NEWS LETTER

PEGASUS Wealth

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LOCAL REMAINS LEKKER

2025 will likely go down as a watershed year for local investors, with our local market far outpacing its global counterparts on both the equity and fixed income fronts. Additionally, and somewhat more unexpectedly, has been the marked currency strength our local rand has experienced, gaining 12.2% against the dollar during 2025.

Indeed 2025 saw the JSE All Share Index post its highest return in over 15 years (see the chart below).

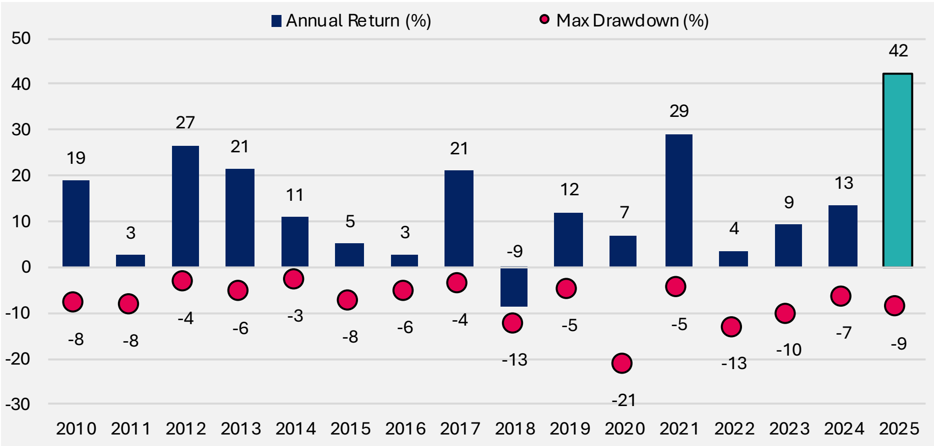

Figure 1. FTSE/JSE Annual Return & Maximum Intra-Year Drawdown

Over the past 15 years, South African equities have demonstrated notable resilience, delivering a negative calendar-year return only once during this period. This outcome, however, masks the reality that meaningful volatility and intra-year drawdowns have been a consistent feature of equity market returns.

In every year shown, investors were required to endure periods of market weakness, often driven by global risk events, domestic policy uncertainty, or cyclical economic pressures. These drawdowns, while uncomfortable, did not ultimately prevent the market from delivering positive outcomes in most years.

2025 provides a very tangible example; despite finishing the year with an exceptional 42.4% total return, the strongest annual outcome in more than a decade, the FTSE/JSE experienced a maximum intra-year drawdown of approximately 9.1%. Investors who reacted to this temporary pullback by moving into cash would have locked in short-term losses and, critically, missed out on the subsequent recovery and strong year-end gains.

This pattern reinforces a key investment principle: volatility is the price of admission for long-term equity returns. Periodic drawdowns are not an anomaly but an inherent part of market participation. Attempting to time exits and re-entries during these episodes can materially impair long-term outcomes, particularly when market recoveries are swift and unpredictable.

HIGHLIGHTS

Rand & JSE Strengthens

- JSE All Share up 3.5% for the month
- Equity market up 23.6% year-to-date
- Rand strengthens 2.1% for the month and 6.2% YTD

Fed at a Policy Crossroads

- Inflation risks remain elevated
- Labour market data shows signs of cooling
- September rate cut increasingly likely

SA Rail Reform Gains Momentum

- Transnet rail network opened to private operators
- 11 companies shortlisted for freight routes
- Target to increase rail volumes by 90 million tonnes by 2029

Local Economy Shows Progress

- SA credit rating upgraded with positive outlook
- Exit from FATF greylist supports confidence
- Electricity availability improves materially

Gold Benefits from Dollar Weakness

- US dollar trades at multi-year lows
- Gold rallies on safe-haven demand
- Central banks and investors increase allocations

POSITIVE LOCAL ECONOMIC DEVELOPMENTS

Outside of the lofty returns of the equity market, the local South African Economy has continued the make positive reform progress. November last year saw Global Credit Rating Agency S&P Global upgrade South Africa's credit rating for the first time in 20 years following the country's improved fiscal position. Notably, S&P Global upgraded South Africa's sovereign credit rating while maintaining a positive outlook; signalling a realistic chance of a further upgrade within the next 12-18 months provided the positive progress continues.

The credit rating upgrade was no doubt aided by South Africa's removal from the Financial Action Task Force (FATF) grey list in October of last year. The removal of this constraint represents an important milestone in restoring South Africa's reputation as a credible and trusted financial jurisdiction, apart from the financial implications being placed on the list can bring. According to a study by the International Monetary Fund (IMF), such listings typically reduce capital inflows by an estimated 7.6% of GDP, driven by declines of around 3% in foreign direct investment, 2.9% in portfolio inflows, and 3.6% in other forms of investment, effectively constraining growth and liquidity by discouraging foreign investment and cross-border funding. South Africa's removal from the list was therefore met with widespread approval.

Another notable improvement has been the marked increase in electricity production and availability over the last year. Eskom enters 2026 in its strongest operational position in at least five years, reflecting the tangible success of its Generation Recovery Plan launched in April 2023. The utility has added approximately 4,400MW of available generation capacity compared to a year ago, with its energy availability factor (EAF), a measure of capacity, measuring 69.14% in December 2025, a significant 12 percentage point improvement from December 2024. Furthermore, in early January of this year Eskom noted that it had effectively switched off nearly 14 000MW of generating capacity, equivalent to almost three Medupi Power Stations, due to "excess capacity and lower demand during the holiday season".

GOLD VS. THE DOLLAR

While our local equity market continues to post exuberant gains, the US Dollar, in stark contrast, is currently trading at a four-year low relative to its primary trading partners. The greenback declined by around 10% over the course of 2025, driven predominantly by a perceived erosion of its safe-haven status by investors. This rhetoric has largely been fuelled by Trump's protectionist policies and Tariff regime, which has caused increased levels of geopolitical uncertainty globally. In the first month of 2026 alone the US captured the Venezuelan president, Nicalos Maduro, reignited and escalated their threats to take over Greenland, and touted a 50% increase in US defence spending, thereby growing the budget to $1.5tn.

Additionally, the Federal Reserve is currently in a rate-cutting cycle, with interest rates currently at 3.75% from their post-pandemic peak of 5.50%.

Cutting interest rates, while stimulatory for the economy, reduces the interest rate differential of the US dollar relative to its peers, which is a fundamental driver of currency strength. As a result, the more the US cuts interest rates to match the levels of its peers, the more likely it is that the dollar will weaken.

Gold has been a direct beneficiary of the increased volatility and uncertainty as investors have increasingly lost confidence in other perceived safe-haven assets. A significant portion of the reason for this has been the extraordinary acceleration in public debt levels of leading economies since the global financial crisis. As a result, investors and central banks globally have been stocking up on the precious metal in order to hedge their perceived risk exposure. The widespread demand for gold has fuelled an exceptional rally in the gold price, which was up 64.5% over the course of 2025.