FG ASSET MANAGEMENT

ECONOMIC EXPRESS

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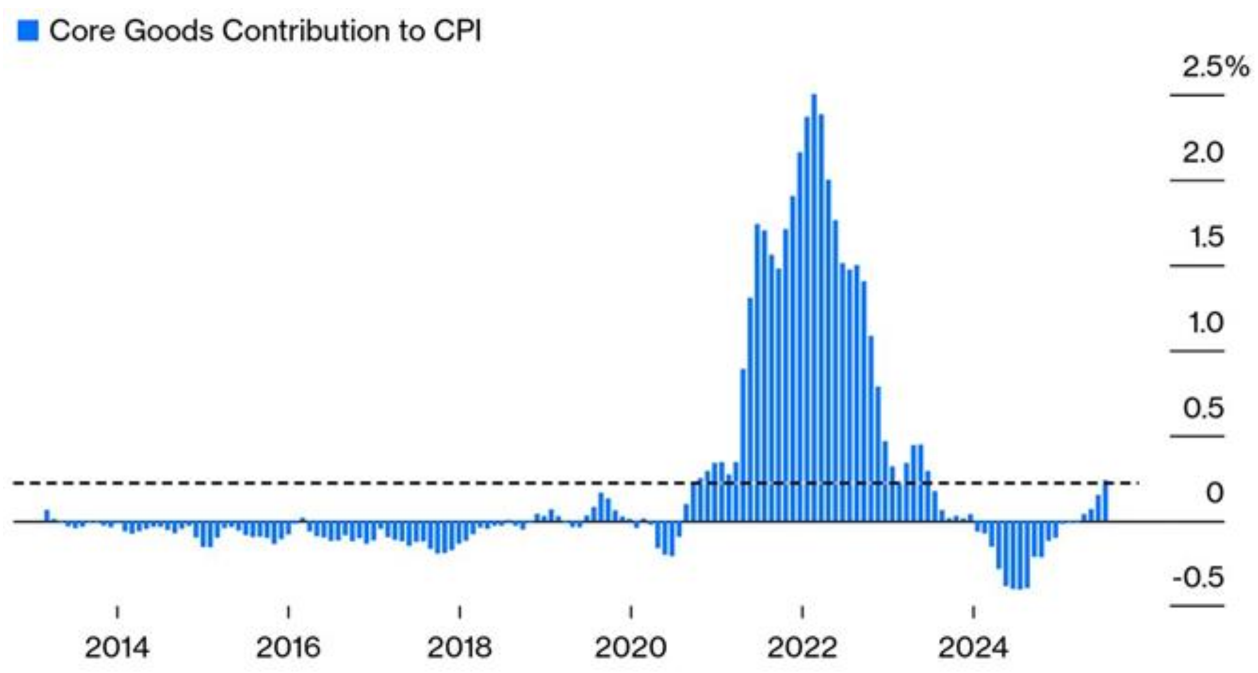
Uncertainty around trade policy persisted, with the 7th of August marking the official start of majority of the reciprocal tariffs reverting to their higher levels from the temporary 10%. Against this backdrop, the US Federal Reserve signalled that monetary policy could be eased sooner than previously expected, given signs of deterioration in the labour market. Despite the weaker economic data, global equity markets advanced over the month, with US markets in particular continuing their upward trend. Locally, equity markets outperformed both developed and emerging peers, supported by strength in the resources sector, which returned 11.3% for August.

Mid-month, US inflation data added further complexity. Headline inflation held steady at 2.7%, but core inflation (excluding food and energy) surprised to the upside, rising to a five-month high of 3.1% from 2.9%. A closer look at the data show that core goods—the segment most exposed to higher tariffs—have not yet increased at an alarming pace. However, since April, goods prices have slowly begun to turn higher, suggesting an emerging trend that is likely to continue as the effective tariff rate has climbed to 18.6%, compared with just 3% a year ago.

Figure 1: Core Goods Contribution to US CPI



Source: Bloomberg Economic Analysis (ECAN), Bloomberg Opinion (2014 to 2025)

In absence of a FOMC (Federal Open Market Committee) meeting this month, the annual Economic Policy Symposium was held in Jackson Hole. At the Symposium, Chairman, Jerome Powelle, acknowledged that the "downside risks to employment are rising" signalling a higher probability of a reduction in interest rates at the next meeting in September. The US Federal Reserve has held interest rates unchanged at 4.25% - 4.5% since December. At the July FOMC meeting the committee still felt that the upside risks to inflation were greater than the downside risks to employment. This stance however changed in August as Powell commented that the effects of tariffs on inflation will be short lived. This caught the market off guard, and we saw a rally in risk assets and bond yields falling as the market brought forward expected interest rate cuts.

Local equity markets have benefitted from the rally in precious metal prices, particularly gold and platinum. The stronger performance of these commodities has also led to a meaningful increase in the weighting of mining companies within the JSE All Share Index since the start of the year. Gold has been supported by sustained central bank purchases as an alternative to US government bonds. Platinum, on the other hand, has gained from supply constraints, further boosting its price.

Local headline inflation showed an increase on an annual basis to 3.5% from 3%. This was in line with expectations however it is now the highest we have seen since September last year. Higher food and administered price inflation together with fuel price increases being less negative drove the overall number higher.

Figure 2: South African Inflation Rate:

Source: Stats SA (2022 – 2025)

The SARB (South African Reserve Bank) is not expected to reduce the repo rate further this year as inflation is expected to move towards 4.5% into year end. There were no MPC (Monetary Policy Committee) meetings held over the month.

Index	Asset Class	AUGUST 2025
STEFI Composite Index	Local Cash	0.61%
FTSE/JSE All Bond (Total Return)	Local Bonds	0.75%
FTSE/JSE SA Listed Property (Total Return)	Local Property	2.80%
FTSE/JSE Africa All Share (Total Return)	Local Equities	3.53%
Bloomberg Global Aggregate (USD)	Global Bonds	1.45%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	4.15%
MSCI AC World (USD)	Global Equities	2.51%

Source: Morningstar

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