with the PMI at 49.9, while the manufacturing sector PMI was 48.5. However, similar to consumer sentiment, there was a bit of a rebound in June, despite the overall levels remaining significantly below those at the start of the year.

**Figure 1: US Business Leaders Survey**




*Source: Bloomberg*

While trade and economic policy uncertainties resulted in a mild contraction in the US Q1 GDP growth rate of -0.5% (quarter on quarter annualised), the latest Atlanta Fed GDPNow real GDP estimate points to a 2.5% growth rate in Q2. US CPI has been hovering around 2.4% over the past few months, with a slight uptick in goods inflation and a slowdown in services disinflation. The continued deflationary trends in China may offer some offset to the tariff impact on inflation. Energy prices, which have been a deflationary factor, posed the biggest upside risk to inflation in June, as the brent crude oil price increased from $62 per barrel (end of May) to $75 per barrel due to the Israel–Iran conflict before dropping to $67 per barrel in the last week of June. The June 2025 FOMC projections also reflected a more cautious and measured policy stance against a challenging economic backdrop. The Fed downgraded its 2025 GDP growth forecast to 1.4% and raised its unemployment projection to 4.5%, while core PCE inflation is expected to remain elevated at 3.1% – a slower disinflation path back to the 2% target than previously hoped. Although the median dot plot still implies two rate cuts this year, there is growing division among Fed officials, with nearly half seeing one or no cuts at all. Policymakers emphasised a data-dependent approach, signalling that rate reductions will only proceed if inflation shows convincing progress and the labour market weakens further. In response, markets have recalibrated expectations, now pricing in a lower probability of easing in the near term. Overall, the Fed appears intent on keeping policy “modestly restrictive” to avoid reigniting inflation risks, even as growth and employment indicators soften.

In fixed-income markets, US Treasury yields remained largely range-bound in Q2, even as investors recalibrated expectations towards a slower and more limited Fed cutting cycle. However, the yield curve showed a modest incline, driven in part by growing concerns over the long-term fiscal implications of the “One Big Beautiful Bill/Act”. With the legislation potentially adding $3–$4 trillion to the federal debt, the market began to price in increased issuance and questions around debt sustainability, reflected in a 30bps rise in 30-year US Treasury yields over the past quarter.

**Figure 2: US Treasury yield curve 3M prior vs current**

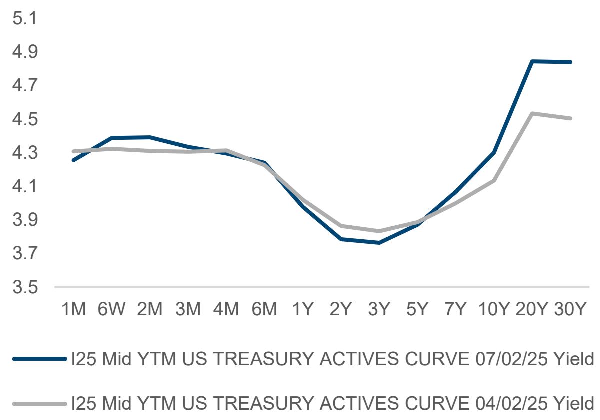
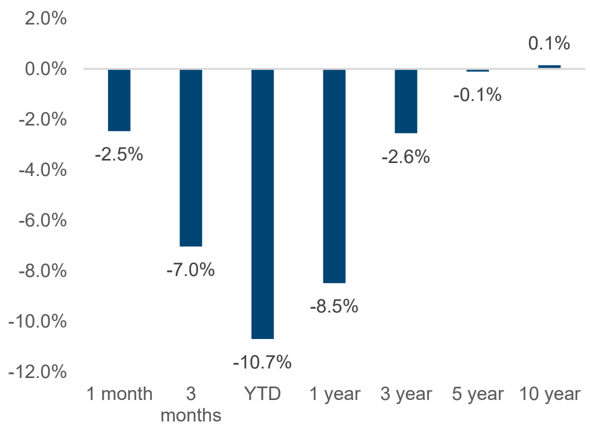



**Figure 3: US dollar (DXY) performance as at end of June 2025**




*Source: Bloomberg*

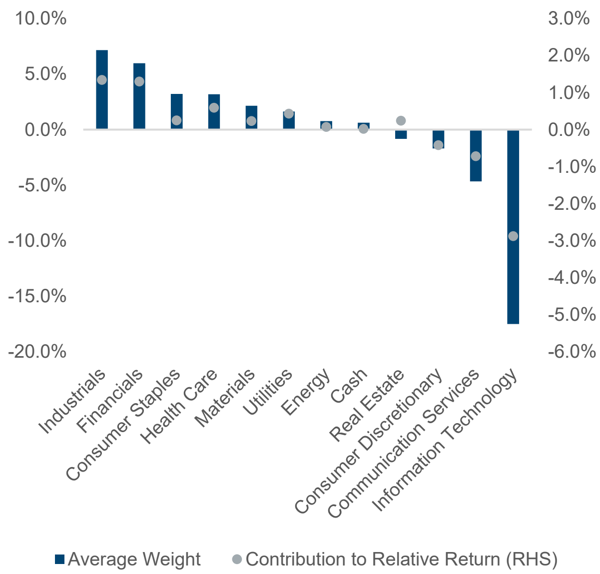
Beneath the surface of a record-high S&P 500, the broader macro environment remains complex and increasingly fragile. Meanwhile, the US dollar weakened significantly, with the DXY Index falling 7.0% over the quarter, which should boost the value of foreign earnings for US investors and improve export competitiveness. While Q2 closed on a strong note for risk assets, unresolved concerns around fiscal discipline, trade tensions and geopolitical uncertainty suggest that a more cautious tone may be warranted as the second half of the year unfolds.

# EUROZONE

Consumer sentiment in the Eurozone saw a modest recovery following April's dip, although it remained slightly below March levels. The broader economic sentiment indicator stayed range-bound and below its long-term average, while the rebound in the business climate indicator was uneven. That said, there were tentative signs of stabilisation: capacity utilisation appeared to be bottoming out and the euro area's manufacturing PMI rose to 49.5 in June, indicating a gradual improvement in the sector.

On the growth front, Eurozone GDP expanded by 0.6% quarter on quarter in Q1 2025, exceeding expectations of 0.2% and marking the fifth consecutive quarter of positive growth. This suggests a modest uptick in momentum across the 20-member bloc, with Ireland, Spain and Lithuania recording the strongest performances. In markets, the STOXX 600 Index returned 2.8% in Q2 in local currency terms. This was relatively muted compared to peers, reflecting steady macroeconomic conditions and declining inflation. The euro appreciated by 9.0% against the US dollar, supported by broad dollar weakness and growing investor interest in geographical diversification. However, equity performance was held back by regional sector composition, with lower exposure to high-performing technology stocks and heavier weightings in sectors such as energy and healthcare.

**Figure 4: iShares STOXX Europe 600 UCITS ETF vs iShares MSCI World ETF performance attribution for Q2 2025**




*Source: Bloomberg, all measured in euros*

**Figure 5: EMEA 10-year government bond yield change (selective)**

| EMEA | Mid yield 3 July 2025 | Mid yield 31 Mar 2025 | Change |
|---|---|---|---|
| Germany | 2.64 | 2.74 | -0.09 |
| Spain | 3.27 | 3.37 | -0.10 |
| United Kingdom | 4.56 | 4.68 | -0.12 |
| Switzerland | 0.41 | 0.54 | -0.13 |
| France | 3.32 | 3.45 | -0.14 |
| Netherlands | 2.81 | 2.96 | -0.15 |
| Portugal | 3.08 | 3.26 | -0.17 |
| Greece | 3.33 | 3.55 | -0.22 |
| Sweden | 2.31 | 2.64 | -0.32 |
| Italy | 3.50 | 3.87 | -0.37 |

In fixed-income markets, the European Central Bank (ECB) adopted a more dovish stance than the US Federal Reserve, cutting rates twice during the quarter, by 25bps in April and a further 25bps in June, thereby bringing the deposit rate down to 2.0%. The easing was supported by a steady decline in inflation earlier in the quarter, although the euro area's inflation edged up from 1.9% in May to 2.0% in June. This policy divergence contributed to the euro's continued strength as the market is pricing in the ECB's pause of rate cuts soon. ECB President Christine Lagarde indicated in June that the central bank is approaching the end of its cutting cycle. As a result, markets are now pricing in a rate hold in July, with expectations of an additional cut either in the final quarter of this year or early next year.

European 10-year government bond yields declined by 13bps over the quarter, with Italian bonds outperforming amid tightening spreads. Overall, the Eurozone maintained a relatively stable trajectory in Q2. While local equity performance and economic momentum were softer, currency appreciation significantly enhanced US dollar-based returns for international investors.

# UNITED KINGDOM

The UK economy started 2025 firmly compared to consensus forecasts but lagged most of its G7 peers in terms of economic output in the first quarter. GDP grew by 1.3% year on year and by 0.7% quarter on quarter in the first quarter. Household consumption and gross fixed investment added to the strong performance during the first quarter, improving by 0.4% and 2.0% respectively, quarter on quarter, while government consumption expenditure detracted from growth in the first quarter, contracting by 0.4%, quarter on quarter. Trade, on the other hand, had a net positive impact on growth in the first quarter, with exports and imports adding 1.1% and 0.7% respectively, quarter on quarter, although this effect could be attributed to front-loading of activity ahead of the imposition of tariffs by the US in April – stamp duty land tax and vehicle excise duty in April – and related trade developments.

Growth into the second quarter is projected to fall back amid lower output, business and trade-related activity. Retail sales volume dropped by 2.7% in May – the sharpest decline since late 2023 – while necessities like electricity, gas, steam and air conditioning supply contracted by 4.3% in April. Business sentiment simultaneously pointed to weaker underlying GDP growth in the second quarter of 2025, and although the Lloyds Business Barometer improved by 30% for the year to date, this rise is not matched in output as measured by the S&P Global UK PMI Index. While recovering to 52 at the end of June, it remained below its historical average for most of the quarter. Despite lower business and consumer confidence alike, a textual analysis of PMI responses – as measured by Bank of England (BOE) staff – points to rising concerns of foreign activities that can detract growth over the long term, as opposed to domestic ones, with the latter underpinned by optimism surrounding the June Spending Review and infrastructure reforms alike.

**Figure 6: Public sector progressively contracting in May 2025**

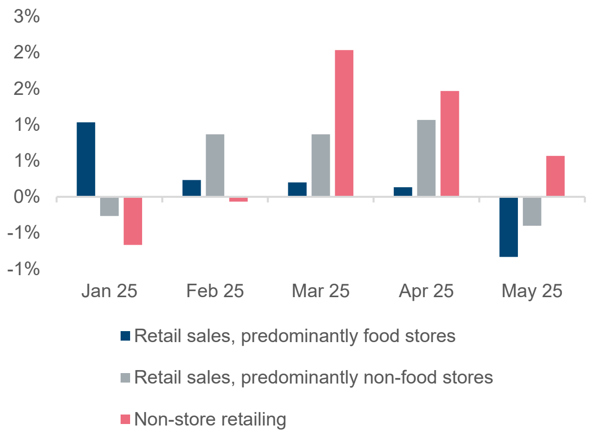
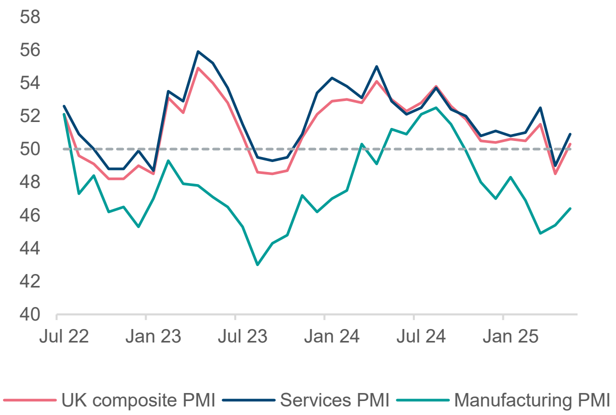



**Figure 7: Private sector contracts for the first time since 2023**




*Source: Bloomberg*

The UK government's June Spending Review sets out a multi-year framework aimed at rebalancing spending and investment according to national priorities following a decade of aggressive austerity from 2010 to 2019 – which saw significant cuts across departments most reliant on central funding. The review establishes resource budgets through to 2028/29 and capital budgets through to 2029/30, reinforcing fiscal discipline and targeting public welfare and investment. A central component of this strategy is the £725 billion 10-year Infrastructure Plan (10YIP) which seeks to address structural deficiencies, including reducing NHS backlogs and wait times, expanding affordable housing, and advancing energy security through projects such as the Sizewell C nuclear plant. However, fiscal consolidation remains a key challenge in the midst of long term strategic growth, since the government's public debt is hovering around 100% of GDP. The government additionally face a deteriorating fiscal deficit – currently sitting at 5% of GDP which is the third highest among the G7 economies.

**Figure 8: 2010/19 Austerity on essential authorities to be remedied by Spending Review & 10YIP**

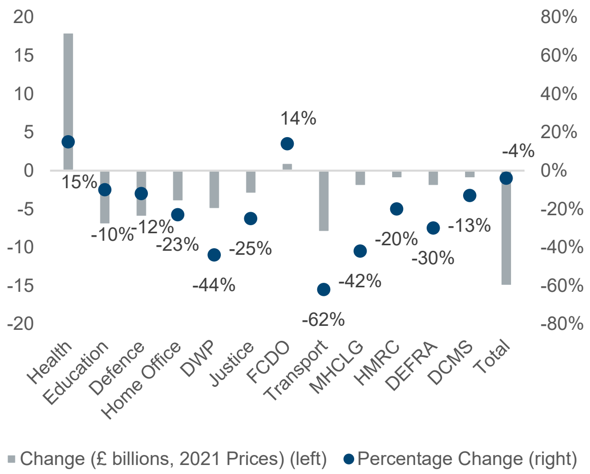
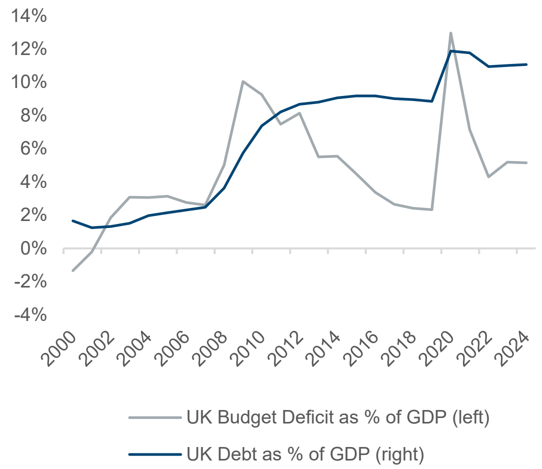



**Figure 9: UK fiscal consolidation is a restraint on strategic growth efforts**




*Source: Bloomberg*

Although the above projects could spur growth in the labour market over the long term, it remains in contractionary territory in the short-term – coinciding with the current trajectory of the BoE Monetary Policy Committee (MPC). Unemployment increased to 4.6% in April 2025 year on year, against 4.5% a month earlier. This marks the highest level since August 2021, attributed to moderating wage growth following sharp increases in payroll taxes and a 6.7% rise in the national minimum wage. Meanwhile, the total number of employed individuals rose, with gains driven by higher numbers of both part-time and full-time workers. Lastly, the economic inactivity rate which decreased by 0.2 percentage points to 21.3%, may have attributed to a modest decrease in headline inflation from 3.5% year on year at the end of April to 3.4% at the end of May.

Significant pressures continue in Food & Non-alcoholic Beverages and Housing/Utilities, partly driven by earlier energy price increases due to Middle East tensions. While inflation eased in Transport, Recreation & Culture, and Restaurants & Hotels, core services inflation remains elevated. Persistent inflation and ongoing risks (trade uncertainty, geopolitics) led the BoE’s MPC to maintain the bank rate at 4.25% in June, with a 6–3 majority vote. The MPC emphasised the need for a restrictive policy to ensure inflation sustainably returns to the 2% target, citing upside risks from elevated household and business inflation expectations, particularly in relation to salient items like food.

Despite renewed policy efforts, market performance reflects the UK's long-standing structural challenges. UK equities ended the second quarter with a modest 2.1% return in local currency – outpacing only France among G7 peers – while UK bonds returned 2.0%, the second-best performance in the group. These subdued returns underscore lingering investor caution amid fiscal pressures and weak growth momentum.

# JAPAN

Japan's economy remains under pressure ahead of key political elections, weighed down by subdued household spending, inventory drawdowns, and a challenging external trade environment. Although sentiment improved slightly following a pause in some US tariffs, the risk of a technical recession has risen. A second consecutive quarter of negative growth is expected after Q1 2025's 0.2% contraction and GDP is forecast to ultimately grow by just 0.7% in 2025, edging up to 0.9% in 2026 (Scope Ratings).

Persistent inflation (together with stagnant growth) – up to 3.5% year on year in May – continues to strain business and consumer confidence. Domestic and external pressures, such as staple shortages (e.g., rice) and ongoing trade tensions affecting oil prices, further burden the economy. Food and fuel inflation reached 6.5% and 7.7% respectively in May. Corporate activity, on the other hand has slowed – the manufacturing PMI has remained below the 50 threshold since March 2024 – while the Composite Leading Index declined by 2.1% between March and May, signalling broader economic moderation.

**Figure 10: Japan inflation sticker than other developed economies**

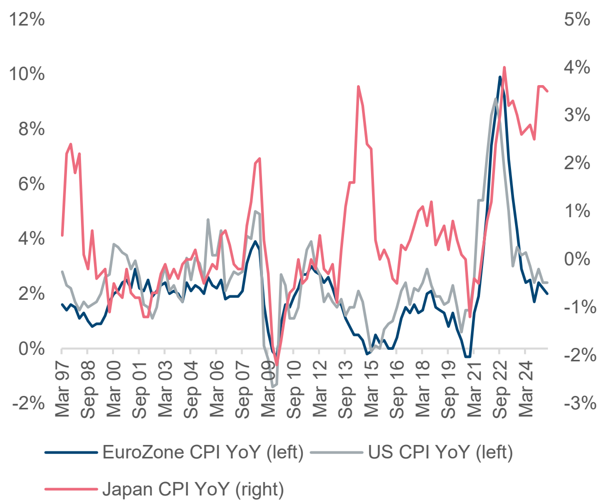



**Figure 11: Business and consumer confidence remains subdued**


*Source: Bloomberg*

Conversely, Japanese financial markets have surpassed all-time highs, levels not seen since the early 1990s onset of the asset price bubble. The Nikkei 225 performed best among Japanese assets, returning 13.9%, while the TOPIX property index returned 4.6%. Government Bonds continued to trade lower, returning -0.8% for the quarter. The Yen depreciated by 3.9%, reflecting sentiment similar to the movement in Japanese 10-Year Government yields, which reached 1.4% against 1.1% at the start of the year.

This follows continued consolidation in Japan's government debt burden, stemming from years of short-sighted fiscal stimulus and subsequent economic stagnation. Historically ineffective policy responses have worsened the problem, creating ripple effects across global treasury markets. For most of the past decade, ultra-low yields – supported by the Bank of Japan's (BOJ) yield curve control (until its 2024 end) – kept Japan's debt manageable. Now, however, a return of inflation, rate hikes, persistent geopolitical tensions and domestic risks have sharply driven up yields on Japanese Government Bonds (JGBs), particularly at the long end of the curve.

**Figure 12: Japan debt/GDP compared to peers**

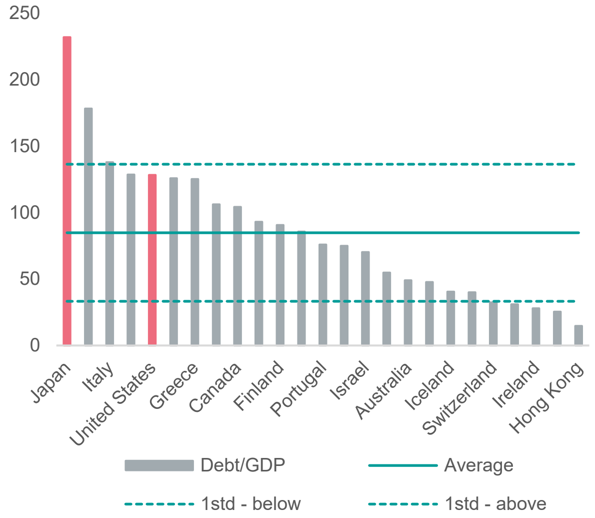
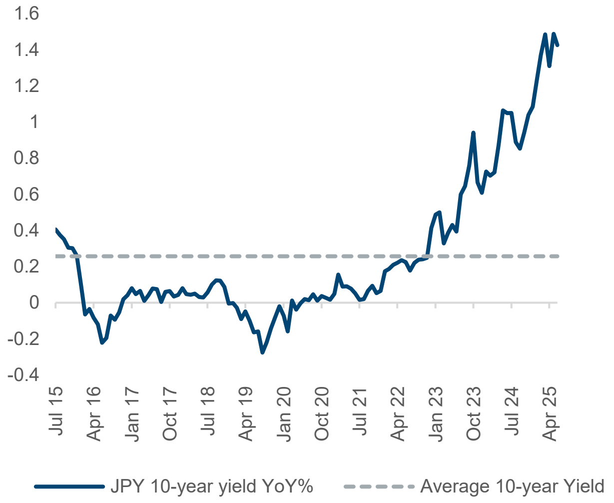



**Figure 13: 10-year yields pushing higher**




*Source: Bloomberg*

Private investors, seeking safety amid global uncertainty, have subsequently increased JGB holdings by 17.1% year on year – though this offers negligible real returns. As of May, global inflation moderated to 3.6%. Persistent price pressures suggest further BOJ rate hikes, likely pushing nominal yields higher and exacerbating the government's future debt-servicing costs. The BOJ has cautiously scaled back JGB purchases (now sitting at 46.3%) amid significant volatility and worsening risk-adjusted returns. Institutional investors have also been reluctant to fill the gap, amplifying upward pressure on yields. This dynamic has broader ramifications: JGBs comprise 16.7% of the Bloomberg Global Treasury Index (second only to US Treasuries at 33.8%), and a sustained sell-off could thus inflict losses across global bond portfolios.

Moreover, the BOJ's supply adjustments – tapering long-end issuances while increasing short-term debt – could mitigate further yield spikes. Yet this balancing act remains precarious. Should inflation persist or global risk sentiment sour, Japan's debt strains may yet reverberate through worldwide treasury markets, underscoring its systemic role in fixed-income benchmarks.

**Figure 14: Bloomberg Global Treasury Index composition**

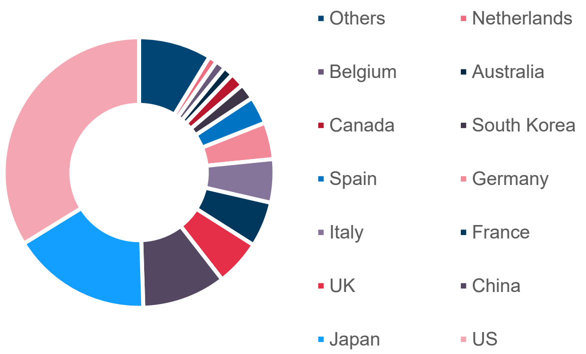
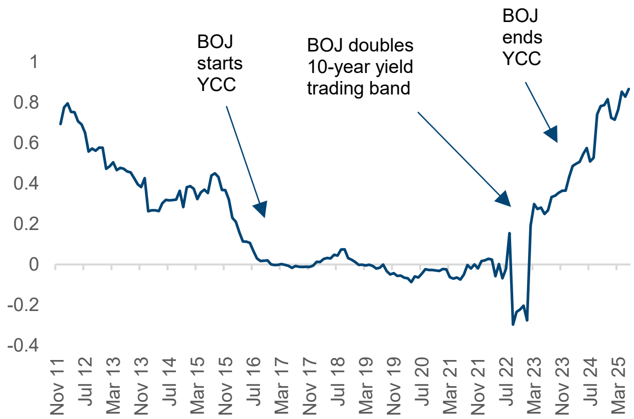



**Figure 15: Sensitivity of Japanese on US treasuries**




*Sensitivity is measured by beta, calculated through the regression of monthly changes in Japanese and US spreads on 10- and 30-year Treasuries*
*Source: Bloomberg*

# SA

The first half of 2025 was marked by global trade uncertainties and persistent domestic economic challenges. Against this backdrop, the Q1 2025 GDP figures, released in early June, showed stagnation, with real GDP sitting at 0.1% quarter on quarter. Only four out of 10 sectors recorded positive growth, the largest contributor being agriculture, forestry and fishing, which expanded by 15.8%. Declining imports and a 0.4% improvement in household consumption, quarter on quarter, were supportive of growth, notwithstanding the decline in import growth.

Consumer sentiment, though still subdued, improved slightly in Q2, with the FNB/Consumer Confidence Index rising to -10 from -20 in Q1. This shift was influenced by several factors, including the scrapping of a proposed 2% VAT hike, ongoing tariff disputes on imported goods, a brief return to stage 6 load shedding, and a surprisingly constructive exchange between Presidents Cyril Ramaphosa and Donald Trump in May, which revived hopes for trade and investment opportunities. Despite the modest rebound, the -10 reading indicates lingering consumer pessimism regarding the economic outlook and household finances over the next year.

Economic activity showed signs of recovery during the quarter. The Absa Purchasing Managers' Index (PMI) deepened its contraction in April, falling to 44.7, but by the end of Q2 it had climbed 3.8 points to 48.5, albeit still in contraction. This uptick was largely driven by stronger sales orders, with domestic demand for new vehicles outpacing exports. However, business confidence dipped to 40.5 in Q2, down 5 points from Q1. On a brighter note, new vehicle dealers and retailers maintained their confidence levels above their long-term averages.

South Africa's labour market remained under pressure, with the unemployment rate rising to 32.9% in Q1. According to Stats SA's Quarterly Employment Statistics, employment fell by 74,000 jobs, with significant losses in trade, community services, mining, business services, construction and electricity. Manufacturing was one of the few sectors to see expansion. Meanwhile, the current account deficit narrowed slightly to -5% in Q1, as government borrowing continued to focus on immediate fiscal needs rather than long-term investments.

During the quarter, discussions emerged about potentially lowering South Africa's inflation target to a single digit of 3%, shying away from the 3%–6% target band. Although no definitive decisions were made, there is positive sentiment around such a move. Inflation in May stood at 2.8%, primarily driven by housing, utilities and food prices. Goods inflation edged up to 1.8% from April's figure, while services inflation remained elevated at 3.6%. Despite these figures, inflation outlook surveys reveal that many survey participants are anticipating further declines. Notably, the South African Reserve Bank's Monetary Policy Committee unanimously voted to lower the repo rate by 25bps to 7.25% (although one member motioned for a 50bps cut).

# EMERGING MARKETS

Global markets were shaken at the start of the second quarter of 2025 as US President Donald Trump announced, on 2 April 2025, a 10% baseline tariff across all imports from its trading partners, while some countries were subject to higher reciprocal tariffs as part of his mission to put “America First”. Following his announcement, a 90-day pause was implemented on the tariffs until 9 July 2025, prompting increased uncertainty and volatility across markets. Uncertainty was further heightened by geopolitical conflicts and trade tensions between the US and China which, despite a subsequent de-escalation, remain a cause for concern among investors.

In these volatile and unpredictable times, emerging markets have displayed their adaptability and resilience through stable domestic demand, consumption and improving market sentiment. The MSCI EM Index continued to outperform its developed market counterparts in Q2 2025, ending the quarter positively with a 6.1% return in June compared to the 4.5% return shown in the MSCI ACWI Index. Meanwhile, the MSCI Emerging Markets Currency Index reached record highs in Q2 2025, influenced by a weaker US dollar, with the index indicating the total return of 25 emerging market currencies relative to the US dollar.

**Figure 16: Emerging markets outperforms developed markets in Q2**

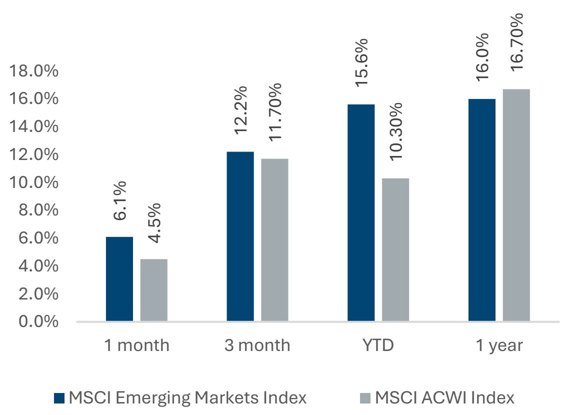
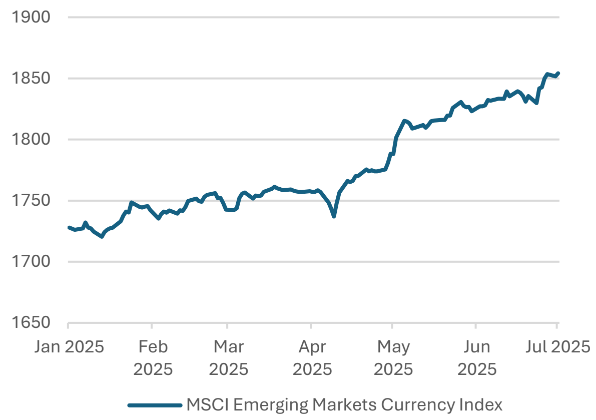



**Figure 17: MSCI Emerging Markets Currency Index reaches record high in Q2**




*Source: Bloomberg*

The countries contributing to the positive performance and sentiment in emerging markets are China, India and Brazil. Following the de-escalation of the trade tensions between the US and China, economic indicators such as China’s manufacturing PMI (provided by the National Bureau of Statistics in China), which measures actual factory activity within China, increased to 49.7 in June. However, this remains below the neutral level of 50, implying that manufacturing is still in contractionary territory but has improved consecutively from a PMI of 49 in April and 49.5 in May. The outlook from the manufacturing sector seems to reflect continued optimism, as the Caixin China manufacturing PMI, which is a survey based on a sample of the headline PMI and provides an indication of the expected PMI, rose to 50.4 in June from the previous PMI of 48.3. Even though China displayed its resilience as one of the world’s largest economies through its strong exports during the quarter, it is still faced with concerns about deflation and a weakening real estate market. Further innovations in business and technology, together with expectations of fiscal stimulus to support its policies, are expected to boost China’s performance in the second half of 2025.

As the fastest growing economy in 2025, India is expected to maintain this trend into 2026, according to Morgan Stanley, with real GDP growth projected at 5.9% and 6.4% in 2025 and 2026, respectively. This growth trend is supported by strong investment inflows into the economy, while the possibility of a trade deal with the US could further boost India’s market performance for the remainder of 2025.

Additionally, Brazil’s low exports to the US have limited the impact of trade tensions and tariffs on the economy, while allowing the country to benefit from shifts in supply chains away from countries impacted by the higher reciprocal tariffs. Brazil’s performance is further boosted both by fiscal and credit expansion, which aims to strengthen the Brazilian real and realise the country’s fiscal targets for 2025 and 2026, and by private consumption. During the month of June, Brazil's central bank raised its benchmark interest rate to 15%, which has not been observed since July 2006. The central bank also indicated that this hike in the interest rate could mark the end of its tightening cycle as it aims to maintain this interest rate so that inflation would hopefully move towards its target of 3%. Furthermore, cooling inflation in April and May could prompt a possible reversal of interest rate increases.

**Figure 18: China, India and South Korea end Q2 with a higher PMI**

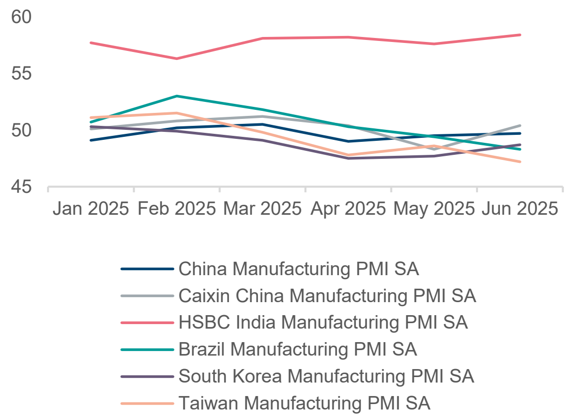
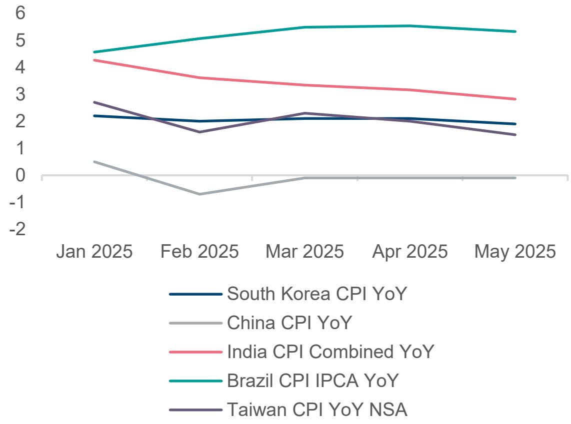



**Figure 19: Emerging market inflation slows down in Q2**




*Source: Bloomberg*

Given the adaptability of emerging markets during Q2 2025 and the approaching end of the 90-day tariff pause on 9 July 2025, the main question that should be asked by investors is: "Can emerging markets maintain their resilience…?" Answers to this question may vary depending on the progress made in respect of the reciprocal tariffs on 9 July 2025. However, in a scenario where tariffs are implemented across the affected countries, which could result in a re-escalation of trade tensions, emerging markets have proven their resilience and adaptability in turbulent times, enabling them to benefit from a weaker dollar, shifting supply chains and changing market sentiment towards less volatile investments.

# APPENDIX

**Financial market performance as at 30 June 2025 (in ZAR)**

| | 1 mth | 3 mths | YTD | 1 yr. | 3 yr. (p.a.) | 5 yr. (p.a.) | 7 yr. (p.a.) | 10 yr. (p.a.) |
|---|---|---|---|---|---|---|---|---|
| **Local Equity Indices** | | | | | | | | |
| FTSE/JSE All-Share Index (ALSI) | 2.4% | 10.2% | 16.7% | 25.2% | 17.8% | 16.4% | 11.6% | 10.1% |
| FTSE/JSE Resources 20 Index | 4.8% | 9.8% | 46.8% | 30.6% | 9.9% | 13.1% | 13.6% | 11.3% |
| FTSE/JSE Industrials Index | 2.5% | 11.8% | 15.3% | 29.0% | 22.1% | 15.3% | 10.7% | 9.1% |
| FTSE/JSE Financials Index | 1.2% | 8.5% | 6.6% | 20.4% | 19.4% | 20.8% | 8.6% | 7.0% |
| FTSE/JSE Shareholder Weighted Index (SWIX) | 2.4% | 10.2% | 16.7% | 25.2% | 16.1% | 14.4% | 9.3% | 8.1% |
| FTSE/JSE Capped SWIX Index (Capped SWIX) | 2.2% | 9.7% | 16.1% | 24.6% | 15.9% | 16.2% | 9.7% | 7.9% |
| FTSE/JSE All-Share Top 40 Index | 2.6% | 10.3% | 19.7% | 25.5% | 18.0% | 16.2% | 11.9% | 10.4% |
| FTSE/JSE SWIX Top 40 Index | 2.6% | 10.3% | 19.7% | 25.5% | 16.1% | 13.6% | 9.0% | 7.9% |
| FTSE/JSE Mid Cap Index | 2.0% | 10.0% | 10.1% | 20.3% | 14.9% | 16.0% | 9.0% | 7.4% |
| FTSE/JSE Small Cap Index | 2.1% | 9.5% | 1.8% | 26.0% | 18.8% | 27.1% | 12.5% | 9.4% |
| FTSE/JSE Listed Property Index (SAPY) | -0.9% | 9.1% | 5.3% | 23.9% | 19.8% | 16.6% | 3.9% | 3.0% |
| FTSE/JSE Capped Listed Property Index | -0.2% | 11.0% | 6.2% | 26.1% | 20.0% | 16.5% | 1.9% | 0.9% |
| FTSE/JSE SA All Property Index | -0.2% | 10.8% | 6.1% | 25.9% | 20.0% | 16.7% | 3.0% | 1.9% |
| **Local Interest-Bearing Indices** | | | | | | | | |
| FTSE/JSE All-Bond Index (ALBI) | 2.3% | 5.9% | 6.6% | 18.4% | 13.4% | 10.9% | 9.8% | 9.2% |
| FTSE/JSE All-Bond Index 1 - 3 years | 0.9% | 2.8% | 4.9% | 10.4% | 9.4% | 7.5% | 8.4% | 8.3% |
| FTSE/JSE All-Bond Index 3 - 7 years | 1.8% | 5.4% | 7.5% | 17.3% | 12.3% | 9.6% | 10.2% | 9.7% |
| FTSE/JSE All-Bond Index 7 - 12 years | 2.3% | 6.9% | 7.8% | 20.6% | 15.1% | 11.5% | 10.8% | 10.0% |
| FTSE/JSE All-Bond Index +12 years | 3.2% | 6.6% | 5.9% | 20.3% | 13.7% | 11.9% | 9.6% | 8.9% |
| Inflation Linked Government Bonds (IGOV) | 0.6% | 0.9% | 1.5% | 7.3% | 5.7% | 8.5% | 6.1% | 5.2% |
| Short-Term Fixed Interest Composite Index (SteFi) | 0.6% | 1.9% | 3.8% | 8.1% | 7.8% | 6.3% | 6.5% | 6.7% |
| **Inflation Index** | | | | | | | | |
| Consumer Price Index (1 month lagged) | 0.2% | 0.9% | 2.1% | 2.8% | 4.8% | 5.2% | 4.6% | 4.9% |
| **International Indices** | | | | | | | | |
| MSCI World Index | 4.3% | 11.6% | 9.8% | 16.8% | 18.9% | 15.1% | 12.2% | 11.2% |
| MSCI Emerging Market Index | 6.1% | 12.2% | 15.6% | 16.0% | 10.2% | 7.3% | 4.9% | 5.2% |
| MSCI All Country World Index | 4.5% | 11.7% | 10.3% | 16.7% | 17.9% | 14.2% | 11.3% | 10.5% |
| FTSE World Government Bond Index (WGBI) | 1.9% | 4.6% | 7.3% | 8.5% | 1.7% | -2.5% | -0.4% | 0.6% |
| S&P Global Property | 1.5% | 5.4% | 6.9% | 13.4% | 5.1% | 5.8% | 3.0% | 4.1% |
| USA S&P 500 | 5.1% | 10.9% | 6.2% | 15.2% | 19.7% | 16.6% | 14.4% | 13.6% |
| UK FTSE 100 | 0.0% | 3.2% | 9.5% | 11.3% | 11.1% | 11.3% | 5.9% | 7.0% |
| Euro STOXX 50 | -1.1% | 2.7% | 10.4% | 11.0% | 18.2% | 13.1% | 9.1% | 7.1% |
| Japan Nikkei 225 | 6.8% | 13.9% | 2.6% | 4.3% | 17.7% | 14.9% | 11.1% | 9.3% |
| **Currency Movement** | | | | | | | | |
| Rand/Dollar (R17.72= 1 Dollar) | -1.6% | -3.5% | -6.2% | -2.8% | 2.9% | 0.4% | 3.7% | 3.8% |
| Rand/Euro (R20.85= 1 Euro) | 2.0% | 5.0% | 6.6% | 6.7% | 6.9% | 1.3% | 3.8% | 4.4% |
| JPY/Rand (8.14 Japanese Yen= 1 SA Rand) | 1.8% | -0.3% | -2.2% | -7.8% | -0.8% | 5.6% | 0.1% | -2.1% |
| Rand/Pound (R24.3= 1 Pound) | 0.3% | 2.5% | 2.7% | 5.4% | 7.0% | 2.5% | 4.3% | 2.4% |

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