

# Discovery Money Market

31 December 2025

## Market background

In a continuation of the Q3 trend, shorter-dated US Treasuries outperformed in the final months of 2025 as expectations of interest-rate cuts caused yields in this part of the market to decline more than those in the long end (i.e., the US Treasury yield curve bull-steepened).

Mixed signals on the health of the US economy and associated volatility of interest-rate expectations also continued into Q4. Delays to economic data releases due to the prolonged government shutdown, which ended in November, along with speculation about the next Fed chair, added to the uncertainty. Ultimately, market pricing at year-end suggested that two further rate cuts are expected by the end of 2026, but debate was evident among the rate-setters. Following a rate cut in October, the Fed delivered its third and final 25bp cut of the year in December. The vote on this was split, with three members dissenting, which market participants viewed as a hawkish signal. However, Chair Powell struck a dovish tone, commenting that concerns about a weaker labour market outweighed risks to inflation. On the data front, despite a robust Q3 GDP print, other economic data releases reinforced rate-cutting expectations: delayed data showed unemployment rose by more than expected in November, while inflation fell unexpectedly.

South African local currency bonds also had a strong quarter and year overall. The 10-year government bond yield ended 2025 at 8.2%, having started at 10.3%. More broadly, yields declined against a backdrop of benign inflation dynamics, strong demand for South African bonds (from both domestic and foreign investors) following the country's removal from the Financial Action Task Force (FATF) 'grey list' in October and a rating upgrade: Standard & Poor's raised South Africa's sovereign credit rating from 'BB-' to 'BB', with a positive outlook. However, Moody's maintained their rating.

Over Q4, inflation data remained encouraging. Data towards the end of the year showed headline CPI at around 3.5% in November. Against this backdrop, the SARB cut rates by 25 basis points (bps), reinforcing its cautious stance aimed at balancing inflation with support for the economy. South African bonds also benefitted from the positive market response to the Medium-Term Budget Policy Statement, in which the government revised its revenue upward, reduced its debt issuance forecast, and officially adopted a new inflation target of 3%, replacing the previous 3-6% band.

The rand finished the year at R16.56/USD, one of the strongest performances among emerging market currencies in 2025, bolstered by higher precious metals prices and improved external balances. This represented an appreciation of more than 13% against the US dollar over the year.

On the growth front, GDP data released in December showed that the South African economy expanded by 2.1% year-on-year, beating expectations of 1.8%. Growth was supported by household consumption and export activity.



## Performance review

The Fund outperformed the benchmark over the quarter.

The one-year fixed-rate negotiable certificates of deposit (NCDs) rallied over the quarter, with rates dropping by 40bps to 7.10% at the end of December from 7.50% in September.

## Outlook and strategy

The treasury's latest cash figures on its balance sheet and budget expectations have provided an indication that revenue collection should improve further in 2026, boosted by mining revenues surprising to the upside. The technical (supply and demand dynamics) backdrop in South Africa continues to look favourable, as foreign inflows persist. Our outlook on South Africa's fiscal performance remains constructive, and we believe that there is still room for yields to move lower from their current position.

However, geopolitical risks have increased since the end of 2025, with President Trump continuing to surprise global markets. The operation conducted in Venezuela, as well as the delicate nature of the situation in the Middle East, are reminders of potential catalysts for global volatility, and we will position ourselves accordingly to manage these risks.