



MENTENOV

# ECONOMIC OVERVIEW

QUARTER 4, 2025



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## MARKET OVERVIEW

As the curtain came down on 2025, the fourth quarter saw most asset classes produce strong gains, both locally and globally. Within the equity market, subdued global inflationary pressures, combined with major central banks lowering their borrowing rates and spectacular earnings growth, provided key support. Global growth, though, continued to be constrained as economies adjusted to a new policy framework. Contributing to this outlook, the International Monetary Fund's (IMF) October 2025 report adopted a more pessimistic tone, with global growth expectations continuing to taper off. Growth is projected to be 3.2% for 2025, while the 2026 forecast is lower still, at 3.1%.

Major central banks, including those of the United States, South Africa, the United Kingdom, and the Eurozone, continued with their easing cycle, cutting rates by 25bps, while the US cut by 50bps, supported by the latest inflation prints. Mirroring the magnitude of this change, the Bank of Japan (BoJ) moved in the opposite direction, hiking rates by 25bps to a record 30-year high of 0.75%. Disinflation in services and rental costs supported the Fed's decision to ease monetary policy, although markets have since tempered their expectations of additional rate cuts. The South African Reserve Bank's (SARB) Monetary Policy Committee, in a unanimous vote, expressed its confidence in the disinflation trajectory and alignment with the newly adopted 3% inflation target.

### EQUITIES

Emerging markets outperformed developed markets over the quarter, with the MSCI EM Index gaining 4.8%, aided by a sustained rally in South African equities supported by higher commodity prices. South Korea and Taiwan posted strong gains of 23.2% and 12.3%, respectively, aided by their technology-driven economies, which maintained investor appetite. Strong demand for artificial intelligence (AI) memory technology, along with a strategic tariff-reduction agreement between the US and South Korea, contributed to these gains. India's Nifty 50 Index rose 6.4%, supported by a central bank rate cut and improved investor sentiment. China, in contrast, delivered a muted return of 0.2%, weighed down by an extremely weak property market, where large developers faced near-default in December, and weaker macroeconomic data that dampened sentiment.

Despite underperforming emerging markets, developed markets delivered positive gains, up by 3.2% for the quarter. Underlying regional performance showed modest strength, with the US market marked by uncertainty following the longest government shutdown in the country's history and labour market data revealing concerns over rising job cuts. The S&P 500 Index managed to gain 2.7% for the quarter, supported by strong corporate earnings and sustained AI optimism. Europe's STOXX 600 rose 6.4% against a backdrop of lower interest rates and an easing inflationary environment, though a key concern remained elevated valuations driven by strong demand for tech stocks. Japan gained 12.2%, supported by market optimism about the appointment of its first female prime minister, Sanae Takaichi (whose agenda is seen as pro-growth and fiscally proactive), alongside an intra-quarter agreement to lower US tariffs on Japanese exports.

### FIXED INCOME

In the fixed income market, local bonds continued to outshine global bonds, with the FTSE/JSE All Bond Index delivering 9.0% for the quarter, driven by declining yields and improved fiscal sentiment following October's Medium-Term Budget Policy Statement (MTBPS). This rally was further supported by a lower interest rate environment and softer inflation prints, suggesting progress towards the new inflation target. South Africa's removal from the Financial Action Task Force (FATF) grey list was a key event during the quarter, followed by a sovereign credit rating upgrade from S&P Global Ratings. The current 10-year nominal bond real yield for SA declined by 107bps over the quarter, while the current 10-year inflation-linked bond yields fell by 63bps, translating into an 8.3% return for the IGOV.

Global bonds were relatively muted in Q4 2025, with the World Government Bond Index returning just 0.1% over the quarter. In the US, the yield curve steepened as yields rose for longer maturities but fell for shorter, interest rate-sensitive maturities. The US 10-year yield rose by 2bps over the quarter. Delayed labour market data, resulting from the government shutdown, reflected a moderation of conditions, with subdued labour demand and significantly lower hiring activity.



## PROPERTY

The property market continued to provide a mixed performance, with the FTSE/JSE South African Listed Property Index returning 16.3% for the quarter, reflecting a sector-wide rerating and an improving macroeconomic environment and fundamentals. Global property markets delivered muted returns, declining 0.8% in the final quarter. Underlying regional performance varied, with the MSCI US REITs Index falling 1.7%, while Europe's STOXX 600 Real Estate Index gained a modest 0.8%.

## COMMODITIES

The commodity market shone over the quarter, with the Bloomberg Commodity Index rising 5.8%. Despite this overall strength, Brent Crude Oil struggled significantly, falling 9.2% as OPEC-led oversupply met softer demand growth. Other metals achieved double-digit returns. Platinum surged to an all-time high of \$2491/t.oz in late December, with December alone contributing 23.3% of the gain in the wake of expectations that the metal would support mine development in South Africa. Palladium and copper rose 28.4% and 21%, respectively. Copper benefited from constrained supply amid rising demand, particularly from China for data centre expansion, while gold gained from ongoing geopolitical uncertainties, a weaker US dollar, and slower global growth expectations.

**Figure 1: Market overview**

31 December 2025 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)
FTSE/JSE ALSI Total Return	4.57%	8.1%	42.4%	42.4%	20.8%	18.8%	12.4%
S&P 500 Total Return	0.06%	2.7%	17.9%	17.9%	23.0%	14.4%	14.8%
STOXX 600 Total Return	2.80%	6.4%	19.8%	19.8%	14.7%	11.0%	7.7%
Nikkei 225 Total Return	0.28%	12.2%	28.7%	28.7%	26.9%	15.1%	12.4%
MSCI World Total Return	0.84%	3.2%	21.6%	21.6%	21.7%	12.7%	12.7%
MSCI ACWI Total Return	1.07%	3.4%	22.9%	22.9%	21.2%	11.7%	12.3%
MSCI EM Total Return	3.02%	4.8%	34.4%	34.4%	17.0%	4.7%	8.9%
MSCI World Value Index	1.75%	3.5%	21.7%	21.7%	15.4%	12.2%	10.1%
MSCI World Growth Index	<b>-0.08%</b>	2.8%	21.4%	21.4%	28.1%	12.6%	15.0%
MSCI World Small Cap Index	0.97%	2.9%	20.5%	20.5%	15.1%	7.6%	9.9%
Shanghai Shenzhen CSI 300 Index	2.47%	0.2%	21.0%	21.0%	9.1%	0.1%	4.6%
Korea Stock Exchange KOSPI Index	7.36%	23.2%	78.7%	78.7%	25.6%	9.9%	10.0%
Taiwan Stock Exchange Weighted Index	5.00%	12.3%	29.4%	29.4%	30.8%	18.2%	17.3%
NSE Nifty 50 Index	<b>-0.28%</b>	6.4%	12.0%	12.0%	14.6%	14.9%	14.2%
Ibovespa Brasil Sao Paulo Stock Exchange Index	1.29%	10.2%	34.0%	34.0%	13.7%	6.2%	14.0%
Bloomberg Magnificent 7 Total Return Index	0.71%	4.5%	24.9%	24.9%	63.0%	29.1%	37.8%
STEFI	0.62%	1.8%	7.5%	7.5%	8.0%	6.6%	6.8%
ALBI	2.70%	9.0%	24.2%	24.2%	16.9%	12.5%	11.5%
IGOV	2.83%	8.3%	15.6%	15.6%	10.1%	10.0%	6.4%
WGBI	0.13%	0.1%	7.5%	7.5%	3.2%	<b>-3.5%</b>	0.5%
Bloomberg US Agg Total Return	<b>-0.15%</b>	1.1%	7.3%	7.3%	4.7%	<b>-0.4%</b>	2.0%
Bloomberg US Corporate High Yield TR Index	0.57%	1.3%	8.6%	8.6%	10.1%	4.5%	6.5%
SAPY Total Return	0.09%	16.3%	30.6%	30.6%	22.9%	20.6%	5.1%
MSCI US REIT Total Return	<b>-2.34%</b>	<b>-1.7%</b>	2.9%	2.9%	8.4%	6.6%	5.7%
STOXX 600 Real Estate Total Return	<b>-0.40%</b>	0.8%	3.8%	3.8%	5.8%	<b>-3.0%</b>	<b>-0.7%</b>
FTSE EPRA Nareit Global REITs TR Index	<b>-1.17%</b>	<b>-0.8%</b>	8.4%	8.4%	7.3%	4.6%	4.3%
Crude Oil	<b>-3.72%</b>	<b>-9.2%</b>	<b>-18.5%</b>	<b>-18.5%</b>	<b>-10.9%</b>	3.3%	5.0%
Aluminium	4.45%	11.8%	17.4%	17.4%	8.0%	8.6%	7.1%
Copper	11.03%	21.0%	41.7%	41.7%	14.1%	9.9%	10.2%
Gold	1.89%	11.9%	64.6%	64.6%	33.3%	17.9%	15.1%
Platinum	23.33%	30.8%	127.0%	127.0%	24.2%	14.0%	8.7%
Nickel	12.78%	9.7%	9.3%	9.3%	<b>-17.9%</b>	<b>0.0%</b>	6.5%
Palladium	11.38%	28.4%	77.5%	77.5%	<b>-3.3%</b>	<b>-7.9%</b>	11.1%
Iron Ore	2.28%	5.9%	9.0%	9.0%	<b>-2.4%</b>	<b>-7.4%</b>	9.1%
Bloomberg Commodity Index Total Return	<b>-0.32%</b>	5.8%	15.8%	15.8%	4.0%	10.6%	5.7%
USDZAR	<b>-3.23%</b>	<b>-4.1%</b>	<b>-12.1%</b>	<b>-12.1%</b>	<b>-0.9%</b>	2.4%	0.7%
GBPZAR	<b>-1.43%</b>	<b>-3.9%</b>	<b>-5.3%</b>	<b>-5.3%</b>	2.7%	2.1%	<b>-0.2%</b>
EURZAR	<b>-1.96%</b>	<b>-4.0%</b>	<b>-0.3%</b>	<b>-0.3%</b>	2.2%	1.6%	1.5%
JPYZAR	<b>-3.56%</b>	<b>-9.4%</b>	<b>-11.8%</b>	<b>-11.8%</b>	<b>-6.7%</b>	<b>-5.8%</b>	<b>-1.9%</b>
Dollar Index Spot	<b>-1.14%</b>	0.6%	<b>-9.4%</b>	<b>-9.4%</b>	<b>-1.7%</b>	1.8%	0.0%

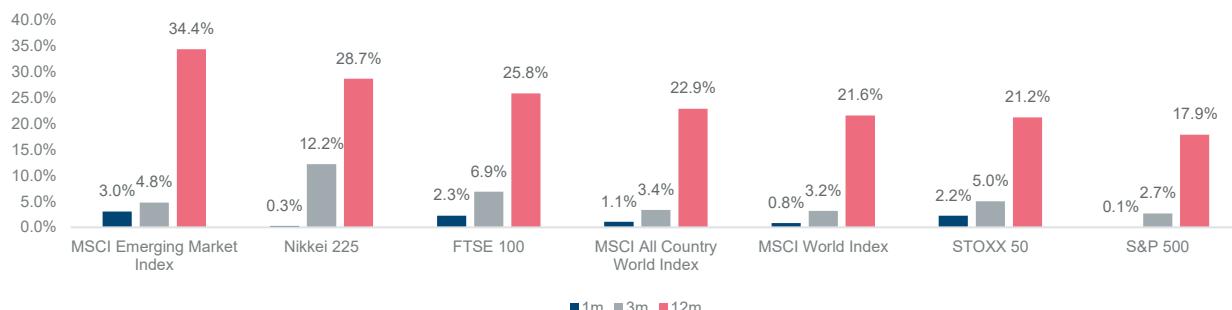
Source: Bloomberg



## US

US equities were roughly flat in December, returning 2.7% in local currency terms in Q4, despite the longest government shutdown on record and a soft labour market. Underlying fundamentals remain sound, sentiment is optimistic, and AI enthusiasm continues. However, US equities lag the MSCI World and other developed market peers (as shown in Figure 2), as investors seek investments outside the US with better valuations and diversification potential.

**Figure 2: Local currency returns as at 31 December 2025**

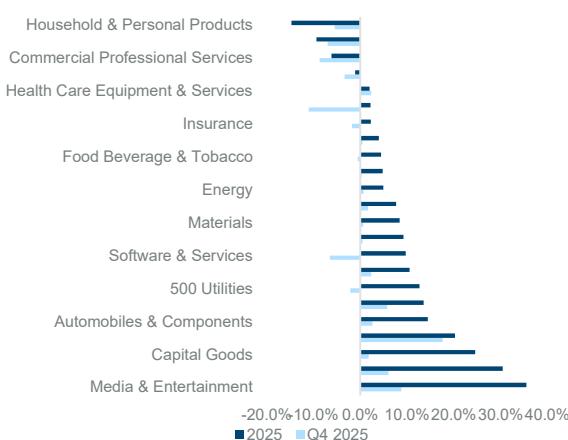


Source: Bloomberg

The US 10-year bond yield also showed minimal changes over the quarter, ending a few basis points higher despite intra-quarter volatility, which prompted it to sink below 4.0% in late October and late November. The dollar also made gains against other major currencies for the first two months of the quarter before showing a reversal as the Fed cut rates again in December, delivering a total 50bps cut for the quarter with further rate-cut decisions being data-dependent.

For 2025, technology, banks, biotech, capital goods, and utilities were the best-performing sectors, while household and personal products, consumer durables, and commercial professional services were the biggest laggards. After three consecutive years in which the S&P 500 equal-weighted underperformed against the S&P 500 Index, in the last two months of 2025 there were signs of broadening gains as the former began to outperform the market cap-weighted index from November. As valuations soar, investors are scrutinising technology firms more closely, paying more attention to profitability and strategy, to determine the potential winners in the AI arms race.

**Figure 3: S&P 500 sector performance**



**Figure 4: S&P 500 vs equal-weighted**



Source: Bloomberg

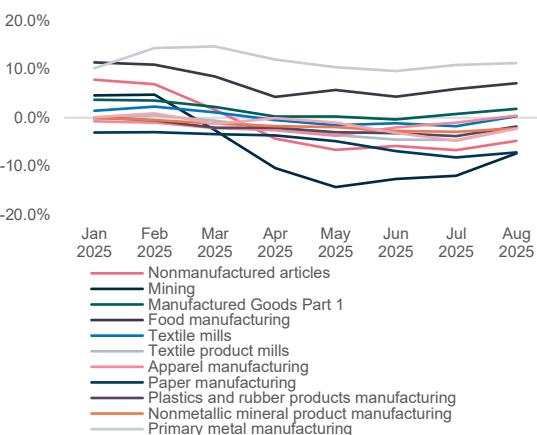


US consumer sentiment steadied in December on the back of a soft labour market but also positive real wage growth. While the payroll numbers showed some positive signs in the latter part of the quarter, unemployment risk was up as the unemployment rate increased from 4.4% in September to 4.6% in November, and the excess demand dipped below zero for the first time since March 2021. As businesses invested heavily in AI, productivity growth surged in Q3, with the potential for a further boost as AI investment continues, which could weigh on labour costs and employment.

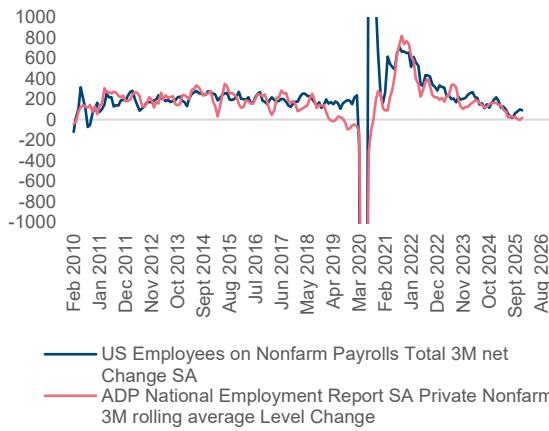
**Figure 5: University of Michigan Consumer Sentiment Index**



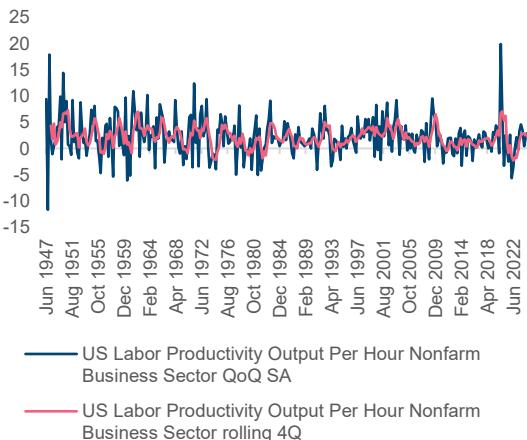
**Figure 6: US excess demand for labour**



**Figure 7: US payroll data**



**Figure 8: US labour productivity**

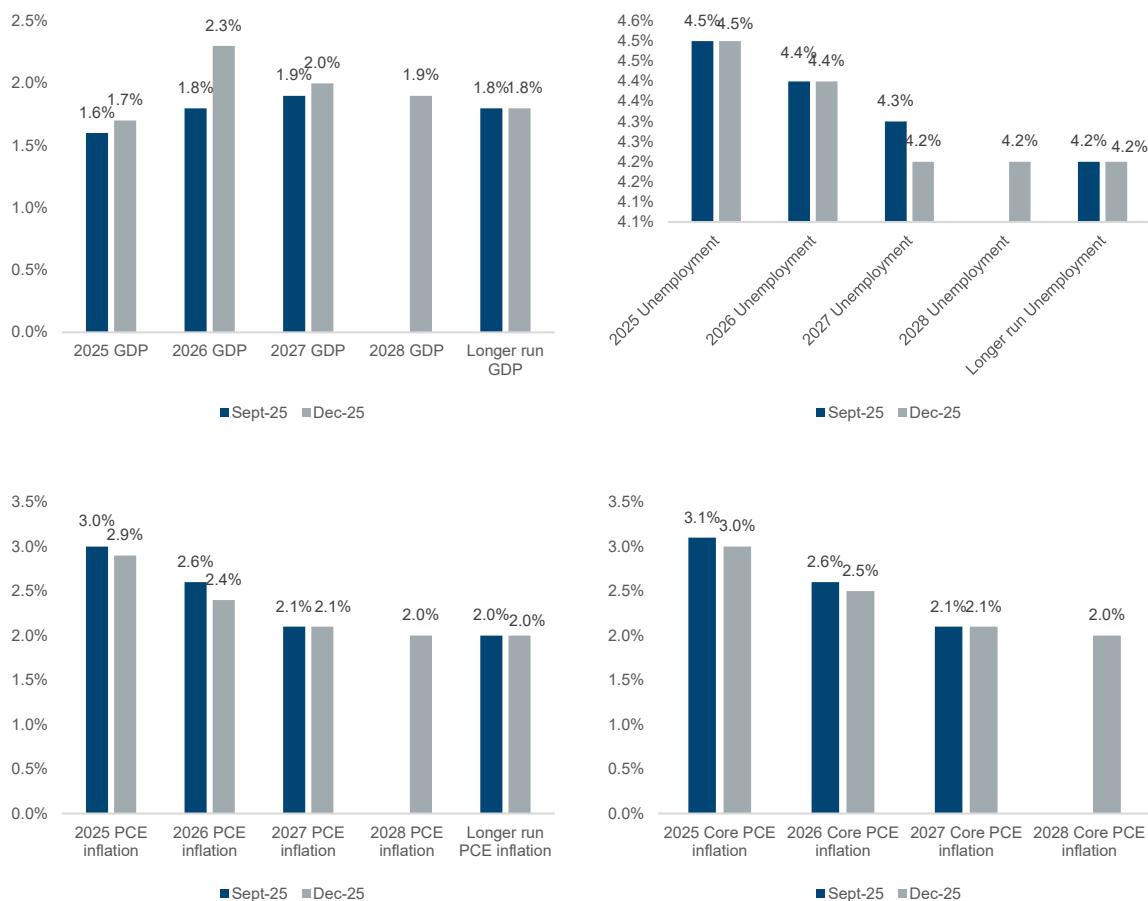


Source: Bloomberg

For Q3, the US real GDP grew by 4.3% annualised, driven by robust consumer consumption, a rebound in exports, and improvements in government spending. Both headline and core CPI inflation cooled from 3.0% in September to 2.7% and 2.6%, respectively, in November, with softer shelter inflation supporting slower services inflation, while goods and food inflation were also softer. Economists are expecting a marginally higher inflation rate for December as the November figures could be distorted by missing October data and later-than-usual November data collection. The latest Fed projections show higher GDP growth for 2026, driven by easing monetary policies, economic fundamentals leaning on the resilience side, and some timing effects resulting from government shutdowns this year. While the Fed's guidance is suggesting a 20–30bps rate cut for 2026, both the OIS and the FRA markets are pricing in 40–50bps cuts.



Figure 9: Fed projections, September vs December 2025



Source: Bloomberg

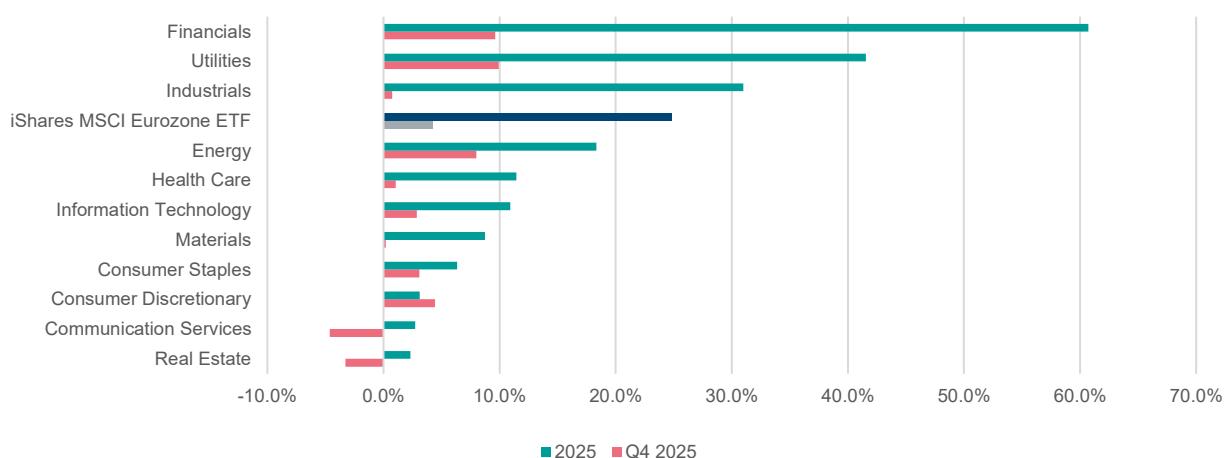
As 2025 drew to a close, the US economy continued to display resilience, supported by steady growth, easing inflationary pressures, and improving productivity dynamics. These fundamentals suggest that the backdrop could remain broadly supportive of risk assets as we head into 2026. However, risks are clearly beginning to build. As we move into the new year, the global environment is becoming more complex, with geopolitical uncertainties rising, underscored early on by renewed tensions surrounding Venezuela and their potential implications for energy markets and global supply chains. While the outlook remains constructive, the accumulation of macroeconomic and geopolitical risks warrants a more measured and selective approach going forward.



## EUROZONE

European equities delivered a solid performance for 2025 and Q4 2025, as global financial conditions were supportive and investor sentiment was boosted by easing inflationary pressures and receding trade frictions as the year progressed. The best-performing sectors last year were financials, utilities, and industrials, with consumer discretionary, communication services, and real estate significantly underperforming against the broader market. While AI optimism remained intact, investors' enthusiasm did wane somewhat into Q4 due to profit taking and AI-related investments became increasingly selective amid elevated valuations, which bolstered non-US equities (i.e. European equities, UK equities, and EM equities) over the period.

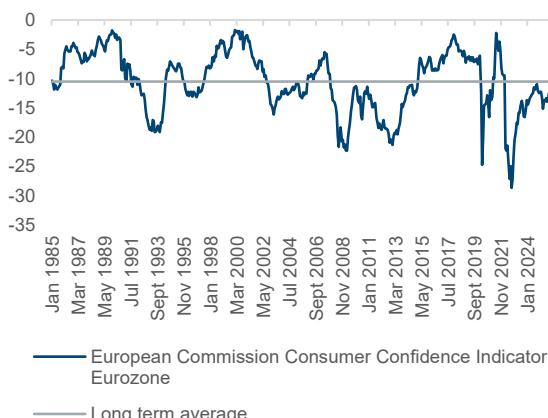
**Figure 10: MSCI Eurozone ETF and sector performance in EUR**



Source: Bloomberg

There were some improvements in the macro data for the region over the past year, such as improving consumer confidence, economic sentiment, business climate, and capacity utilisation. The Citi Economic Surprise Index also stayed positive for most of the year, indicating better economic data than what the market expected. However, confidence and sentiment did dip slightly towards the end of Q4. The Eurozone Manufacturing PMI indicator also improved to 50 in October but weakened to 48.8 in December. At the same time, the Eurozone services sector remained in expansion, but the PMI reading peaked in November at 53.6 and softened to 52.4 in December. The region's labour market remained calm, with the unemployment rate staying in the range of 6.3–6.4% in 2025 and wage growth slowing as the year progressed. Overall economic conditions improved in 2025, with more mixed signals as the year concluded.

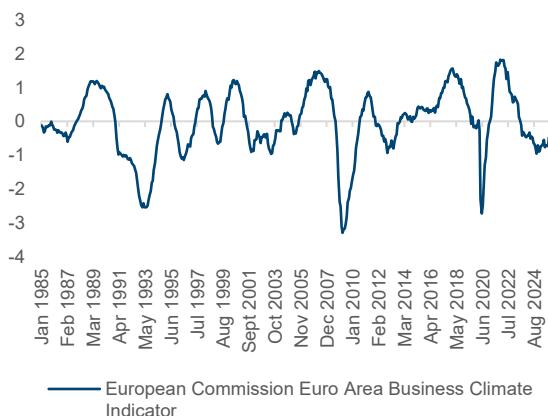
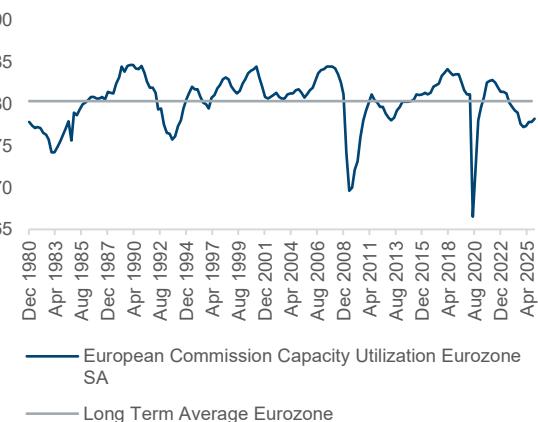
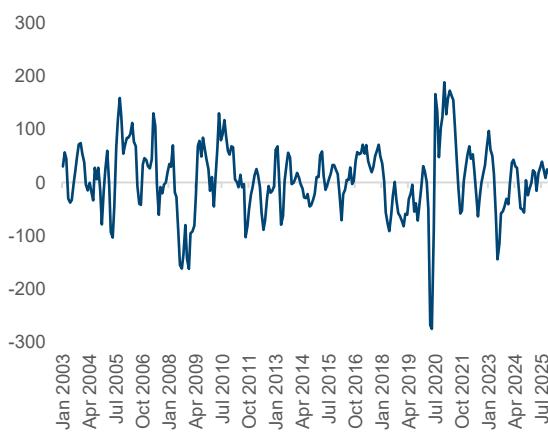
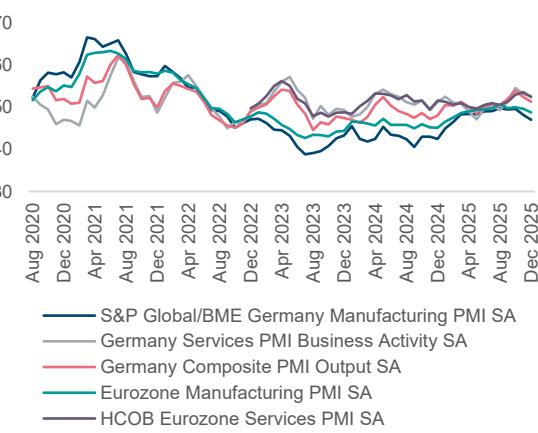
**Figure 11: Eurozone consumer confidence**



Source: Bloomberg

**Figure 12: Eurozone economic sentiment**



**Figure 13: Eurozone business climate****Figure 14: Eurozone capacity utilisation****Figure 15: Eurozone Citi economic surprise****Figure 16: Eurozone PMI**

Source: Bloomberg

Eurozone Q3 GDP was up 1.6% year on year, slightly lower than the 1.7% seen in Q2, led by Denmark, Luxembourg and Sweden, with Romania, Ireland and Finland being the main laggards. From a component perspective, government spending and gross fixed capital formation added 20bps respectively, while imports grew by 1.3%, with a 10bps drag on GDP growth from negative net exports. Inflation for the region slowed from 2.2% in September to 2.1% in November, with the forecasted CPI reading for December easing further to 2.0%. After the ECB lowered its interest rate by 100bps from December 2024 to June 2025, it chose to pause rate cuts as inflation eased to its target level. The OECD is forecasting real GDP growth in the Eurozone to ease from 1.3% in 2025 to 1.2% in 2026, before improving to 1.4% in 2027, while remaining cautious of the potential escalation in trade frictions, despite positive developments in capital spending and financial conditions and a steady labour market and productivity growth.

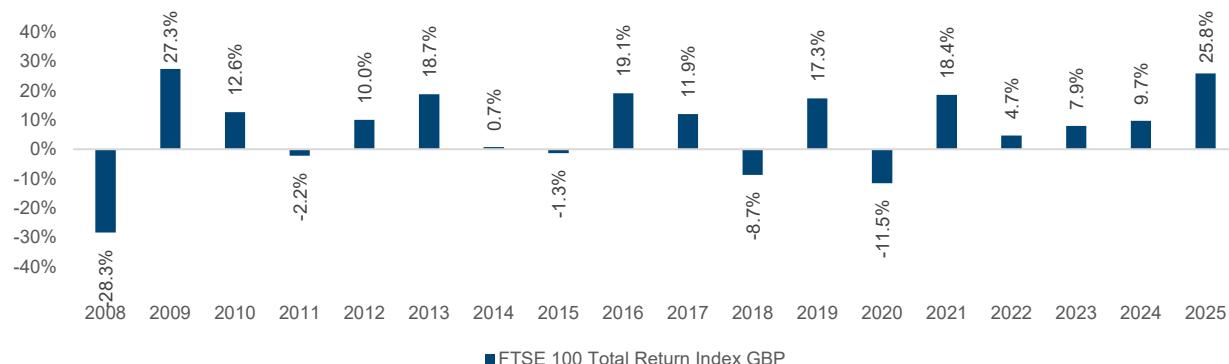
Investors are likely to remain invested in European equities for diversification purposes, benefiting from an improving growth outlook and risk profile for financials, while cautious investors may also find sectors such as utilities and healthcare that generate stable cash flows attractive. Any further rally is dependent on more business-friendly policies, infrastructure spending, and a more supportive risk environment globally. Geopolitically, regional strategic autonomy remains key as US leadership becomes less predictable. The EU remains a major economic power and key defender of the rules-based international order, but its influence is constrained by its limited hard power, internal fragmentation, and shifting US priorities. Ultimately, the EU leaders need to find ways to navigate their economic leverage in a fragmented world and in a global environment where the AI race has so far been dominated by the US and China.



## UNITED KINGDOM

Ending the year on a positive note, the FTSE 100 Index delivered a return of 2.3% in December 2025, while returning 6.9% for the fourth quarter. Additionally, UK equities experienced their best year since 2009, returning annual gains of 25.8%. This impressive performance was driven by movements in global equities and sector momentum, especially in defence and commodities, amid geopolitical tensions combined with expectations of easing monetary policies in the new year which boosted investor sentiment in the final months of 2025. In addition, the UK benchmark Government Bond Index delivered a positive return of 0.2% in the final month of 2025, contributing to its 3.3% quarterly performance, which may also have benefited from expectations of easing interest rates in the new year.

**Figure 17: The FTSE 100 experienced its best year since 2009 with annual gains of 25.8% in 2025**



Source: Bloomberg

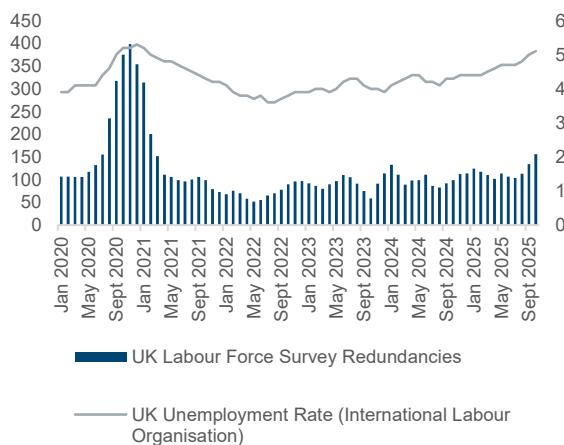
The UK economy expanded slightly in the third quarter of 2025 with GDP growth of 0.1% from the previous quarter, compared to 0.7% growth in Q1 and 0.3% in Q2. According to the data released by the Office for National Statistics in London, the main contributors to GDP in Q3, in terms of expenditure components, were real household final consumption (boosted by transport, clothing and food), together with government consumption (driven by education, health and social care), which grew by 0.3% and 0.4%, respectively. In terms of sector performance, the services and construction sectors contributed 0.2% each, while production declined by 0.3% quarter on quarter. The significant decline in production is attributed to the 0.8% decrease in manufacturing following a cyberattack in September on Jaguar Land Rover, which halted production. This led to a 27% decrease in UK car production, its lowest level in 70 years, which ultimately impacted GDP in the third quarter. However, the recovery in car production in November is expected to boost GDP in the last quarter, together with Christmas consumer spending.

Labour markets previously showed signs of strain, which deteriorated further following the 26 November 2025 budget speech by Chancellor Rachel Reeves in which she announced additional tax increases of £26 billion (following her £24 billion forecasted payroll-tax increase in October 2024) in an attempt to shore up public finances. The number of potential redundancies, which is a leading indicator of future job cuts, increased to 33,392 by the second week of December, the second-highest level since the COVID-19 pandemic and last experienced in 2023. Additionally, the unemployment rate of 5.1% was close to a five-year high, emphasising a constrained labour market with a further 0.4% decrease in employment predicted for Q4 2025. Furthermore, hiring activity declined in December, dragged down by global uncertainty, rising costs and weaker sentiment from businesses following the budget speech.

Given the struggling labour market, there are rising expectations that the Bank of England (BoE) will cut interest rates further. Even though the UK's inflation rate was 3.2% in November (down from 3.6% in October), which is currently above the target rate of 2%, a weakening jobs market may be of greater concern for officials, prompting additional rate cuts in 2026. The prospect of future rate cuts together with the recovery in the production sector towards the end of the quarter led to an increase in the UK's Composite PMI, Services PMI and Manufacturing PMI, from 50.1, 50.8 and 46.2, respectively, in September to 51.4 for both the Composite PMI and Services PMI and 50.6 for the Manufacturing PMI, indicating businesses optimism and favourable sentiment about the UK economy in the new year.



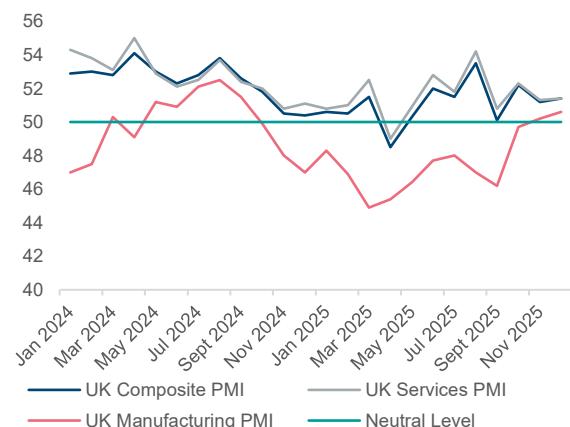
**Figure 18: Deteriorating labour market as labour force redundancies and unemployment increase**



Source: Bloomberg

Although the UK's financial markets ended the year positively, investors should be cautious about the broader economic conditions, such as above-target inflation, a strained labour market, and uncertainties surrounding the budget and interest rates. These factors can increase volatility within financial markets and ultimately impact investment performance.

**Figure 19: PMI points to recovery ahead of rate-cut expectations**



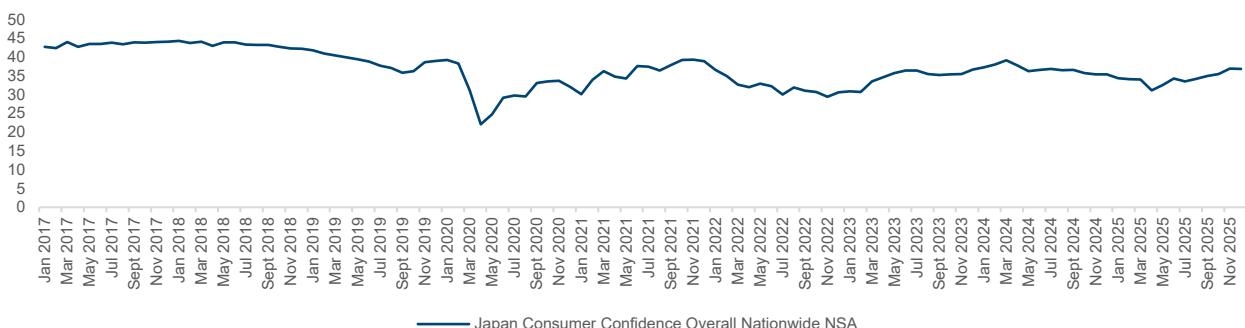


## JAPAN

The Japanese economy concluded 2025 having navigated a complex landscape of domestic recalibration and shifting external forces. Recent revisions confirm a more pronounced contraction in the third quarter, with GDP shrinking to -0.6% QoQ, showing a deterioration from the preliminary estimate of -0.4%. This downward revision was primarily anchored in a decline in capital which collided with the domestic pass-through effects of higher borrowing costs, restricting overall economic expansion.

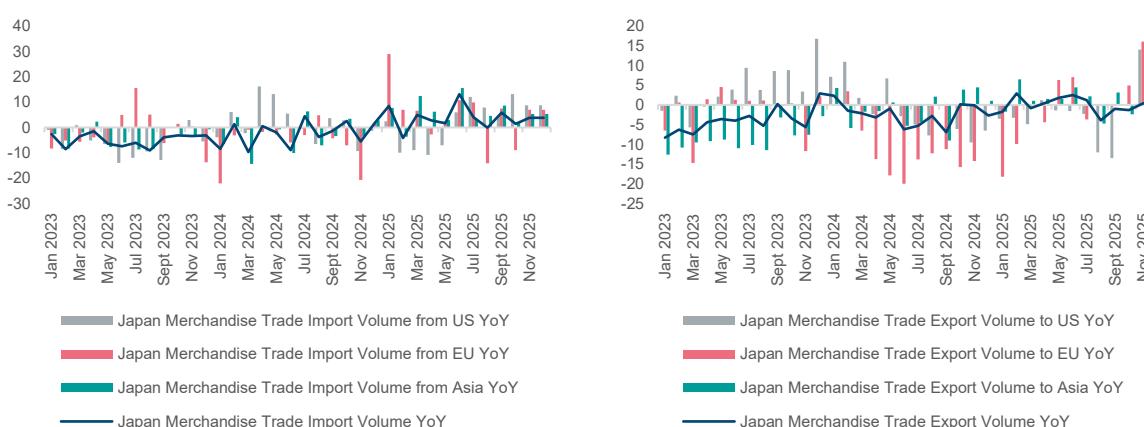
Constraints to economic expansion stemmed from weaker domestic demand, evidenced in particular by a slowdown in household consumption growth from the previous quarter. The latest data does, though, point to a reversal in this trend as consumption was up 2.9% in November 2025. This suggests improved overall sentiment about the economy, with the Consumer Sentiment Index edging up to 36.8 by the end of Q4 2025. The unfavourable external trade environment weighed on exports in Q3 2025, resulting from a 15% tariff imposed on Japanese goods by the US.

**Figure 20: Consumer confidence improves**



The external sector served as a significant headwind throughout Q3 2025. The net trade balance deteriorated, driven by a 1.2% decline in exports that outstripped a modest 0.1% dip in imports. Exports came under pressure as the front-loading by US importers faded once the higher tariffs came into effect. The tariff rate on Japanese goods was initially set at 24% but was subsequently lowered to 15% following trade talks and a meeting between US President Donald Trump and Japanese Prime Minister Sanae Takaichi in October. This was a partial mitigation strategy that prevented a steeper downturn.

**Figure 21: Q4 2025 sees a reversal of the lower trade volumes for Q2 2025**



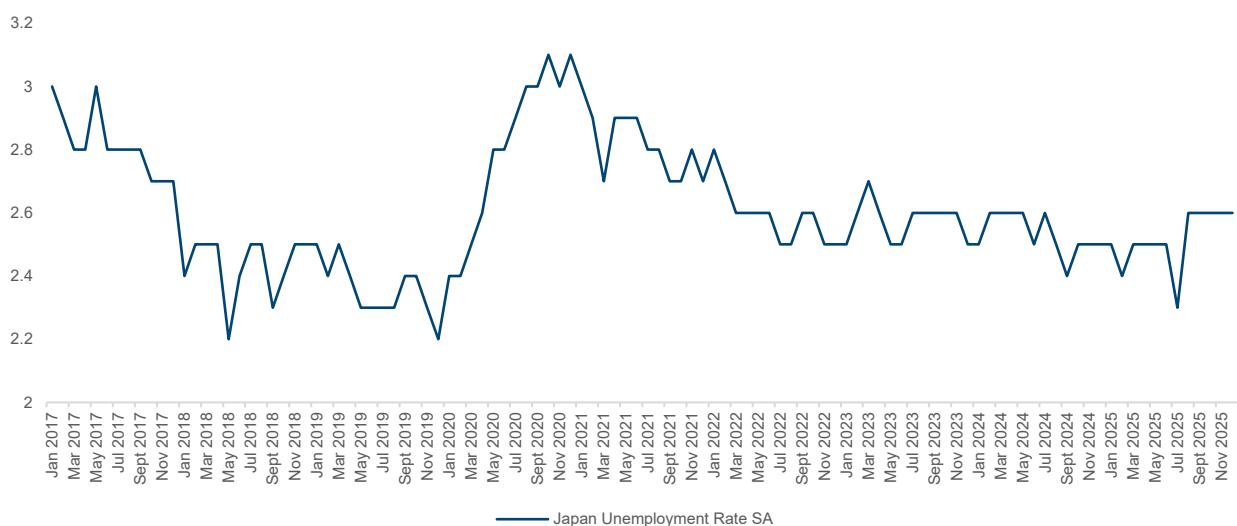


In response to these overlapping challenges, including subdued domestic demand and imported inflationary pressures, both fiscal and monetary authorities embarked on decisive policy initiatives. The government unveiled a substantial stimulus package valued at approximately \$135 billion, aimed directly at easing household economic pressures and mitigating cost-of-living increases. This move is aligned with a global trend towards fiscal expansion, a stance newly emphasised by Prime Minister Takaichi's pro-growth agenda and mirrored in other major economies.

Concurrently, the Bank of Japan (BoJ), as broadly anticipated by the markets, initiated a policy normalisation shift. After a period of unwavering accommodation, the Policy Board unanimously voted to raise its benchmark rate by 25bps in December. The committee members communicated a conditional forward guidance, anticipating further incremental hikes provided the economic outlook remained stable. Despite higher interest rates for Japan, the value of the Yen continued to be under pressure, remaining weak against major currencies.

Structural domestic factors presented a mixed picture. The labour market remained taut, with the unemployment rate holding at 2.6% and participation steady at around 64%. However, demographic constraints from an ageing population continued to cap more dynamic improvement, as evidenced by only a marginal 0.19% uptick in the Employment Index. In contrast, equity markets responded with vigour to the evolving policy environment. The confluence of proactive corporate governance reforms under the Takaichi administration, the moderated US tariff outcome, and the global fiscal shift fuelled significant positive sentiment. This was crystallised in a strong 12.2% total return (in local currency terms) for the Nikkei 225 Index in Q4 2025.

**Figure 22: Unemployment rate remains low**



Source: Bloomberg

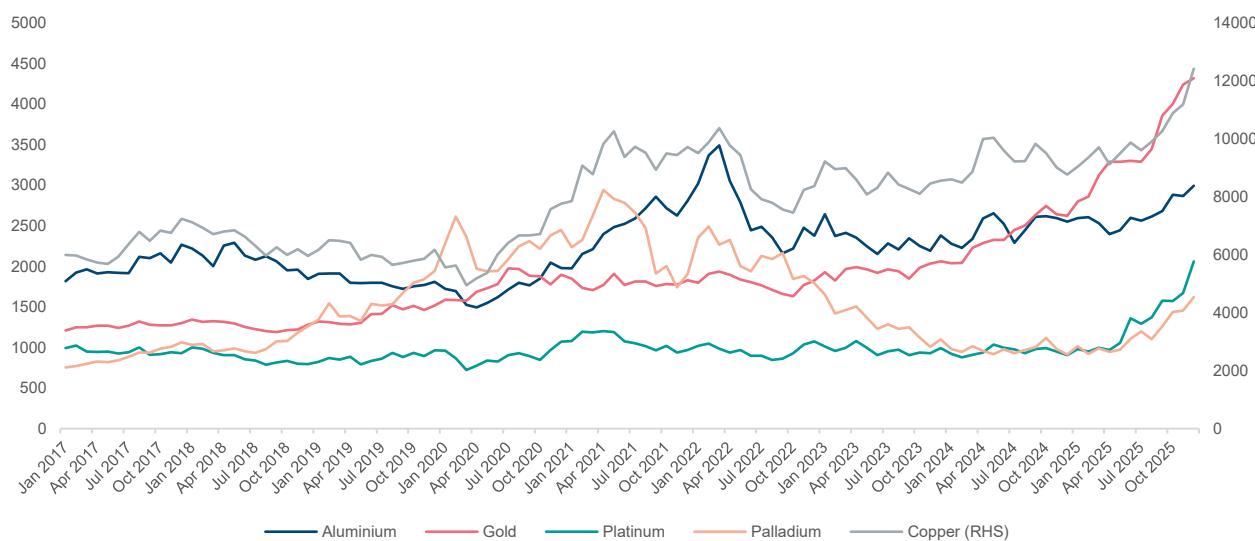


## SA

The last quarter of 2025 unfolded as a chapter of tangible rejuvenation for South Africa, with a series of wins built on a stable foundation that changed how investors view the country. South Africa's celebrated exit from the Financial Action Task Force's (FATF) grey list, a largely anticipated but crucial milestone, served as a powerful testament to enhanced governance. This was swiftly followed by a sovereign credit outlook upgrade from S&P Global Ratings, a nod to improving fiscal credibility. That credibility found its voice in October's Medium-Term Budget Policy Statement (MTBPS), which projected a more optimistic fiscal outlook, anchored in the ambitious commitment to a new 3% inflation target. Globally, an easing of trade tensions provided a supportive backdrop to this national turnaround story.

The FTSE/JSE All Share Index sustained its rally, climbing 8.1% for the quarter, which was attributed to a resurgence in commodity prices, particularly gold and platinum group metals (PGMs). The FTSE/JSE All Bond Index benefited from these developments as well, climbing 9.0% for Q4 2025, as investors recalibrated their risk perceptions.

**Figure 23: Commodity market surge (USD)**



Source: Bloomberg

Behind all the market euphoria, the real economy demonstrated a quiet, grinding resilience. Although moderating to 0.5% QoQ from the second quarter's 0.9%, GDP growth in Q3 2025 remained in expansion. The composition of growth revealed a critical transition: while net exports and domestic expenditure softened, a recovery in fixed investment and accelerated inventory accumulation signalled confidence. The steadfast engine, however, remained in the South African household. Consumer spending proved remarkably durable, underpinned by a trifecta of supportive factors, including rising real incomes (as household net worth improved on the back of equity market rallies), subdued inflation (which softened to 3.5% in November 2025, edging towards its new 3% target), and the supportive tailwind of a further 25bps rate cut by the SARB at its November meeting.

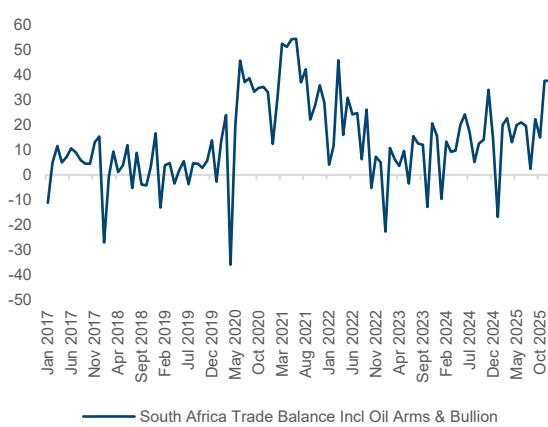
This narrative of incremental stabilisation was echoed across key metrics. The current account deficit narrowed to 0.7% of GDP, a positive signal with a deficit of R57 billion in nominal terms, compared to the R72.2 billion deficit in Q2 2025. While SA debt levels remain elevated, they have moved at a slower pace than nominal disposable income, with the household debt-to-disposable income ratio edging towards 61.6% in Q3 2025 from the previous quarter's 62.1%. Following the same trajectory was the decline in households' debt servicing costs relative to disposable income, from 8.7% to 8.5% in Q3 2025. Meanwhile, total external debt remains elevated, with the June 2025 figure sitting at \$180.2 billion compared to \$176.5 billion in March 2025.

**Figure 24: Current account deficit narrows (ZAR billion)**

Source: Bloomberg

The labour market offered glimmers of improvement. The unemployment rate receded to 31.9%, with the Quarterly Labour Force Survey (with a changed methodology evidenced in the inclusion of new categories), recording job gains of 248,000, albeit concentrated in the informal sector. Concurrently, a welcome improvement in labour productivity, paired with an easing of labour cost growth to 2.0% YoY, hinted at better efficiency.

Nevertheless, the quarter was not without its subplots of concern. The manufacturing sector's struggles persisted, with the Absa PMI plunging into contractionary territory at 40.5 by December, reflecting acute pressure on employment and inventories. Similarly, the trade surplus narrowed as import growth outpaced the modest export rebound of 2.8% QoQ compared to the previous quarter's 1.2% growth which had been driven by higher volumes. Additionally, net gold exports contracted sharply for a second consecutive quarter as gold shipments fell 16.4%. Current confidence indicators, however, do point to greater optimism on the horizon, as reflected in both the Business and Consumer Confidence Indexes.

**Figure 25: SA trade balance (ZAR billion)****Figure 26: SA Business and Consumer Confidence Indexes**

Source: Bloomberg

There was a gradual reversal of the deflationary trend from earlier in the year, as fuel prices declined at a slower pace and food prices rose. Headline inflation slowed to 3.5% in November, cooling in five of the 13 categories, with the most notable decline being in transport. Survey data for inflation expectations signalled continued easing in response to the lowering of South Africa's inflation target.

Money supply (M3 – broad) continued to accelerate in the third quarter, with the latest figure for November pointed to an 8.26% YoY increase, which was reflective of faster growth in corporate sector deposits (mainly financial companies). Meanwhile, slower growth was recorded in household deposits. Credit expansions saw



an increase of 7.79% YoY in November 2025, attributed to strong corporate sector demand, while household credit growth remained subdued.

**Figure 27: M3 money supply accelerates**



*Source: Bloomberg*

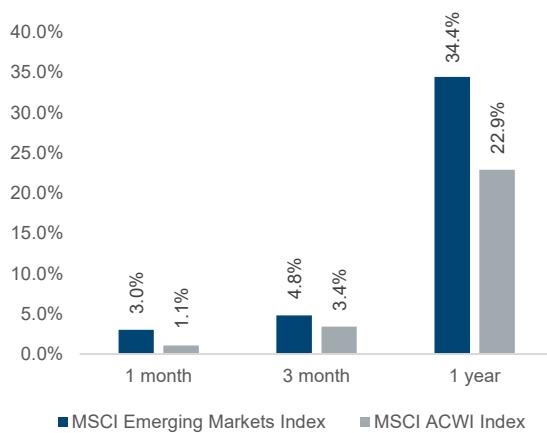
The 2025 MTBPS crystallised the government's commitment to fiscal consolidation, projecting the narrowing of the deficit to 2.9% by 2028/29, which offers hope. However, the blueprint for enduring growth is only partially written, as the key to unlocking growth in South Africa lies in increasing infrastructure spending and advancing key structural reforms.



## EMERGING MARKETS

In a year riddled with heightened volatility, geopolitical conflicts, trade tensions and policy uncertainty, emerging markets made a significant comeback in 2025, as investors sought cheaper valuations, less uncertainty and diversification away from US assets. Unsurprisingly, the ongoing global enthusiasm for innovations in technology and AI, combined with the downward trend in the US dollar, allowed emerging markets to end the year on a positive note. The MSCI EM Index was able to maintain its lead over the MSCI ACWI Index in the final quarter of 2025, delivering 3.0% in December and 4.8% over the quarter. This stood in contrast to the MSCI ACWI Index which delivered returns of 1.1% and 3.4%, respectively. Furthermore, after years of underperformance, emerging markets have outperformed the US after almost a decade, with the MSCI EM Index providing an annual return of 34.4%. This is almost double the 17.9% returned by the S&P 500 Total Return Index and also significantly greater than the 22.9% return delivered by the MSCI AWCI Index for 2025.

**Figure 28: Emerging markets consistently outperform**



**Figure 29: After almost a decade, EMs have outperformed the US by double**



Source: Bloomberg, returns are based on local currency (i.e. USD)

An important driver of the rally experienced in emerging markets is the weakness of the dollar. The US dollar was impacted mainly by US President Donald Trump's Liberation Day tariffs and has since struggled to recover, even in the final months of the year, due to policy uncertainty and the Fed's rate-cutting cycle. This has been further reinforced by the significant annual decline in the dollar, which was previously witnessed in 2017. The Dollar Spot Index ended the year in negative territory, returning approximately -9.4% for 2025 compared to the 7.2% return delivered by the MSCI Emerging Markets Currency Index.

**Figure 30: Emerging markets boosted by a significant decline in the US dollar, allowing the 25 emerging market currencies within the MSCI Emerging Markets Currency Index to deliver higher total returns relative to the dollar**



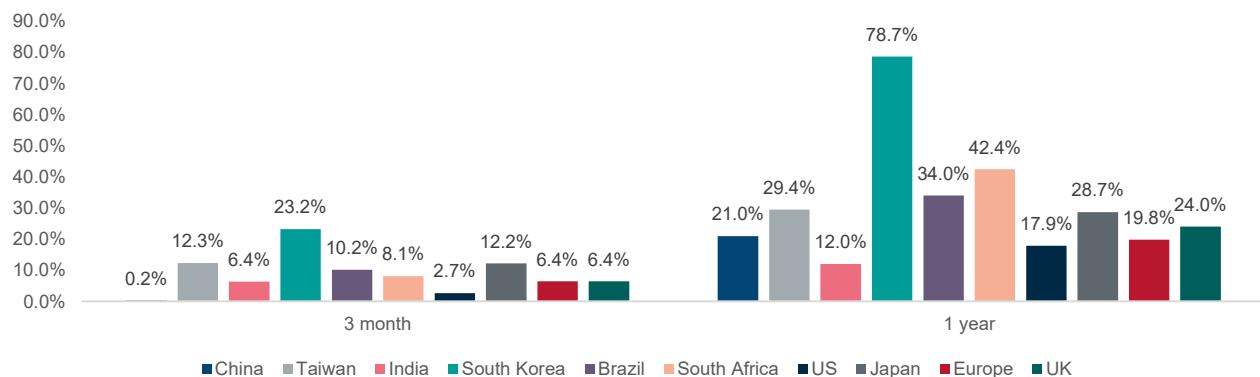
Source: Bloomberg



In addition to the weakening dollar, emerging market performance in the fourth quarter of 2025 was boosted largely by South Korea and Taiwan, followed by Brazil, while China's performance lagged its emerging market peers. South Korea led the gains among emerging markets in the final quarter, with one-month and three-month returns of 7.4% and 23.2%, respectively. Similarly, South Korea outshone its emerging and developed market counterparts, becoming the best-performing stock market for 2025, with the KOSPI Index delivering an annual return of approximately 78.7%. The significantly positive performance of this index in the fourth quarter can be attributed to the continuous worldwide demand for AI, which is driving the rapid increase in semiconductor and technology stocks. Additionally, the need for electricity to power high energy-consuming data centres benefits other stocks, such as Hyosung Heavy Industries which produces power transformers. Also contributing to the performance of the KOSPI Index are the country's supportive government policies, such as the reduction in capital gains tax and the discount at which shares are traded at, as well as improvements in corporate governance, which have helped to boost investor confidence in the stock market.

From a broader, macro perspective, domestic demand has been more muted. South Korea's yearly export growth trumped its import growth every month from April 2025 onwards. The labour market was relatively calm from June, with the unemployment rate edging up by 10bps every month from September. However, in December, it jumped from the 2.6% range to 4.0% due to sluggish private sector employment growth and a seasonal timing effect as temporary government job programmes came to an end.

**Figure 31: South Korea outshone its emerging and developed market counterparts to become the best-performing stock market in 2025**



Source: Bloomberg

Similar to South Korea, Taiwan's stock market has reaped the benefits of the global AI boom. The main driver of Taiwan's market performance has been Taiwan Semiconductor Manufacturing Company Limited (TSMC), which plays a critical role in the production of semiconductors and advanced chips required for the development of AI applications, advanced processing technologies and data centres. Owing to Taiwan's dominant role in the advancement of AI, the robust demand globally for technology and semiconductor shares, and strong earnings within the AI supply chain, the Taiwan Stock Exchange Weighted Index returned 5.0% in December 2025, while ending the fourth quarter with a three-month return of 12.3%. The performance of the Taiwan stock market also reflected macroeconomic resilience. Taiwan's Q3 GDP grew 8.21% YoY, beating the market expectation of 7.6%. Moreover, the country's Manufacturing PMI managed to climb out of its contracted state in December, reaching 50.9 from 46.8 in September.

Following these two tech-heavy stock markets, the Brazilian and South African stock markets delivered positive returns of 10.2% and 8.1%, respectively, over the quarter, while also wrapping up the year positively with Brazilian shares returning 34.0% and South African shares returning 42.4%. In addition to the weaker dollar, Brazil's performance can be attributed to its low unemployment level, the official categorisation of stablecoins as a foreign exchange instrument, the steps taken to address inequality and increase disposable income for middle- and low-income households by exempting income tax, and its higher interest rates which increased its attractiveness in the Fed's rate-cutting cycle. The Brazilian services sector moved into strong expansion territory in Q4, with the Services PMI improving from 46.3 in September to 53.7 in December. While its Manufacturing PMI improved from 46.5 to 48.8 from September to November, it subsequently lost steam,



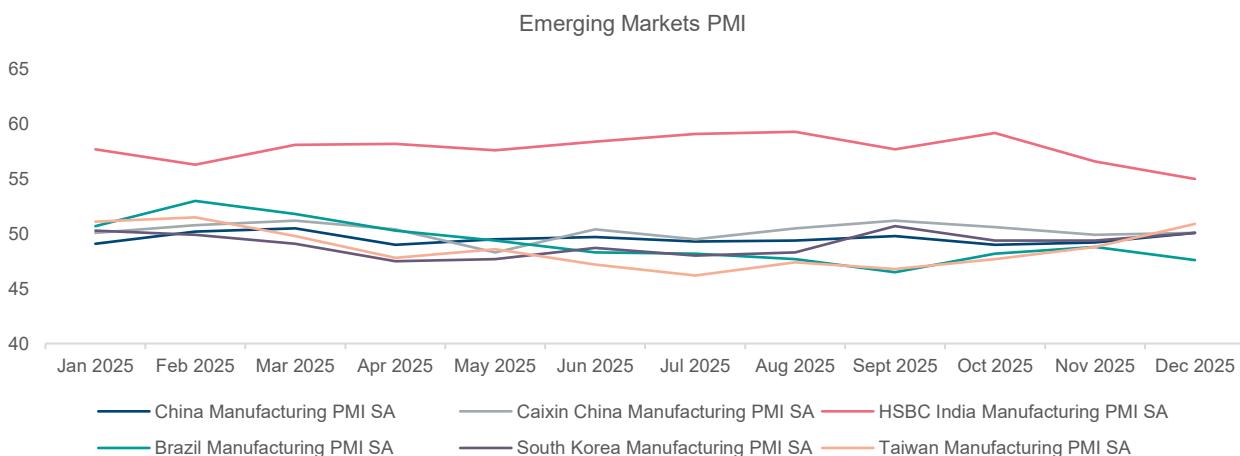
settling at 47.6 in December. The South African market was driven by the commodity sector, and more specifically, the gold rally experienced during 2025.

Unlike the gains witnessed in most emerging markets during the final months of the year, China's performance lagged, delivering a one-month return of 2.5%, while the three-month return delivered by the Shanghai Shenzhen CSI 300 Index was 0.2% in the fourth quarter. Even though China ended the year positively, its quarterly performance lagged its peers, influenced by poor October and November returns. Factors that dragged down China's performance during Q4 included a continuation of the housing market downward trend, weak demand from consumers and declining investments, set against the backdrop of volatility stemming from trade tensions with the US, all weighing on investor confidence and ultimately impacting the country's economic growth. China also experienced consecutive declines in its industrial profits from October to November, with a -5.5% decrease in October followed by a -13.1% decrease in November compared to the previous year. Meanwhile, retail sales missed the forecast of 2.8% in November, delivering a 1.3% gain after October's 2.9% increase. This emphasises the weak domestic demand and consumption in China, which is affecting the country's economic growth and performance. The rebound experienced in December in the wake of stronger demand and exports, and positive sentiment about the prospect of a more pro-growth fiscal policy in the new year, allowed China to shift into expansion, with the China Manufacturing PMI increasing to 50.1 from 49 in October and 49.2 in November. China's vision of a more proactive policy and expectations of more stimulus to drive economic growth in 2026 are expected to support economic performance in the new year.

**Figure 32: China's declining industrial profits in October and November together with lower-than-expected retail sales emphasise the weak domestic demand and consumption at the start of Q4**



**Figure 33: Rebound in China during December increased the China Manufacturing PMI above the neutral level of 50, indicating expansion going into 2026**



Source: Bloomberg



The exceptional performance of emerging markets in 2025 has proven that these markets represent an alternative investment opportunity for investors when faced with highly volatile market conditions stemming from fractured geopolitics, trade tensions, and changing policies and interest rates. The resilience maintained by these markets in 2025, together with positive investor sentiment, increasing investment, and the continuation of the global shift towards AI, will see emerging markets remaining attractive in 2026.



## APPENDIX

### Financial market performance as at 31 December 2025 (ZAR)

	1 mth	3 mths	YTD	1 yr.	3 yr. (p.a.)	5 yr. (p.a.)	7 yr. (p.a.)	10 yr. (p.a.)
<b>Local Equity Indices</b>								
FTSE/JSE All-Share Index (ALSI)	4.6%	8.1%	42.4%	42.4%	20.8%	18.8%	16.0%	12.4%
FTSE/JSE Resources 20 Index	5.6%	10.3%	144.2%	144.2%	24.2%	21.9%	22.3%	21.9%
FTSE/JSE Industrials Index	1.9%	-1.2%	18.1%	18.1%	17.7%	14.7%	13.5%	8.6%
FTSE/JSE Financials Index	7.7%	18.9%	27.1%	27.1%	23.3%	21.1%	11.2%	9.3%
FTSE/JSE Shareholder Weighted Index (SWIX)	4.6%	8.1%	42.4%	42.4%	20.4%	16.9%	13.7%	10.6%
FTSE/JSE Capped SWIX Index (Capped SWIX)	5.2%	9.5%	43.4%	43.4%	20.6%	18.4%	14.0%	10.6%
FTSE/JSE All-Share Top 40 Index	4.7%	7.6%	47.7%	47.7%	21.2%	19.0%	16.7%	12.6%
FTSE/JSE SWIX Top 40 Index	4.7%	7.6%	47.7%	47.7%	20.6%	16.6%	13.8%	10.4%
FTSE/JSE Mid Cap Index	4.5%	11.1%	31.0%	31.0%	18.4%	16.8%	11.5%	10.2%
FTSE/JSE Small Cap Index	2.4%	12.6%	21.5%	21.5%	22.3%	25.7%	17.0%	12.3%
FTSE/JSE Listed Property Index (SAPY)	0.1%	16.3%	30.6%	30.6%	22.9%	20.6%	7.9%	5.1%
FTSE/JSE Capped Listed Property Index	0.1%	16.7%	30.8%	30.8%	23.4%	20.3%	6.4%	2.2%
FTSE/JSE SA All Property Index	0.1%	16.7%	30.6%	30.6%	23.3%	20.6%	7.3%	3.4%
<b>Local Interest-Bearing Indices</b>								
FTSE/JSE All-Bond Index (ALBI)	2.7%	9.0%	24.2%	24.2%	16.9%	12.5%	11.7%	11.5%
FTSE/JSE All-Bond Index 1 - 3 years	0.9%	2.5%	10.0%	10.0%	9.6%	7.7%	8.2%	8.6%
FTSE/JSE All-Bond Index 3 - 7 years	1.7%	5.0%	18.3%	18.3%	14.0%	9.9%	11.0%	10.9%
FTSE/JSE All-Bond Index 7 - 12 years	2.9%	9.2%	26.8%	26.8%	18.7%	13.4%	12.8%	12.3%
FTSE/JSE All-Bond Index +12 years	3.5%	13.1%	31.2%	31.2%	19.6%	14.8%	12.5%	12.2%
Inflation Linked Government Bonds (IGOV)	2.8%	8.3%	15.6%	15.6%	10.1%	10.0%	8.0%	6.4%
Short-Term Fixed Interest Composite Index (SteFi)	0.6%	1.8%	7.5%	7.5%	8.0%	6.6%	6.5%	6.8%
<b>Inflation Index</b>								
Consumer Price Index (1 month lagged)	-0.1%	0.2%	3.4%	3.5%	4.0%	4.9%	4.5%	4.8%
<b>International Indices</b>								
MSCI World Index	-2.4%	-1.0%	6.6%	6.6%	20.6%	15.4%	17.7%	13.5%
MSCI Emerging Market Index	-0.2%	0.6%	17.8%	17.8%	15.9%	7.2%	10.7%	9.6%
MSCI All Country World Index	-2.1%	-0.8%	7.7%	7.7%	20.1%	14.4%	16.9%	13.0%
FTSE World Government Bond Index (WGBI)	-3.0%	-3.9%	-5.7%	-5.7%	2.2%	-1.2%	1.7%	1.2%
S&P Global Property	-4.0%	-4.4%	-2.4%	-2.4%	7.4%	6.2%	6.7%	5.2%
USA S&P 500	-3.1%	-1.5%	3.3%	3.3%	21.9%	17.2%	19.7%	15.6%
UK FTSE 100	0.6%	2.5%	18.5%	18.5%	17.2%	15.5%	12.8%	8.6%
Euro STOXX 50	0.1%	0.6%	20.5%	20.5%	20.5%	14.8%	15.2%	10.1%
Japan Nikkei 225	-3.3%	1.4%	13.1%	13.1%	18.4%	8.5%	12.8%	10.2%
<b>Currency Movement</b>								
Rand/Dollar (R16.57 = 1 Dollar)	-3.2%	-4.0%	-12.3%	-12.3%	-0.9%	2.5%	2.0%	0.7%
Rand/Euro (R19.44 = 1 Euro)	-2.1%	-4.2%	-0.6%	-0.6%	2.1%	1.6%	2.4%	1.5%
JPY/Rand (94.7 Japanese Yen= 1 SA Rand)	3.7%	10.6%	13.7%	13.7%	7.2%	6.1%	3.1%	2.0%
Rand/Pound (R22.28 = 1 Pound)	-1.6%	-4.1%	-5.8%	-5.8%	2.6%	2.1%	2.8%	-0.2%

Source: Bloomberg



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