INTUITION
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Resurgent capital markets

2025 has certainly thrown up its share of surprises, none more so than the strength of our domestic market despite ongoing lacklustre economic growth. Yet the broad strength masks widely divergent sector performances – with much of the benefit accruing from the gold and platinum sectors, as well as Naspers. Domestically orientated sectors, such as banks, retailers, and industrials have endured a tougher time. Notwithstanding this divergence, local financials (excluding banks) have enjoyed a positive year – thanks to buoyant trading activity and rising asset levels. Patient investors have been amply rewarded.

Michael Porter

South African capital markets, and by extension, the savings industry, have faced tough conditions over the past five years - the reasons behind them well-documented. They range from the pandemic to state capture, weak growth, and everything in between. What is less well-documented is the impact of these conditions on local capital markets and the savings industry more broadly. Firstly, a cumulative decade of weak growth has taken its toll on the ability of consumers to save. Instead of building savings and being rewarded for saving through inflation-beating returns, consumers have drawn down on savings to fill the gap left by weak growth, low salary increases, and the rising cost of living, fuelled in part by loadshedding and excessive tariff increases. In short, South Africans are poorer – and saving is often the last thing on their minds.

Secondly, a consequence of weak GDP growth is a weak corporate sector, and one that is largely characterised by large corporates consolidating their position, rather than a flood of new startups that create the companies of tomorrow. The decline in the number of listed companies on the JSE has received much press attention. To take a longer-term view, when I started my career in the mid-90s, there were more than 600 companies listed on the JSE. Now there are fewer than 200, and even less once you screen for liquidity and a decent track record.

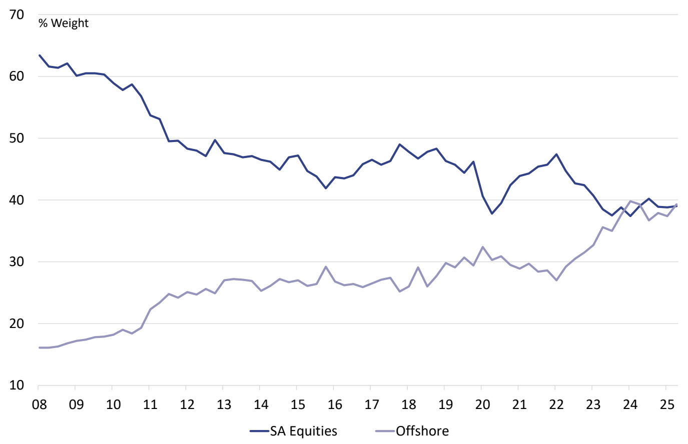
In addition to the challenging domestic business conditions, the sector faced an additional headwind – an increase in prudential offshore limits. National Treasury, as part of its ongoing reform program, increased the prudential limit on foreign investments from 30% to 45% in the 2022 Budget. Naturally, this created a flood to the exit. Given weak growth, persistent loadshedding, and endemic corruption – asset managers did not need much further encouragement to diversify aggressively away from SA to foreign assets. The chart below tracks the evolution of domestic retirement fund composition. In 2008, allocation to domestic equities and foreign investments was 65% and 16%, respectively. Now both are similar at 40%, with bonds and cash making up the balance. This has been a significant drag on local capital markets and the savings industry. Not only are savings being exported offshore, but often those savings were invested through foreign asset managers, not domestic companies. A double whammy.

SPEED READ

- **The financial services sector, which includes asset managers, insurers, and the JSE itself, has suffered a tough five years, driven by the weak economy and financial reform.**
- **However, the sector has risen from the dead over the past year.**
- **Improved sentiment comes from multiple sources, but includes buoyant local equity markets, improving sentiment towards emerging markets, and structural benefits from the two-pot retirement reform.**
  The move to a lower inflation target has further underpinned local markets.
- **This sector is characterised by strong cash flows, which have underpinned generous dividend policies – a key element to the return during tough times.**

Finally, given the myriad of issues chronicled above, it is not surprising that foreigners have deserted our markets in droves. Apart from a brief respite in 2022, net foreign portfolio investment has been negative since 2019. Foreigners have disinvested almost R400 billion from local equities over the past seven years – a significant drag on overall performance.

SA INSTITUTIONAL ASSET CLASS WEIGHTINGS



South African managers have steadily diversified offshore, given the persistent challenges in SA. Recently, an improving domestic outlook has stabilised the trend.

It is not surprising, therefore, that companies in this sector have faced a torrid few years. But quietly, and without fanfare, a recovery is unfolding, driven by:

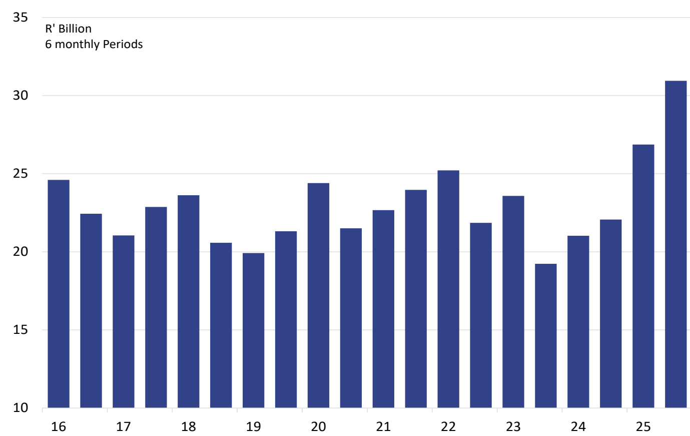
1. Improving local sentiment. The formation of the GNU post last year's elections was a major milestone for confidence in the local economy. SA assets had become ridiculously cheap, but they needed a catalyst to spark interest. That came from the GNU. Whilst we all know that the pickup in growth momentum has been uneven, the outlook – on a 3-year horizon – continues to improve. Cheap valuations make SA assets difficult to ignore.
2. Robin's article on the two-pot retirement reforms also speaks to a step change in future consumer behaviour. Whilst the two-pot reform has allowed limited access to retirement savings, it has (and will) prevent consumers from resigning their jobs and withdrawing all their retirement savings. As Robin articulated, Discovery estimates that retirement savings in 2050 could be 3x-4x bigger after the reforms than before it.

Mining, traditonally a strong sector in the South African economy, has had an investment resurgence as gold and platinum prices have risen.

3. Progress on structural reforms. The absence of loadshedding, improvements at Transnet, and a better fiscal situation are all underpinning this improved confidence.
4. Furthermore, the Reserve Bank's announcement to move to a lower inflation target has ignited a cracker under local markets – both bonds and equities. The implications of a permanently lower inflation rate are structurally lower interest rates, and therefore higher valuations for equities, bonds, and property.
5. Strange as it may seem, we are benefitting from President Trump's policies! "Unbelievable", I hear you say! A consequence of the Trump presidency has been a diversification away from US investments towards real assets, such as commodities (especially gold and platinum), and emerging markets.

Combined, the above factors offer a brighter outlook for the local savings industry than what has prevailed for quite some time. Firstly, deep down (excuse the pun), South Africa is still a mining country. Buoyant gold and platinum prices have driven a recovery in mining, but more importantly, a resurgence of those sectors on the JSE. The JSE offers global investors exposure to world-class gold and platinum companies that are hard to find elsewhere. Furthermore, it has also encouraged local investors to be more active, switching between sectors. The result is a resurgence in trading volumes on the JSE. The chart below tracks the daily value traded on the JSE over the past ten years, in six-monthly periods. Value traded has been stagnant for years, even dipping below R20 billion per day in 2023. However, the past two years has seen a sharp reversal of that trend – daily value traded for the year to date is close to R29 billion - every day! Needless to say, the JSE is rubbing its hands with glee.

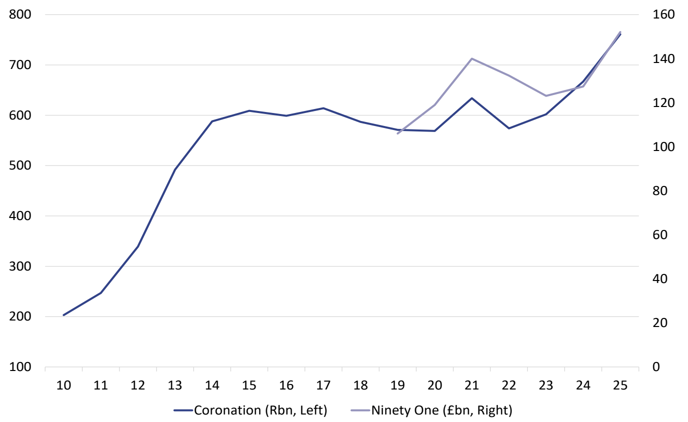
JSE DAILY VALUE TRADED



Trading volumes have been subdued for the reasons highlighted earlier but have recently rebounded on improving optimism in SA's future and a resurgent mining sector.

Not to be left out, asset managers are also reaping the benefit of improving conditions. After years of stagnation and persistent net outflows, assets under management are growing again, thanks to a combination of higher markets and reducing outflows. Ninety One's assets have been further boosted by the merger of its operations with those of Sanlam. Both companies are enjoying record assets under management, which, given the operational gearing, flows through to substantially better profitability.

ASSETS UNDER MANAGEMENT



After years of stagnant asset growth, asset managers are enjoying strong growth in underlying assets thanks to rising markets and an improved macro environment.

A final word to close this analysis is the cash generative nature of the sector. Asset managers have no need for large factories and expensive machinery. Rather, their investments are made in people and software. The sector benefits from higher assets under management and higher trading volumes. Given their modest capex needs, this cash is usually returned to shareholders via dividends. The sector has a track record of generous dividend payments and high yields – attractive for those looking for an income – and one of the reasons why we find the sector appealing for our portfolios.

The table below provides a snapshot of the compound annual returns from the three companies mentioned over the past five and a half years, starting in 2020, including and excluding dividends. Whilst capital growth has been hard to come by, dividends have offered solid compensation whilst waiting for better times. Those better times have now arrived. On average, share prices have risen by 40% since last year's election. Yet we are still in the early phase of a South African recovery. Should our future continue to brighten, then this sector has much further to run.

	Coronation	Ninety One	JSE
Share Price: Jan '20	3995c	3370c	11952c
Share Price: Current	4946c	5312c	14200c
Total Dividends received	2017c	1419c	3860c
Annual return: excl dividends	3.6%	7.9%	2.9%
Annual return: incl dividends	9.7%	12.2%	7.1%

There is a touch more optimism about the outlook for South Africa's savings and retirement industry.

Another year has come and gone, a year that has thrown up its fair share of surprises. Please join us for our year end seminar which will see us dusting off the crystal ball and looking into 2026 for clues as to what the new year might hold."

Topic: Outlook for 2026

Natal Midlands

Date:	Thurs, 4th of December, 2025
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	Thurs, 27th of November, 2025
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	Tues, 25th of November, 2025
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Morne du Plessis Boardroom, 4th floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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