



### HIGHLIGHTS OF THIS NEWSLETTER ARE:

- **Update on what we have been doing in the offshore funds**
  - **RCI Worldwide Flexible Fund** – *by Ross McConnochie*
  - **RCI Worldwide Flexible Growth Fund** – *by Eric Lappeman*
- **Update on what we have been doing in the local fund** – *by Mike Gresty*
- **US equity market long-term returns and short-term volatility**
- **Excerpt from Anchor Global Equity 2<sup>nd</sup> Quarter 2025 Commentary: Tariff Lessons & The Paradox Of AI**
- **Chasing 3%: Understanding South Africa's Inflation Target Debate** – *by Casey Sprake*



### It is National Wills Week!

During 15-19 September 2025, we invite you to take the opportunity to have your Will professionally drafted. Our qualified team at Anchor Succession is available to assist with advice and preparation of this vital document, ensuring that your wishes are clearly recorded and respected after your passing.

#### Why do you need a Will?

By making a Will you decide exactly how your assets should be distributed after your death.

#### Why should your Will be professionally drafted?

A qualified professional can guide you through any challenges that may arise and has the expertise to ensure your Will is legally valid and accurately reflects your wishes. By having your Will professionally drafted, you gain peace of mind knowing that your affairs are in order and your loved ones are protected.

#### What happens if you die without a valid Will?

If you pass away without a valid Will, your estate may not go to the people you want it to go to. It can also take longer to wind up your estate and may lead to extra costs for your loved ones.

Contact us today to book your consultation!



Please feel free to pass this newsletter on to friends and family who may wish to learn more about investing.

To be added to our mailing list, contact [keiran@rcinv.co.za](mailto:keiran@rcinv.co.za) or 011 591 0666.

If you know of anybody who would like their financial affairs looked at, please do not hesitate to send them our contact details and we will ensure we get back to them with a proposal plan. They can contact us at [info@rcinv.co.za](mailto:info@rcinv.co.za) or 011 591 0585.

If you have any questions about your portfolios, please feel free to reach out to one of our team members. We are always happy to help.

We aim to be the best family office in South Africa and thank you for being our clients.

*Di, Mike, Andrew & The RCI Team*

# WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE FUND



Global markets made new all-time highs during the month. The Nasdaq and S&P 500 rose 0.8% and 1.9% respectively with the MSCI World rising 2.5%. The worst performers were the German DAX and FTSE 100 but the Japanese Nikkei had a fantastic month rising 4%. For the year-to-date, the S&P 500 is up 9.8%, the MSCI World is up 12.7% and the Nasdaq is up 11.4%:

Figure 1: Performance of global markets and US sectors in 2024 and 2025: Sector price movement sorted by August performance

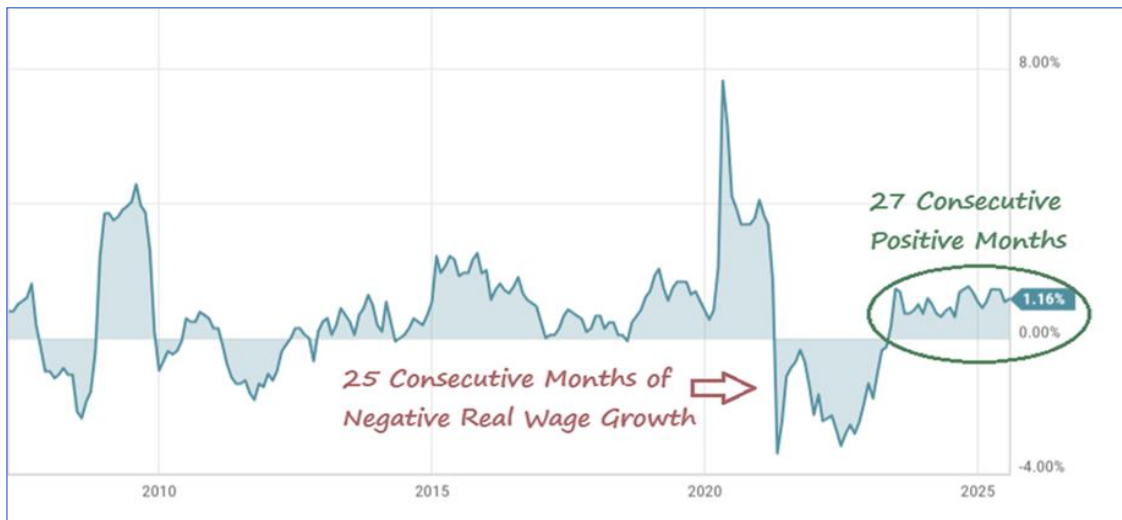
Name	GEOGRAPHY	2024	Year to Date	Aug-25
NASDAQ 100 IDX	USA	24.9%	11.4%	0.8%
S&P 500	USA	23.3%	9.8%	1.9%
DOW JONES INDUST IDX	USA	12.9%	7.1%	3.2%
S&P 500 MATERIALS IDX	USA	-1.8%	10.3%	5.6%
S&P 500 HEALTH CARE IDX	USA	0.9%	-0.4%	5.2%
S&P 500 COMMUN SERVICES	USA	38.9%	17.2%	3.6%
S&P 500 CONS DISCRET IDX	USA	29.1%	1.6%	3.4%
S&P 500 FINANCIALS IDX	USA	28.4%	11.4%	3.0%
S&P 500 ENERGY IDX	USA	2.3%	4.8%	2.9%
S&P 500 REAL ESTATE IDX	USA	1.7%	3.6%	2.0%
S&P 500 CONS STAPLES IDX	USA	12.0%	3.9%	1.4%
S&P 500 INFO TECH IDX	USA	35.7%	13.6%	0.3%
S&P 500 INDUSTRIALS IDX	USA	15.6%	15.1%	-0.1%
S&P 500 UTILITIES IDX	USA	19.6%	10.7%	-2.0%
NIKKEI IDX	JAPAN	19.2%	7.1%	4.0%
MSCI WORLD IDX	DEVELOPED WORLD	17.0%	12.7%	2.5%
MSCI EMERGING MARKETS IDX	EMERGING MARKETS	5.1%	17.0%	1.2%
FTSE 100 IDX	UK	5.7%	12.4%	0.6%
DAX IDX	GERMANY	18.8%	20.1%	-0.7%
HANG SENG IDX	HONG KONG	17.7%	25.0%	-2.3%

Source: Bloomberg, Anchor Capital

The American market made a new all-time-high this month on the back of the expectation that the Federal Reserve will start another round of interest rate cuts following Powell’s dovish comments at the recent Jackson Hole conference. The market now expects 2 rate cuts by the end of the year with a further 3 in 2026. These rate cuts are seen as bullish if they are not due to a recession but rather to reduce the restrictiveness of current rates being higher than inflation.

Although US inflation has been slightly higher than usual the last few years, the average employee has had wage increases in excess of inflation for the last 27 consecutive months. This translates into a wealthier and more comfortable consumer. This is hugely beneficial to the US economy.

Figure 2: US Real Average Hourly Earnings (year-on-year % change)



Source: Creative Planning and Charlie Bilello

# WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

## RCI BCI WORLDWIDE FLEXIBLE FUND (CONT.)



At present 63% of the fund is invested in US-listed equities, which is actually lower than the MSCI World allocation of 72%. We are of the belief that the US tends to have the best-run companies in the world and are the leaders in the AI space. However, the US market is trading at very high valuations. We have thus found several opportunities outside the United States - Rheinmetall, Mercadolibre, Nu Holdings, Constellation Software and Taiwan Semiconductor, for example.

In the following chart we compare the USA's Price-to-Earnings ratio (Black) with Developed Markets as a whole (Blue) and Emerging Markets (Red) and you can clearly see the discrepancy, and thus relatively attractive investment opportunities in companies outside the USA. The US is trading at very high valuations, last seen during the COVID19 stimulus period and the Dot.com era. The rest of the world is trading at far more attractive valuations but one has to be careful not to be caught in a value trap.

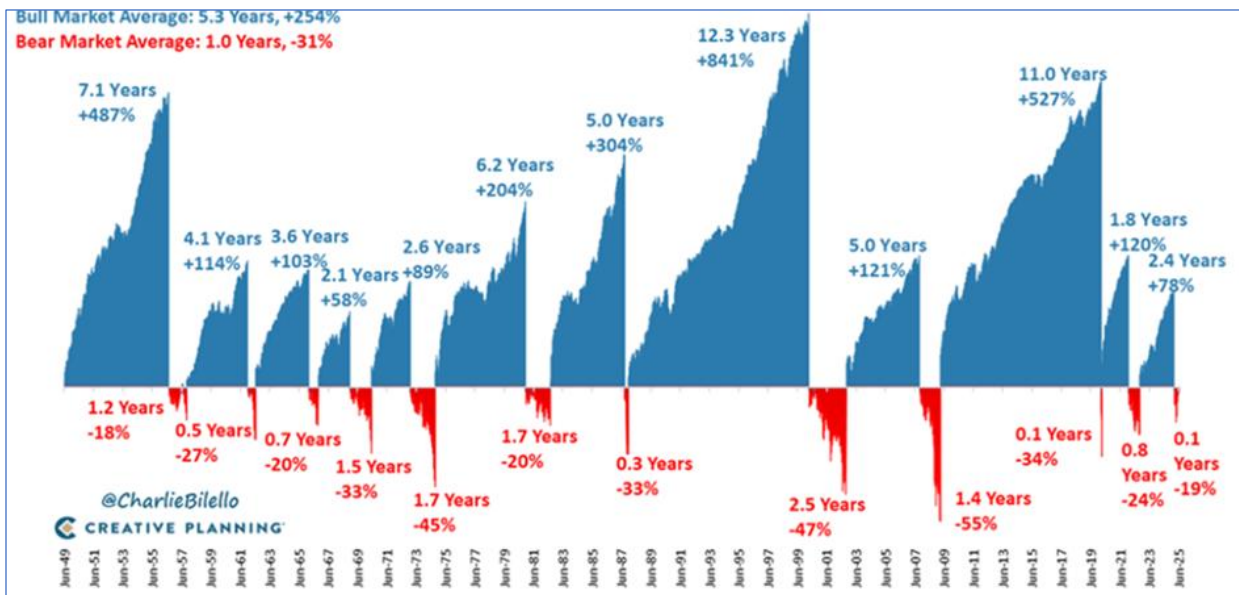
Figure 3: Price-to-earnings valuations across countries



Source: Topdown Charts, LSEG

Lately, we have pointed out how expensive the current market is, and it would thus be prudent to invest cautiously at these levels. However, it is important to zoom out and remind oneself that it pays to be bullish over the long run. In the following chart all the Bull Markets are coloured Blue and all the Bear Markets are coloured Red. It very clearly shows that over the last 75 years the market has been in a Bull state far longer than a Bear state. Although Bear Markets (in red below) are terrible when they occur, they tend to be swift periods of pain for investors with the longest being 2.5 years following the Dot.com Bubble. Bull markets (in blue) on the other hand average 5.3 years and have grown 254% on average. It is thus important not to panic when the periods of pain occur as the good times will be right around the corner.

Figure 4: S&P 500 Bull and Bear Markets (Total Returns, June 1949 – June 2025)





# WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

## RCI BCI WORLDWIDE FLEXIBLE FUND (CONT.)



The overall stock market valuation has reached levels not seen since the height of COVID-19 stimulus (zero interest rates and stimulus checks) and before that the dot.com era. We thus remain cautious around our stock picking at these levels but are confident that the US is in a strong enough economic position to continue to grow earnings for the foreseeable future.

### Our top 10 positions

	PE in one years time	PEG Ratio (FWD PE/'25-26 Growth)	EPS Growth			Pullback from high
			2024-2025E Growth	2025-2026E Growth	2026-2027E Growth	
AMAZON.COM INC	25.6	2.7	50%	9%	21%	-7%
CONSTELLATION SOFTWARE	37.4					-14%
ALPHABET INC-CL C	20.8	2.6	31%	8%	14%	0%
FORTINET	28.3	2.7	6%	11%	11%	-33%
MERCADOLIBRE INC	39.4	0.9	24%	43%	35%	-10%
META PLATFORMS INC-CLASS A	21.3	3.4	10%	6%	16%	-7%
MICROSOFT CORP	31.5	2.0	14%	16%	17%	-9%
NU HOLDINGS LTD/CAYMAN ISL-A	20.2	0.5	44%	40%	27%	-8%
NVIDIA CORP	30.6	0.6	124%	55%	40%	-8%
RHEINMETALL AG	45.1	0.9	61%	49%	47%	-11%
Top 10 - FWD PE Ratio* PEG ratio* and EPS Growth Rate^	28.0	1.1	31%	16%	21%	-11%
S&P500 - FWD PE and EPS Growth	22.2		13%	12%	11%	-1%

\*Calculated using Harmonic Mean

^Calculated using Median

We expect strong performance out of our top 10 positions for the 2026 and 2027 years. Our portfolio is expected to grow earnings per share in the high teens which is greater than the S&P500, where analysts expect 12% average growth over 2026 and 2027. Our companies are trading at higher valuations, 28x, versus the S&P500's 22x, but we believe this is justified by the higher quality of our investments, growing earnings at a higher rate than the market. This is especially so when compared to expected returns on investments in bonds or cash.

On average, our top 10 positions have corrected 11% from their recent high's whereas the US market is 1% below an all-time high.

### Changes made during the month

- We decided to sell our remaining **LVMH** position and upweight our **Eli Lilly** position with the proceeds. Both positions have sold off as of late, but we felt that Eli is better positioned to grow from continued use of GLP1 weight-loss medications, especially from their oral form of the drug.

### Performance in Rand

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	-0.7%	7.1%	4.3%	4.0%	-2.9%	0.5%	2.6%	3.3%	-0.3%	2.5%	-0.3%	-1.1%	20.3%
2020	7.3%	-1.5%	5.6%	10.2%	-1.9%	1.7%	3.5%	6.0%	-4.7%	-2.8%	0.4%	-3.0%	21.5%
2021	5.4%	1.0%	-1.9%	2.7%	-4.5%	7.9%	1.8%	0.7%	-1.2%	4.2%	0.8%	-1.2%	16.3%
2022	-12.4%	-2.5%	-6.0%	-2.4%	-5.9%	-4.3%	8.2%	0.0%	-4.7%	6.4%	-5.8%	-1.4%	-27.9%
2023	13.0%	2.5%	0.6%	5.3%	6.9%	0.0%	-3.0%	4.7%	-5.8%	-4.5%	10.5%	2.9%	36.1%
2024	5.7%	4.6%	-0.4%	-3.5%	-0.3%	0.0%	-4.7%	1.6%	-1.3%	1.8%	5.4%	3.6%	12.6%
2025	4.9%	-0.5%	-6.8%	5.6%	4.0%	3.7%	2.2%	-0.3%					12.8%

For the 2025 calendar year-to-date, the fund is up 12.8% in ZAR and 20% in USD. The MSCI World Index is up 6% in ZAR and up 13% in USD. The rand has strengthened 6% for the year to date. Therefore, the fund has significantly outperformed the market for the year to date.

The RCI BCI Worldwide Flexible Fund investment team:

**Mike Gresty, Di Haiden, Ross McConnochie, Eric Lappeman, Andrew Lawson, Gontse Dikeledi, Keiran Witthuhn**

# WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE GROWTH FUND



## Fund Performance and Attribution

The fund was down 0.6% for the month in ZAR. This was hindered by a 3.0% strengthening of the ZAR against the USD. This meant the fund was up 2.4% in USD for the month. This compares to the S&P 500 which was up 2.0% and the Nasdaq which was up 1.6%. August saw a relatively benign market looking for direction from key macro data amidst light volumes on the back of US summer holidays.

The biggest winner for the month was Lemonade Inc, up 45% on very strong Q2 earnings (discussed further on). Nu Holdings Ltd (a new addition to the fund) was up 22% on the back of good results. Our new position in Bitmine Immersion Technologies was up 37% and the Southeast Asia internet and e-commerce giant, Sea Limited jumped 21% on the release of their Q2 results. Fortinet Inc was our largest detractor and fell 19% on news that they are already almost 40-50% through their hardware refresh cycle.

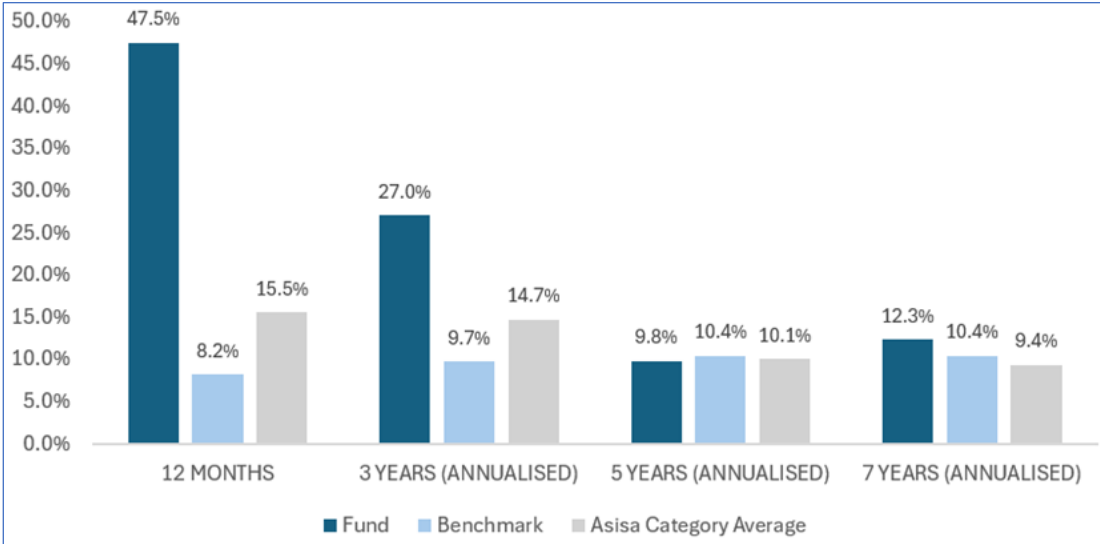
TOP CONTRIBUTORS & DETRACTORS	SECTOR	%
LEMONADE INC	FINANCIAL SERVICES	45.3
BITMINE TECHNOLOGIES INC	FINANCIAL SERVICES	37.7
NEBIUS GROUP	COMMUNICATION SERVICES	31.4
NU HOLDINGS LTD	FINANCIAL SERVICES	22.8
SEA LIMITED	E-COMMERCE	21.0
MICROSOFT CORP	SOFTWARE	-3.3
TOAST INC	SOFTWARE	-3.3
CROWDSTRIKE INC	CYBER SECURITY	-5.1
ADVANCED MICRO DEVICES	SEMICONDUCTORS	-5.3
FORTINET INC	CYBER SECURITY	-19.1

## Historical performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2025	2.1	-8.6	-11.1	7.4	6.3	9.5	8.7	-0.6					12.2
2024	5.5	8.8	-2.5	-6.7	0.7	3.6	-7.1	1.6	1.0	6.9	14.6	6.2	35.1
2023	12.3	1.7	0.1	3.9	11.4	3.0	-0.2	-0.6	-5.0	-3.5	13.6	5.3	48.1
2022	-16.3	-3.8	-1.8	-5.0	-3.8	-5.0	3.2	-1.0	-4.3	5.7	-6.2	-3.9	-36.0
2021	1.7	2.0	-5.4	2.3	-5.0	8.6	0.7	1.8	-4.3	7.3	0.2	-4.3	4.7
2020	8.2	-1.6	-0.9	14.4	-0.5	8.0	7.9	4.1	-2.7	-2.4	5.6	5.8	54.7
2019	1.5	6.4	3.6	5.6	-4.3	1.9	-0.2	-0.6	-1.9	6.4	0.9	0.4	21.1

The fund has experienced a good 2025, albeit had a volatile 1st quarter. US markets experienced one their quickest recoveries in history from their lows on ‘Liberation Day’ in April. The fund has delivered 48% over the last 12 months, well ahead of benchmark and peers.

The longer-term track record is good, with the fund annualizing at 27% over the last 3 years, this is ahead of the benchmark (CPI+5%) and the peer group average (14.7%) (Worldwide Multi Asset Flexible category).



# WHAT HAVE WE BEEN DOING IN THE OFFSHORE FUNDS?

RCI BCI WORLDWIDE FLEXIBLE GROWTH FUND (CONT.)



## Top 10 holdings

TOP TEN HOLDINGS	SECTOR	ABSOLUTE WEIGHT (%)	ROCE	FCF MARGIN	GP MARGIN	OP MARGIN	REVENUE 3Y CAGR	DEBT/EQUITY
SOFI TECHNOLOGIES INC	FINANCIAL SERVICES	9.6	0.0	0.0	82.2	0.0	35.4	0.6
ROBINHOOD MARKETS INC	FINANCIAL SERVICES	6.7	0.0	127.3	91.5	0.0	38.4	1.6
NVIDIA CORPORATION	SEMICONDUCTORS	6.3	102.2	43.6	69.8	58.1	77.1	0.1
ALPHABET INC	COMMUNICATION SERVICES	5.5	32.8	18.0	58.9	33.2	10.1	0.1
META PLATFORMS INC	COMMUNICATION SERVICES	5.4	33.7	28.0	82.0	43.4	14.4	0.3
COINBASE GLOBAL INC	FINANCIAL SERVICES	4.5	13.6	26.9	84.5	28.2	5.1	0.4
BROADCOM INC	SEMICONDUCTORS	4.3	14.6	39.8	77.0	38.2	23.9	1.0
MERCADOLIBRE INC	E-COMMERCE	4.2	32.4	30.6	51.5	12.3	39.7	1.6
AMAZON.COM INC	E-COMMERCE	4.2	17.1	2.0	49.6	11.4	11.3	0.5
ARISTA NETWORKS INC	SEMICONDUCTORS	3.9	31.3	50.0	64.2	43.1	31.4	0.6
TOTAL EQUITY CONTENT OF FUND		99.9						

## Changes during the month

There were a few notable results during the month of August:

### Lemonade Inc

Lemonade Inc reported very strong Q2 results with improvement amongst all key metrics. They reported their 7<sup>th</sup> quarter of accelerating In-Force Premiums while continuing to lower the Loss Ratio to 67% (a 12pt improvement YoY). Gross margins improved nicely and Adjusted Free Cashflow came in better than expected. The business is continuing to see major benefits of AI in pricing risk more accurately and have now decided to reduce the amount of re-insurance cover as a result. The business raised full year guidance across IFP, GEP and Revenue metrics and now expect achieve positive adjusted EBITDA for the end of FY26.

[Lemonade Inc Q2 2025 Results Presentation](#)

### Shopify Inc

Shopify Inc reported very strong and better than expected Q2 results, achieving 31% YoY revenue growth and a 16% free cashflow margin. The business raised guidance for the third quarter, expecting an increase in the free cashflow margin and strong growth in GMV.

[Shopify Q2 2025 Results Presentation](#)

### Sea Ltd

Sea Limited delivered record breaking Q2 results with Shopee (the e-commerce segment) seeing 25% YoY GMV growth, with this expecting to continue into Q3. The digital financial services business also delivered excellent growth. Overall, Sea Limited saw group revenue grow 38% YoY with the e-commerce business flipping from an operating loss to a profit YoY.

[Sea Q2 2025 Results Presentation](#)



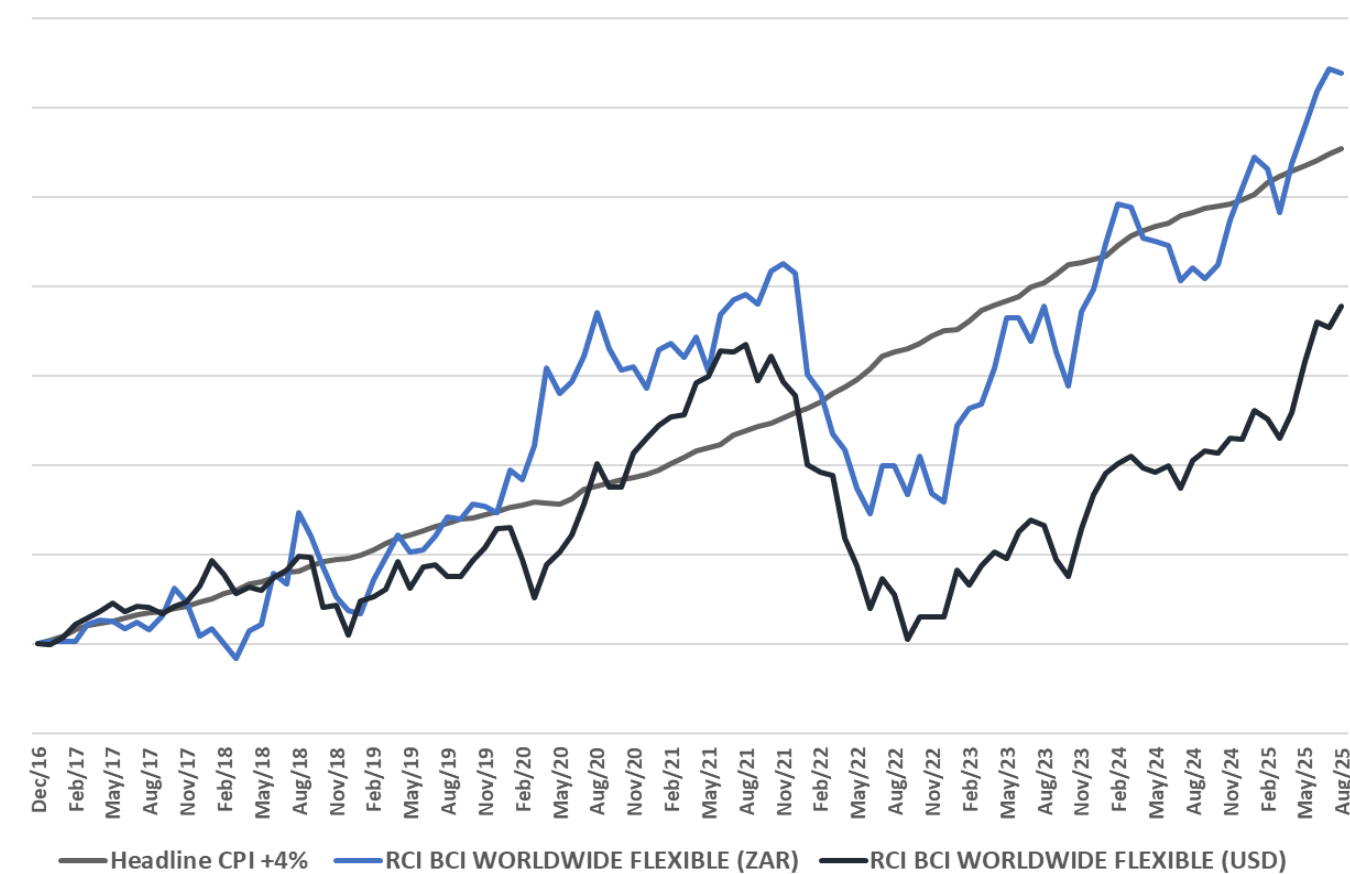
# RCI OFFSHORE UNIT TRUSTS PERFORMANCE



“In the short run, the market is a voting machine, but in the long run it is a weighing machine.” – Benjamin Graham

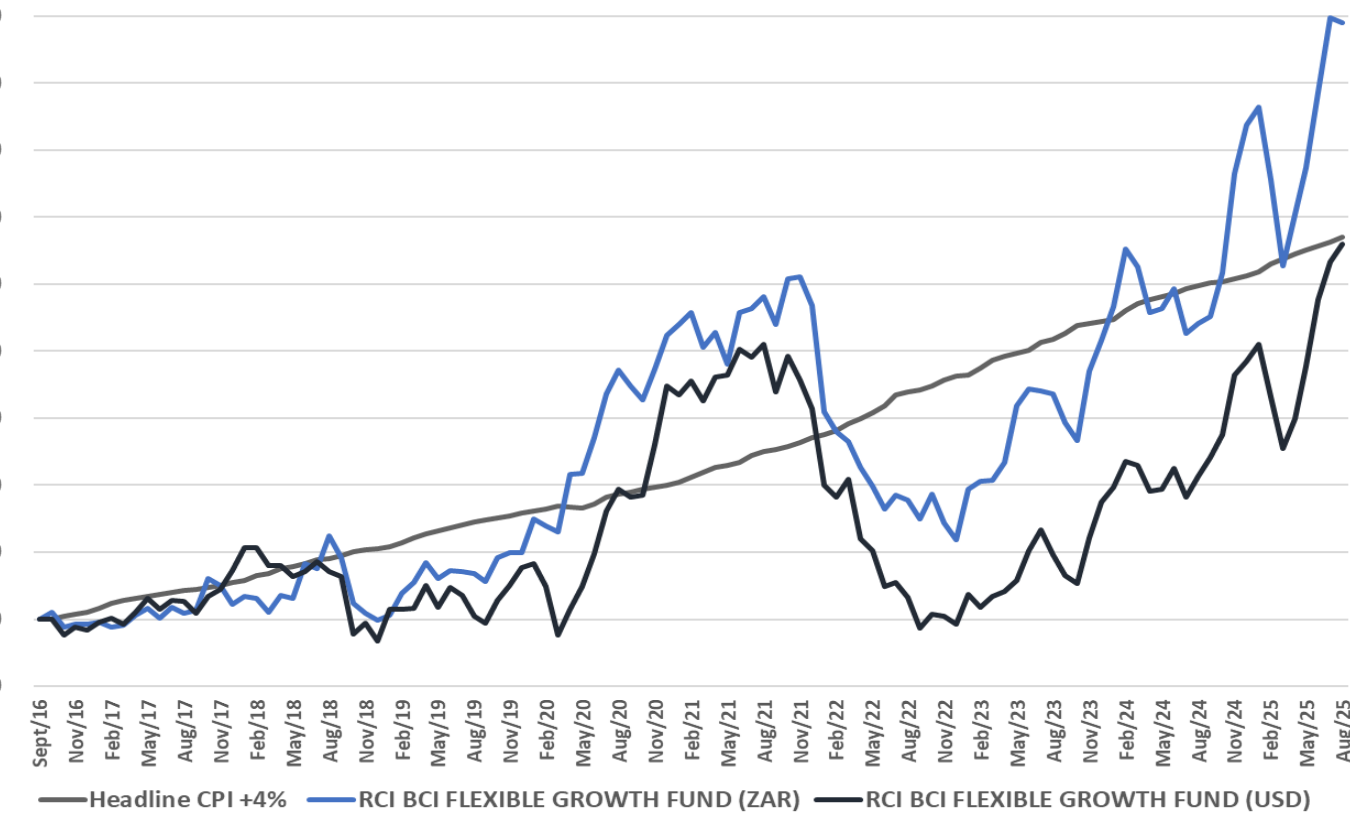
The **RCI BCI Worldwide Flexible Fund** closed August at 227.87, down 0.35% for the month and up 23.69% for the last 12 months.

## RCI BCI Worldwide Flexible Fund



The **RCI BCI Flexible Growth Fund** closed August at 277.92, down 0.59% for the month and up 47.49% for the last 12 months.

## RCI BCI Flexible Growth Fund



# WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

## ANCHOR BCI SA EQUITY FUND



Developed Market (DM) equities continued to march higher in August (MSCI World Index +2.6% MoM), taking YTD performance to +14%. Where the preceding few months were notable for the fact that performance was driven chiefly by a narrow group of mega cap US technology shares in much the same pattern as we saw throughout 2024, the drivers of market performance in August were different. Healthcare stocks – the worst performing sector thus far in 2025 outperformed, while US small-cap shares also had a strong August (Russell 2000 Index +7% MoM), likely benefitting from growing conviction of further interest rate cuts by the Federal Reserve. Regarding the extended period during which the US market’s performance has been dominated by the small cohort of mega-cap tech stocks, it is interesting to note that this has resulted in a situation where the top ten constituents of the S&P 500 index now account for 40% of the index – an unprecedented level of concentration for this index. Emerging Market (EM) equities had a positive month (MSCI EM +1.5% MoM), taking their YTD performance to +20%, after positive returns each month this year so far. Chinese equities remained an important driver of this performance in August.

South African equities delivered their sixth consecutive month of positive returns in August (FTSE/JSE Capped SWIX Index +3.5% MoM), taking YTD returns to 22.3%. It was yet another month in which gold miners (+22% MoM) drove performance, accounting for three-quarters of the JSE’s August return. Elsewhere, index-heavyweight, Naspers/Prosus, had a solid month (+4% MoM), as the market reacted positively to Tencent’s better than expected quarterly results. With a few stock-specific exceptions (Curro (+34% MoM) on a takeover offer, Standard Bank (+6% MoM) on well-received interim results), shares that are sensitive to the domestic economy continued to struggle. Discretionary retailers in particular had a tough month, as company results and macro data sent a consistent message regarding the pressure consumers continue to experience.

At the end of August, the top 15 positions in the fund, making up 65% of the equity exposure, were as follows:

- |                     |                   |
|---------------------|-------------------|
| • Prosus            | • Standard Bank   |
| • Naspers           | • WeBuyCars       |
| • AngloGold Ashanti | • Anglo American  |
| • FirstRand         | • Boxer           |
| • Discovery         | • Absa            |
| • Renergen          | • Advtech         |
| • BidCorp           | • Impala Platinum |
| • Capitec           |                   |

### Main changes in the month

We made several strategic portfolio adjustments during the month. We increased our holdings in **MTN** and **Vodacom** to capitalise on strong operational momentum in the telecoms sector, these companies are showing in their African operations, which is driving steady upgrades to earnings expectations. We added to the **Discovery** position, reflecting our growing conviction in past growth investments delivering. In food retail, we rotated capital from **Shoprite** into **Boxer**, favouring the latter’s SA expansion potential. Finally, after a strong run, we exited our **Clicks** position locking in profits.

### Performance

The Anchor BCI SA Equity Fund rose 1.2% MoM in August, bringing the year-to-date return to 16.4%. The highly concentrated source of returns that have driven the SA market this year from parts of the market that we do not regard as conforming to the long-term quality attributes we seek has made it a challenging period from a relative performance perspective. However, the absolute performance of the fund has been pleasing. We continue to believe that remaining patient and disciplined about adding to the fund’s holdings in companies we expect to compound their earnings growth at well above the broader market over the next three years will deliver the inflation-beating performance we aim for over the long-term.

### The Anchor BCI SA Equity Team

Mike Gresty, Liam Hechter, Steph Erasmus, Peter Little



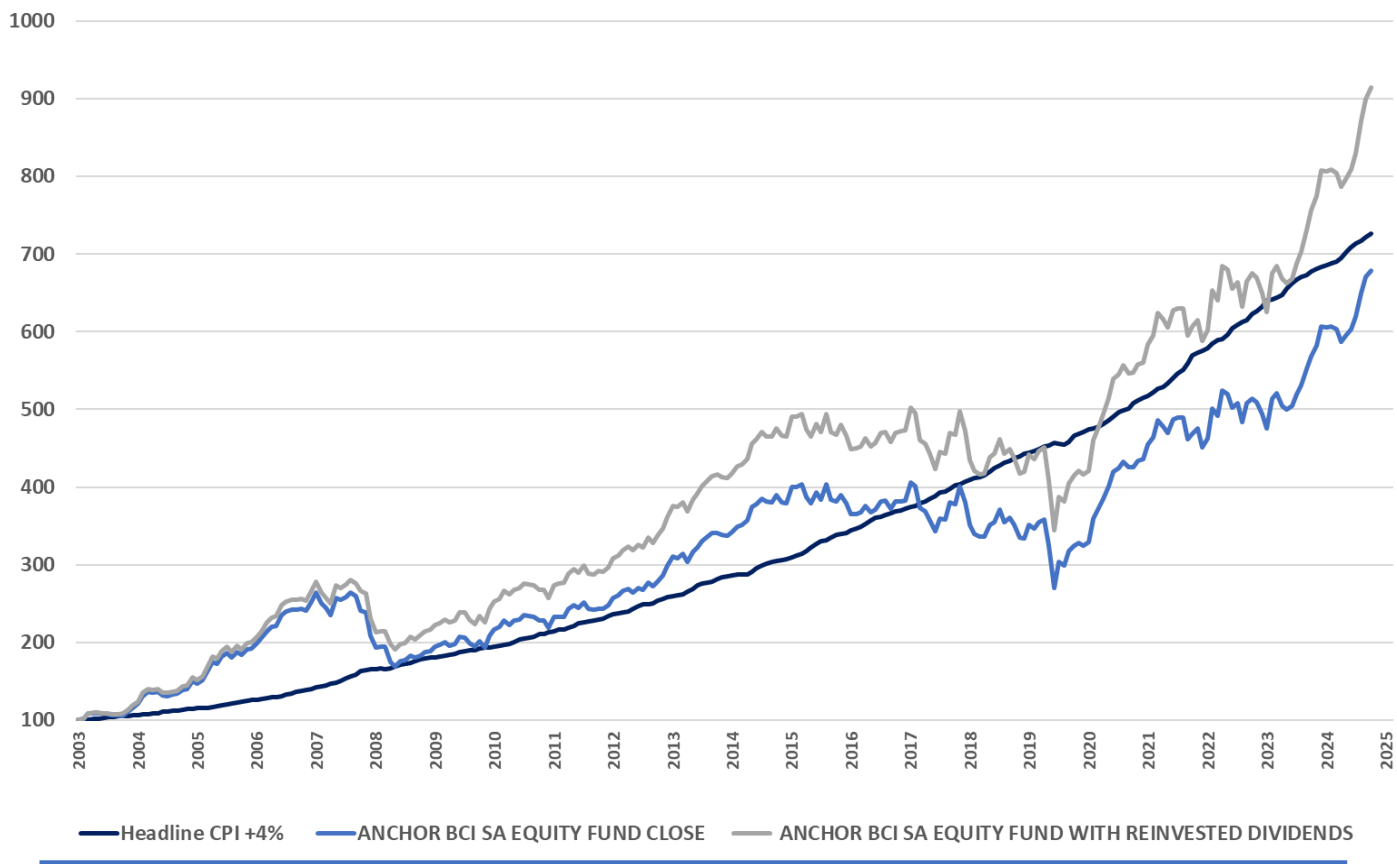
# WHAT HAVE WE BEEN DOING IN THE LOCAL FUND?

## ANCHOR BCI SA EQUITY FUND



The **Anchor BCI SA Equity Fund** closed August at 686.59, up 1.20% for the month and up 19.35% for the last 12 months.

### Anchor BCI SA Equity Fund



Great graph below from Coronations roadshow. It shows the returns each year as dark blue bars. 75% of the time the return is positive whilst the average annual return for the period was 12% (red dotted line). What was interesting was the green dots showing the largest pullback in each of those years. In order to get that long term return associated with holding equities, you need to be able to withstand the short-term volatility.

### What's the catch? S&P returns



Source: FactSet, Standard & Poor's, JPM Asset Management

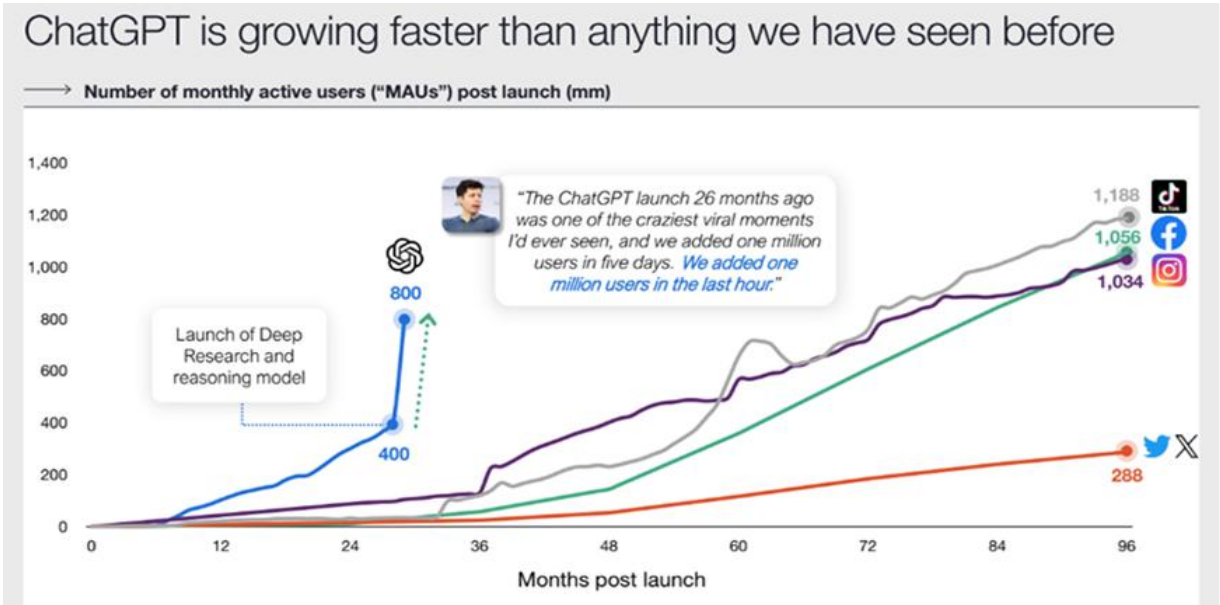
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# EXCERPT FROM ANCHOR GLOBAL EQUITY 2<sup>nd</sup> QUARTER 2025 COMMENTARY: TARIFF LESSONS AND THE PARADOX OF AI

BY NICK DENNIS



ChatGPT is growing faster than anything we have seen before. The chart below from Coatue is particularly striking - there is something profoundly different about AI versus what we've seen before. AI is scaling far more rapidly than the social networks did, despite having zero network effects (i.e. people don't invite their friends and family to join ChatGPT).



Australian union workers recently pushed for the right to refuse to AI at work. This thinking is flawed: there may be a choice, but it is a false one. AI is analogous to the productivity revolutions brought about by the steam engine, electricity, or the internal combustion engine. Imagine you meet a farmer with a 100,000 acre farm who's about to harvest his crop with a pair of hand clippers. You ask why he doesn't use a combine harvester, and he replies "Nah, I'm good, that new-fangled technology stuff isn't for me." Clearly that's his right and his choice, just as the Amish choose not to live a modern lifestyle. If he's a subsistence farmer, he will barely scrape by and will live a life that's essentially unchanged versus hundreds of years ago. If he's a commercial farmer, he will be rapidly outcompeted and will lose his farm. Said differently: if you want to live in modern society, there is no choice, you have to use the tools of modern society.

But like the advent of electricity, I'd rather frame AI in a positive light. The more you use AI, the more you realise how useful it is. AI will help people to accentuate their best qualities. The top performing lawyers, nursery school teachers and therapists will be those that use AI to complement and enhance their existing strengths. I'll go a step further: in a world of abundant intelligence and productivity, attributes that are human, and things that are scarce, are likely to become exponentially more valuable. However, I've already seen instances where people are using AI as a substitute for their own thought. Ironically, people could become dumber as they have ever more intelligence at their disposal. I don't want to listen to someone regurgitate a speech written by ChatGPT. If I said that this commentary had been composed by AI, I guarantee nobody would read it.

People that refuse to use the machines (AI) will face an existential threat. Equally, people that don't bring the best of themselves and their humanity to bear will be just as redundant. This is the paradox: in order to survive and thrive, you will have to become outstanding at using the machines to allow your unique humanity to flourish.

## Investing in the age of AI

We are entering a period of profound change. The next decade will be extraordinarily rich with multibagger opportunities. I suspect 'sensible' portfolios could deliver disappointing returns; by construction this (almost) always has to be true, but it could be even more so over the next decade. Investors may need to take more risk than they would otherwise like. There are going to be brutal bear markets. It's not supposed to be easy!

Companies that understand the paradox and can balance the opposing ideas of abundance/intelligence and scarcity/humanity are likely to be the most successful. The same is true for investors.

Bearish pundits will continue to make the case for perpetual fear. I believe that history will repeat and the AI era will be won by the optimists, the bulls, the bold. Long may the bulls prevail!

# CHASING 3%: UNDERSTANDING SOUTH AFRICA'S INFLATION TARGET DEBATE

BY CASEY SPRAKE



*The below is a summary of an article written by Casey Sprake, Economist at Anchor Capital, where she explores the current debate around lowering South Africa's inflation target to 3%, from 4.5% (for all intents and purposes). The full article with graphs can be found [here](#).*

South Africa's monetary policy is at a turning point. For 25 years, the South African Reserve Bank (SARB) has steered inflation within a 3% - 6% range, and more recently gradually convincing markets that 4.5% is the "true" anchor. This steady hand has supported stability without derailing growth. But in May this year, Governor Lesetja Kganyago and the Monetary Policy Committee (MPC) went further: they floated a bold new scenario - lowering the target to 3% - and labelled it "more attractive" than the current framework. This isn't just a technical tweak. It's a shift that could redefine South Africa's macroeconomic environment for years to come. The idea has sparked lively debate across markets, academia, and politics, because it promises big rewards but also carries significant risks.

## Why 3%?

Globally, South Africa looks like an outlier. Most emerging markets already aim for 3% inflation, and developed economies are lower still. Keeping our target higher comes at a cost: higher borrowing rates, a built-in risk premium, and weaker competitiveness. The SARB's modelling suggests the payoff from a lower target could be large. If inflation expectations re-anchor at 3%, the repo rate could sit 50 basis points lower in the short run and as much as 150 basis points lower in the longer term. That could pull household and business borrowing rates below 6%, compared to today's 7%-plus. For government, the savings are even more dramatic: R130bn in debt-service costs over five years and up to R600bn by 2035. Cheaper debt would ease fiscal pressures at a time when refinancing risks loom large. Households and businesses would also benefit. Lower inflation protects consumers - especially lower-income ones from food and fuel shocks. Businesses gain from lower capital costs and better investment certainty. Kganyago summed it up clearly: "A lower target will lock in lower interest rates going forward."

## The Risks Beneath the Surface

But this transition won't be easy. Not everyone is convinced expectations will re-anchor smoothly. The primary cost of lowering the inflation target is shown by the "sacrifice ratio" - the economic growth cost of lowering inflation. The estimates of this sacrifice ratio vary significantly which showcases how uncertain the costs are. The SARB's own models suggest the cost could be near zero. Others, like Codera Analytics and a Treasury-linked study, warn of short-term output losses ranging from 0.3% to nearly 1% of GDP. The bigger obstacle lies in South Africa's price structure. Much of our inflation comes from administered prices - electricity tariffs, municipal charges, and public wages that often run well above headline CPI. Since 2009, public sector inflation has averaged 7.2%, compared to just 4.9% in the private sector. Without reform, a 3% target would force private businesses to cut inflation down to around 2.6% - half their historical average to offset state-driven costs. That would mean tighter monetary policy for longer, undermining growth and jobs. Fiscal dynamics add further complexity.

National Treasury has grown reliant on "bracket creep" as a way to generate extra tax revenue. This is the act of leaving income tax brackets unchanged while inflation lifts earnings. But with lower inflation, this tool weakens. Treasury would need to adjust both spending and revenue assumptions — a politically difficult task.

## The Bottom Line

The case for a 3% inflation target is compelling: it would align South Africa with peers, entrench lower borrowing costs, and deliver fiscal savings. But the benefits depend on alignment across government. Without restraint in administered prices and credible fiscal consolidation, the SARB risks pursuing a goal that the rest of the state undermines. Timing also matters. Inflation is temporarily running quite low, offering a rare window to re-anchor expectations. But with inflationary pressures set to rise later this year, that window is closing fast.

Ultimately, the 3% target could define a new era of lower rates and greater stability. But achieving it requires a "Team SA" effort - a coordinated approach where monetary, fiscal, and structural policies all pull in the same direction. Without that, the risks may outweigh the rewards.