Market Overview

31 July 2025

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Persistent Inflation Tests Monetary Policy

Local equities maintained their forward momentum in July, with the FTSE/JSE All Share Index (ALSI) advancing 2.3% for the month. On 23 July, the **ALSI briefly crossed the historic 100,000-point mark** for the first time, before easing back to finish the month at around 98,500. The All Share Index has delivered strong performance, up 19.3% year-to-date and 23.2% over the past 12 months. The rally remains largely driven by Resources, particularly precious metal miners, with the sector delivering a strong 5.1% return in July. Broader market gains were tempered by the underperformance of domestically focused shares. Financials (1.8%) and Industrials (1.2%) posted more modest gains, trailing the broader market amid continued economic headwinds and weak business sentiment.

Local bonds delivered a solid 2.7% return in July. However, the asset class **still lags domestic equities** by nearly 10% year-to-date and about 6% over the past 12 months. Towards month-end, the South African 10-year government bond yield compressed after the South African Reserve Bank (SARB) unanimously cut the repo rate by 25 basis points at its July Monetary Policy Committee meeting. This reduced the prime lending rate to 10.5% per annum, offering some relief to heavily indebted households and businesses. The SARB attributed its decision to an improvement in domestic economic conditions. The **10-year bond yield ended July at 9.7%,** a notable decline given that global 10-year yields generally moved higher over the same period. During the meeting, the central bank revised its GDP outlook, lowering the 2026 growth forecast by 0.2 percentage points to 1.3% and raising the 2027 projection by the same margin to 2.0%, indicating a balanced assessment of growth and inflation risks.

Headline inflation in June edged up modestly to 3.0% year-on-year, compared to 2.8% in May. On a month-to-month basis, inflation increased to 0.3%, slightly higher than May's 0.2%, largely propelled by rising food prices. The data indicates a steady but moderate rise in prices, with overall inflationary pressure still contained. Food and non-alcoholic beverage inflation rose to 5.1% year-on-year, driven by higher meat prices, while bread and cereal inflation moderated. A stronger rand has helped offset higher global food costs, while favourable crop forecasts should ease pricing pressures. Improving domestic production and normalising supply chains point to moderating food inflation, though risks from animal disease outbreaks, energy costs, and global trade remain. **Persistent food inflation continues to pressure low-income households and may weigh on real disposable incomes.** Core inflation softened slightly to 2.9% year-on-year in June, down from 3.0% the previous month, supported largely by declines in durable and semi-durable goods prices.

The Rand ended June at R17.70/$ and weakened by 2% month-on-month to around R18.00/$ by the end of July. The decline was driven by a **stronger US dollar, which rallied following the Federal Reserve meeting** and closed the month higher against all major currencies. Conversely, the Rand gained 0.6% against the Euro and 1.3% against the British Pound over the month. On a 12-month rolling basis, the local currency declined 5.2% versus the Euro and 2.7% versus the Pound, while remaining largely unchanged against the US dollar.

Global markets recorded their fourth consecutive month of gains, rising 1.4% in July. Positive US corporate earnings and improved risk sentiment supported equities, although concerns around high US debt levels and trade policy uncertainties continued to pose potential headwinds. This **strong performance sets a solid tone for the second half of the year,** with year-to-date returns in double digits. Global growth remains resilient, with the IMF raising its 2025 GDP forecast to approximately 3.0%.

Developed markets broadly mirrored this trend, advancing 1.3% for the month. **The US led with a 2.2% gain,** followed by the UK (+0.7%), while the Eurozone declined 1.5%, giving back some earlier-year strength. Trade developments included a deal between the US and the EU, setting a 15% tariff on most imported goods which comes in at half of the 30% initially threatened.

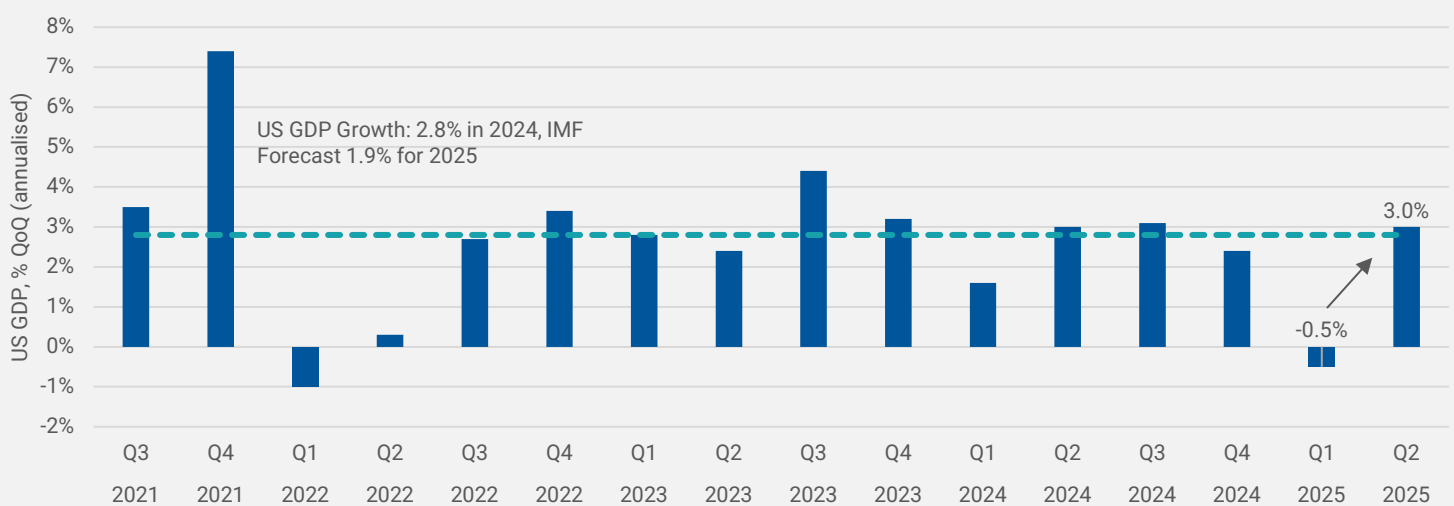
Emerging markets edged ahead of developed market peers, rising 1.9% in July. **China was the standout, surging 4.8%, supported by stimulus measures and easing US/China trade tensions.** Additionally, recent economic data reflected that China's 2Q25 GDP grew 5.2% year-on-year, slightly above expectations. However, losses in Brazil (-6.9%) and India (-5.1%) weighed on the broader index, reflecting regional divergence in performance.

At its July monetary policy meeting, the **US Federal Reserve opted to keep the interest rate at 4.25%–4.50%.** The decision was not unanimous, as Governors Michelle Bowman and Christopher Waller favoured a 25 basis point cut. Tensions between President Trump and Fed Chair Jerome Powell have intensified, with Trump calling for Powell's resignation over persistently high rates and accusing the Fed of political bias. Powell's "wait-and-see" approach and reduced expectations for rate cuts contributed to a 15 basis point rise in the US 10-year yield to 4.38% by month-end. After the ECB reduced rates in June and the BoE in May, both central banks opted to keep rates unchanged at their most recent meetings.

US Core PCE inflation, the Federal Reserve's preferred measure, **edged up to 2.8% year-on-year in June** from 2.7% in May, remaining above the Fed's 2.0% target. On a monthly basis, the index rose 0.3%, up from 0.2% in May. These developments add complexity to the Fed's policy outlook, particularly as labour market data shows signs of easing. UK inflation edged higher to 3.6% year-on-year in June, up from 3.4% in May and above expectations, while core inflation rose to 3.7% from 3.5%.

Chart 1 (below) illustrates the **rebound in US growth in Q2 2025**. The economy expanded by a strong 3.0% quarter-on-quarter (annualised), exceeding market expectations. This follows a 0.5% contraction in Q1, which was weighed down by a surge in imports as companies stocked up ahead of anticipated tariff increases. Despite the rebound, overall growth remains subdued, with the IMF projecting US GDP growth at 1.9% for 2025.

Chart 1: US Gross Domestic Product (GDP) Growth



Source/s : Bureau of Economic Analysis & Seed Investments (2025)

Asset Class Check In

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Markets Resilient Amid Trade Uncertainty

Asset Class (ZAR)	MTD	YTD	1 Year	3 Years	5 Years	10 Years
Local Equity	2.3%	19.3%	23.2%	17.0%	16.4%	10.3%
Local Property	4.8%	10.3%	24.4%	18.3%	18.5%	3.0%
Local Bonds	2.7%	9.5%	17.0%	13.5%	11.4%	9.4%
Local Cash	0.6%	4.3%	7.7%	7.6%	6.0%	6.3%
Global Equity	3.1%	6.9%	15.2%	18.4%	14.2%	14.1%
Global Property	0.5%	-0.1%	3.6%	4.0%	6.4%	7.7%
Global Bonds	0.2%	1.3%	3.8%	4.3%	-0.9%	4.7%
Global Cash	2.1%	-1.7%	4.1%	7.8%	4.3%	5.9%

Source/s : Morningstar (2025)

Local Asset Classes

Equity

Local equities maintained their forward momentum in July, with the FTSE/JSE All Share Index advancing 2.3% for the month. While Large Caps delivered a 2.3% return in July, they trailed Mid and Small Caps, which returned 3.3% and 3.1% respectively. Resources stood out with a 5.1% return in July, taking their YTD performance to approximately 47%. Conversely, Financials and Industrials posted more modest gains of 1.8% and 1.2%, respectively, trailing the broader market. **We maintain a neutral outlook on domestic equities.**

Bonds

Local bonds posted a solid 2.7% return in July. Despite this positive performance, the asset class continues to trail domestic equities by nearly 10% year-to-date and around 6% on a rolling 12-month basis. At month-end, we saw some compression in the South African 10-year government bond yield. The 10-year government bond yield closed the month at 9.7%, a notable decline considering that global 10-year yields generally moved higher over the same period. **We maintain a marginal underweight outlook on domestic bonds.**

Cash

Headline inflation in June edged up modestly to 3.0% year-on-year, compared to 2.8% in May. On a month-to-month basis, inflation increased to 0.3%, slightly higher than May's 0.2%. Core inflation softened slightly to 2.9% year-on-year in June, down from 3.0% the previous month. Cash remains attractive, offering a real yield of 4.1%. **We maintain a strong overweight outlook on domestic cash.**

Currency

The Rand ended June at R17.70/$ and depreciated to around R18.00/$ by the end of July, weakening by 2% month-on-month against a stronger US dollar. The local currency gained 0.6% month-on-month against the Euro and 1.3% month-on-month against the British Pound. The Rand continues to trade well below both purchasing power parity (PPP) and fair value estimates. **We remain neutral on currency.**

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Global Asset Classes

Equity

For the fourth consecutive month, global markets delivered positive performance, advancing 1.4% in July. Developed markets mirrored the broader global market, climbing 1.3% for the month. Emerging markets edged ahead of developed market peers, rising 1.9% in July. Globally, Information Technology led (+4.2%) but with slower momentum, followed by Energy (+2.1%) and Industrials (+1.6%). Healthcare fell 2.5%, weighing on overall performance. Large Caps outperformed in July, gaining 1.4%, followed by Small Caps at 1.1% and Mid Caps at 0.9%. **We maintain a neutral outlook on global equities.**

Property

Global listed property fell 1.2% in July, pressured by high interest rates and weak global demand. With valuations remaining unappealing, a cautious approach continues to be appropriate. **We hold a marginal underweight outlook for global property.**

Bonds

With the US Federal Reserve holding rates steady and Fed Chair Powell following a "wait-and-see" approach, reduced expectations for rate cuts pushed the US 10-year yield up 15 basis points to 4.38% by month-end. The Bloomberg Global Aggregate Index declined 1.5%. BCA remains underweight credit, noting limited value in current spreads. **We remain marginally overweight global bonds.**

Cash

US Core PCE inflation continued to tick up, increasing to 2.8% in June, from 2.7% in May remaining above the Fed's 2% target. According to BCA Research, the Fed may need to ease more than currently anticipated if inflation moderates, particularly as labour market conditions appear to be weakening. This trend was reflected in the July employment report, which came in significantly below expectations. **We maintain a marginal underweight outlook on offshore cash.**

Alternative

Other asset classes that can be considered include structured notes, private equity, direct real estate, commodities, and hedge funds and can provide investors with uncorrelated returns. These uncorrelated global assets are particularly attractive in low-interest rate environments as they offer asymmetric return profiles. Alternative asset classes can thus perform a useful role in multi asset portfolios as they help provide more consistent returns.

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