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investments

From January's forecasts to mid-year truths

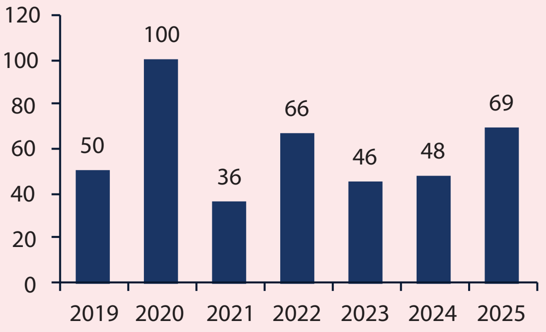
How are 2025's economic bets playing out?

Economies at a glance

Growth trails earlier promises

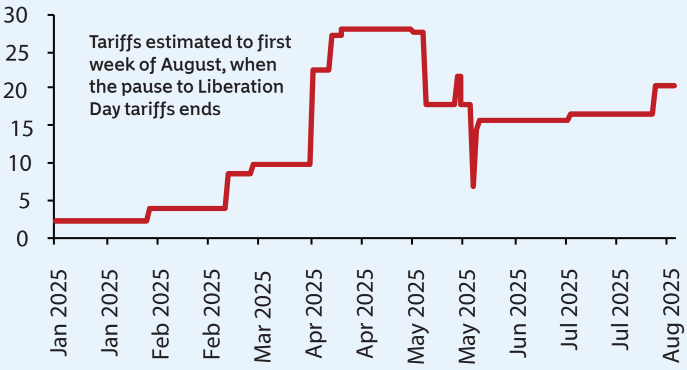
- Though **not** predicting a recession, the World Bank estimates global growth will fall to its **slowest pace in 17 years, outside of recessions**, at a forecasted 2.3% from its earlier January 2025 estimate of 2.7%.
- **It downgraded growth for 69% of the economies** it covers since January 2025 forecasts, and expects growth to be slower this year, relative to last year, for 56% of the economies it covers.
- Domestic policies, commodity prices, **geopolitical tensions** and **escalating trade disputes** have been key determinants behind these forecast changes.

Growth estimates downgraded in 69% of economies



Tariff barriers slow the drop in global inflation

At c.20%, average effective tariffs are the highest since 1910



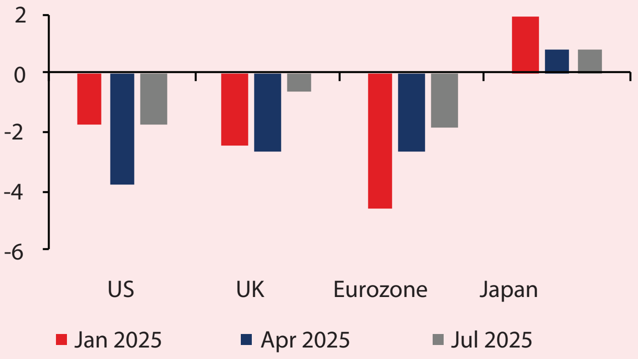
- The World Bank forecasts global inflation at 2.9% in 2025, down from 3.3% in 2024 but above pre-COVID levels (around 2.5%). This reflects a **slower disinflation pace** compared to the sharp decline from 6.8% in 2023, signalling a **plateau in price cooling.**
- **Tariff-induced** pressures and **tight labour** markets are slowing overall disinflation.
- While the United States (US) is facing a rise in price pressures, lower domestic demand and a stronger euro relative to the US dollar have **moderated the inflationary impact on the Eurozone**. A weaker US dollar has further **reduced the cost of dollar-denominated imports for emerging markets.**

Markets rethink the extent of interest rate cuts on central bank caution

- Higher interest rates exacerbate debt vulnerabilities, particularly in developed and emerging markets where **government's interest bill** exceeds government expenditure in other socio-economic areas.
- **Central bank caution prevails** as inflation control is balanced against growth risks.
- Fears of **tariff-induced price hikes** and sticky wage growth have led to fewer interest cuts than financial markets expected earlier in the year.
- Lower core inflation and weaker demand left the European Central Bank with more flexibility to cut.
- Emerging market central banks have some room to ease interest rates further due to a **weaker dollar lowering import costs.**
- Central banks face **pressure to maintain independence amid political and trade uncertainties.**

Fewer interest rate cuts priced in than after Liberation Day

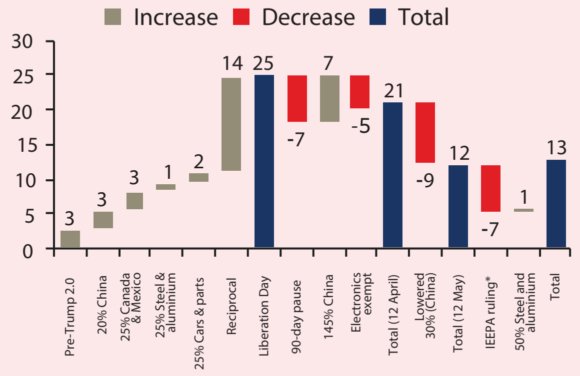
Number of cuts (-) or hikes (+) based on futures and OIS spreads



Trade policy uncertainty sends shockwaves through markets

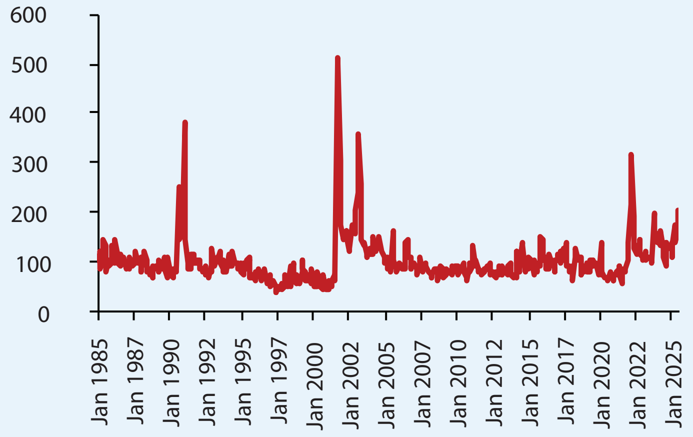
- Markets anticipated that tariffs would focus on adversaries like China, but **few exemptions** were made for countries with which the US had diplomatic ties.
- The broad application of **auto and steel tariffs** to Canada and Mexico shocked markets expecting US-Mexico-Canada Agreement exemptions.
- Markets had expected a more gradual lift in tariffs and were caught off guard. Markets were similarly surprised that implemented tariffs did not result in a large, immediate inflation spike given **high inventory levels** and the fact that **retailers absorbed costs to clear inventory.**

Whipsawing US effective tariff rate (%)



Geopolitical stalemates, stability and shifts

The geopolitical risk index rose into June 2025

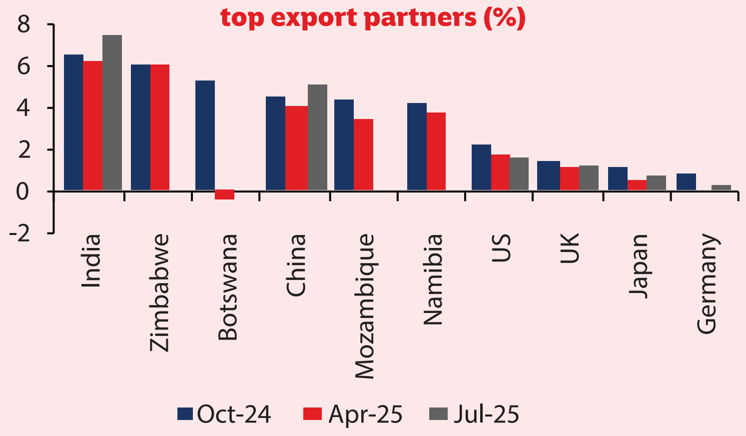


- Markets anticipated that **Russia and Ukraine** would close in on a peace deal this year. However, Russia insists on Ukraine ceding Luhansk, Donetsk, Zaporizhzhia and Kherson, and on Ukraine abandoning NATO aspirations, while Ukraine continues to push for a full withdrawal and security guarantees.
- Markets **braced for a spike in international oil** prices after Israel's June 2025 attacks on Iran's nuclear facilities but global inventory buffers stabilised prices.
- **Populism gained ground** in the 2025 elections, year to date, driven by anti-establishment sentiment. Germany's far-right AfD took second place, France's National Rally grew, and Hungary/Slovakia saw pro-Russian populist wins, surprising markets expecting centrist resilience.
- The United Kingdom and Japan nevertheless **bucked the trend**, with centrist and establishment parties holding firm.

South African (SA) growth hits unexpected snags

- **Growth expectations** surveyed in the Reuters Econometer poll **dropped back** from an anticipated 1.7% for 2025 and 1.9% for 2026, in January 2025, to 1% for 2025 and 1.6% for 2026, in June 2025.
- Growth disappointments in nine out of ten of SA's **key trading partners** are expected to drag GDP lower this year, through reduced export demand.
- A **quieter political risk calendar** this year, following the national elections in 2025, suggested some stability in SA's Government of National Unity (GNU). Moreover, **reduced load shedding** prepared markets for a recovery in fixed investment. Nevertheless, growth in this category has once again stalled in reaction to **renewed political and policy uncertainty.**

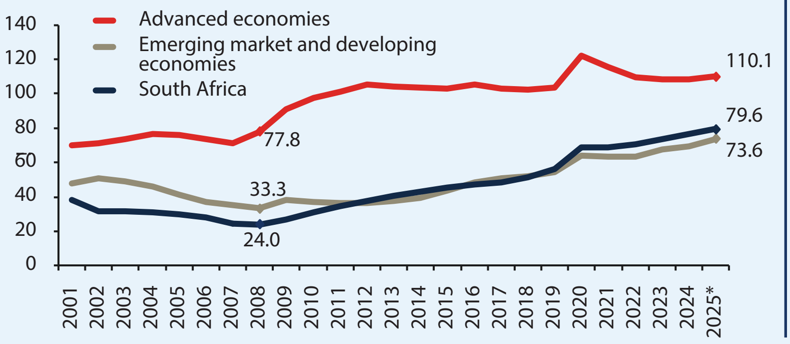
Growth downgraded in most of SA's top export partners (%)



SA's fiscal fiasco and triple tablings stun investors

Sharp rise in SA's debt ratio since the global financial crisis

Gross debt to GDP

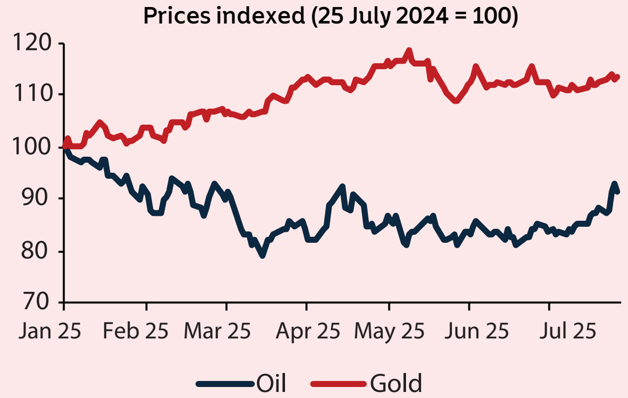


- Markets expected a smooth budget process following the formation of the GNU in June 2024 and anticipated relative fiscal stability. **The triple national budget tablings**, driven by clashes between the ANC and DA and public protests, raised governance concerns and **delayed fiscal clarity**.
- The initial budget proposed a two-percentage point value-added tax (VAT) increase to raise R60 billion for additional government frontline workers, a wage bill overrun and above-inflation increases in social grants, but it was postponed after opposition from the DA, labour union COSATU and civil society. A revised budget was rejected due to additional disputes, marking a **historic delay in fiscal planning**.

Unexpected resilience in the SA rand

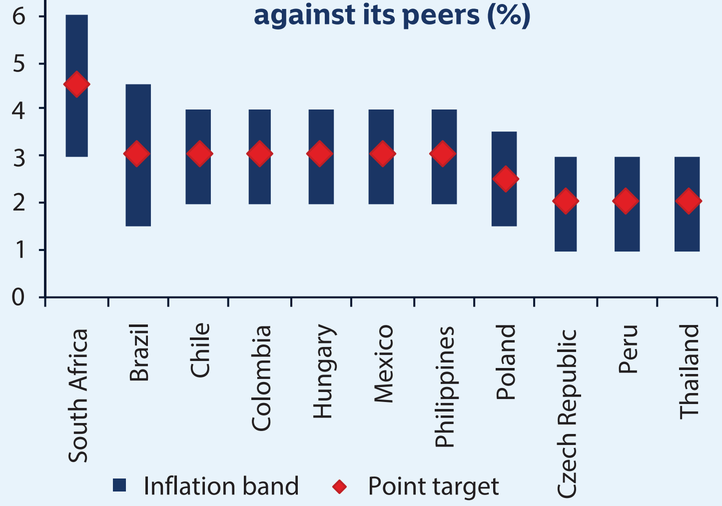
- Despite **global economic uncertainties** and **negative local political developments**, the rand has avoided depreciating to the SA Reserve Bank's worst-case trade scenario, which factored in a temporary sell-off in the rand to R21/US dollar.
- An **11% depreciation in the US dollar**, year to date, driven by policy uncertainty in the US and tariff shifts, buoyed emerging market currencies, including the rand.
- As a major gold exporter and a net importer of oil, SA's terms-of-trade have benefited, **keeping the rand in check**. The international price of gold has benefited from the shift away from the US dollar and continued purchases by **central banks**, given its diversification benefits and hedging properties against inflation and geopolitical risks.

Terms-of-trade benefit from higher gold and lower oil prices



SA's inflation drop sparks heated push for a lower target

SA's inflation target is an outlier against its peers (%)



- Markets underestimated the extent of **continued downside surprises** in local inflation given lower fuel costs (higher oil inventories), ongoing weakness in rental inflation (subdued demand for housing), contained food prices, lower administrative costs and a well-behaved currency.
- The SA Reserve Bank has **strongly advocated for a lower inflation target** (3%), to more closely align with our peers. This would better anchor expectations, leading to an improvement in purchasing power, higher investment and a lower interest burden for government.
- While National Treasury has noted they are working on establishing "an appropriate inflation framework", they have not openly endorsed a 3% target, with the **timeline remaining uncertain**. A longer timeframe for implementation could disappoint fixed income markets.

SA's internal political discord amid Trump's trade snub

- Despite a lull in the political calendar, **political noise has remained high**. The DA withdrew from the National Dialogue in June 2025, escalating GNU tensions after President Cyril Ramaphosa fired DA Deputy Trade Minister Andrew Whitfield. The National Dialogue, aimed at fostering unity on economic and social issues, was seen by the DA as an ANC-driven initiative lacking inclusivity. The **DA's move has deepened perceptions of a fractured GNU**, especially amid budget disputes.
- In May 2025, US President Donald Trump ambushed Ramaphosa with a video falsely claiming "white genocide". Trade proposals put forward by the SA administration have not yet been addressed by the US, **risking a 30% tariff on SA's exported goods to the US**. Financial markets are unlikely prepared for a scenario of 30% tariff permanence.

Rise in view that the political climate is a constraint to manufacturing investment (%)

Sources: World Bank Global Economic Prospects Report June 2025, Budget Lab at Yale, Bloomberg, Schroders July 2025, Reuters, National Treasury, Daily Maverick, Prescient, Bureau for Economic Research and Momentum Investments

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July 2025

UNITED STATES

Public criticism from President Donald Trump reignited concerns over the Federal Reserve's (Fed) independence. Trump's comments, including that Chair Jerome Powell's "termination cannot come fast enough," and his call for steep rate cuts of up to three percentage points, raised fears of political interference in monetary policy. Treasury Secretary Scott Bessent confirmed that the process to choose Powell's successor—whose term ends in May 2026—is already underway, fuelling speculation about a more compliant appointee. In a joint op-ed, former Fed Chairs Ben Bernanke and Janet Yellen warned that such political pressure risks "lasting and serious economic harm" by undermining the Fed's credibility and ability to maintain price stability. They stressed that the Fed's autonomy, anchored by its institutional structure and long-term appointments, is vital to effective policymaking. Market concerns rose on the prospect of higher long-term inflation expectations and currency volatility.

Forecast 2025:
GDP: 1.6%
Core PCE Inflation: 3.0%
Forecast 2026:
GDP: 1.7%
Core PCE Inflation: 2.7%

EUROZONE

The European Union (EU) and the United States (US) reached a high-stakes trade compromise in July, easing tensions that had threatened a more disruptive escalation. The US will apply a 15% tariff on 70% of EU exports, valued at €780 billion, including key sectors like autos, semiconductors and pharmaceuticals. Though higher than previous rates, this is below the 30% initially floated by Trump. In return, the EU avoided direct retaliation but both sides agreed to eliminate tariffs on €70 billion worth of goods, including aircraft parts and critical raw materials. The EU pledged to buy US$750 billion in US energy, invest US$600 billion in the US economy, and open more of its agricultural market. US steel and aluminium tariffs will remain at 50%. While the deal prevented a deeper rift, reactions in Europe were mixed. European Commission President Ursula von der Leyen said the agreement should hold for the remainder of Trump's presidency.

Forecast 2025:
GDP: 1.0%
HICP Inflation: 2.1%
Forecast 2026:
GDP: 1.0%
HICP Inflation: 1.7%

UNITED KINGDOM

In July, Prime Minister Keir Starmer adopted a firmer stance on the Gaza conflict, calling for an immediate ceasefire and release of hostages. The United Kingdom (UK) pledged £60 million in humanitarian aid and joined 31 international partners in condemning civilian casualties. Trade talks with Israel were suspended, and sanctions imposed on hardline Israeli ministers. While foreign policy remained in focus, structural shifts in the UK's trade profile continued. According to the *Financial Times*, goods exports fell to a record low of 40.8% of total exports by May, down from two-thirds in 2000, while services climbed to 59.2%, led by finance and consulting. This tilt reflects Brexit-related barriers, global demand changes and the UK's longer-term pivot away from manufacturing, prompting concern that persistent weakness in goods exports could weigh on growth and worsen an already precarious fiscal situation.

Forecast 2025:
GDP: 1.1%
Inflation: 3.3%
Forecast 2026:
GDP: 1.2%
Inflation: 2.3%

JAPAN

Japan faced a wave of political and financial turbulence in July. The ruling Liberal Democratic Party (LDP) suffered a historic defeat in elections on 20 July, losing its majority in both parliamentary houses for the first time since 1955. Voter dissatisfaction was driven by soaring living costs—especially a doubling in rice prices—rising immigration, and fears over US tariffs. Prime Minister Shigeru Ishiba admitted the country faced a "national crisis." Political uncertainty rippled through the bond market, with demand at a 40-year bond auction on 23 July hitting a 14-year low. Traders cited caution amid speculation over Ishiba's resignation and broader policy instability. Japan also struck a trade deal with the US on the day of the bond auction, securing tariff reductions and agreeing to open markets to American autos and rice. Tokyo also pledged US$550 billion in US investment. While the deal offered relief, it further unsettled long-term bond investors wary of fiscal strain ahead.

Forecast 2025:
GDP: 0.8%
Inflation: 2.8%
Forecast 2026:
GDP: 0.7%
Inflation: 1.8%

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CHINA

The International Monetary Fund (IMF) raised its 2025 growth forecast on China from 4.0% in April to 4.8%, citing stronger-than-expected domestic demand driven by targeted policy support and higher export growth to regions other than the US. Trade tensions nevertheless continue to cast a growth shadow. Both the EU and US are intensifying efforts to reshape their trade relationships with China. Negotiations between the two Western blocs resumed in July after a lengthy stalemate, with exchanged proposals highlighting a shared interest in reducing reliance on Chinese supply chains, particularly for critical raw materials and pharmaceuticals. The EU is also weighing new tariffs on allegedly subsidised Chinese exports, while the US seeks to use trade agreements to curtail Chinese market dominance. These developments suggest a shifting trade architecture increasingly shaped by strategic, rather than purely commercial, concerns.

Forecast 2025:
GDP: 4.7%
Inflation: 0.1%
Forecast 2026:
GDP: 4.2%
Inflation: 0.8%

EMERGING MARKETS

In its July update, the IMF maintained a broadly constructive view on emerging markets (EMs), forecasting growth of 4.1% in 2025 and 4.0% in 2026. Emerging Asia remains the standout performer, with growth projected at 5.1% in 2025, led by upward revisions for China and steady momentum in India. Latin America and the Caribbean are expected to decelerate to 2.2% in 2025 before modestly rebounding. Sub-Saharan Africa is forecast to grow at 4.0%, rising to 4.3% in 2026, while the Middle East and Central Asia are set to expand by around 3.5%. A weaker US dollar has helped to loosen financial conditions, ease local currency yields and attract capital inflows. However, risks persist. Trade policy uncertainty, geopolitical tensions, supply chain disruptions and commodity price swings could weigh on growth. The IMF urges EMs to pursue structural reforms—particularly in labour, education and regulation—while cautioning central banks to remain vigilant in managing inflation and financial stability.

Forecast 2025:
GDP: 4.0%
Inflation: 3.1%
Forecast 2026:
GDP: 3.9%
Inflation: 2.9%

SOUTH AFRICA

South Africa (SA) grappled with pivotal political and economic developments in July. The Madlanga Commission, set to begin hearings in August, will investigate corruption and maladministration within the SA Police Service leadership, with three- and six-month mandates. Public skepticism lingers due to commission fatigue, but transparency from the Commission and a parliamentary ad hoc committee may yield meaningful change—though findings could further damage the African National Congress (ANC), already bruised by past inquiries. Tensions between the ANC and the Democratic Alliance remain high, exposing weak dispute resolution mechanisms, even as the Government of National Unity (GNU) passed the vital Appropriation Bill, authorising government spending for the fiscal year. Consensus growth forecasts remain stagnant at 1%, according to Reuters' July Econometer, amid weak investment, constrained fiscal space and fragile trade ties with the US. The Automotive Business Council (NAAMSA) reported an 82% plunge in SA vehicle exports to the US in the first half of 2025, even before a potential 30% Liberation Day tariff has been applied to SA exports to the US. While the possibility remains for minerals to be exempt from tariffs and although formal proceedings to negotiate on trade matters have begun with the US, final tariffs could exceed current levels, emphasising the need for SA to relook at non-tariff barriers, the range of products exported and the level of diversification of our export markets.

Forecast 2025:
GDP: 1.2%
Inflation: 3.3%
Forecast 2026:
GDP: 1.6%
Inflation: 4.1%

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Indices summary for July 2025

	One month	Three months	One year	Three years	Four years	Five years	Six years	Seven years	Ten years
Equity indices									
FTSE/JSE All-Share Index (Alsi)	2.27%	7.97%	23.20%	17.04%	13.83%	16.36%	13.75%	12.03%	10.31%
FTSE/JSE Shareholder Weighted Index (Swix)	2.27%	7.97%	23.20%	15.93%	12.85%	14.42%	11.56%	9.65%	8.34%
FTSE/JSE Capped Swix All Share index	2.24%	7.60%	22.33%	15.64%	13.47%	16.07%	12.23%	9.84%	8.08%
FTSE/JSE All Share Top 40 Index	2.31%	8.01%	23.86%	17.38%	13.92%	16.14%	14.14%	12.34%	10.50%
FTSE/JSE Mid Cap Index	3.30%	11.18%	18.21%	14.49%	12.18%	16.39%	10.56%	9.38%	7.93%
FTSE/JSE Small Cap Index	3.11%	8.71%	23.17%	17.79%	20.25%	27.51%	17.40%	13.23%	9.78%
FTSE/JSE Resources Index	5.06%	12.37%	24.58%	10.30%	7.74%	12.33%	14.99%	15.21%	13.36%
FTSE/JSE Financials Index	1.76%	5.27%	16.31%	18.28%	18.97%	21.07%	10.58%	8.12%	6.73%
FTSE/JSE Industrials Index	1.18%	7.75%	27.93%	20.27%	14.32%	15.84%	13.31%	11.22%	9.14%
FTSE/JSE Research Affiliates Fundamental Indices 40 Index (Rafi)	4.08%	14.05%	21.19%	15.24%	15.44%	19.33%	13.88%	12.02%	11.24%
FTSE/JSE Research Affiliates Fundamental Indices All Share Index	3.82%	12.87%	20.10%	15.32%	15.14%	19.22%	13.69%	11.88%	10.91%
FTSE/JSE SA Listed Property Index (Sapy)	4.75%	6.25%	24.37%	18.34%	16.13%	18.50%	5.44%	4.66%	2.96%
FTSE/JSE All Property Index (ALPI)	4.38%	7.41%	25.70%	18.26%	15.97%	18.55%	5.62%	3.84%	1.78%
Interest-bearing indices									
FTSE/JSE All Bond Index (Albi)	2.73%	7.95%	16.97%	13.47%	10.73%	11.36%	10.14%	9.84%	9.36%
FTSE/JSE All Bond Index 1-3 years (Albi)	0.74%	2.44%	9.46%	9.62%	8.07%	7.37%	8.11%	8.37%	8.29%
FTSE/JSE Inflation-linked Index (Ili)	0.52%	1.63%	5.94%	6.39%	6.99%	8.86%	6.54%	6.13%	5.08%
Short-term Fixed Interest Composite Index (Stefi)	0.62%	1.86%	7.98%	7.87%	6.96%	6.34%	6.39%	6.52%	6.76%
Commodities									
NewGold Exchange-Traded Fund	2.19%	-3.02%	35.04%	26.50%	21.94%	11.88%	19.34%	20.29%	15.36%
Gold price (in rands)	2.23%	-2.73%	34.57%	27.22%	22.26%	12.45%	19.67%	20.60%	15.67%
Platinum Exchange-Traded Fund	-1.32%	29.55%	30.85%	16.07%	10.84%	8.30%	10.78%	11.04%	6.12%
Platinum price (in rands)	-1.00%	32.19%	35.45%	15.84%	10.50%	8.42%	10.84%	11.33%	6.43%
Currency movements									
Rand/euro movements	-0.56%	-1.93%	5.35%	6.86%	4.57%	0.60%	4.66%	4.41%	4.06%
Rand/dollar movements	2.14%	-2.43%	-0.25%	2.88%	5.54%	1.29%	4.20%	4.77%	3.73%
Inflation index									
Consumer Price Index (CPI)			3.02%	4.49%	5.22%	5.15%	4.65%	4.62%	4.83%

Important notes

1. Sources: Momentum Investments, IRESS, www.msci.com, www.yieldbook.com, www.ft.com.
2. Returns for periods exceeding one year are annualised.
3. The return for Consumer Price Index (CPI) is to the end of the previous month. Due to the reweighting of the CPI from January 2009, this number reflects a compound of month-on-month CPI returns. The historical numbers used are the official month-on-month numbers based on a composite of the previous inflation series (calculations before January 2009) and the revised inflation series (calculations after January 2009).
4. The MSCI World index (All Countries) returns are adjusted to correspond with global investment prices received.
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