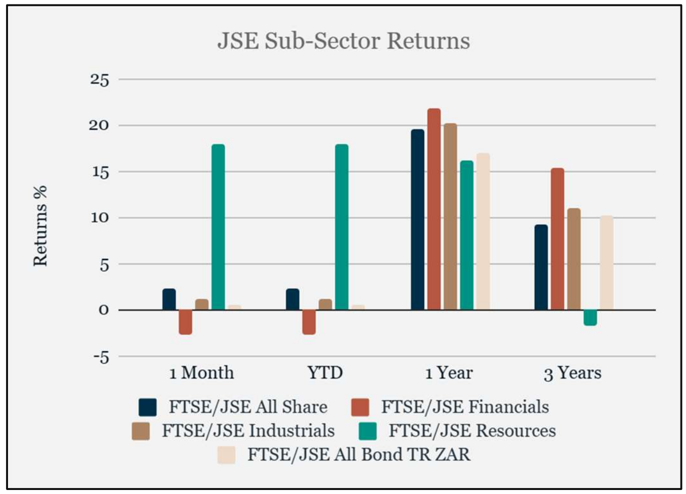
## South African Market

The South African equity market recovered in January, breaking a three-month decline and outperforming the broader emerging market (EM) composite for the month. The FTSE/JSE ALSI index climbed 2.32%, supported by a strong resurgence in the Resources sector, which gained 17.91% after a (5.94%) drop in December. Platinum and gold mining companies were key drivers, benefiting from improved commodity prices. Conversely, most other major sub-indices closed the month in negative territory such as financials that dropped (2.71%). Companies predominantly geared towards the domestic economy faced challenges, despite their strong performance in the previous year.

Consumer prices in South africa edged higher for a second consecutive month, reaching 3.0% year-over-year compared to 2.9% in the previous period. While this marks the third straight month inflation has remained at the lower end of the South African Reserve Bank's 3%-6% target band, the overall inflation picture for 2024 showed improvement, with average annual consumer prices increasing by 4.4% - markedly below 2023's 6.0% average. The monthly uptick in inflation was primarily driven by housing and utilities costs, which rose 4.4%, alongside food prices that increased to 2.5% from 2.3%. Meanwhile, core inflation, excluding food and energy costs, continued its downward trend, falling to 3.6% from 3.7% - its lowest point since February 2022.




Source: Morningstar (Returns more than 1 year are annualized)

The South African Reserve Bank continued its monetary easing cycle in late January, implementing its third straight 25 basis point rate cut at the Monetary Policy Committee's first meeting of 2025. This widely anticipated decision reduced the repo rate to 7.5% from 7.75%, reflecting the sustained low inflation at the bottom of the target range. However, SARB Governor Lesetja Kganyago struck a cautious note regarding future rate reductions in 2025, despite the expected move. While near-term inflation appears under control, he emphasized heightened uncertainty in the medium-term outlook, pointing to significant risks from both domestic and international factors.

*Asset Class Performance (ZAR):*

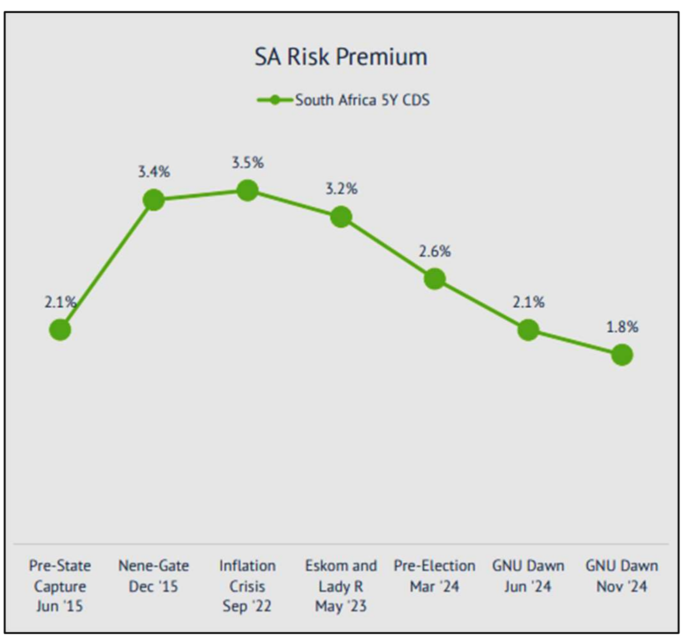
| As of 31st January 2025 | MTD | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|---|
| **Global Equity** | 2.19 | 2.19 | 20.82 | 15.39 | 16.12 | 15.38 |
| **Global Property** | 0.42 | 0.42 | 8.92 | 3.30 | 4.76 | 8.06 |
| **Global Bond** | (0.49) | (0.49) | (0.40) | 1.30 | 1.43 | 4.51 |
| **Global Cash** | (0.69) | (0.69) | 5.69 | 10.93 | 7.14 | 6.79 |
| **SA Equity** | 2.32 | 2.32 | 19.58 | 9.20 | 13.06 | 8.95 |
| **SA Property** | (2.34) | (2.34) | 21.02 | 12.79 | 5.22 | 2.15 |
| **SA Bond** | 0.44 | 0.44 | 16.86 | 10.10 | 9.40 | 8.02 |
| **SA Cash** | 0.63 | 0.63 | 8.12 | 7.06 | 5.79 | 6.17 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **ZAR/USD (negative = Rand strength)** | (1.26) | (1.26) | (0.06) | 6.58 | 4.53 | 4.81 |
| **Gold** | 5.15 | 5.15 | 29.87 | 17.90 | 12.98 | 10.39 |
| **Brent Crude Oil** | 2.48 | 2.48 | (6.04) | 0.40 | 10.36 | 8.76 |

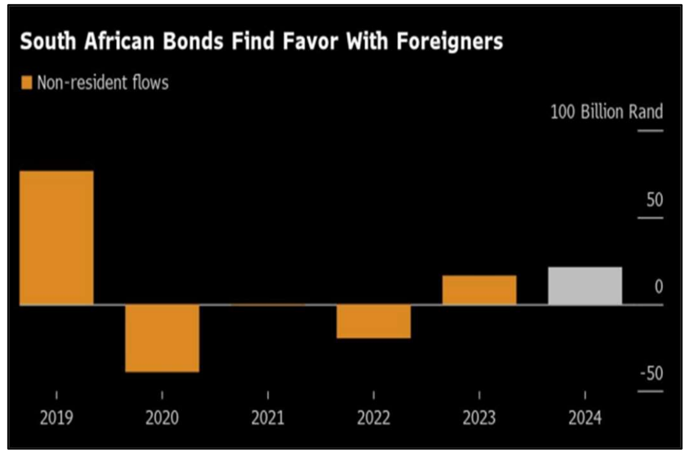
*Returns more than 1 year are annualized.

The South African Rand edged higher at the start of 2025 against the US Dollar, after three straight months of declines. The currency closed the month with a 1.26% gain versus the greenback, ending the month at R18.65/USD supported by a combination of a softer US Dollar, rebounding commodity prices, and the SARB’s rate cut. However, the Rand faced renewed pressure in the final week amid political jitters over the GNU’s stability and the abrupt return of load shedding, which renewed concerns about energy security. Lingering doubts about the government’s ability to implement fiscal reforms and Eskom’s operational reliability ultimately tempered the currency’s upward momentum erasing some of the Rand’s earlier gain.

In January, South African bonds demonstrated measured resilience amid market volatility, with the All-Bond Index (ALBI) registering a slight 0.44% increase. Positive underlying factors, including enhanced fiscal outlook and diminished electricity infrastructure challenges, provided support. Early-month market sentiment was challenged by emerging market headwinds, stemming from global trade complexities and international geopolitical strains. The 10-year government bond yield experienced notable movement, reaching a peak of 10.41% before stabilizing at 10.35%, a marginal increase from December 2024's 10.28% level.




Source: Portfoliometrix




Source: Portfoliometrix, Bloomberg

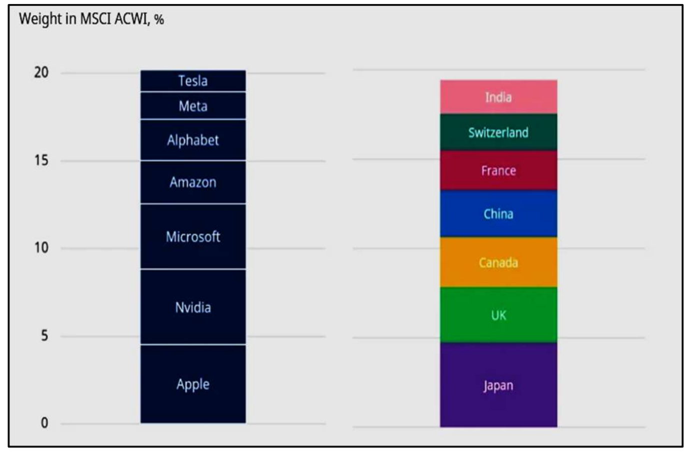
Bonds have experienced an extended period of support in South Africa following an unexpected positive turn in the SA political landscape. Portfoliometrix recently highlighted in their quarterly update how risk premiums in SA Bonds have reduced. South Africa's 5-year CDS (Credit Default Swaps), which acts as insurance against the risk of a borrower defaulting on debt, has decreased signaficantly over the past 2 years. This has resulted in foreign investors favouring South African publicly traded government bonds the most since 2019.

January marked the third consecutive month of weakening business conditions in South Africa, as reflected in key economic indicators. Manufacturing sector health continued to decline, with the Absa PMI slipping to 45.3% from 46.2%, moving further into contractionary territory below the crucial 50-point threshold. Adding to the sector's challenges, the closure of ArcelorMittal's steel operations has sparked concerns among South African businesses about potential supply chain disruptions and increased manufacturing costs. Industry analysts suggest that structural challenges, combined with weak domestic demand and global economic uncertainties, could continue to pressure the sector's recovery prospects in the near term. Small and medium-sized manufacturers appear particularly vulnerable to these headwinds, with many reporting reduced production capacity and delayed investment plans.

## Global Markets

Global equity markets started 2025 on the front foot, with the MSCI All Country World Index rising 3.28%, led by European markets outperforming US counterparts. Following their (10%) underperformance in 2024, value stocks rebounded in January with a 3.14% gain, outpacing growth stocks which returned 1.50%. The value sector outperformance was driven by strong gains in healthcare and financial stocks, while technology companies - typically growth stocks - faced headwinds towards month-end. Market concentration emerged as a significant concern, particularly regarding the "Magnificent Seven" stocks, whose combined weight in the MSCI ACWI matched that of the next eight largest countries listed equity market cap together. This concentration risk became particularly clear when the DeepSeek AI announcement sent markets into disarray.

Annual US inflation continued its upward trend for the third consecutive month, reaching 2.9%, up from 2.7% and aligning with market forecasts. The consumer price index was notably influenced by rising energy costs, which jumped 2.6% during the month, largely due to a sharp 4.4% increase in gasoline prices – that accounted for roughly 40% of the overall index increase. The food sector also saw price growth, with the annual rate climbing to 2.5% from 2.4%. Meanwhile, core inflation, which excludes the more volatile food and energy sectors, showed some improvement by declining to 3.2%, breaking its four-month hold at 3.3%.




Source: Schroders equity lens 2025

The Federal Reserve kept its benchmark interest rate steady at 4.25%-4.5%, a move that was widely expected by markets following three consecutive rate cuts totaling 100 basis points since September 2024. Federal Reserve Chairman Powell emphasized that the FOMC requires additional evidence of inflation improvement before implementing further rate reductions. This cautious stance was underscored by the committee's notable removal of language regarding progress toward their 2% inflation target. The Federal Reserve has also adopted a wait-and-see approach regarding the incoming Trump administration's policy agenda, seeking to assess its potential impact on inflation, the labour market, and broader economic conditions before making future monetary policy decisions.

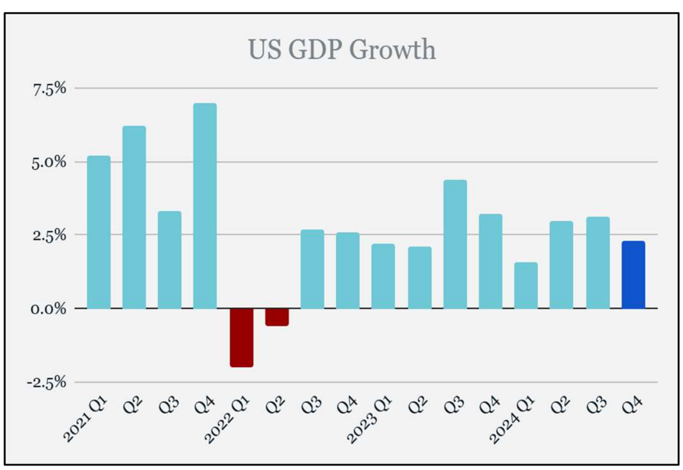
*Asset Class Performance (USD):*

| As of 31st January 2025 | MTD | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|---|---|
| **Global Equity** | 3.28 | 3.28 | 20.36 | 8.38 | 11.15 | 10.05 |
| **Global Property** | 1.50 | 1.50 | 8.50 | (2.98) | 0.27 | 3.07 |
| **Global Bond** | 0.57 | 0.57 | (0.78) | (4.86) | (2.92) | (0.32) |
| **Global Cash** | 0.37 | 0.37 | 5.28 | 4.19 | 2.55 | 1.85 |
| **SA Equity** | 3.41 | 3.41 | 19.12 | 2.57 | 8.22 | 3.91 |
| **SA Property** | (1.30) | (1.30) | 20.56 | 5.94 | 0.72 | (2.57) |
| **SA Bond** | 1.51 | 1.51 | 16.42 | 3.42 | 4.71 | 3.03 |
| **SA Cash** | 1.71 | 1.71 | 7.70 | 0.56 | 1.26 | 1.27 |
| | | | | | | |
| **ZAR/USD (negative = Dollar strength)** | 1.28 | 1.28 | 0.06 | (6.17) | (4.34) | (4.59) |
| **Gold** | 6.27 | 6.27 | 29.37 | 10.74 | 8.14 | 5.29 |
| **Brent Crude Oil** | 3.58 | 3.58 | (6.40) | (5.70) | 5.63 | 3.74 |

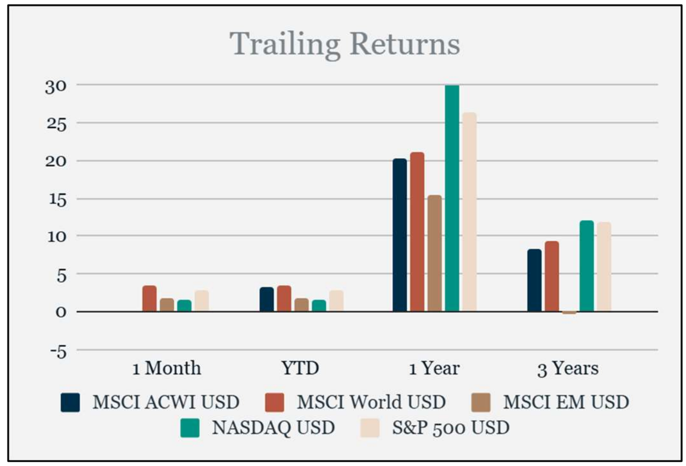
*Returns more than 1 year are annualized.

UK inflation unexpectedly declined last month, with the headline rate easing to 2.5% from 2.6%, defying economists' predictions of no change. The Bank of England's closely monitored core inflation measure, which excludes volatile components like food and energy, showed an even more pronounced slowdown, falling to 3.2% annually from 3.5% - coming in below market forecasts. Adding to the economic complexity, the UK experienced downward pressure on both its currency and government bond prices, reflecting growing market concerns about the nation's economic health and fiscal outlook. These developments have created additional challenges for Finance Minister Rachel Reeves as she pursues her budget-balancing objectives.

The Dollar began 2025 with some upward momentum, climbing to peaks not seen since 2022 in early January, supported by the Fed's hawkish policy stance and strong economic indicators, particularly robust employment data, which increased the appeal of US assets. However, the currency's gains reversed as the month progressed and ultimately declined by (0.67%) at month end, as uncertainty mounted ahead of Trump's inauguration, with markets concerned about potential inflationary trade policies and general policy uncertainty. Amid this backdrop, gold prices surged to historic highs, gaining 6.27% in Dollar terms during the latter part of January. The precious metal's rally reflected heightened demand for safe-haven assets, as investors grew increasingly worried about the unclear US policy direction and its potential to spark trade conflicts and market instability.




Source: Trading Economics




Source: Morningstar (Returns more than 1 year are annualized)

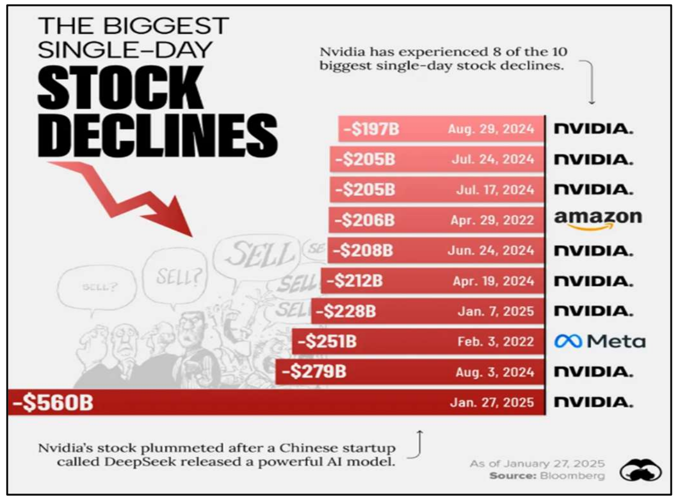
Global government bond markets experienced a tale of two halves in January, starting the month weakly before rebounding to end the month up 0.57%, driven by encouraging inflation data out of the US. Early January saw US 10-year Treasury yields surge almost 20 basis points to levels not seen since 2023, as Trump's anticipated return sparked concerns about expansionary fiscal policy and persistent inflation. However, the trend reversed after the latest US inflation figures came in below expectations, with yields stabilizing at 4.52%, largely flat month-over-month. In the UK, 10-year gilt yields initially spiked to 4.83% in early January, reaching levels not witnessed since the 2008 financial crisis, as mounting concerns over an economic slowdown and potential fiscal instability pressured government bonds. The unexpected drop in inflation figures from the UK data later prompted a reversal, with yields retreating to 4.54%.

Fourth quarter GDP figures released in January showed that the US economy grew at a more modest pace than expected, with real GDP expanding at a 2.3% annualized rate, down from the third quarter's 3.1% figure. The full-year economic performance for 2024 registered a 2.8% growth, marginally lower than 2023's 2.9% figure, suggesting that the economy is maintaining stable growth rather than overheating - a scenario that aligns with policymakers' current objectives. The economy's resilience was primarily sustained by robust consumer activity, with household spending surging 4.2%, marking its strongest performance since the first quarter of 2023.

## *Inside Portfolios:*

Financial markets were rattled in late January when a Chinese AI firm, DeepSeek, unveiled **R1**, its open-source AI model, demonstrating the ability to develop AI capabilities at significantly lower costs and in less time than current industry leaders. This revelation challenged the high valuations of major tech companies, triggering a sharp market reaction. The impact was most pronounced for Nvidia, which suffered an unprecedented single-day market value loss of approximately $560 billion as its shares dropped more than (17%) - marking the largest one-day market cap decline in Wall Street history. Despite this turmoil, the tech sector showed resilience, with the NASDAQ Composite still managing to post a 1.6% gain for the month. Such individual share price movements are not uncommon for high quality growth stocks as illustrated in the graph opposite. Despite this recent drop , Nvidia was up 66.66% over one year, 525% over three years and 1658% over five years. STAR managed portfolios have exposure to Nvidia ranging from 0.29% (low equity) to 2.84% (global growth).

Market sentiment has remained broadly positive toward AI developments, with investors maintaining enthusiasm for AI opportunities and showing little sign of reducing investment commitments, as competition intensifies in the race toward artificial general intelligence.




Source: visual capitalist

## *Historic Asset Class Performance Matrix*

The performance matrix below shows returns (colour coded) for the 4 main indicative sources of return per asset class and separated for SA and Global. **All performance figures here shown in ZAR.** The performances show the one-year performance of each asset class up to the displayed date (X-axis) except for the column showing YTD returns up to 31st January 2025.

| | YTD | 1/2025 | 1/2024 | 1/2023 | 1/2022 | 1/2021 | 1/2020 | 1/2019 | 1/2018 | 1/2017 | 1/2016 | 1/2015 | 1/2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Best | SA Equity 2.3 | SA Property 21.0 | Global Equity 21.6 | Global Cash 14.9 | SA Property 37.4 | Global Equity 18.7 | Global Equity 31.0 | Global Property 19.6 | SA Equity 16.1 | SA Property 15.4 | Global Cash 36.9 | SA Property 46.4 | Global Equity 42.9 |
| | Global Equity 2.2 | Global Equity 20.8 | SA Property 15.8 | SA Equity 11.8 | Global Property 26.2 | SA Equity 14.5 | Global Property 27.9 | Global Cash 14.0 | Global Equity 12.6 | SA Fixed Income 11.9 | Global Fixed Income 33.5 | Global Property 31.6 | Global Property 27.1 |
| | SA Cash 0.6 | SA Equity 19.6 | Global Cash 12.4 | SA Fixed Income 6.4 | SA Equity 23.9 | SA Fixed Income 8.2 | Global Fixed Income 19.2 | Global Fixed Income 10.6 | SA Fixed Income 10.8 | SA Equity 10.3 | Global Equity 28.0 | SA Fixed Income 21.2 | Global Cash 25.2 |
| | SA Fixed Income 0.4 | SA Fixed Income 16.9 | SA Cash 7.9 | SA Cash 5.2 | Global Equity 15.8 | Global Fixed Income 7.5 | Global Cash 15.4 | SA Fixed Income 8.8 | SA Cash 6.9 | SA Cash 6.9 | Global Property 27.6 | SA Equity 17.1 | Global Fixed Income 22.8 |
| | Global Property 0.4 | Global Property 8.9 | SA Fixed Income 7.3 | Global Equity 4.6 | SA Fixed Income 8.5 | SA Cash 4.3 | SA Fixed Income 8.5 | SA Cash 6.6 | SA Property 3.9 | Global Equity 1.3 | SA Cash 5.8 | Global Equity 11.0 | SA Equity 14.9 |
| | Global Fixed Income -0.5 | SA Cash 8.1 | Global Fixed Income 6.0 | SA Property 2.4 | SA Cash 3.6 | Global Cash 0.6 | SA Equity 7.1 | Global Equity 3.5 | Global Fixed Income -4.9 | Global Property -7.2 | SA Equity -1.1 | SA Cash 5.5 | SA Cash 4.8 |
| | Global Cash -0.7 | Global Cash 5.7 | Global Property 3.7 | Global Fixed Income -1.6 | Global Cash 2.8 | Global Property -9.3 | SA Cash 6.6 | SA Equity -6.1 | Global Property -5.0 | Global Fixed Income -13.5 | SA Property -2.4 | Global Cash 4.2 | SA Property -0.3 |
| Worst | SA Property -2.3 | Global Fixed Income -0.4 | SA Equity -2.6 | Global Property -2.4 | Global Fixed Income -3.9 | SA Property -34.6 | SA Property -9.5 | SA Property -9.4 | Global Cash -10.9 | Global Cash -14.8 | SA Fixed Income -5.6 | Global Fixed Income 1.6 | SA Fixed Income -2.7 |

Source: Morningstar Direct