



MENTNOVA

ECONOMIC OVERVIEW

QUARTER 3, 2025



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MARKET OVERVIEW

The third quarter of 2025 demonstrated the financial markets' remarkable resilience, against a complex backdrop of shifting monetary policy, persistent trade tensions, and unrelenting enthusiasm for artificial intelligence (AI). Notwithstanding this volatile landscape, most asset classes delivered strong positive returns, underscoring the presence of rich cyclical opportunities and structural transformations.

Emerging markets flourished over the quarter, with the MSCI EM Index rising 10.9%, outperforming its counterpart, the MSCI World Index, which delivered 7.4%. This strong performance was widespread, with several key countries achieving double-digit gains. China's CSI 300 Index rose by 19.1%, propelled by an extension of the US–China tariff truce and a powerful tech sector rally fuelled by policy support for domestic chipmakers and an accelerated rollout. Taiwan's equity market rose by 17.8%, similarly buoyed by an insatiable global demand for AI-related hardware. Locally, South Africa's FTSE/JSE All Share Index posted a strong 12.9% return, primarily driven by the resource sector, which benefited from elevated commodity prices, despite the additional 30% tariff announcement. In developed markets, the US S&P 500 gained 8.1%, reaching new record highs on speculation of impending US Federal Reserve rate cuts and a substantial surge in the technology sector, where the Bloomberg Magnificent 7 Index rose by 17.6% over the quarter. European equities advanced at a more modest pace, with the STOXX 600 up by 3.5%, constrained by political uncertainty in France and fiscal sustainability concerns in the UK. Japan's Nikkei 225 Index delivered an impressive 11.8% return, bolstered by a strategic reduction in US tariffs and stellar performance in the country's automotive sector. On a style front, growth stocks outperformed value stocks, as seen by the MSCI World Growth Index gaining 8.6%, while the MSCI World Value Index gained 6.0% in Q3 2025.

The fixed income landscape was characterised by regional disparities. Local bonds, as measured by the FTSE/JSE All Bond Index, returned 6.9%, while continuing to attract foreign investment and outperforming global peers. In contrast, the World Government Bond Index was relatively flat. US Treasury yields trended lower as the market focus shifted from inflation risks to concerns over downside growth. Domestically, the 10-year government bond yield declined to 9.2% by the end of September, reflecting subdued inflation, rand appreciation and lower lending rates. This resulted in a flattening yield curve, as long-term interest rates declined more than short-term interest rates.

A discernible, though cautious, shift toward monetary policy easing unfolded across major central banks. The Federal Reserve initiated its first rate cut of the year in September 2025 by 25bps, with the FOMC's decision appearing to prioritise emerging risks to employment. The Bank of England paused its easing cycle after a prior cut, citing concerns that declining wage pressures might not sufficiently anchor a recent uptick in inflation. The Bank of Japan held rates steady but took a significant step by scaling back its asset purchases, signalling a slow unwinding of its long-standing quantitative easing programme. Meanwhile, the South African Reserve Bank maintained its lending rate following a 25bps cut in July 2025, highlighting the varied policy responses to global disinflation, growth concerns, and an intended move to a 3% inflation target from the current 4.5% midpoint.

The global listed property sector posted gains, with the FTSE/EPRA Nareit Global REITs Index rising by 4.4%. The domestic FTSE/JSE South African Listed Property Index advanced by 6.6%, benefiting from the lower interest rate environment. The US REIT market followed suit, up by 4.8%, pricing in further monetary easing. Conversely, the European property market struggled, falling significantly by 5.5%, despite growth in sectors like data centres and logistics.

Over the quarter, most precious metals displayed strength, with the Bloomberg Commodity Index gaining 3.6%. Gold was the standout performer, rallying by 16.8% as safe-haven demand and expectations for Fed rate cuts provided powerful momentum. Platinum and palladium also surged, by 15.9% and 13.9% respectively, on the back of supply constraints stemming from our local operational challenges, shrinking



production capabilities, and a sustained demand outlook driven by these commodities' usage in automotives, investment, jewellery and data storage. In contrast, Brent Crude declined by 0.9% as OPEC+ supply increases met with only modest demand, putting pressure on oil. This was despite the risk of reduced Russian supplies as the US pressured India to halt imports of crude oil from Russia.

In currency markets, given the volatility at play, the US Dollar Spot Index edged slightly higher by 0.3% during the quarter, supported by Fed policy expectations, though it remains deeply in negative territory at 9.9% YTD. The South African rand demonstrated notable strength, appreciating significantly against several major currencies, suggesting relative political and fiscal stability against a backdrop of turmoil in other developed markets, including 5% against the Japanese yen, 4.5% against the British pound and 3% against the Euro.

Table 1: Market overview

30 September 2025 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)
FTSE/JSE ALSI Total Return	6.60%	12.9%	31.7%	28.9%	23.4%	19.1%	11.7%
S&P 500 Total Return	3.60%	8.1%	14.8%	17.6%	24.9%	16.5%	15.3%
STOXX 600 Total Return	1.50%	3.5%	12.6%	9.6%	15.9%	11.9%	7.6%
Nikkei 225 Total Return	5.90%	11.8%	14.7%	20.8%	22.5%	16.4%	12.1%
MSCI World Total Return	3.30%	7.4%	17.8%	17.7%	24.3%	14.9%	13.0%
MSCI ACWI Total Return	3.70%	7.7%	18.9%	17.8%	23.7%	14.1%	12.5%
MSCI EM Total Return	7.20%	10.9%	28.2%	18.2%	18.8%	7.5%	8.4%
MSCI World Value Index	1.80%	6.0%	18.6%	13.8%	19.9%	15.0%	10.3%
MSCI World Growth Index	4.60%	8.6%	18.8%	23.3%	29.2%	14.8%	15.5%
MSCI World Small Cap Index	2.00%	8.6%	18.1%	15.2%	18.3%	11.9%	10.2%
Shanghai Shenzhen CSI 300 Index	3.30%	19.1%	21.3%	19.2%	9.9%	2.8%	6.2%
Korea Stock Exchange KOSPI Index	7.50%	11.7%	36.4%	26.7%	16.7%	9.0%	7.3%
Taiwan Stock Exchange Weighted Index	6.80%	17.8%	7.2%	11.3%	25.0%	17.6%	15.4%
NSE Nifty 50 Index	0.80%	-3.2%	2.4%	-6.0%	13.5%	17.9%	13.2%
Ibovespa Brasil Sao Paulo Stock Exchange Index	3.40%	5.3%	21.6%	10.9%	9.9%	9.1%	12.5%
Bloomberg Magnificent 7 Total Return Index	9.00%	17.6%	19.5%	38.5%	53.5%	31.5%	39.5%
STEFI	0.60%	1.8%	5.7%	7.8%	8.0%	6.4%	6.8%
ALBI	3.30%	6.9%	14.0%	14.5%	15.7%	12.1%	9.8%
IGOV	3.00%	5.2%	6.7%	7.6%	7.9%	9.4%	5.7%
WGBI	0.60%	0.2%	7.4%	1.6%	4.5%	-3.0%	0.4%
Bloomberg US Agg Total Return	1.10%	2.0%	6.1%	2.9%	4.9%	-0.4%	1.8%
Bloomberg US Corporate High Yield TR Index	0.80%	2.5%	7.2%	7.4%	11.1%	5.5%	6.2%
SAPY Total Return	-1.00%	6.6%	12.3%	11.4%	23.9%	21.8%	3.0%
MSCI US REIT Total Return	1.20%	4.8%	4.7%	-1.7%	10.9%	9.3%	6.6%
STOXX 600 Real Estate Total Return	-0.40%	-5.5%	3.0%	-8.6%	7.7%	-1.0%	-0.7%
FTSE EPRA Nareit Global REITs TR Index	0.90%	4.4%	9.3%	-0.5%	10.0%	7.5%	4.9%
Crude Oil	-1.60%	-0.9%	-10.2%	-6.6%	-8.7%	10.4%	3.3%
Aluminium	2.50%	3.2%	5.1%	2.6%	7.4%	8.7%	5.4%
Copper	3.70%	4.0%	17.1%	4.5%	10.7%	9.0%	7.1%
Gold	11.90%	16.8%	47.0%	46.5%	32.5%	15.4%	13.2%
Platinum	14.90%	15.9%	73.6%	60.5%	22.2%	12.0%	5.7%
Nickel	-1.30%	0.2%	-0.4%	-12.9%	-10.5%	0.8%	3.8%
Palladium	14.30%	13.9%	38.2%	25.7%	-16.5%	-11.4%	6.8%
Iron Ore	0.40%	11.1%	3.3%	-4.4%	1.0%	-3.9%	5.6%
Bloomberg Commodity Index Total Return	2.20%	3.6%	9.4%	8.9%	2.8%	11.5%	4.0%
USDZAR	-2.20%	-2.5%	-8.3%	0.0%	-1.5%	0.6%	2.2%
GBPZAR	-2.60%	-4.5%	-1.5%	0.5%	4.7%	1.4%	1.0%
EURZAR	-1.80%	-3.0%	3.9%	5.3%	4.5%	0.6%	2.7%
JPYZAR	-2.80%	-5.0%	-2.7%	-3.0%	-2.3%	-6.0%	0.1%
Dollar Index Spot	0.00%	0.9%	-9.9%	-3.0%	-4.5%	0.8%	0.1%

Source: Bloomberg



US

During Q3 2025, market attention largely centred on inflation dynamics, the growth outlook and the Federal Reserve's policy stance. Following a liquidity-driven rally across major asset classes and the easing of trade tensions, investors have become increasingly attentive to evolving macroeconomic developments.

Slowing labour market

The US labour market continued to lose momentum in Q3 2025. The unemployment rate edged up from 4.1% in June to 4.3% in August, reflecting softer nonfarm payroll growth through the quarter and much of the year to date. The labour force participation rate also declined gradually, from 62.7% in September 2024 to 62.3% in August 2025, weighed down by demographic ageing, restrictive immigration policies and muted job creation amid subdued business sentiment. Weekly initial jobless claims rose modestly, averaging 230k in Q3 versus 226k in the first half of the year, while continuing claims increased from a weekly average of 1.88 million to 1.95 million over the same period. Although real wage growth remains positive year-on-year, it has eased since peaking in April. Hiring activity has broadly slowed, though certain segments, including education, healthcare, leisure and hospitality, and personal services, continued to record employment gains in August. Owing to the recent government shutdown, the Bureau of Labor Statistics was unable to release the September jobs report. Overall, the US labour market is cooling, with the services sector showing relative resilience. No acute stress points are visible yet, but conditions warrant ongoing monitoring.

Figure 1: US non-farm payrolls total 3m change

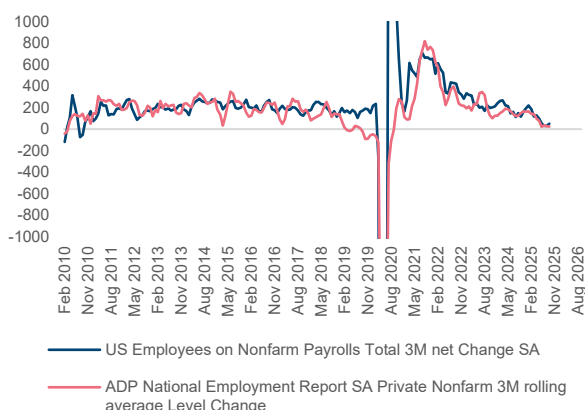


Figure 2: AIM Business Confidence Index

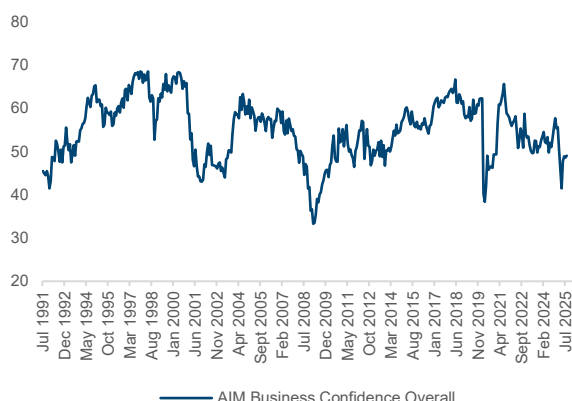


Figure 3: US real wage growth YoY

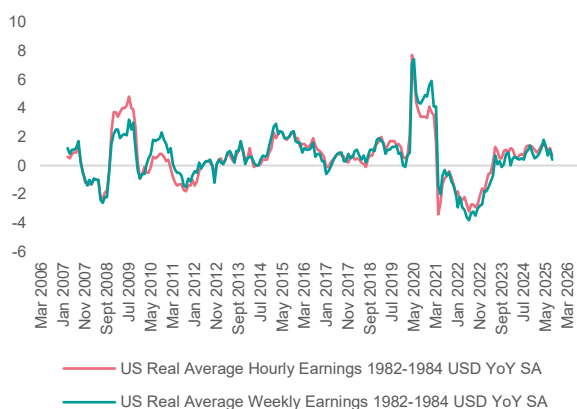
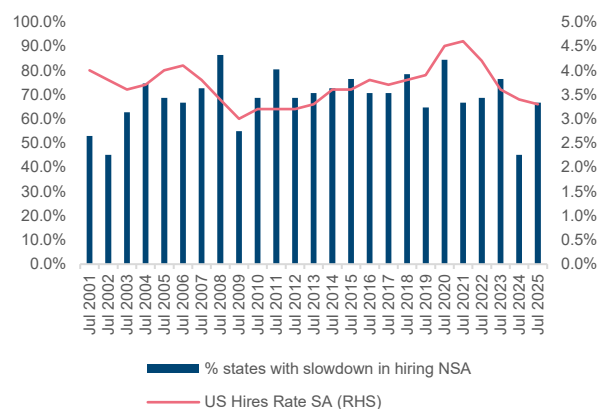


Figure 4: US hiring rate



Source: Bloomberg



Strong corporate earnings and productivity gains

Despite signs of a softening labour market, US equities advanced firmly in Q3 2025, with the S&P 500 rising by 8.1%. The rally was underpinned by solid Q2 earnings results and expectations of further policy easing from the Federal Reserve. Over the 12 months to September, the S&P 500 recorded earnings-per-share (EPS) growth of 12.1%, while operating margins widened from 13.86% in December 2024 to 14.60% in September 2025. Earnings strength was broad-based, as 68.2% of S&P 500 sectors reported positive year-on-year EPS growth and half of all sectors experienced upward three-month forward EPS revisions, rebounding sharply from 27.3% in May. The US dollar was relatively stable, gaining 0.9% against major peers over the quarter, though it remains 9.9% lower year-on-year, providing tailwinds for emerging market assets. The South African rand appreciated by 2.5% against the US dollar in Q3.

Beyond currency effects, earnings were further supported by a rebound in productivity during Q2, aided by easing labour costs. Corporate investment in AI and technology has remained resilient despite elevated policy uncertainty, and recent business surveys indicate recovering capital expenditure alongside optimism about the ability to pass tariff-related costs on to consumers. An uptick in expected wage growth adds an interesting dimension: if sustained, it suggests that a more accommodative monetary stance could counterbalance fiscal tightening, while any renewed economic momentum in the US may bring higher inflation risks than currently priced by the markets.

Figure 5: S&P 500 trailing 12 months EPS YoY

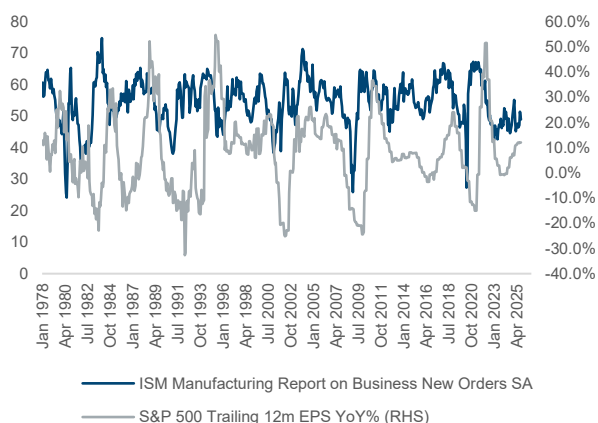


Figure 6: S&P 500 % sectors EPS growth and forward EPS revisions

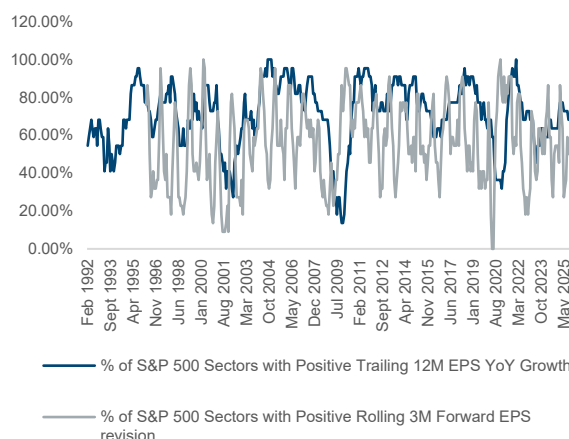


Figure 7: US labour productivity

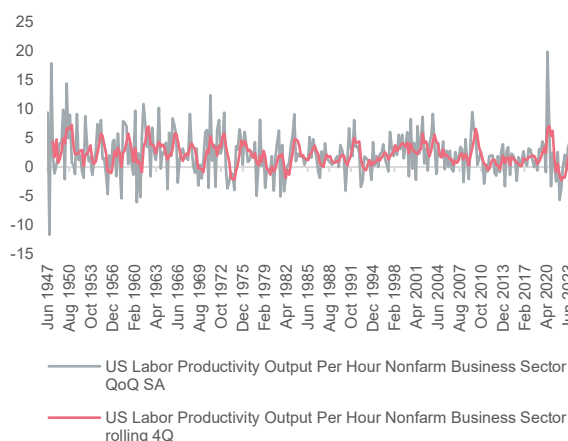
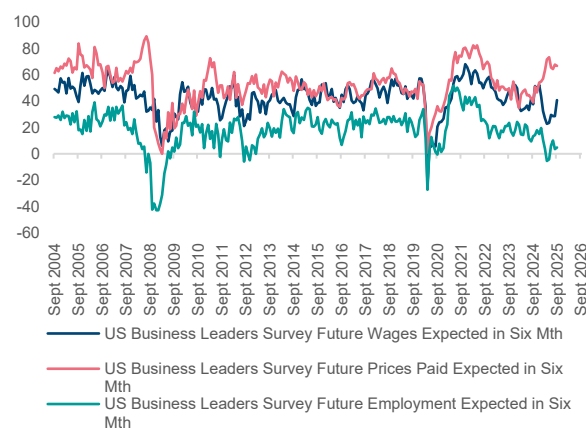
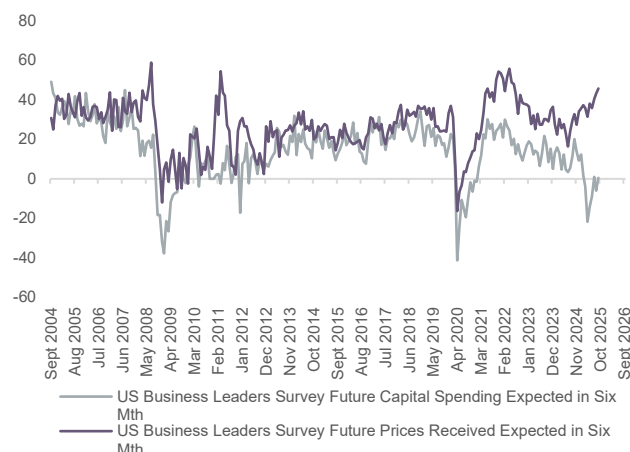
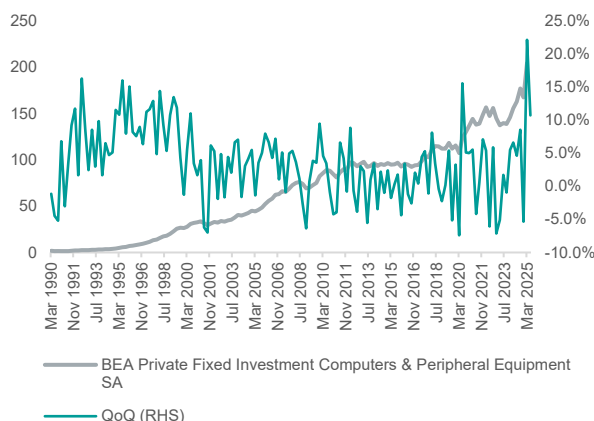


Figure 8: US Business Leaders Survey



**Figure 9: US Business Leaders Survey****Figure 10: US private investment in computers and peripherals**

Source: Bloomberg

Inflation showing signs of stickiness, but the Fed opts for a precautionary cut

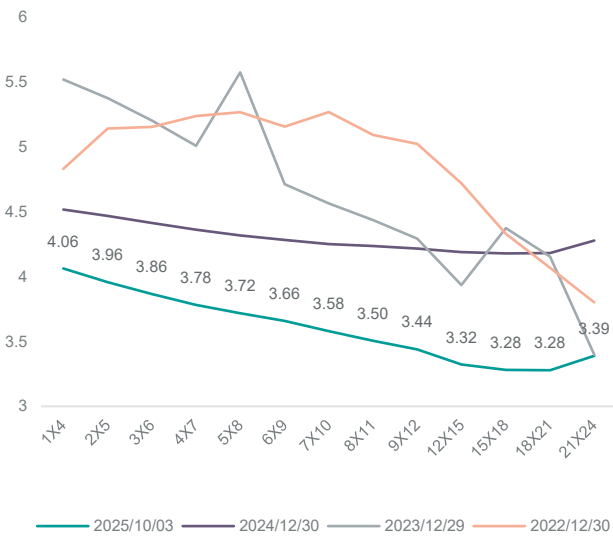
US inflation has shown renewed persistence, with headline CPI rising from 2.7% in June and July to 2.9% in August, and economists' surveys pointing to a further increase to 3.1% year-on-year in September. The August uptick was largely driven by sticky services inflation alongside elevated goods and food prices. Within core services, shelter inflation, which accounts for nearly 60% of the category, showed modest improvement, easing from 2.8% to 2.7%. Although inflation remains materially above the Fed's 2% target, policymakers opted for a precautionary 25bps rate cut on 17 September, following a prolonged pause since December 2024. The move reflects the Fed's attempt to balance upside inflation risks with growing downside pressures on growth. Markets are now pricing in an additional 60bps of cuts through year-end, consistent with the FOMC's September projections. At the same meeting, the FOMC revised its 2025 GDP growth forecast up from 1.4% to 1.6%, suggesting a cautiously optimistic outlook despite ongoing uncertainty around the economic impact of tariffs. While there is still a lack of clarity on the scale and quantum of the tariff impacts, companies positioned midstream in supply chains, such as retailers, wholesalers and importers, are likely to face margin pressures as tariff effects filter through. As of August, some subcategories have already seen modest increases in import prices, though the overall impact remains contained for now.

While recent macro data supports the Fed's decision to cut rates, it does not justify a deep easing cycle. The September FOMC meeting revealed a degree of division within the committee: although the median projection points to two additional 25bps cuts before year-end, nearly half of participants anticipate only one or no further reductions. Rate cuts are expected to alleviate fiscal financing pressures and cushion consumers against potential further labour market weakness in the near term. However, should the labour market stabilise and growth accelerate again, the Fed may pause its easing path, prompting markets to reprice risk assets after having already priced in two further cuts. Adding to the uncertainty is the issue of Fed independence. A new Fed Chair is set to take office in May next year, and several names reportedly on Trump's shortlist have publicly advocated for earlier rate cuts and criticised Powell's restraint. This raises questions around potential shifts in policy direction and communication style.

Given this fluid policy and macro backdrop, we maintain a moderate preference for US equities over US bonds, supported by resilient earnings and growth dynamics. Nonetheless, we remain cautious about potential policy surprises, particularly if the Fed pauses its easing cycle, a scenario more likely to emerge in December than in October.

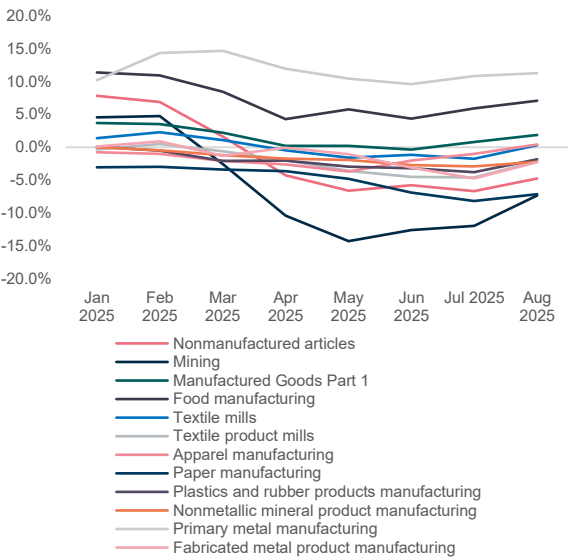


Figure 11: US FRA rates



Source: Bloomberg

Figure 12: US import prices (subcategories seeing increases in August)

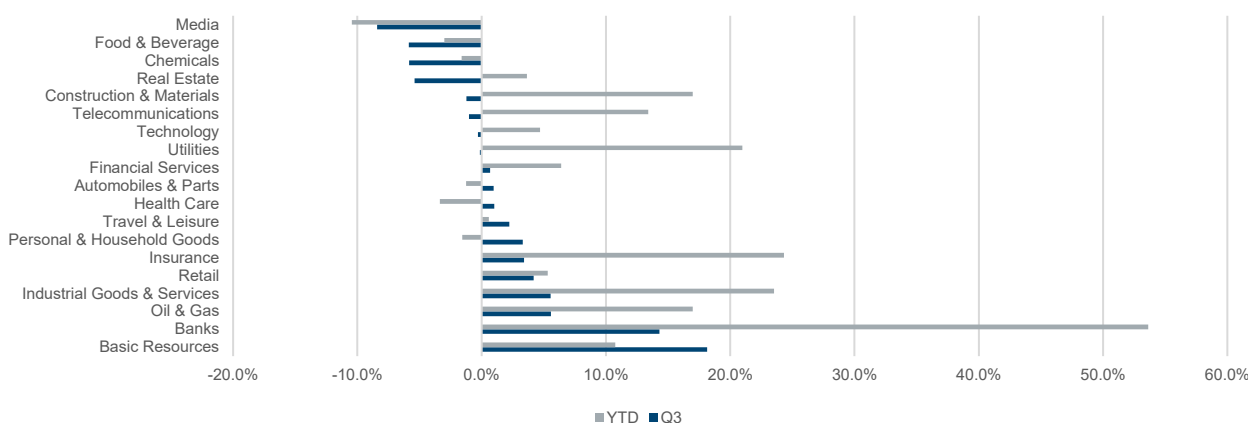




EUROZONE

European equities underperformed against other developed markets in the third quarter. The STOXX 600 Index and the MSCI Europe ex UK Index rose by 3.5% and 3.0%, respectively, compared with a 7.4% gain in the MSCI World Index over the same period. Sector performance was mixed: basic resources and banks led the gains, while media, food and beverages, chemicals, and real estate lagged behind. French equities endured a particularly volatile and disappointing quarter, advancing by just 3.0% as political uncertainty and fears of a potential government collapse in August dragged the market down by 0.9%.

Figure 13: STOXX 600 subsector performance in EUR



Source: Bloomberg

The Eurozone manufacturing Purchasing Managers' Index (PMI) showed modest improvement between June and August but softened again in September, slipping to 49.8, just below the neutral 50 threshold. Trade activity also weakened in the second quarter, reflecting softer demand from major trading partners amid tariff uncertainty and slowing growth in China. Meanwhile, two of the world's largest industrial economies continued to experience goods deflation, a trend that may help contain global goods inflation but also underscores the ongoing challenges facing manufacturing and global trade. While Germany's 10-year bund yield increased from 2.36% on 31 December 2024 to 2.72% on 6 October 2025, the spread between Italy's 10-year bond and the 10-year bund yield spread narrowed from 1.16% to 0.85% over the same period. This is as the market has priced in the Italian government adopting a cautious interpretation of the EU's revised Stability and Growth Pact rules, which will likely hold public spending growth below the new thresholds and support by stabilising growth. On a more positive note, the services sector remains in expansion, supporting an uptick in the region's composite PMI from 50.6 in June to 51.2 in September.

Despite some recent upticks, Euro area inflation has largely eased from the highs seen between 2021 and 2023. European Central Bank (ECB) president Christine Lagarde recently noted that inflation risks are "quite contained in both directions", indicating that future policy decisions will remain firmly data-driven. So far, economic data suggests that the region has weathered the trade shock better than expected. GDP growth slowed from 0.5% quarter-on-quarter in Q1 to 0.2% in Q2, and from 1.6% to 1.5% year-on-year over the same period, with Germany, Ireland and Italy experiencing the sharpest quarterly slowdowns. The broader macroeconomic outlook has improved somewhat, supported by progress in US–EU tariff resolution efforts and Germany's plans to boost fiscal spending on infrastructure and defence. Lagarde also highlighted that government investment across the Euro area is expected to contribute around 25bps to growth over the next two years, offsetting roughly one-third of the trade impact from tariffs. Forward rate agreements (FRAs) suggest that markets now anticipate the ECB's rate-cutting cycle to be nearing its end.



Figure 14: STOXX 600 subsector

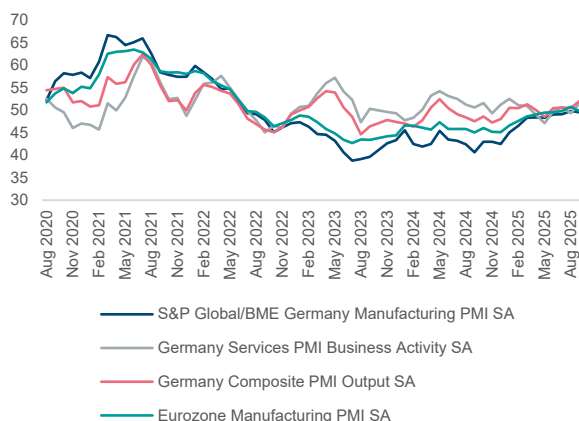


Figure 15: Germany and China PPI YoY

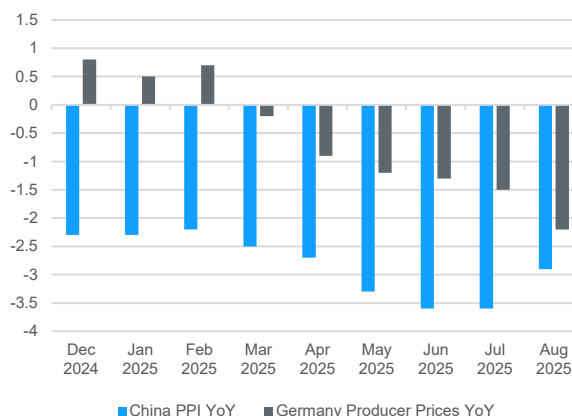


Figure 16: Euro area inflation

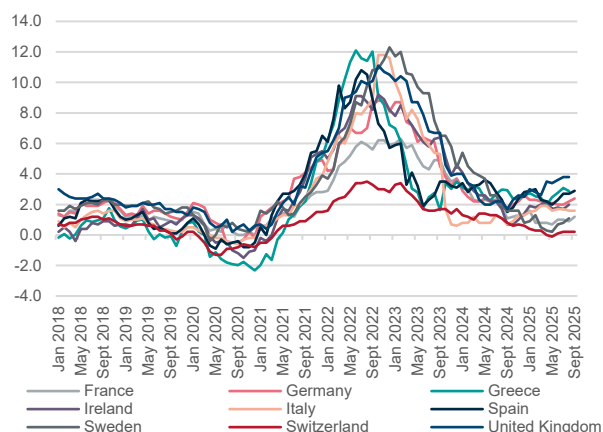
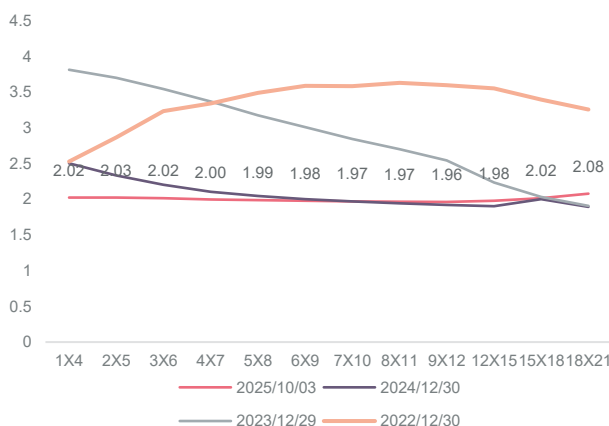


Figure 17: EU FRA rates



Source: Bloomberg

France experienced renewed political instability towards the end of the quarter, prompting Fitch to downgrade its sovereign credit rating from AA- to A+ on 12 September 2025. The downgrade reflected concerns over France's rising debt burden and weak prospects for debt stabilisation, particularly following Prime Minister François Bayrou's controversial budget proposal, which combined spending cuts with tax increases. The plan faced strong opposition across the political spectrum, leading to the government losing a confidence vote on 8 September and Bayrou's subsequent resignation. Fitch also cited broader political fragmentation, persistent fiscal challenges and heightened uncertainty ahead of upcoming elections as additional factors weighing on France's credit outlook.



UNITED KINGDOM

The UK economy expanded by 0.3% in the second quarter of 2025, following strong growth of 0.7% in the first quarter. This performance was largely supported by household and government consumption, which contributed 0.1% and 0.3%, respectively, while net trade and business investment each declined by 0.1%. Sector performance was mixed: agriculture grew modestly, but production, manufacturing and energy weighed on growth. Services, which account for roughly 80% of the economy, added 0.3%, led by information technology and healthcare. Despite outperforming its G7 peers in the first half of the year, the UK faces a slowdown as once-off catalysts such as front-loaded exports and services fade. The Bloomberg consensus forecasts GDP growth easing to 0.2% in the third quarter, down by 0.1%, amid weaker consumer and business sentiment and fiscal constraints.

Signs of strain are evident in the consumer environment. The labour market contracted in Q3, with unemployment rising to 4.7% in July, the highest since 2021. While outstanding consumer credit growth more than doubled to 3.5% year-on-year compared to 1.5% a year earlier, nominal wage growth slowed to 4.7%, and inflation climbed to 3.8%, further eroding real incomes and purchasing power. Productivity also fell by 0.6% quarter-on-quarter and 0.8% year-on-year at the end of Q2, showing signs of a constrained labour market. Although the household savings ratio edged up to 10.7% from 9.8% a year earlier, offering something of a buffer, overall conditions remain challenging, as suggested in the business output. Manufacturing output for exports and construction output weakened in both July and August, with overall industrial production down by 0.9% in July and mining and quarrying falling by 2% in July. The services PMI dropped to 50.8 in September from 54.2 in August, while the composite PMI slipped to 50.1, signalling broad uncertainty amplified by global trade tensions.

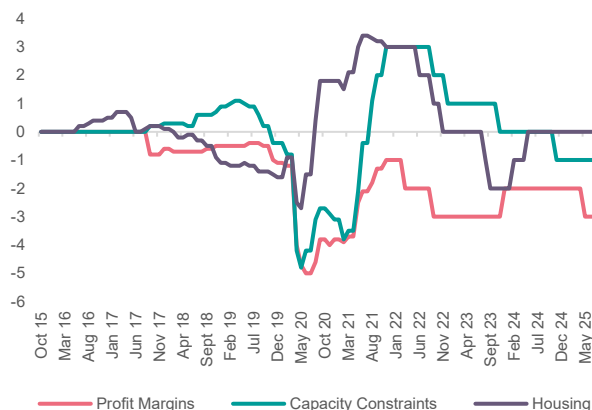
Figure 18: Consumers' spending is increasingly more constrained



Source: Bloomberg

Note 1: This concept tracks the general state of the economy as it relates to businesses. It can include broad economy-wide conditions or specific economic conditions of a particular industry (Bloomberg).

Figure 19: Economy-wide business conditions¹ measured by the Bank of England (BoE)



Inflation has complicated monetary policy decisions. Despite slowing growth, the Bank of England kept its official rate at 4% in September, prioritising inflation control over stimulus. Price pressures remain stubborn in housing, energy and food, leaving consumers and businesses exposed to high borrowing costs. This policy stance intersects with fiscal challenges faced by Chancellor Rachel Reeves, who must stabilise strained public finances amid stagnant growth and rising debt costs. Government debt servicing is expected to exceed £100 billion this year, while gilt yields hover at decade highs – around 4.1% for 5-year, 4.7% for 10-year and 5.5% for 30-year maturities. Reeves is widely expected to announce tax increases in the November Budget, potentially extending VAT and revising property, pension and inheritance taxes. While these measures aim to restore fiscal credibility, they risk dampening growth and fuelling short-term inflation, adding pressure to an already fragile consumer and business environment. They also add to the risk of political instability as tax



revenues – now making up roughly 38% of total revenues – are becoming increasingly integral to government revenues.

Bond markets have reacted nervously to these dynamics. Rising yields pushed the benchmark government bond index down by 0.75% in the third quarter, reflecting investor concerns over fiscal discipline and funding costs. In contrast, UK equities delivered robust gains, with the FTSE 100 rising by 7.5% in Q3, breaching 9,000 points for the first time and posting year-to-date returns near 18%. This performance was driven by financials benefiting from higher interest margins, defence stocks such as Rolls Royce and BAE Systems with strong global demand, and healthcare led by AstraZeneca's rally. Looking ahead, the outlook for equities is more mixed. Defensive sectors may provide stability, but anticipated tax hikes targeting banks, property and gambling could weigh on sentiment. While corporate resilience and easing global trade tensions offer some support, heightened volatility is likely as fiscal and political risks play out.



JAPAN

Japan's economy extended its growth trend into the second quarter of 2025, recording a fifth consecutive quarterly expansion with real GDP rising by 0.5%. Both domestic demand and net trade contributed to the gain, adding 0.2% and 0.3%, respectively. Household consumption, which represents about half of total output, increased as lower inflation and stronger wage growth supported spending, contributing 0.3%. Exports also advanced ahead of US tariff increases, lifting growth by 0.5%, while imports softened amid higher duties during the quarter.

In contrast, momentum slowed in the third quarter as consumer activity began to weaken. Retail sales dropped sharply, falling by 1.6% in July and by 1.1% in August, the steepest back-to-back declines since 2021, after rising by 0.9% in June. Wage growth also eased, with nominal pay rising 1.5% year-on-year in August compared to 3.4% in July, particularly reflecting the effect of smaller bonus payments from companies. Inflation moderated towards the Bank of Japan's (BoJ) 2% goal, declining to 2.7% year-on-year in August from 3.1% previously. Nonetheless, price growth in essentials like staple food continued to outpace wages, eroding household purchasing power and restraining spending. Corporate conditions showed a similar slowdown as business investment rose by 0.6% in Q2, slightly below the previous quarter's 0.7% increase, reflecting a slight drag from borrowing costs. Political uncertainty following the resignation of Prime Minister Shigeru Ishiba clouded sentiment, raising concerns that fiscal reform efforts might stall. Industrial production fell by 1.2% in August, weighed down by weakness in electronics and metal manufacturing, while exports came under pressure from tariffs. Still, the BoJ's September Tankan survey reported a modest improvement in sentiment among enterprises, hinting at underlying resilience despite global headwinds.

Figure 20: Consumer activity remains buoyed by real wage growth despite a slowdown in activity

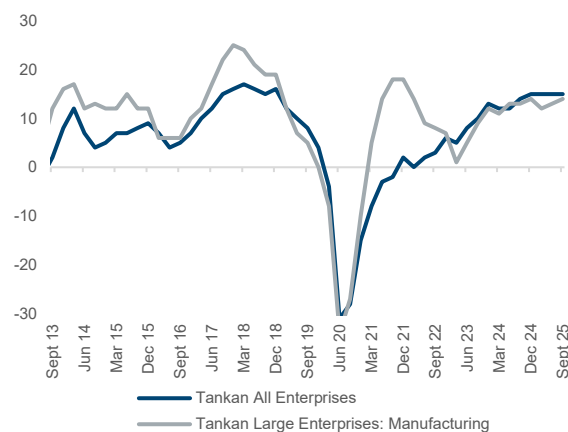


Source: Bloomberg

Monetary policy remained unchanged through September, with the BoJ keeping its policy rate at 0.50% and extending the pause in its tightening cycle that began in early 2024. Officials pointed to ongoing uncertainty and tariff-related volatility as reasons for caution, even as they prepared to reduce ETF holdings amid strong stock market gains. Governor Kazuo Ueda reiterated that further rate increases remain possible if economic and inflation trends justify them, though differing views within the board highlight the delicate balance between supporting recovery and avoiding excessive depreciation in the yen.

Fiscal measures are also expected to influence the near-term outlook. Sanae Takaichi, the frontrunner to replace Ishiba, has pledged policies aimed at easing cost-of-living pressures, including fuel tax cuts and higher income tax exemptions. These steps are designed to support household spending and rebuild confidence, complementing the BoJ's efforts to maintain stability. The government's September economic report upgraded its assessment of both private consumption and capital investment for the first time in over a year, reinforcing expectations for a gradual recovery.

Figure 21: Tankan surveys indicate resilient business sentiment in uncertain global trade





Equity markets performed strongly during the quarter and are set to benefit from Takaichi's likening to accommodative monetary and fiscal policies. The TOPIX Total Return Index gained 11.4%, while the Nikkei 225 increased by 11.8%, both extending their record highs. Cyclical sectors led the advance, particularly non-ferrous metals, energy and semiconductor-related stocks, buoyed by global AI demand and firmer commodity prices. Solid earnings, rising dividends and share buybacks further underscored progress in corporate governance and shareholder returns. In contrast, government bond markets softened amid political uncertainty and expectations of higher fiscal spending. Despite inflation remaining above target and an upward revision to its own price forecasts, the BoJ's decision to hold rates at 0.5% weighed slightly on bond sentiment.

Overall, Japan heads into the fourth quarter with mixed signals. The strong second-quarter performance contrasts with signs of cooling in trade and consumption. Yet, upward revisions to Q2 GDP, now showing an annualised growth rate of 2.2%, as per the Bloomberg consensus, and improving business sentiment suggest that the economy will remain on a path of gradual expansion. The BoJ's upcoming October meeting will be closely watched as policymakers weigh the timing of future rate hikes against fiscal developments and external risks. For now, the outlook hinges on whether household confidence and corporate investment can remain firm in the face of global trade uncertainty.



SA

The South African economy held steady over the third quarter of 2025, despite a complex global trade environment and domestic structural challenges. The local equity market outperformed, and sovereign credit ratings were affirmed with a more stable outlook. However, even with an acceleration in GDP growth in Q2, the economy remained constrained, owing to weak business and consumer confidence, a dampened labour market and a widening current account deficit. With the quarter coming to an end, the modest yet supportive monetary easing cycle ended, with the outlook tempered by the cumulative effects of the rate cuts so far and the inflationary risk they may pose.

Over the quarter, the Federal Reserve Bank of St. Louis' Trade Policy Uncertainty Index displayed significant trade policy volatility, resulting from the US tariff debacle with other countries. This included tariff halts, trade truces and an additional tariff being imposed on BRICS nations. The 30% levy on South African goods prompted front-loading of exports and caused disruption in key sectors such as automotive manufacturing. Despite the headwinds, economic activity expanded at a faster pace in the second quarter of 2025, as real GDP growth accelerated to 0.8% from 0.1% in the first quarter, surpassing a less optimistic market consensus of 0.5%. The contributors to growth were higher household consumption, an increase in government spending and a jump in inventory. Meanwhile, gross fixed capital formation declined further, and net exports continued to be a drag due to exports falling more than imports.

The external sectors faced difficulties as the current account deficit widened to 1.1% of GDP, from 0.6% in the previous quarter. This was a reflection of the mounting pressure on exports caused by threats of higher US tariffs on SA goods and the dampening effect of the US's dramatic pivot towards protectionism on the world economy. The trade surplus narrowed as the value of goods exports declined by more than that of merchandise imports, overshadowing the modest increase in net gold exports. In Q2 2025, total exports fell by 1.7%, which exceeded the marginal 0.1% decline in imports.

Figure 22: Contributors to GDP

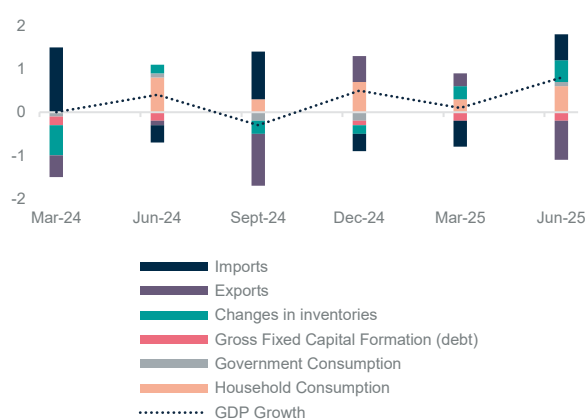
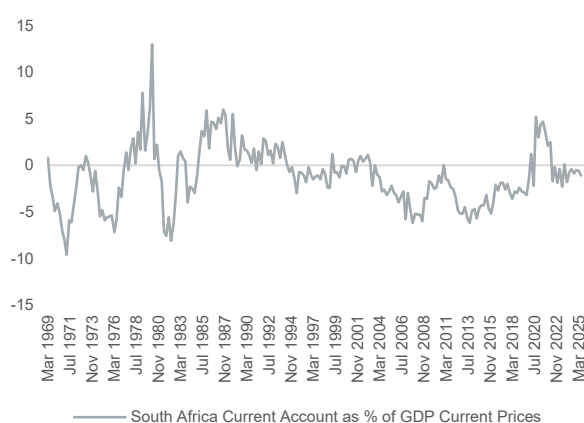
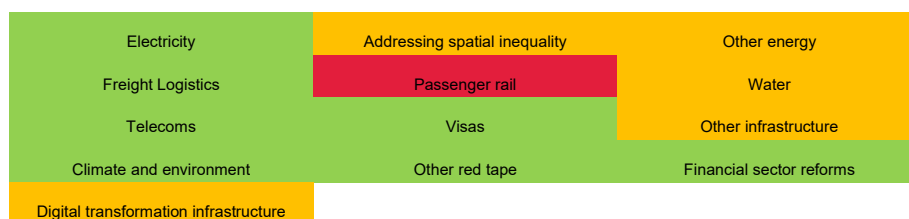


Figure 23: Widening current account deficit



Source: Bloomberg

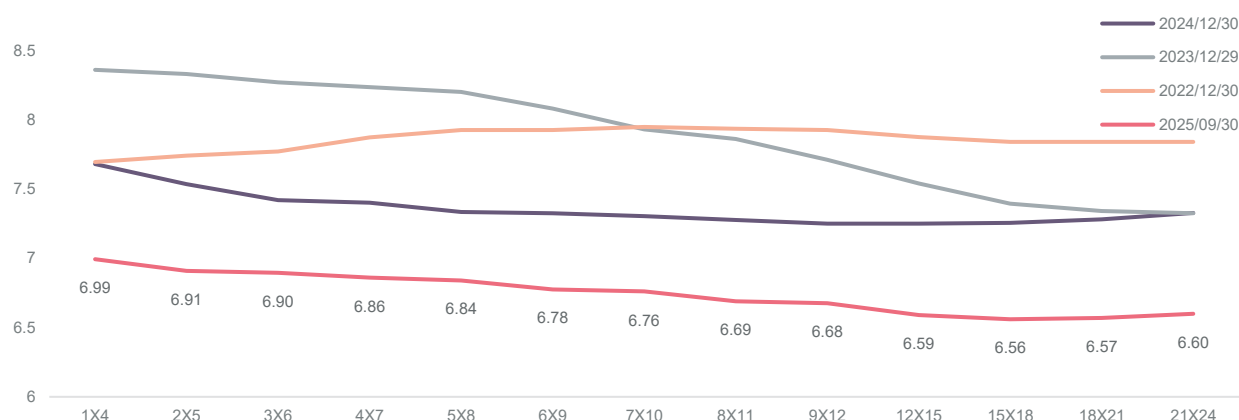
Fitch Ratings affirmed South Africa's sovereign rating at BB- with a stable outlook, citing improved political stability under the Government of National Unity and tangible progress in structural reforms in energy, logistics and water, which have reduced loadshedding and stabilised freight. Nevertheless, the credit profile continues to be weighed down by a high and rising debt burden, as national government's gross loan debt increased by 8.5% YoY and as of 30 June 2025 had reached 78.1% of GDP.

**Figure 24: Progress tracker for economic reform, 2025–2026**

Source: BLSA Tracker

Domestic financial markets continued to deliver a strong performance over the quarter as the FTSE/JSE All Share Index gained 12.9%, outperforming global peers in the MSCI All Country Index, which was up by 7.7% in local currency terms. The rally was led by the resource sector, as seen by the FTSE/JSE Resource 20 Index's rise of 50.8% over the past three months, which benefited from elevated precious metal prices. Concurrently, the fixed income market saw yields on the 10-year government bond decline from 9.96% in June 2025 to 9.17%, reflecting a lower interest rate inflationary environment.

The South African Reserve Bank (SARB) continued its cautious easing cycle, cutting rates by 25bps in July. The September meeting held the repo rate steady at 7.00%, while in the quarter, it announced a significant strategic shift to a 3.0% inflation target, down from the 4.5% midpoint (3%–6% inflation target band). This move could provide future flexibility for rate cuts once inflation expectations are anchored at the new target. The latest decision by the Monetary Policy Committee was shaped by a more hawkish assessment of risks. The cumulative impact of the past easing was 125bps of easing over the past year, which is estimated to have contributed approximately 40bps to GDP growth. The latest FRA signals no rate cuts by the end of the year, with inflation expectations drifting upwards and peaking at 4.5% by the end of 2026. The country is facing medium-term inflationary risk from potential shocks to food prices due to disease outbreaks and administered electricity prices.

Figure 25: SA FRAs

Source: Bloomberg

Labour markets remain a critical weakness, with the unemployment rate edging up to 33.2% in the second quarter. Youth unemployment (among active work seekers between the ages of 15 and 24) has seen a slight quarterly decline, although it remains alarmingly high at 62.2%. Real wage growth in the first quarter of 2025 accelerated to 1.6%. This suggests moderation in consumer price inflation, although the marginal acceleration of core inflation to 3.1% in August 2025 was rather reflective of muted underlying inflationary pressures. Labour



productivity in the formal sector decelerated marginally to 1.1% in Q1 2025, while growth in the economy-wide nominal unit labour cost decelerated further to 2.8% in the second quarter of 2025.

Both business and consumer sentiment deteriorated. The RMB/BER Business Confidence Index fell to 39, a level insufficient to stimulate meaningful investment. Although the movement over the quarter was rather flat, the underlying sectors saw significant movement. Declines were seen in retail sentiment, largely due to falling volumes – this was despite a more positive beginning to the quarter as well as consistent sales momentum and NAAMSA's new vehicle sales figures, indicating an improvement in vehicle dealer confidence. The FNB/BER Consumer Confidence Index dropped to -13, indicating deepening pessimism over household finances and the economic outlook. This suppressed expenditure on durable goods, which was already at a low level. Meanwhile, the ABSA PMI averaged 50.8 for the quarter, and was thus in expansionary territory, surpassing Q1 and Q2 2025. The recovery, however, was not a smooth one, with intra-month volatility hampering sustained activity growth.

The Medium-Term Budget Policy Statement (MTBPS) is usually tabled in October. We expect that fiscal debt sustainability will still face long-term structural challenges but, given the rallies in precious metal prices, the tax revenue windfall may support near-term government spending.



EMERGING MARKETS

Nine months into the year and emerging markets have been able to maintain their rally in 2025, proving their resilience in turbulent market conditions and their ability to serve as an alternative investment to developed markets. Powered by robust demand for technology stocks, advances in AI and a weakening dollar, the MSCI EM Index continued to outperform the MSCI ACWI Index in the third quarter of 2025, delivering a three-month return of 10.9% and ending the quarter with 7.2%, compared to the 7.7% and 3.7% returned by the MSCI ACWI Index, respectively. This consecutive nine-month stretch of positive monthly performance in emerging markets is approaching its longest run after almost 21 years, which was previously witnessed between 2003 and 2004. Meanwhile, its 28% year-to-date performance has been the largest gain experienced since 2009, emphasising the shift in global investor sentiment and confidence in emerging markets.

Figure 26: Emerging markets continue to outperform developed markets into the third quarter of 2025 (Emerging Markets Index)

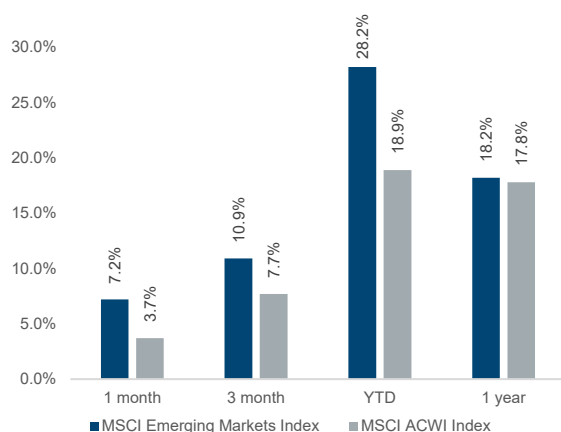
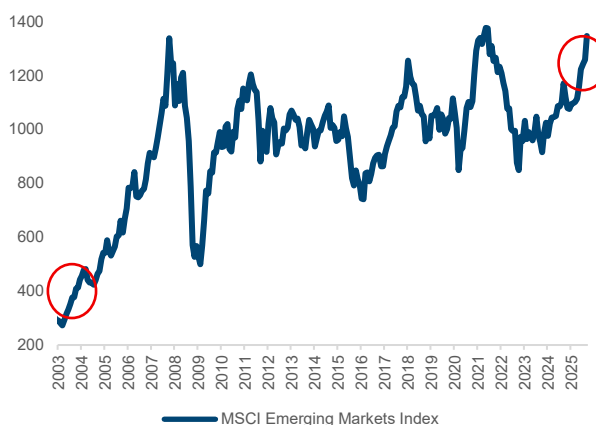


Figure 27: Investors witness the MSCI Emerging Index's continuous positive performance after almost 21 years



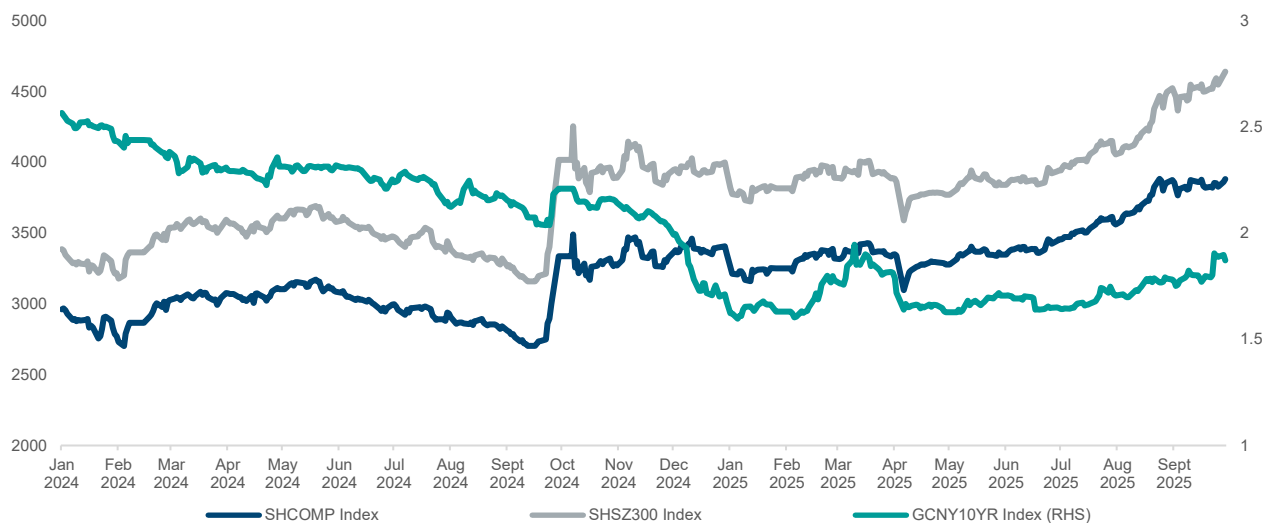
Source: Bloomberg

China has been a significant contributor to the gains seen in emerging markets during Q3 2025, delivering high three-month returns of 19.7%, followed by South Africa and Taiwan with returns of 12.8% and 9.6%, respectively, for the quarter. The positive performance of the Chinese markets can be attributed to the 90-day extension of the trade truce between the US and China, announced during the third quarter of 2025, which is set to end on 10 November 2025. Following the announcement, Chinese exports increased in July, possibly taking advantage of the trade truce between the world's two largest economies. Additionally, the domestic Chinese stock market has been boosted by increased liquidity from maturing household savings deposits and the rotation into equities from fixed income – the result of investors reacting to the re-imposition of taxes on interest on government bonds and their reduced expectation of monetary policy easing. Meanwhile, softness in the economy has raised expectations of further stimulus. Chinese equities also present a more attractive alternative to investment in its weakening property sector and low-interest deposits.

However, investors may be concerned that a large proportion of the gains is mostly attributed to the global demand for technology stocks and is concentrated in a few sectors that are focused on AI advances and semiconductor production, while other sectors lag behind. For China to maintain its gains for the remainder of the year, government stimulus is required to raise domestic consumption, corporate earnings need to improve, and there needs to be a reduction in trade uncertainties stemming from the country's fragile relationship with the US.



Figure 28: Chinese markets experiencing a rotation from bonds into equities, as shown by the rally in local Chinese equity indices and rising 10-year government bond yields



Source: Bloomberg

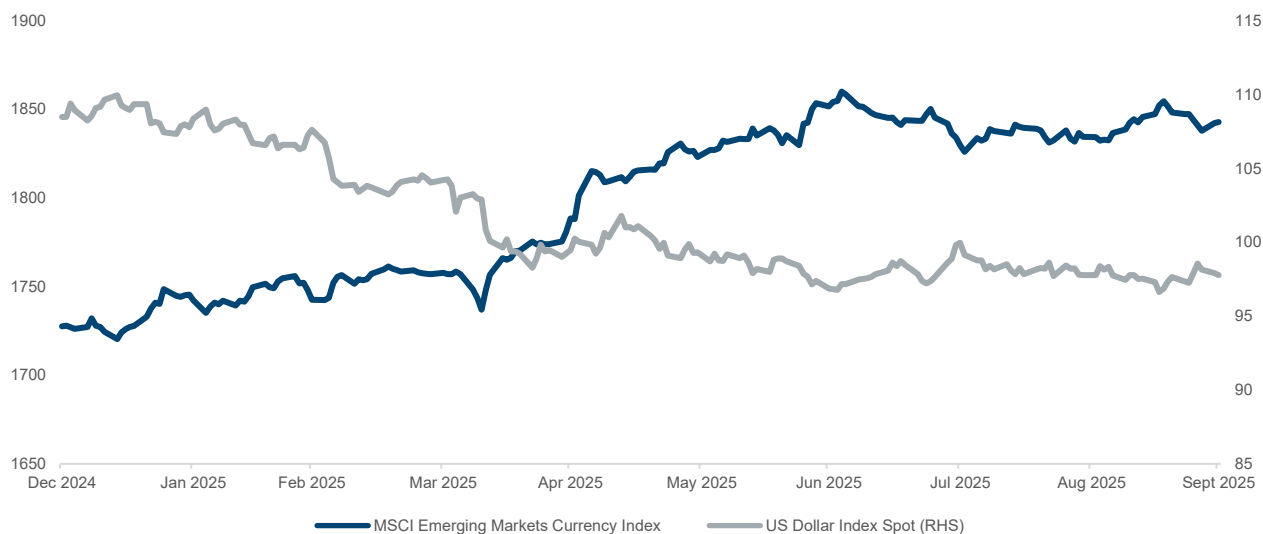
In addition to China, other emerging economies contributing to the rally include Taiwan and South Korea, which have also benefited from the global euphoria and robust demand associated with innovations in AI. Given their significant role in AI chip production and the development of data centres, investors are seeking these tech-heavy stocks to gain from the ever-growing global AI demand.

However, not all emerging markets had the opportunity to enjoy the rally during Q3 2025, as India shifted from being investors' most preferred emerging market in the first half of the year to being the least preferred, following threats and the subsequent imposition of 25% tariffs by the US, in addition to the previously imposed 25% reciprocal tariffs. The increasing trade tensions fuelled by US President Donald Trump accusing India of funding the Russia–Ukraine war through its purchase of Russian oil prompted the imposition of a total of 50% tariffs on India. This resulted in broad selling across Indian markets as the additional tariffs and expensive valuations dampened investor sentiment and confidence in the growth of the Indian economy as well as the competitiveness of its exports. In order for India to regain its popularity amongst investors, it will possibly need to renegotiate its trading arrangements with the US and improve its corporate earnings to boost the once-favoured economy.

Despite the various tailwinds driving the positive performance across emerging markets, investors cannot assess their investment in these developing economies without considering, arguably, the most important contributor to the rally, which is dollar weakness. The dollar has weakened by approximately 9.9% during 2025, allowing emerging markets to thrive, added to which is the Fed's rate-cutting cycle, which improves developing economies' ability to service their debts – especially debt based in US dollars. Furthermore, the declining trend in both the dollar's value and US interest rates makes emerging market government bonds more attractive due to higher real yields. A record \$286 billion of government bonds have been issued in 2025 based on the local currencies of 17 large developing markets, excluding China, according to Zahabia Gupta of S&P Global Ratings. Additionally, investors benefit from the cheap valuations in emerging markets compared to the US, allowing emerging markets to gain as investors shift their focus to more attractive investment opportunities in developing markets.



Figure 29: Dollar weakness seen in the increasing MSCI Emerging Markets Currency Index and decreasing US Dollar Index Spot



Source: Bloomberg

Considering the sustained rally in emerging markets for most of 2025, further interest rate cuts by the Fed will provide a path for emerging market central banks to further ease their policies. Moreover, a softer dollar, improving investor sentiment towards emerging market investments and increased foreign inflows into these developing markets make investments in emerging market assets seem attractive going into the final quarter of 2025, and possibly continuing to benefit investors into 2026.



APPENDIX

Financial market performance as at 30 September 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)	6.6%	12.9%	31.7%	28.9%	23.4%	19.1%	13.9%	11.7%
FTSE/JSE Resources 20 Index	28.1%	50.8%	121.4%	99.1%	26.9%	21.4%	19.7%	18.1%
FTSE/JSE Industrials Index	1.3%	3.7%	19.5%	19.8%	24.1%	16.6%	12.6%	9.5%
FTSE/JSE Financials Index	-1.9%	0.3%	6.9%	5.6%	21.2%	21.2%	8.2%	7.1%
FTSE/JSE Shareholder Weighted Index (SWIX)	6.6%	12.9%	31.7%	28.9%	21.9%	17.3%	11.8%	9.9%
FTSE/JSE Capped SWIX Index (Capped SWIX)	6.5%	12.8%	30.9%	28.1%	21.6%	18.8%	11.9%	9.6%
FTSE/JSE All-Share Top 40 Index	7.9%	14.7%	37.2%	32.5%	24.7%	19.2%	14.6%	12.0%
FTSE/JSE SWIX Top 40 Index	7.9%	14.7%	37.2%	32.5%	22.9%	16.8%	11.9%	9.8%
FTSE/JSE Mid Cap Index	4.3%	7.1%	17.9%	16.1%	17.2%	17.3%	10.3%	8.8%
FTSE/JSE Small Cap Index	0.9%	6.0%	7.8%	15.5%	19.3%	27.7%	13.8%	10.4%
FTSE/JSE Listed Property Index (SAPY)	-1.0%	6.6%	12.3%	11.4%	23.9%	21.8%	5.0%	3.0%
FTSE/JSE Capped Listed Property Index	-1.0%	5.4%	12.0%	11.6%	24.0%	21.6%	3.0%	0.6%
FTSE/JSE SA All Property Index	-1.0%	5.4%	11.8%	11.4%	23.8%	22.0%	4.0%	1.7%
Local Interest-Bearing Indices								
FTSE/JSE All-Bond Index (ALBI)	3.3%	6.9%	14.0%	14.5%	15.7%	12.1%	10.7%	9.8%
FTSE/JSE All-Bond Index 1 - 3 years	0.7%	2.3%	7.3%	8.9%	10.1%	7.5%	8.5%	8.3%
FTSE/JSE All-Bond Index 3 - 7 years	1.8%	4.8%	12.7%	14.1%	13.9%	9.7%	10.7%	10.0%
FTSE/JSE All-Bond Index 7 - 12 years	3.7%	7.8%	16.2%	17.0%	17.7%	13.0%	11.8%	10.7%
FTSE/JSE All-Bond Index +12 years	5.1%	9.6%	16.0%	15.5%	17.0%	14.0%	11.0%	9.8%
Inflation Linked Government Bonds (IGOV)	3.0%	5.2%	6.7%	7.6%	7.9%	9.4%	6.8%	5.7%
Short-Term Fixed Interest Composite Index (SteFi)	0.6%	1.8%	5.7%	7.8%	8.0%	6.4%	6.5%	6.8%
Inflation Index								
Consumer Price Index (1 month lagged)	-0.1%	1.1%	3.2%	3.3%	4.2%	5.0%	4.6%	4.8%
International Indices								
MSCI World Index	1.0%	4.6%	7.6%	18.1%	22.4%	15.7%	15.7%	15.5%
MSCI Emerging Market Index	4.9%	8.1%	17.1%	18.5%	17.0%	8.2%	9.7%	10.8%
MSCI All Country World Index	1.4%	4.9%	8.6%	18.1%	21.8%	14.8%	15.0%	15.0%
FTSE World Government Bond Index (WGBI)	-1.5%	-2.4%	-1.9%	1.9%	2.9%	-2.4%	2.7%	2.6%
S&P Global Property	-1.0%	1.8%	2.0%	2.0%	9.4%	6.9%	6.8%	7.3%
USA S&P 500	1.4%	5.3%	4.9%	17.9%	23.0%	17.3%	17.7%	17.9%
UK FTSE 100	-0.7%	2.8%	15.6%	18.3%	20.5%	15.6%	10.7%	9.6%
Euro STOXX 50	1.7%	1.8%	19.7%	19.8%	27.2%	15.1%	13.1%	11.6%
Japan Nikkei 225	3.0%	6.3%	11.6%	17.4%	19.8%	9.5%	10.4%	12.2%
Currency Movement								
Rand/Dollar (R17.26= 1 Dollar)	-2.1%	-2.6%	-8.6%	0.3%	-1.5%	0.7%	2.9%	2.2%
Rand/Euro (R20.3= 1 Euro)	-1.7%	-2.6%	3.8%	5.7%	4.7%	0.7%	3.0%	2.7%
JPY/Rand (8.56 Japanese Yen= 1 SA Rand)	2.8%	5.2%	2.8%	2.9%	2.2%	6.2%	0.9%	-0.1%
Rand/Pound (R23.23= 1 Pound)	-2.5%	-4.4%	-1.8%	0.7%	4.9%	1.5%	3.3%	1.0%

Source: Bloomberg



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