Global and local market movers

Economic roundup since the last outlook

Bumpy recovery

- 1 August 2025: President Donald Trump dismissed the Bureau of Labour Statistics head following a weak jobs report showing only 35 000 new jobs, escalating attacks on key United States (US) economic institutions.
- 17 September 2025: The US Federal Reserve cut the federal funds rate by 25 basis points to a target range of 4.00%-4.25%, marking the first rate reduction since December 2024, amid cooling job growth and persistent inflation, with projections signalling two additional cuts by year-end to support economic activity.
- 1 October 2025: The US federal government enters a partial shutdown as Congress failed to pass a funding bill by the 30 September deadline, halting non-essential services, furloughing approximately 750 000 federal workers and disrupting economic data releases, with estimated daily losses of US$400 million.

Budget wobble

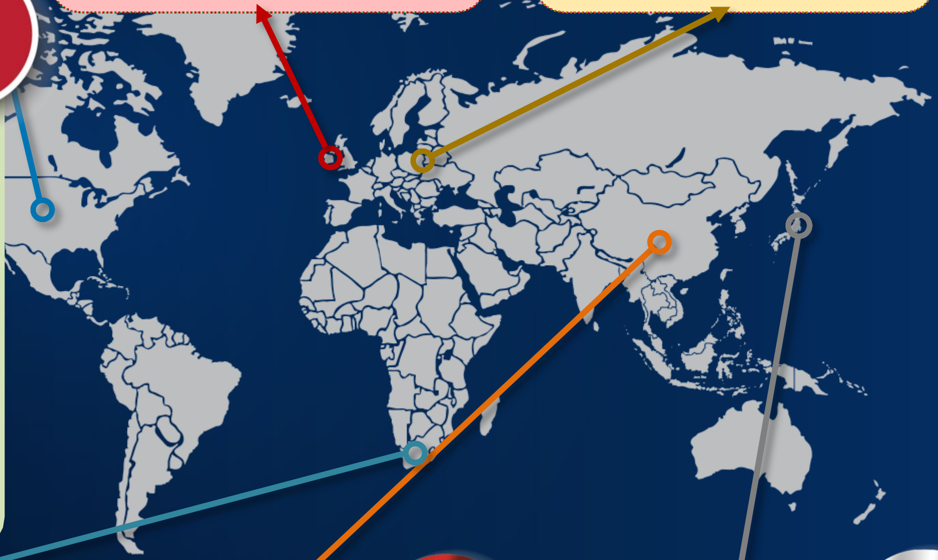
- 14 August 2025: The United Kingdom (UK) economy expanded by a better-than-expected 0.3% in the second quarter, led by services and construction. However, analysts noted a likely slowdown in momentum in the third quarter.
- Early September: United Kingdom (UK) 10-year gilt yields hit 4.8%, as markets questioned Chancellor Rachel Reeves' fiscal credibility following Prime Minister Keir Starmer's U-turn to pass welfare reforms, narrowing the margin for Britain to meet its fiscal rules.
- 18 September 2025: The UK-US Technology Prosperity Deal was signed during Trump's state visit, committing US$42 billion in joint investments for artificial intelligence, quantum computing and nuclear energy, including Microsoft's £22 billion pledge for cloud and supercomputing infrastructure to boost UK GDP by up to 10% in the next decade.

Trade frictions

- 27 July 2025: The US and the European Union (EU) struck a tariff deal that averted a transatlantic trade war between the two sides but still imposed US tariffs of 15% on most imported goods from the bloc. Higher tariffs on steel and aluminium remain in place. The EU also agreed to increase spending on US energy products and weapons.
- 9 September 2025: French President Emmanuel Macron appointed Sébastien Lecornu as Prime Minister amid an ongoing political crisis, following the collapse of the previous government over budget disputes, heightening economic risks as debt exceeds €3.3 trillion and yields on French bonds surpassed those of other Eurozone peers.
- 18 September 2025: Germany's Bundestag approved the 2025 federal budget, allocating €500 billion for infrastructure and economic revival under loosened fiscal rules, while boosting defence spending to 2.4% of GDP to get closer to NATO targets.

Tariffs' toll

- 30 July 2025: President Trump signed an executive order imposing 25% tariffs on Brazilian imports and sanctions on Supreme Court Justice Alexandre de Moraes, who oversaw the prosecution of former Brazilian President Jair Bolsonaro.
- 6 August 2025: President Trump signed an Executive Order imposing an additional 25% "secondary tariff" (on top of a 25% baseline tariff) on Indian goods as punishment for buying Russian oil.
- 8 September 2025: Indonesian President Prabowo Subianto abruptly dismissed long-serving Finance Minister Sri Mulyani Indrawati, following deadly August protests over fiscal policies, replacing her with Purbaya Yudhi Sadewa, who pledged liquidity measures to boost growth, while adhering to the 3% budget deficit rule.



Promising improvement

- 30 July 2025: In its July meeting, the South African Reserve Bank (SARB) explicitly stated its preference for inflation to settle at 3%, which is the lower end of the existing 3% to 6% target range. While this was not an official change to the target, it signalled a significant shift in the SARB's focus and future policy direction.
- 1 September 2025: President Cyril Ramaphosa established a Commission of Inquiry, led by retired Deputy Chief Justice Mbuyiseli Madlanga, which started investigating allegations of criminal syndicate infiltration into the country's justice system.
- 23 September 2025: President Ramaphosa led a delegation to the 80th session of the United Nations General Assembly, where he promoted SA's multilateralism, human rights and G20 priorities.

Deflation fight

- 30 July 2025: China's National Development and Reform Commission released draft guidelines to strengthen oversight of government-backed investments, prioritise advanced manufacturing and strategic industries to curb redundant spending, combat deflationary pressures from overlapping investments and steer capital toward innovation.
- 11 August 2025: President Trump signed an executive order extending the pause on high US tariffs on Chinese goods for another 90 days, averting their snap-back just hours before expiration.
- 3 September 2025: President Xi Jinping presided over one of China's biggest military parades, marking a significant political and diplomatic event. The parade was attended by Russian President Vladimir Putin and North Korean leader Kim Jong Un.

Electoral shock

- 20 July 2025: Japan's Liberal Democratic Party (LDP)-Komeito coalition lost its majority in the House of Councillors election, marking the first time the LDP lacked control in both houses of the Diet since 2009, amid voter concerns over inflation and stagnant wages.
- 22 July 2025: Japan finalised a bilateral trade deal with the US, capping reciprocal tariffs at 15% on Japanese exports in exchange for a US$550 billion investment package in the US.
- 24 September 2025: The Nikkei 225 and Topix indices hit fresh all-time highs, driven by corporate governance reforms, record foreign inflows exceeding ¥5 trillion, and resilient earnings growth despite political instability following Prime Minister Shigeru Ishiba's administration challenges.

momentum investments

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in the moment

Economic outlook: October 2025

Overview

The global economy looks set to avoid recession, but growth remains lacklustre by historical standards. The Organisation for Economic Co-operation and Development's (OECD) September 2025 outlook pegs G20 gross domestic product (GDP) growth at 3.2% in 2025, easing to 2.9% in 2026, with trade tensions, weak investment and structural frailties weighing on activity. Inflation is proving uneven. Protectionism is expected to push United States (US) price pressures up to 3% in 2026 as national imperatives eclipse multilateralism, while disinflation continues elsewhere, with inflation in the G20 aggregate falling from 6.2% in 2024 to an expected 2.9% by 2026. America's fiscal largesse and doubts about the Federal Reserve's (Fed) independence have lifted bond yields and dented the US dollar, though talk of a successor currency remains premature even as gold climbs to a quarter of central bank reserves. South Africa's (SA) economy is forecast to expand by a modest 1% in 2025 and 1.4% in 2026, buoyed by consumption but hampered by weak investment, fiscal strain and political fragility in the Government of National Unity (GNU). Softer inflation, however, should give the SA Reserve Bank (SARB) scope to cut interest rates further in 2026.

Global impact

Rising protectionism is redrawing trade rules. America's tariffs strain transatlantic ties, prompting Europe to boost defence spending and diversify supply. China is pushing technological and financial self-reliance, sharpening its rivalry with Washington through rare-earth deals and state liquidity. Supply chains are continuing to fragment, forcing firms to rethink sourcing and pricing. Global growth looks steady but subdued, with risks tilting down. Fiscal strains, energy shocks or an abrupt repricing in markets could sap economic momentum. For now, inflation is diverging. Tariffs are keeping US prices firm, while disinflation persists elsewhere.

Local impact

SA is juggling strained ties with America, where a 30% tariff regime spares just over a third of exports, while deepening links with Europe, China and African partners. This hedged, non-aligned strategy offsets some trade losses but leaves the economy exposed to weak global demand. Domestic reforms under Operation Vulindlela, from energy to logistics, offer scope to lift growth above 2% in the medium term, though the current economic expansion remains pedestrian. The GNU's stability is fragile and populist rifts could stall investment. Softer inflation could nonetheless create room to lower interest rates further.

Consumer impact

Until now, US shoppers have been shielded from steep tariff costs by pre-orders, though the eventual pass-through, coupled with Washington's fiscal splurge threatens to squeeze poorer households. European consumers are showing surprising optimism, but supply-chain snarls could dampen spending. In China, government stimulus and import substitution cushion households from tariff-driven price rises, even as the property downturn lingers. SA consumers, meanwhile, are enjoying a lift from firmer real wages and lighter debt burdens, after earlier monetary easing.

Business impact

Firms face an ever more fragmented trade landscape, with tariffs and shifting alliances named by 60% of executives in McKinsey's September 2025 survey as the biggest threat to growth. US firms are grappling with higher input costs and uneven gains from reshoring. European exporters are meanwhile diversifying and focusing on internal investment. Chinese companies are leaning on domestic stimulus and global South partnerships to offset trade headwinds, while SA exporters, squeezed by US tariffs and weak logistics impacting competitiveness, are tilting toward African trade and BRICS pacts.

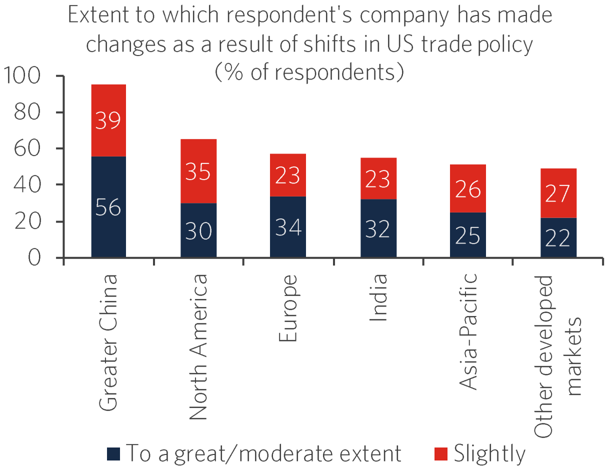
Resilience against policy unpredictability

Even as some uncertainty over US policy eased, its shadow still loomed large over the global economy. Tariffs and shifting trade rules have increasingly become a force shaping growth and inflation.

In the September 2025 McKinsey Global Survey, six in ten executives named changes in trade policy as the biggest threat to global, national and corporate performance. Nearly two-thirds had already adjusted operations, tweaking supply chains, revising prices and running scenario plans (see chart 1), but only a third felt confident they could manage the fallout.

A few glimpsed opportunities in the upheaval, though most remained cautious. Geopolitical instability was the next most-cited risk, highlighting how deeply trade and security concerns are now intertwined.

Chart 1: Firms are reacting to shifts in US trade policy



Source: McKinsey & Company

Although fixed investment did not crater, policy uncertainty restrained capital expenditure plans, keeping output and employment short of their potential. Yet national accounts data for the first half of the year offered reason for guarded optimism. Firms had front-loaded imports to beat punitive tariffs, cushioning supply chains, while heavy investment in artificial intelligence in the US further bolstered growth.

In China, an accelerated push into infrastructure, funded by special-purpose bonds, helped offset trade shocks and persistent property market weakness. In Europe, consumer confidence inched up despite geopolitical tensions, though supply-chain bottlenecks still bit. Firms in developing markets proved nimblest, according to the McKinsey survey, adjusting sourcing and pricing to navigate a volatile landscape.

The survey noted that sentiment nevertheless remained cautious. Executives in Europe and North America were particularly downbeat, more likely to foresee deteriorating conditions than improvement. In Asia and Latin America, confidence was slightly higher, buoyed by robust domestic demand and supportive policy, though worries about external shocks lingered.

Globally, for the first time since May 2020, more respondents expected conditions to worsen than to improve.

> This serves as a sober reminder that even as the world avoids recession, uncertainty continues to guide corporate decisions and shape the economic horizon.

Despite this caution, the OECD's September 2025 Economic Interim Report painted a slightly brighter picture, upgrading US growth projections from 1.6% to 1.8% and the Euro area from 1.0% to 1.2%, though both remained below the growth rates experienced in 2024.

Even in emerging market economies, activity generally outperformed initial expectations at the start of the year, supported by resilient domestic demand and front-loaded industrial activity.

Global disinflation is likely to continue despite the hiccup of tariffs. The OECD expects headline inflation in the G20 economies to fall from 6.2% in 2024 to 3.4% in 2025 and further to 2.9% in 2026, while measures of underlying or core inflation are expected to remain broadly stable. Inflation in the US, however, is diverging from global trends. Tariff increases are feeding through more noticeably, gradually lifting consumer prices, even as pass-through remains slower than anticipated elsewhere, leaving central banks to navigate the trade-off between growth and inflation.

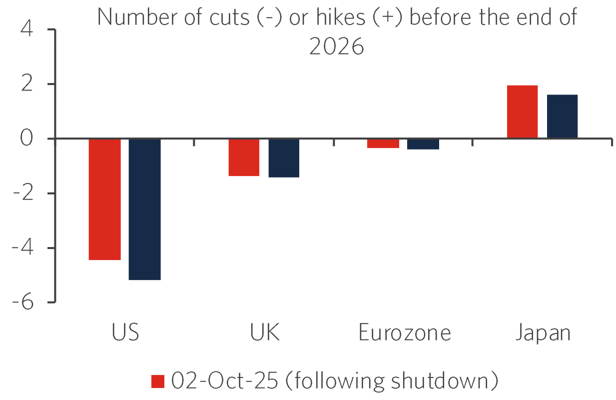
Monetary authorities have responded. The Fed cut policy rates by 25 basis points in September 2025, for the first time since December 2024, to a range between 4.00% and 4.25%, in response to a slowing pace in job gains and a slightly higher unemployment rate.

> Futures markets are pricing in additional monetary policy easing of around four cuts in the US by the end of 2026, though fiscal expansion, tariffs and looming politically-charged changes to the Federal Open Market Committee are introducing uncertainty over the pace and extent of interest rate cuts (see chart 2).

Other major developed market central banks maintained broadly neutral policy, but the mix of fiscal and trade shocks has complicated forward guidance.

The European Central Bank paused its rate-cutting cycle, following a cut in the main refinancing operations rate to 2.15%, on economic resilience and uncertainty surrounding trade policies, while a recent increase in inflation close to 4% in the United Kingdom (UK) saw the Bank of England resisting an interest rate cut in September, after cutting the benchmark interest rate to 4% in August 2025.

Chart 2: Pace of US interest rate cuts expected to pick up in the next year



Source: Bloomberg, Momentum Investments
Data based on futures markets or overnight indexed swap (OIS) rates

Risks to the global economy persist. Renewed tariff hikes, negative inflationary surprises, fiscal strains, or financial-market repricing could reduce growth relative to the baseline notes the OECD, while trade liberalisation or the faster adoption of artificial intelligence could bolster it.

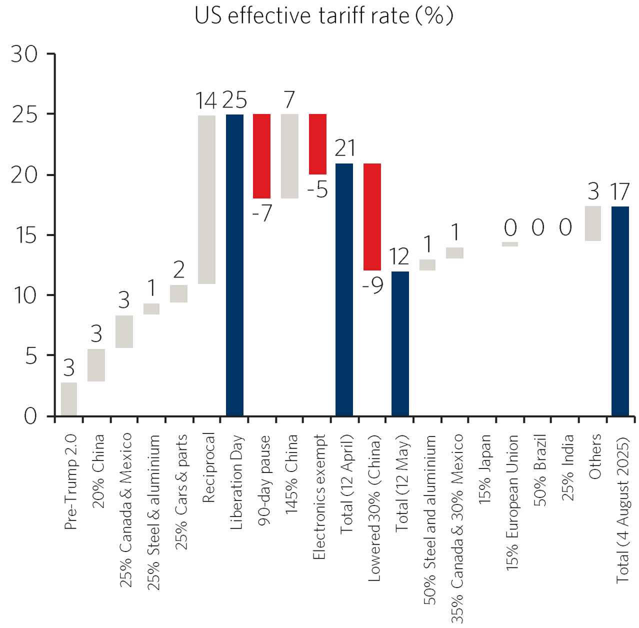
Trade recalibration around new centres of gravity

By late September 2025, the US's effective tariff rate had stabilised at a trade-weighted average of 16.9%, down slightly from 17.1% at the end of August (see chart 3), according to Standard & Poor's Global Ratings.

Though modestly lower, it remained well above pre-2025 levels, reflecting the ongoing implementation of President Trump's reciprocal tariff regime. Adding to the uncertainty, the US Supreme Court agreed on 9 September to review a lower federal appeals court ruling that challenged the use of the International Emergency Economic Powers Act (IEEPA) to impose sweeping tariffs. The law was argued not to grant the president 'unbounded authority' to levy duties; a power constitutionally reserved for Congress. Pending oral arguments in early November and a decision potentially by the end of this year, the ruling could reshape the legal foundations of Washington's trade agenda.

The recent moderation from peak Liberation Day tariffs reflected partial offsets from negotiated exemptions and delayed escalatory measures. The China tariff truce, extended to 10 November on 12 August, temporarily capped additional duties on selected imports.

Chart 3: Effective tariff rates in the US off their Liberation Day highs but still elevated



Source: Schroders, Momentum Investments

Meanwhile, the US-European Union (EU) Framework Agreement on Reciprocal Trade, effective from 25 September, harmonised duties on certain European products while maintaining base tariffs on others. Yet the overall rate continued to lift import costs, with sector-specific spikes in autos, steel and electronics. The consequent pass-through to American consumers is expected to add an estimated US$1 300 to average taxes per household in 2025, rising to US$1 600 in 2026 according to the Tax Foundation. This would nevertheless fall to US$300 in 2025 and US$400 in 2026 if the IEEPA tariffs are permanently enjoined.

Beyond the US, global trade dynamics were increasingly shaped by strategic realignments and these shifts may have led to some reprieve in the Global Trade Policy Uncertainty Index (see chart 4). In Europe, the EU advanced talks with India, proposing a framework for a free trade agreement covering clean energy, digital services and critical minerals. New Delhi could emerge as a counterweight to Russian influence, with potential bilateral trade of €100 billion by 2030, though formal signing remains pending over agricultural concessions.

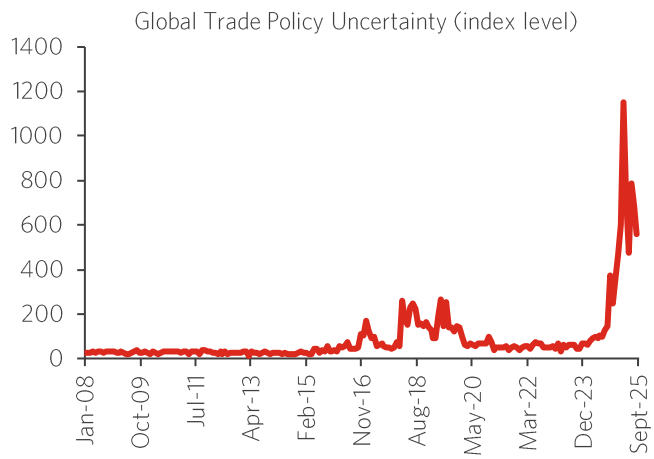
In Asia, China and India signalled a thaw in relations, resuming direct flights and border disengagement talks, with leaders emphasising partnership in development over rivalry. The moves followed the US imposing a 50% tariff on Indian exports, highlighting both nations' desire to hedge against external pressures.

> In the BRICS bloc, intra-member initiatives gained momentum without US involvement.

Brazil and SA agreed to harmonise green hydrogen standards and boost intra-BRICS trade to 25% of total by 2027. India and Russia struck a deal for discounted oil imports settled in rupees and roubles, diverting roughly a quarter of flows from dollar-denominated markets.

Africa's pivot to Asia accelerated with China's Forum on China-Africa Cooperation (FOCAC) committing to US$60 billion in concessional loans for rail and port upgrades across 20 nations, while India's agreement with Kenya expanded duty-free access for textiles and pharmaceuticals.

Chart 4: Trade policy uncertainty has come off the boil



Source: policyuncertainty.com, Momentum Investments

Eroding anchors in the free world

The US, long the architect of the post-World War II global order, is undergoing transformations that are reshaping its international posture and economic dominance.

In 2025, the Trump administration's 'America First' redux accelerated a retreat from geopolitical leadership. Swift commitments to end conflicts in Ukraine and the Middle East signal a diminished role in multilateral security arrangements, while threats to withdraw from United Nations agencies and reconsider alliances have strained transatlantic ties.

> Nonetheless, rivals, most notably China, are expanding their influence in the Global South, promoting non-interference policies while strengthening economic and strategic ties.

Domestically, the US's moral authority has frayed. Aggressive territorial rhetoric, such as overtures to seize the Panama Canal or Greenland, contravenes international law, while mass deportations and visa restrictions for foreign students have drawn accusations of hypocrisy in human rights advocacy.

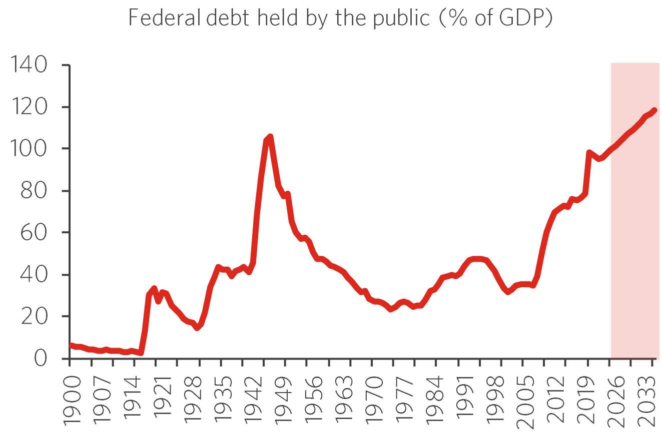
These shifts coincide with fiscal experiments prioritising short-term stimulus over sustainability. The One Big Beautiful Bill Act (OBBBA), signed in July, injects US$1.5 trillion in tax breaks and infrastructure spending, pushing the budget deficit to 6.8% of GDP and public debt toward 122% by 2035, according to the Congressional Budget Office (CBO) (see chart 5).

A US government shutdown, triggered by partisan gridlock, with Democrats demanding reversals of OBBBA's Medicaid cuts and extensions of Affordable Care Act premium subsidies set to expire at the end of the year, introduces a new wave of fiscal uncertainties and could put further upward pressure on US government bond yields.

Monetary policy is also under pressure. Attempts to remove Fed Governor Lisa Cook without cause, now before the Supreme Court, risk politicising interest rates.

Former Fed chairs warn that lowering interest rates to finance the fiscal deficit could fuel inflation and destabilise markets.

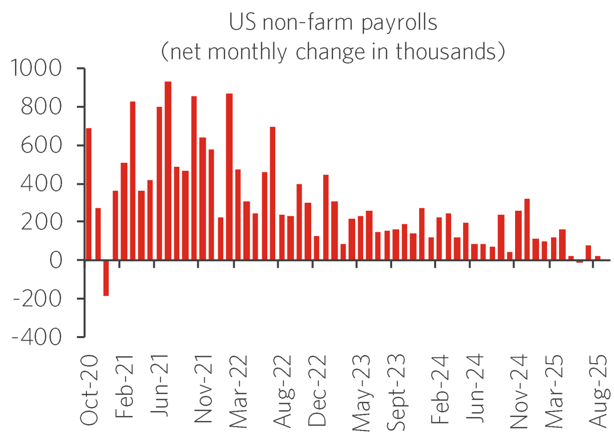
Chart 5: Rising scrutiny over US debt sustainability



Source: CBO, Momentum Investments
Shaded area = forecasts

Labour market data, once a beacon of resilience, are now showing cracks. The Bureau of Labour Statistics' (BLS) March 2025 revision slashed nonfarm payrolls by 911 000, the largest since 2009, and August added just 22 000 jobs amid stagnant growth, eroding confidence in official statistics.

Chart 6: Slowing US jobs growth

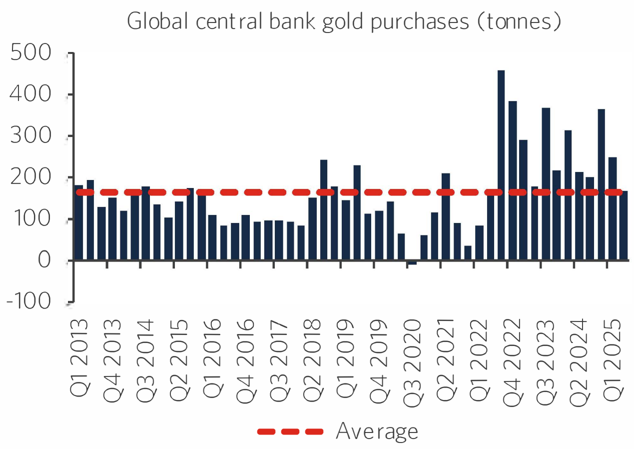


Source: Bloomberg, Momentum Investments

Compounding these issues, markets are voicing growing concern over President Trump's abrupt firing of BLS Commissioner Erika McEntarfer in August and his subsequent nomination of E.J. Antoni, with no prior experience in statistical agencies, to replace her.

The US dollar, long the world's anchor currency, is under strain. Fiscal profligacy and policy volatility weaken its long-term position, even as tariffs temporarily bolster it through import compression. Gradual de-dollarisation trends continue with BRICS nations, led by China, pushing local-currency settlements and gold accumulation.

Chart 7: Continued central bank support for gold



Source: Bloomberg, Momentum Investments
Data up to Q2 2025

Central banks bought 166 tonnes of gold in the second quarter of 2025 alone (see chart 7). Gold's share of official reserves rose to 23% in early 2025, more than doubling since 2015, even as the US dollar's share of foreign exchange reserves dipped below 58%.

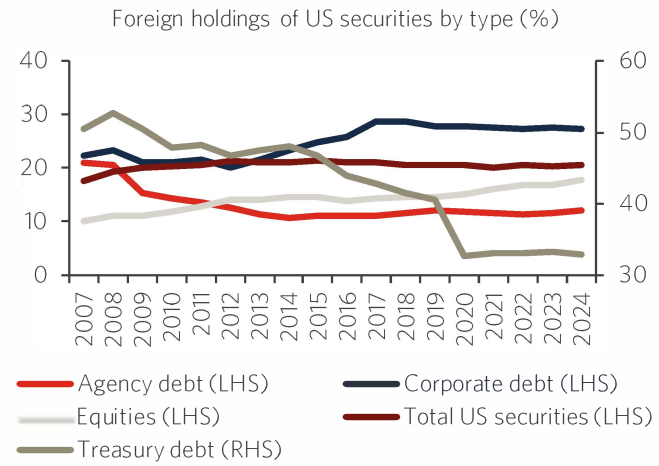
That said, a broad-based selling across US assets is not evident. Foreign holdings of US Treasury securities have declined from 50% in 2007 to 33% in 2024, but total US securities held abroad (including agency debt, corporate debt, and equities) have inched up from 18% to 21% (see chart 8).

> Yet despite these strains, the dollar's dominance endures. Its liquidity, deep financial markets and global acceptance remain unmatched. And alternative currencies face limits.

The euro suffers from political fragmentation, the pound from the UK's smaller economy, the renminbi from capital controls, and the yen and Swiss franc from insufficient transaction volume. Gold, while a rising store of value, lacks the flexibility of a currency.

According to the Fed, in 2025, the US dollar still accounted for 47% of international payments, 61% of foreign-currency debt issuance, and 88% of over-the-counter foreign exchange transactions, leaving its reserve status largely unchallenged.

Chart 8: Foreigners still have appetite for US assets



Source: New York Fed, Momentum Investments
LHS= left-hand side, RHS=right-hand side

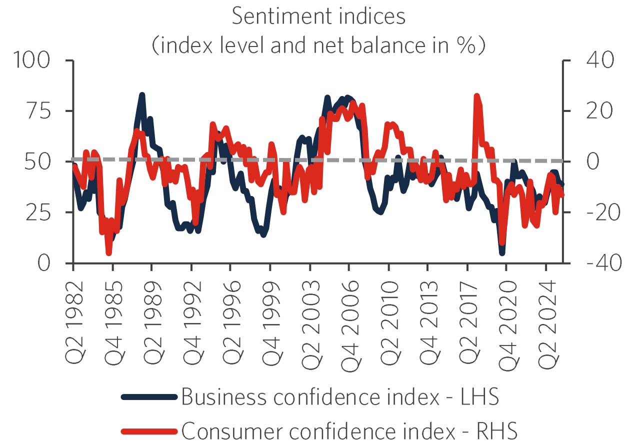
SA navigating the crosscurrents of a shifting world order

SA's economy is being reshaped by the crosscurrents of a turbulent global order. Protectionist walls are rising, trade patterns are fragmenting and export resilience is being tested. Against this backdrop, Reuters' September 2025 Econometer poll sees economic growth for SA at just 1% for 2025, edging up to 1.4% for 2026 and 1.8% for 2027, which is broadly aligned with our own projections. Consumption is expected to underpin activity in the near term, with fixed investment providing more traction in later years.

Domestic politics have so far offered cautious stability. The GNU has acted as a buffer against the country's fractious party landscape, even as external shocks demand policy agility. SA has increasingly turned to Asian and intra-African trade corridors to counter the volatility of transatlantic ties, seeking both insulation and inclusive growth.

At home, however, structural bottlenecks persist. Growth surprised on the upside in the second quarter, but the underlying trajectory remains subdued. Enduring inefficiencies in logistics and energy continue to choke potential, while sliding business and consumer sentiment weigh on economic activity (see chart 9).

Chart 9: SA sentiment remains downbeat



Source: FNB, RMB, Bureau for Economic Research, Momentum Investments
Data up to Q2 2025, dotted line = neutral

Washington's turn to protectionism has sharpened these headwinds. Since 7 August, SA exports to the US have faced a 30% reciprocal tariff, up from the blanket 10% levy on global imports imposed in April under President Trump's trade recalibration.

The duties, among the steepest faced by any Sub-Saharan African economy, strike at key sectors such as automotive parts, textiles and agriculture. Even so, around 35% of exports have escaped the tariff wall, largely raw minerals vital to US industry, including platinum group metals, titanium, ferroalloys, gold, copper, zinc, manganese and nickel. These carve-outs should soften what could otherwise have been a larger than 0.2-percentage point drag on GDP growth.

Diplomatic work is underway to repair ties. After months of back-and-forth, Pretoria and Washington agreed on a 'roadmap' to update their long-standing Trade and Investment Framework Agreement (TIFA). On 1 October, Trade Minister Parks Tau confirmed that negotiations were close to conclusion, with only a handful of African Growth and Opportunity Act (AGOA)-related issues outstanding after talks in Washington. SA's revised offer, approved by Cabinet in August, addresses US concerns over deficits, tariffs and digital trade, while also tightening sanitary and phytosanitary protocols for agriculture.

The proposed framework has weighty commitments on both sides. Pretoria would import between 750 and 1 000 petajoules of US liquefied natural gas over ten years, worth an estimated US$9 billion and US$12 billion. Tariff-rate quotas for American poultry would be streamlined, adding some US$91 million in annual trade. SA, in turn, pledged $3.3 billion of investments into US sectors such as mining and metals recycling, while both governments agreed to pursue joint investment in critical minerals, pharmaceuticals, and agri-machinery.

Optimism prevails that a deal can be struck, helped by SA's relatively non-threatening export profile. Yet diversification remains the watchword.

> While talks with Washington inch forward, Pretoria is deepening ties with Asian and Middle Eastern partners as a hedge against future turbulence.

While building on pre-existing relationships could accelerate some gains, comprehensive new agreements, including tariff reductions and supply chain shifts, typically require lengthy negotiations, domestic approvals, and phased implementation.

SA metros remain the battlegrounds

While tariffs expose SA's external vulnerabilities, politics lays bare its domestic ones. The formation of the GNU in June 2024 was meant to steady the country's hand. It briefly lifted spirits, but optimism has since faded.

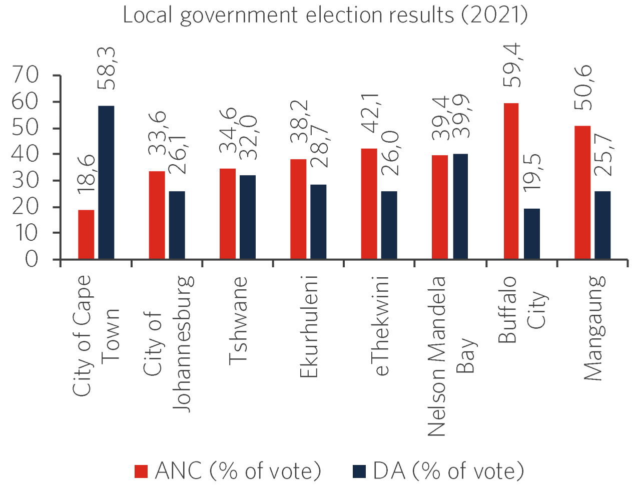
> Recent surveys show the ruling African National Congress (ANC) struggling to retain support, highlighting the risk of losing key metros where support already dropped in the local government elections in 2021.

The erosion is most visible in the country's metros, where water shortages, power cuts and billing disputes have left residents fuming. Johannesburg, Tshwane and Ekurhuleni, Gauteng's economic hubs, are the epicentres of discontent.

A growing majority of urban voters believe the country is heading in the wrong direction. That sentiment has strengthened through 2025: Ipsos now finds that four-fifths of South Africans are pessimistic about the national trajectory, compared with nearly two-thirds who expressed optimism in the months after the GNU's formation.

Coalition politics has compounded the frustration. Power-sharing arrangements in the metros have struggled to withstand corruption scandals and infrastructure crises, leaving service delivery patchy and residents disillusioned.

Chart 10: ANC support at risk in key metros



Source: Independent Electoral Commission, Momentum Investments

The next electoral test will be the local-government vote, scheduled between November 2026 and January 2027. For the GNU, this will be a referendum on its ability to govern effectively. For the ANC, it may prove existential. The 2021 local elections marked the first time it fell below 50% nationally, losing outright control of all three Gauteng metros (see chart 10). A repeat of that pattern could further cement its urban decline.

Local reforms for renewal

Though tariff battles and political compromises shape the short-term pedestrian growth narrative, structural reform is likely to positively shape SA's longer-term fortunes. Progress, though uneven, is gathering momentum across key bottlenecks in energy, water, logistics and labour mobility; areas that have long throttled growth.

In energy, a pre-qualification tender for Independent Transmission Projects was launched on 31 July, opening the grid to private investment. A recent Eskom

Generation Connection Capacity Assessment (GCCA) for 2025 indicated that five provinces have effectively run out of grid capacity. As such, strengthening transmission is vital to unlocking SA's abundant wind and solar potential and preventing bottlenecks from capping economic output.

Water policy is also rolling forward. In August, the Water Services and National Water Amendment Bills were submitted to Parliament, separating Water Service Authorities from Providers to sharpen accountability. SA municipalities are also implementing reforms to ringfence water revenues, ensuring funds from water sales are dedicated to maintaining and upgrading water infrastructure. This aims to address chronic underinvestment and service delivery failures, particularly in metros like Johannesburg and Tshwane, where water losses and billing issues have eroded financial sustainability.

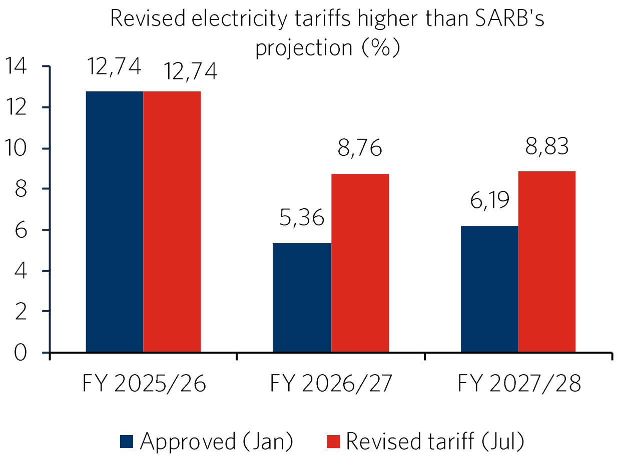
Logistics reforms, another chronic drag, advanced in August when 11 private freight operators were granted access to 41 rail routes. If fully rolled out and if the operators fulfil the required conditionalities, including ensuring that rolling stock is ready, the scheme could add 20 million tonnes of freight capacity annually from 2026/27. Implementation, however, will depend heavily on overdue infrastructure upgrades.

Visa reforms, too, are receiving attention. The visa regime has been modernised with an upgraded digital verification system, the launch of a Trusted Tour Operator scheme, and the rollout of an electronic travel authorisation.

A breather on the local inflation front

Reforms are laying the groundwork for stronger medium-term growth, but in the nearer term inflation is offering SA some reprieve. Headline inflation has drifted close to 3%, the lower bound of the SARB's current target range and its new implicit (but unofficial) target.

Chart 11: Higher electricity tariffs on the horizon



Source: Daily Maverick, SARB, Momentum Investments

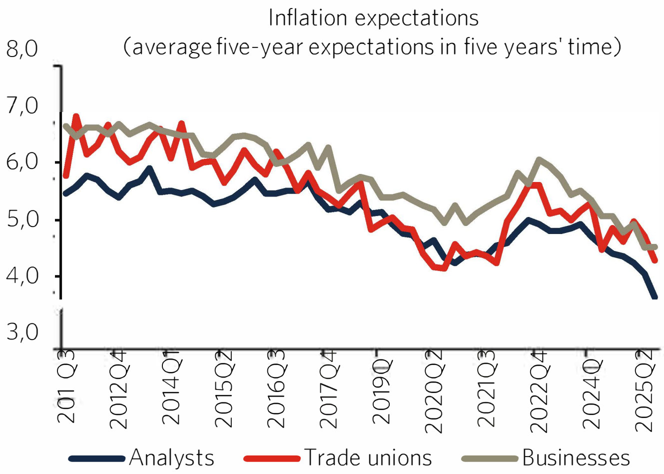
Despite rand firmness, subdued rental inflation, capped oil prices due to a global supply glut and moderate food inflation, sticky medical aid premiums and higher-than-anticipated electricity tariffs (owing to a R54 billion calculation error in the National Energy Regulator SA's (Nersa) January 2025 multi-year price determination (MYPD6) for Eskom's revenue requirements) continue to pose upside risks (see chart 11).

Nevertheless, surveyed inflation expectations have reassuringly adjusted lower (see chart 12), with the SARB citing that respondents' expectations on inflation have become more forward looking in nature.

The debate is no longer just about timing, but about the target itself. The SARB argues that the existing inflation band is too wide and pitched too high for an economy where inflation has been subdued for much of the past decade.

> A formal shift toward a 3% anchor would align policy more closely with peers and lock in recent disinflation gains.

Chart 12: Inflation expectations are heading lower



Source: Bureau for Market Research, Momentum Investments
Data up to Q3 2025

The central bank's modelling suggests such a move could allow rates to fall to around 6% in the medium term, easing the cost of capital while keeping real borrowing costs in check.

Markets have welcomed the prospect. The rand has firmed, long-term yields have edged lower and investor sentiment has brightened, suggesting credibility is intact.

The trade-off, as the SARB acknowledges, is a slightly tighter real stance in the near term. But if expectations are durably re-anchored, the payoff would be a lower inflation environment that supports investment and growth; complementing the structural reforms now inching forward.