QUARTERLY COMMENTARY

January 2026

Prescient on point.

Prescient

INVESTMENT MANAGEMENT

In this issue

The year markets rediscovered gravity, and what it means for 2026

A NOTE FROM OUR CEO

by CHEREE DYERS
Chief Executive Officer

As 2025 drew to a close, markets revealed not just volatility, but a deeper reset that reshaped how investors think about risk, value, and discipline.

As 2025 drew to a close, it felt as though markets had undergone a subtle but fundamental reset.

> The volatility we saw last year hasn't gone away. It's just taken on a new form. Where we once experienced daily swings driven by speculation and excess liquidity, we now face a more balanced environment: one where the cost of capital matters, where discipline has returned to valuation, and where investors are rediscovering that fundamentals eventually reassert themselves.

Last year reminded us that during times of easy money, markets and asset values, like all living things, tend to return to equilibrium.

How 2025 unfolded

At the start of the year, we noted that volatility would shape the landscape and that successful portfolios would need to be both defensive and opportunistic. That assessment has proved to be correct.

Inflation slowed in most major economies, but not evenly or smoothly. Policy rates stayed high, raising yields materially for the first time in over a decade, and change with significant implications for asset allocation and portfolio management.

Equity markets advanced, though modestly, if you strip out the highly concentrated gains from large-cap technology in the US and resource shares in SA. Valuation dispersion widened considerably, separating quality from mediocrity more clearly than in years past. Credit markets found their footing as investors rediscovered the appeal of the carry trade. And while growth in the US and Europe decelerated, several emerging markets, including South Africa, attracted renewed capital flows as investors sought higher real yields and exposure to resources.

Over the year, three principles we highlighted in our quarterly reflections demonstrated their value:

1. Liquidity matters again, as does the flexibility to handle unexpected events.
2. Diversification involves more than simply owning everything, as traditional correlations have become less dependable. Investors needed genuine balance across different sources of return, not just across assets.
3. Data and discipline remain crucial for investment success, with evidence rather than emotion or storytelling the most reliable compass when uncertainty prevails.

By the third quarter, these lessons became evident in practice. Markets rewarded patience and penalised impulsive moves. Foreign investors resumed investing in South African bonds, the rand gained significantly, and emerging-market resources outperformed their developed-market counterparts. The interaction between global influences and local opportunities became more apparent: diversification across regions, currencies, and investment approaches delivered value precisely when it was most needed.

What has shifted in investor behaviour?

The cost of capital has become a priority again, and it's re-pricing everything. Higher interest rates have reinstilled discipline regarding the importance of capital returns. Valuations inflated by a decade of near-zero rates are normalising, forcing investors to focus on genuine productivity, balance-sheet strength, and cash-flow sustainability rather than on the prevailing news headlines or market momentum.

> Volatility has become more targeted. Instead of widespread market turmoil, we've seen localised bursts of volatility driven by geopolitical events, changes in commodity supply, and regulatory shifts. This requires agile, differentiated risk management rather than binary positions.

Private markets are confronting reality. Illiquidity risk, once a theoretical concern, became tangible as private market asset valuations came under pressure. Investors are rediscovering the virtues of transparency and the discipline that mark-to-market pricing entails.

Transparency and alignment are emerging as investment differentiators. Investors globally are more rigorous in the questions they ask, seeking answers on how conflicts of interest are managed. How value investing actually delivered in 2025. Last year, it became increasingly evident that trust isn't granted based on promises but rather earned through evidence and consistency.

Data-driven investing proved its resilience. Despite significant noise and dislocation, systematic processes demonstrated their value, not through prediction, which remains elusive, if not impossible, but through rational, consistent responses to changing conditions.

At Prescient, this remains foundational to our approach: processing hundreds of millions of data points daily to monitor risk, spot changing relationships, and make decisions based on evidence. It is this combination of data volume and investment discipline that provides clarity even when dominant narratives shift.

Themes we expect to shape 2026

We expect investors to prioritize outcomes over products. They are likely to focus less on which specific fund to choose and more on the investment results they aim for. Whether the goal is inflation-plus income, capital preservation, or growth with controlled drawdowns, success will depend on clearly defining objectives and systematically measuring progress.

Artificial intelligence is shifting from experimental applications to fundamental infrastructure, paving the way for AI-enhanced, human-controlled investing. The upcoming phase involves integration, where automation expands research and risk-management capabilities, while human oversight maintains explainability, governance, and integrity. Ultimately, investment managers' key competitive edge will be their ability to blend large-scale data with disciplined human judgment.

As yields stabilise and long-term assets become more appealing, investors are seeking resilient income sources. Consequently, we may see a resurgence in credit, infrastructure, and real assets. Strategies in credit and infrastructure finance that support transition and resilience themes are expected to stay attractive.

Sustainability is moving from a policy goal to a tangible economic reality. Investors are assessing how companies and countries are adjusting to decarbonisation efforts, resource limitations, and changing regulations. Therefore, we expect the transition to continue unfolding, not just as a moral duty but as a source of long-term investment value.

2025 reminded us that flexibility, liquidity, and resilience remain vital, and being directionally correct is not enough if liquidity constraints prevent you from holding positions through volatility. The most effective portfolios for 2026 will be those that can adapt by adjusting duration, reallocating risk, and seizing opportunities when dislocations create value.

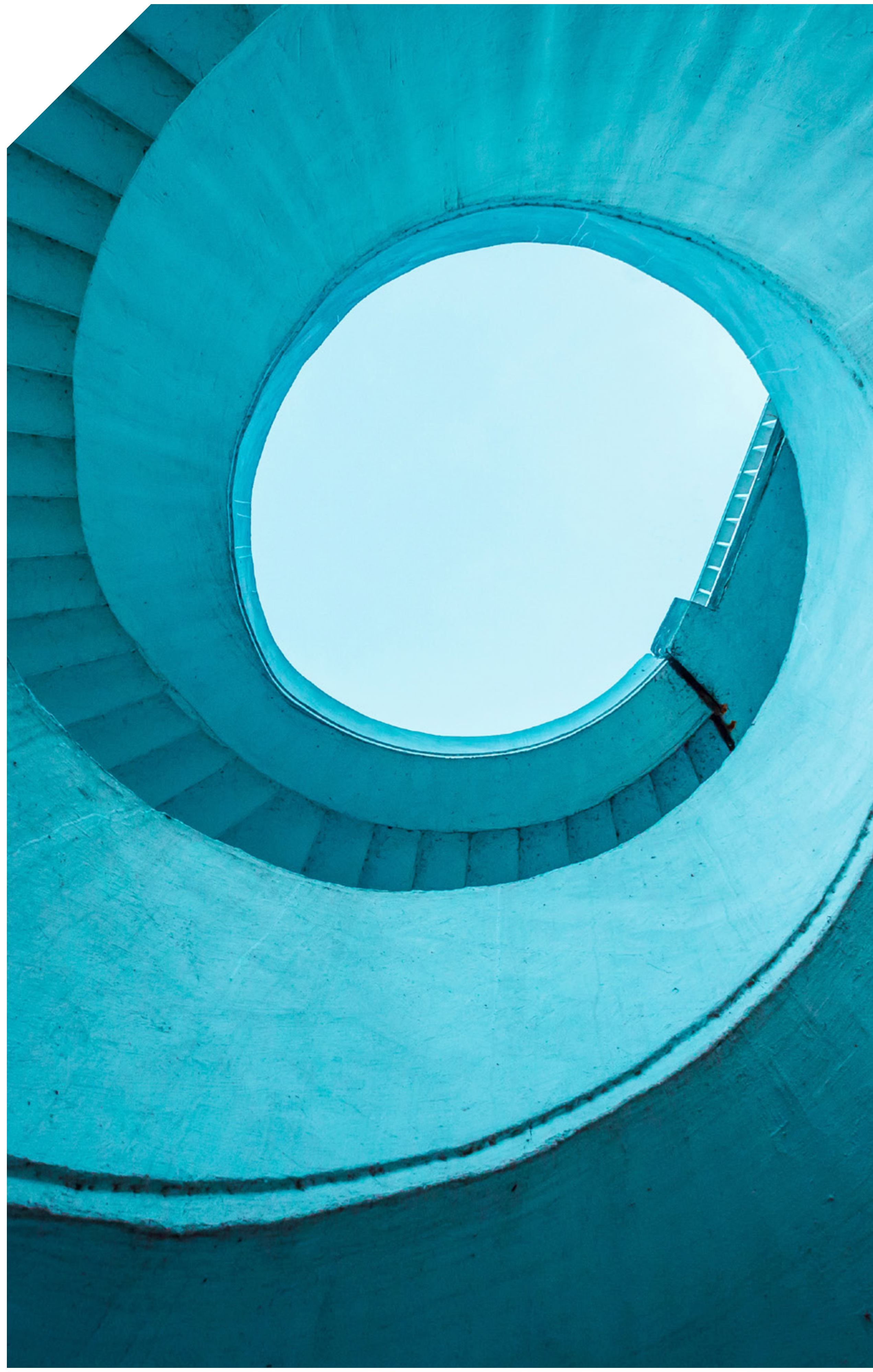
Looking Forward

Last year tested every investor's patience and investment process. It rewarded those who planned for variability, who respected risk without being paralysed by it, and who maintained discipline when noise levels intensified.

It also reaffirmed that while technology and data are reshaping how investment decisions are made, conviction, governance, and human judgment remain irreplaceable elements of effective portfolio management. As we enter 2026, the challenge won't be predicting what is to come; it will be preparing for the unexpected.

> Investors and investment managers who can convert information into insight and insight into disciplined, repeatable actions will become industry leaders, as will those who can systematically adapt as conditions change, rather than mechanically extrapolating from past successes.

Our commitment at Prescient is just that. We will combine systematic rigour with strategic foresight, ensuring that amid complexity and uncertainty, we adapt to evolving conditions, allowing our clients to invest with confidence and clarity.



A systematic lens on volatility, growth, and the global cycle

A LOOKBACK ON THE PAST QUARTER

by BASTIAN TEICHGREEBER
Chief Investment Officer

Beneath a noisy quarter of headlines, market data revealed a far quieter but more consequential shift in volatility, growth, and risk pricing.

Financial markets rarely move in straight lines. They pulse and shift like a large, interconnected weather system – sometimes turbulent, sometimes eerily calm, often misunderstood. Human investors tend to respond to these movements with intuition, narrative, and emotion. Systematic investors respond with data.

> Across the last quarter, that distinction mattered. Beneath the headlines – US politics, tariff rhetoric, South Africa specific reprieves, geopolitical anxieties – the actual market signals told a quieter but far more meaningful story: implied volatility collapsed, inflation surprised to the downside, and the global growth pulse softened.

Implied Volatility: The Market's Barometer of Fear

Option-implied volatility across global equities, fixed income, and currencies moved towards multi-year lows. Investors were unwilling to pay for downside insurance. That complacency is not a subjective feeling – it is measurable, tradable, and historically predictive. When the "price of uncertainty" becomes unusually cheap, the probability of adverse market moves tends to rise. Low volatility is not a green light. It is an early-warning indicator.

At Prescient, we treat this signal with scientific discipline. We don't rely on the instinctive view that "markets have run too hard." We quantify risk premia, measure dispersion, evaluate covariance structures, and update expected-return estimates across asset classes. The empirical evidence is consistent: unusually low implied volatility corresponds with lower forward returns and higher fragility.

> That is why our portfolios adopted a more conservative stance through the quarter. In an environment where fear is underpriced, prudence is not defensive – it is rational.

Global Macro: Inflation Surprise, Labour Weakness, and Policy Turning Points

Headline inflation continued its downward trend globally, surprising slightly on the downside relative to consensus. This was not unexpected and in line with our expectations. We have long shown, using disaggregated inflation data, that the current inflation profile is dominated by shelter costs in the United States – an inherently lagged component of the CPI basket rather than a symptom of a broad inflationary shock. Goods inflation has cooled sharply. Services inflation excluding shelter has moderated. Tariff noise resurfaced in political debates, but the empirical reality remains: Tariffs depress growth more than they raise consumer-level inflation.

Higher trade barriers tend to weaken investment cycles and slow productivity, not create runaway prices. The quarter confirmed this once again. Growth itself deteriorated. Our indicators have been more pessimistic on global growth than consensus for some time, and these signals are now playing out. Labour markets, especially in the US and Europe, softened at the margin. Employment growth slowed. Job-opening ratios fell. Wage growth declined. These are working-theory predictors of a late-cycle environment. When the labour market turns, it tends to turn gradually, then suddenly.

Central banks responded accordingly. The Federal Reserve maintained its cautious tone but pivoted unmistakably toward an easing bias. Rate-cut expectations were pulled forward. Real yields fell. Global bond markets strengthened. Unlike human instinct – which often frames rallies as "too far, too fast" – our analysis treats this not as a narrative, but as an updated estimate of the global term premium. The fall in yields, particularly in South Africa, was mathematically justified: local inflation risk premium compressed, global growth expectations weakened, and policy rates overseas reacted downwards.

Global Markets: Equities Strong, Bonds Stronger, Credit Steady, Dollar Softer

Global equities delivered solid performance, driven largely by US large-cap technology, improving earnings expectations, and falling discount rates. Europe lagged due to weaker growth dynamics, while Japan continued to rerate as corporate governance reforms gained traction. Global fixed-income markets appreciated, with long-end US Treasuries leading as real yields declined. Duration once again behaved as a hedge – something that was absent in parts of the post-COVID cycle.

Credit spreads ground tighter, supported by stable corporate fundamentals and strong demand for yield. This behaviour is typical when volatility is low: investors reach for carry. From a systematic perspective, however, spreads are now priced below fair value, leaving limited cushion should growth weaken further. The dollar softened modestly as rate-cut expectations increased. High-beta emerging-market currencies benefited from improved risk appetite, though this strength is fragile given the low-volatility environment.

South Africa: Good News, Better Data, Same Global Gravity

South Africa delivered very positive news flow. The country exited the FATF grey list, received a sovereign rating upgrade, and formalised a lower 3% inflation target. These developments matter; they improve credibility, reduce long-term funding costs, and ultimately raise equilibrium growth potential. The domestic bond market reacted strongly. Yields compressed sharply across the curve, and nominal auctions were reduced thanks to better-than-expected fiscal performance. The rand appreciated. Equities followed global markets higher.

Behaviourally, this was a perfect example of a classic human bias: cutting profits too early. Many investors tried to "lock in gains" because prices had "run too far." Our process rejects that intuition outright. At Prescient we turn more conservative, too, but we do so for the right reasons. And this is where global gravity re-enters the story: South Africa is small and open economy. Our local market outcomes are overwhelmingly shaped by global risk appetite, US policy rates, and cross-border capital flows. Local good news matters, but it cannot override global cycles. With global growth deteriorating and implied volatility so low, the prudent stance is to be constructive but cautious – not euphoric.

The Systematic Advantage: Turning Emotion into Evidence

The quarter demonstrated once again that markets are not moved by headlines – they are moved by data. Human investors often react to price movements with intuition: *"This rally has gone too far," "This sell-off must continue," "The rand is too strong."* These heuristics feel natural but are statistically unhelpful. Systematic investing turns these soft instincts into hard evidence. Implied volatility becomes a quantifiable barometer of sentiment. Yield curves become a model of policy expectations. Economic nowcasts become a forecast of cycle turning points. Inflation disaggregation becomes a structural signal, not a headline. Together, these tools convert the chaotic surface of markets into a coherent, measurable, and ultimately investable framework.

> This quarter's message is straightforward: volatility is low, growth is softening, inflation is normalising, and monetary policy is still too tight. These conditions historically produce modest forward returns and require careful positioning. Cutting through the noise is not optional. It is the only way to navigate an environment where intuition misleads and only data endures.

2025 Lessons shaping investor strategy 2026

by RUPERT HARE
Head of Multi-Asset

and SHRIYA ROY
Portfolio Manager

The experience of 2025 reinforced the importance of measured risk-taking and adaptability as investors prepare for an uncertain 2026.

Retrospective introspection is one of the most important skillsets in asset management. Looking back on the year and asking three questions: what went right, what went wrong, and what should we do to improve the process going forward?

> The year that was 2025 was not without risk, with top-heavy equity valuations at risk of correcting from the threat of weakening economic growth, and the swinging back and forth of global trade policy uncertainty and political noise. Thematically, we remained in a moderately defensive stance for the majority of the year, preferring the high yield pickups over both cash and inflation over the equity markets, which continued to run.

We entered the year overweight in SA equities and bonds, while underweight in developed market equities, and neutral on emerging markets. Midway through the year, as SA equities continued to rally but fundamentals lagged, our views on SA equities and SA bonds switched to an underweight stance, taking risk off the table after the strong rally.

	Beginning of 2025 Outlook	2025 Performance	Current Outlook
SA Equities	Positive	36%	Negative
Global Equities (USD)	Negative	18%	Negative
EM Equities (USD)	Neutral	28%	Negative
SA Bonds	Positive	21%	Negative
US Bonds (USD)	Negative	5%	Positive
SA Income	Neutral	10%	Positive
US Income (USD)	Neutral	5%	Positive
USDZAR	Positive	10%	Negative

Source: Prescient Investment Management, 31 December 2025.

We enter 2026 with a much more cautious stance. There are some downside risks present in global markets, such as evidence of a slowing US economy. Personal consumption is easing, business and consumer sentiment have weakened, and the labour market -previously one of the strongest pillars of US growth – continues to moderate. With further cracks emerging in labour market data, the key question is how long it can last before the cycle turns.

Despite this softer macro backdrop, global, emerging and local equities continued to rally over the year, delivering gains of over xx%, while markets have priced in additional rate cuts for the year ahead. This disconnect leaves us concerned that markets are quite complacent given the potential economic risks. As a result, we are not looking to put risk back on the table until we see clearer signs of consolidation in equity markets, a recovery in economic growth, a further easing in financial conditions, or a market environment where protection against volatility is more appropriately priced.

Domestically, the general sentiment has improved meaningfully. South Africa has been removed from the FATF grey list, received a sovereign rating upgrade from S&P, and delivered constructive outcomes in the MTBPS. Bond markets have responded positively, with increasing foreign inflows.

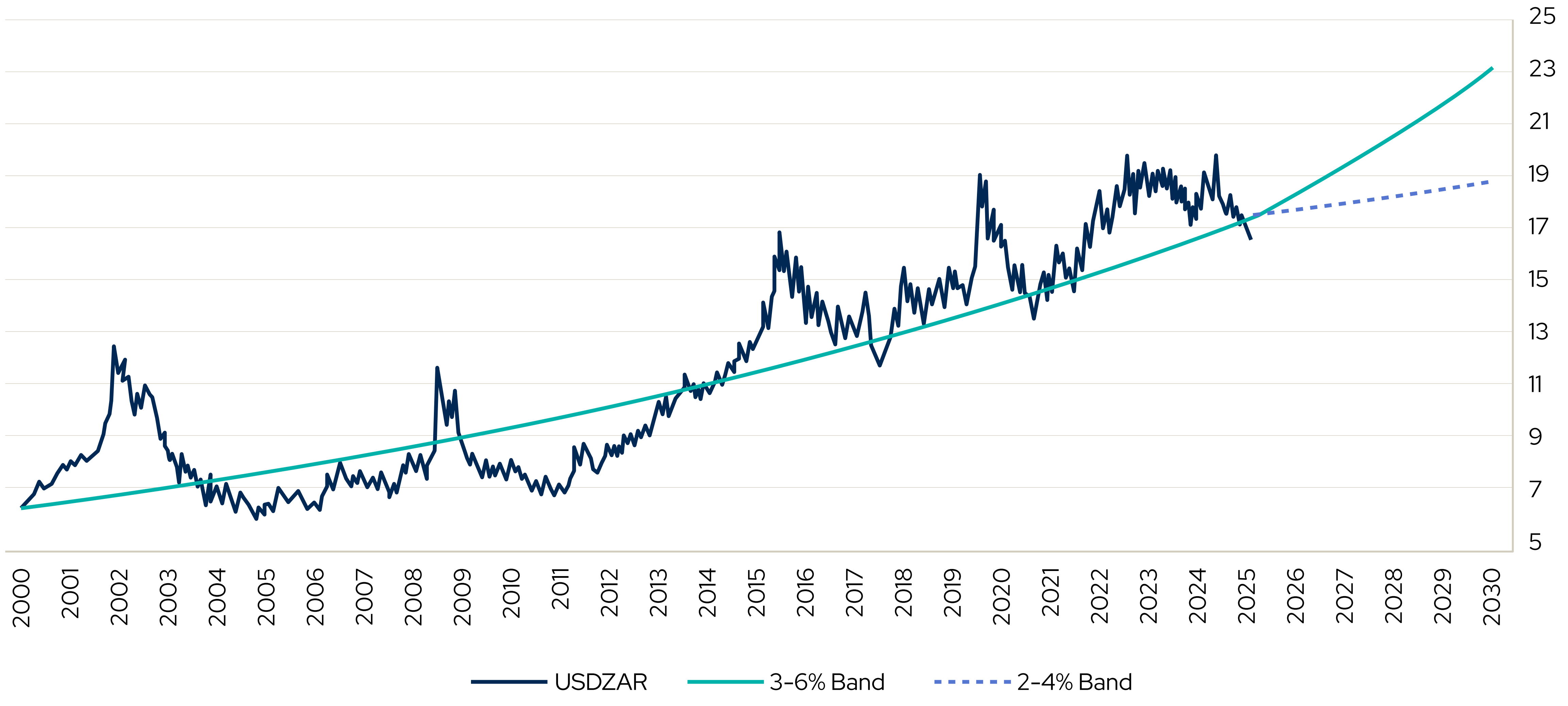
> To sustain this momentum, continued progress in structural reforms and tangible delivery on infrastructure and energy projects is critical. Without sustained implementation, the recent optimism could fade.

Inflation expectations have adjusted well to the new local 3% target framework. In line with this, we have revised our long-term SA inflation expectation from 6% to 3.5%, consistent with SARB's 3% target and the ±1% tolerance band. Putting this in simplistic terms for the rand going forward: since 2000, the SARB has targeted the 3% to 6% band, and longer-dated inflation swaps priced at the 6% top end. That pricing has now been revised downwards to just below the 4% level.

This implies the rand's path, informed in large part by the rate differential, should now slow in nominal terms, weakening to around R19/$ by 2030 on a pure carry basis. In reality, this path is far from smooth, and where you start the line makes a difference, but it does revert to trend through the cycle.

The SARB has also guided towards a gradual easing in interest rates as inflation continues to subside. This alignment with other emerging markets has already contributed to a compression in the yield curve, offering some price appreciation across the curve.

Forward guidance on the structural path of the rand



Source: Bloomberg, 31 December 2025.

A global risk-off scenario cannot be ruled out. Should US markets roll over, we could see capital shift back into US Treasuries and safe-haven currencies such as the dollar. On the currency front, some reversal in rand strength is possible. Much of the rand's recent performance has been driven by broad dollar weakness, with most EM currencies benefiting. As rate cuts approach, this dynamic could shift the dollar's trajectory.

Inflation appears to be broadly contained, both offshore and domestically. Our forward inflation view for the US remains constructive, with expectations that price pressures will continue to moderate. South Africa's inflation outlook is similarly trending lower. Unless unexpected supply or demand shocks arise, both central banks seem positioned to achieve their inflation objectives – though the outlook for growth remains less encouraging.

As always, we are prepared for a range of market scenarios. The past year demonstrated once again that markets can move sharply and unexpectedly – as seen during periods of significant volatility and political uncertainty. We will continue to approach our portfolios with discipline, objectivity, and flexibility.

Our ability to shift dynamically across asset classes, manage risk meticulously, and weigh trade-offs in our multi-asset portfolios remains central to delivering optimal outcomes for clients. As we head into 2026, we remain level-headed, vigilant, and committed to navigating whatever the market presents.

Prescient's multi-asset portfolios benefit from being a sum-of-the-parts solution – capturing the alpha components from all the underlying asset classes while also gaining risk mitigation through diversification from the multi-asset team.

Come what may – reflections on 2025 and the road ahead

by SEEISO MATLANYANE
Head of Equities

2025 was a year that confounded expectations, as equity markets delivered extraordinary returns despite an environment that seemed to argue for caution.

2025 - A year that defied every script

If someone had handed me the 2025 script last December and asked whether I believed global equity markets would deliver another year of spectacular returns, I would have assumed it was the optimistic director's cut. Not because I doubted market resilience, but because nothing in the opening scenes hinted at the blockbuster year that followed. Yet here we are.

> For me, 2025 will be remembered as the year in which global equity markets showcased an extraordinary ability to absorb shocks, recalibrate rapidly and deliver returns far beyond what the macroeconomic backdrop seemed to permit. Entering the year, investor sentiment was cautious. Few would have anticipated that the S&P 500 would register one of its highest counts of all-time highs in modern history. Yet propelled by robust earnings, resilient consumption, and an intensifying wave of AI-driven investment, it did exactly that.

The political and economic environment offered little comfort. President Trump's second term ushered in renewed tariff volatility, the expansive "Big Beautiful Bill," and public friction between the White House and the Federal Reserve, leading to news cycles that often read like the plot of a geopolitical thriller. Yet equity markets, in their characteristically forward-looking manner, focused less on the political theatre and more on the improving fundamentals. Inflation decelerated, growth remained firm, and risk appetite strengthened.

The AI investment cycle was, of course, a defining force. Mega-cap technology companies continued to allocate unprecedented sums to data centres, semiconductor infrastructure, and cloud optimisation. One AI bellwether even surpassed the USD 5 trillion market-capitalisation threshold – an extraordinary symbol of the structural acceleration underway in digital productivity.

Outside the United States, equity markets also advanced meaningfully. Europe experienced a strong re-rating phase, driven not by earnings but by anticipated economic normalisation in 2026. Asia delivered a more nuanced picture: Japan continued its multi-year recovery, India consolidated after years of outperformance, and China experienced liquidity-driven rallies despite subdued growth.

Here at home, South Africa quietly exceeded expectations. The Government of National Unity brought stability, load shedding eased materially, and the Budget – when eventually delivered-surprised positively. Interest rates plateaued, supporting a powerful rally in SA government bonds and pushing the FTSE/JSE All Share Index to successive record highs – an outcome few would have confidently written into their January outlook.

As investment managers, we often get credited for forecasting ability. The truth? No one forecasts years like 2025. Not honestly, anyway, because forecasts will always be fallible. The lesson from 2025 is not that unpredictability is undesirable, but that it is inherent to financial markets.

What we do instead is build disciplined investment processes grounded in objective data assimilation, diversification, systematic risk control, and enduring principles – so that when the world surprises us, as it always does, we are positioned to participate without being overexposed to any single storyline.

2026 - Cautious but Optimistic

With global equities now materially higher, investor concerns are understandably shifting toward sustainability. Valuations in major developed markets are elevated relative to long-term averages, market leadership is concentrated, and the enthusiasm surrounding AI has introduced pockets of speculative behaviour.

However, caution does not necessitate pessimism.

We enter 2026 with a constructive, yet measured, outlook. Several supportive forces remain in place:

- Resilient earnings: Corporate profitability, especially in the US, continues to exceed expectations. Fiscal momentum, wage growth, and AI-driven productivity improvements provide a solid foundation.
- Technological transformation: The AI capex cycle appears multiyear, not transitory. Monetisation is beginning to emerge, most notably in cloud services, search, and enterprise productivity, supporting revenue visibility.
- Monetary policy tailwinds: Numerous major central banks are shifting toward easing. Lower discount rates could stabilise or even expand global equity multiples.
- Attractive emerging markets: EM valuations remain reasonable. With earnings momentum improving and the potential for a softer US dollar, the asset class presents compelling diversification benefits.

At the same time, we recognise that risk management remains paramount. Elevated valuations increase vulnerability to external shocks: policy missteps, bond-market instability, and geopolitical events may all act as catalysts. These risks reinforce the importance of diversification, disciplined exposure sizing, and adherence to long-term strategy.

Why Cash May Not Be the Answer

Periods of elevated valuations often tempt investors toward cash. While emotionally appealing, cash is structurally disadvantaged as a long-term wealth-preservation instrument. Inflation, even at moderate levels, erodes purchasing power, and market recoveries tend to occur faster than investor sentiment can adjust. The cost of being uninvested can therefore exceed the perceived protection.

Come What May

As we transition into 2026, our stance is one of balanced conviction: confident in the resilience of global equities, yet fully cognisant of the risks. Our investment philosophy remains unchanged. We do not rely on prediction, but on process. We aim to build portfolios that participate in upside, manage downside, and remain robust across a spectrum of market conditions.

> Markets will continue to surprise. Narratives will shift. Cycles will turn. But a disciplined, well-rounded investment approach remains the most reliable compass to navigate whatever may come.

South African bond market review 2025

by REZA ISMAIL
Head of Bonds

The formal adoption of a 3% inflation target in 2025 triggered a structural re-pricing across South Africa's sovereign bond market.

The year 2025 constituted a regime-defining inflection point for the South African sovereign bond market. The decisive macroeconomic development was the joint decision of the National Treasury and the South African Reserve Bank (SARB) to shift from the long-standing 3.0%-6.0% per cent inflation band, de facto centred at 4.5%, to a formal 3.0% target with a ±1 percentage point tolerance range.

> This re-specification of the nominal anchor has profound implications for the determination of the term structure, not only via the conventional average inflation expectations channel, but through its impact on inflation risk premia, real term premia and the perceived credibility of macroeconomic policy.

By the time the authorities moved formally to a 3.0% inflation objective, data already revealed a de-facto regime shift in the price process. Headline CPI outcomes had clustered tightly around the 3.0% level for roughly a year prior to this, with sequential quarterly prints oscillating within a narrow band rather than exhibiting the persistent overshooting that had characterised earlier regimes and episodes.

Core measures of the inflation process, which strip out the most volatile food and energy components, displayed an even more compressed distribution, indicating that the underlying trend in inflation – rather than merely transitory shocks – had converged toward the new suggested target.

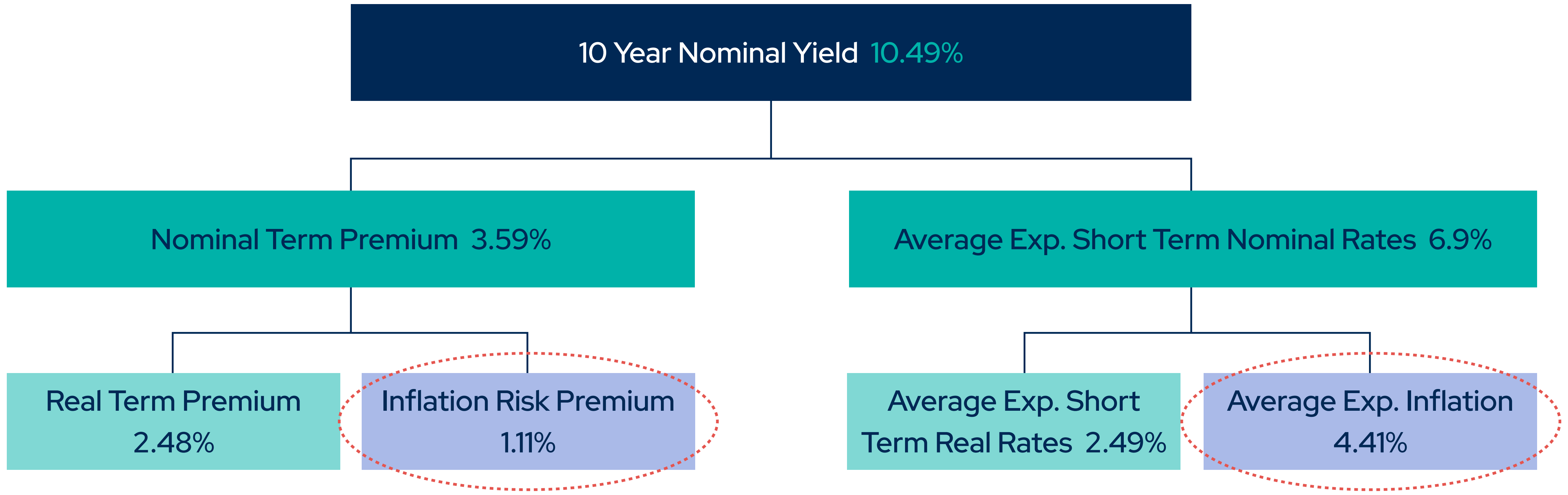
Forward-looking inflation indicators were consistent with this pattern: survey-based expectations, break-even inflation rates inferred from inflation-linked bonds, and econometric model-consistent projections had all drifted downward and become less dispersed. In effect, the economy had already internalised a lower nominal anchor before it was codified in the formal target, so the announcement crystallised an existing empirical reality rather than attempting to engineer an abrupt disinflation from above.

The SARB's internal "stress-testing 3.0%" exercises show that when the target is modelled within the Quarterly Projection Model, forward-looking inflation distributions narrow appreciably; two-year-ahead inflation expectations become more tightly concentrated around the new point target with reduced tail mass at high inflation outcomes.

Our own econometric work within a formal affine Adrian-Crump-Moench (ACM) framework decomposition, shows that the 10-year nominal yield, can be written schematically as the sum of the expected path of short-term nominal rates and a residual nominal term premium. A credible shift to a 3.0% inflation target lowers the average of expected inflation over a 10-year horizon and compresses the associated term premium on 10-year government bonds.

In our joint nominal–real decomposition, this expression is refined into four economically interpretable components: the average expected short-term real rate, the average expected inflation rate, a real term premium and an inflation risk premium. The May 2025 ACM snapshot, calibrated prior to the announcement of the new target, decomposed a 10-year nominal yield of approximately 10.5% into: an average expected inflation component of about 4.4%, an average expected short-term real rate near 2.5%, a real term premium around 2.5% and a non-trivial inflation risk premium of around 1.1%.

SA Yield Decomposition



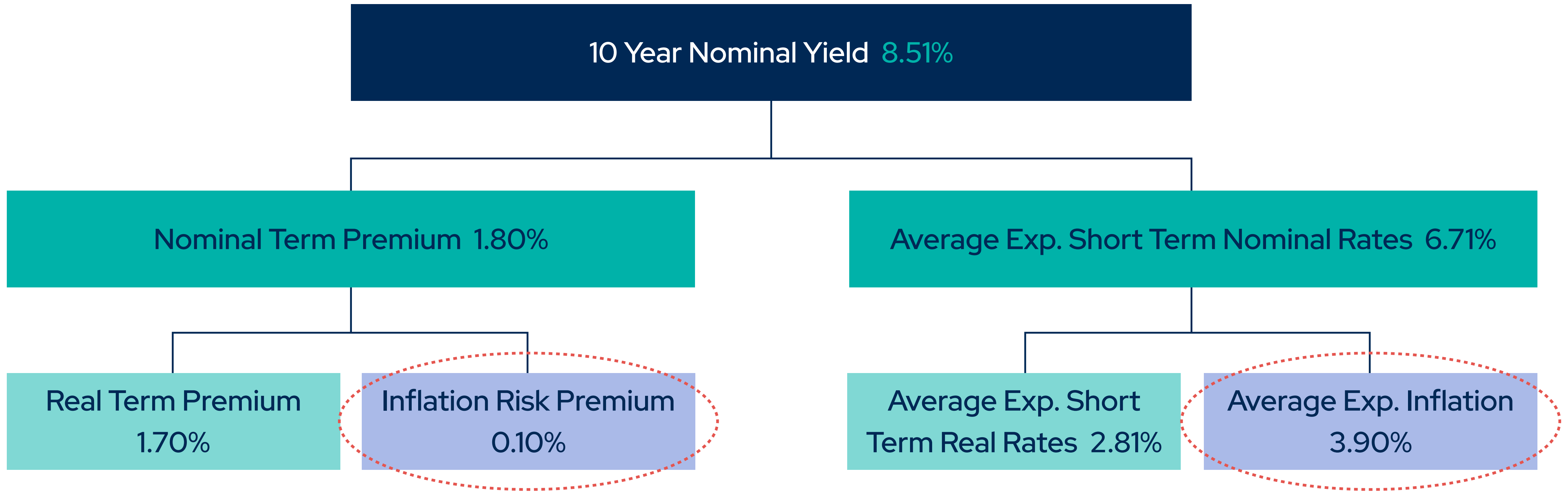
Source: Prescient Investment Management, May 2025

> The analytical narrative we advanced at that time was explicit. Conditional on markets assigning high credibility to the SARB's proposed regime, the predominant mechanical adjustment to the yield curve should occur in those ACM nodes directly linked to inflation dynamics: the average expected inflation component at the bottom right of the decomposition, and, by well-documented empirical regularities, the inflation risk premium.

Real-rate expectations, anchored inter alia by South Africa's structural growth and fiscal profile, were not expected to re-price materially in the short run. Instead, any additional compression in long-dated nominal yields was expected to arise from a decline in the term premium, reflecting lower macro-volatility and reduced sovereign-risk compensation as the new regime bedded down. This configuration is fully consistent with simulations showing that a lower target, by reducing both the mean and variance of inflation, yields permanently lower 10-year yields and a declining government interest-burden/GDP ratio.

The ex-post evidence from the second half of 2025 indicates that this predicted configuration materialised with striking fidelity. By year-end, the ACM decomposition of the 10-year nominal yield recorded an overall yield of about 8.5%, comprising an average expected short-term nominal rate of 6.7% and a residual nominal term premium of 1.8%. Within the nominal block, the average expected inflation rate was estimated at 3.9%, the average expected short-term real rate at 2.8%, the real term premium at 1.7% and the inflation risk premium at a negligible 0.1%.

SA Yield Decomposition



Source: Prescient Investment Management, December 2025

> Relative to the May configuration, the most pronounced re-pricing occurred exactly where the prior analysis located it: the average expected inflation node and the inflation risk premium contracted materially, while real-rate expectations were only moderately revised and the real term premium declined in a manner consistent with improved macro-credibility.

The inflation risk premium is the component of nominal yields that compensates investors for uncertainty about the future path of inflation over and above their best forecast of its mean; in formal decompositions it is the wedge between breakeven inflation and model-consistent expected inflation, or equivalently between the nominal and real term premia at a given maturity.

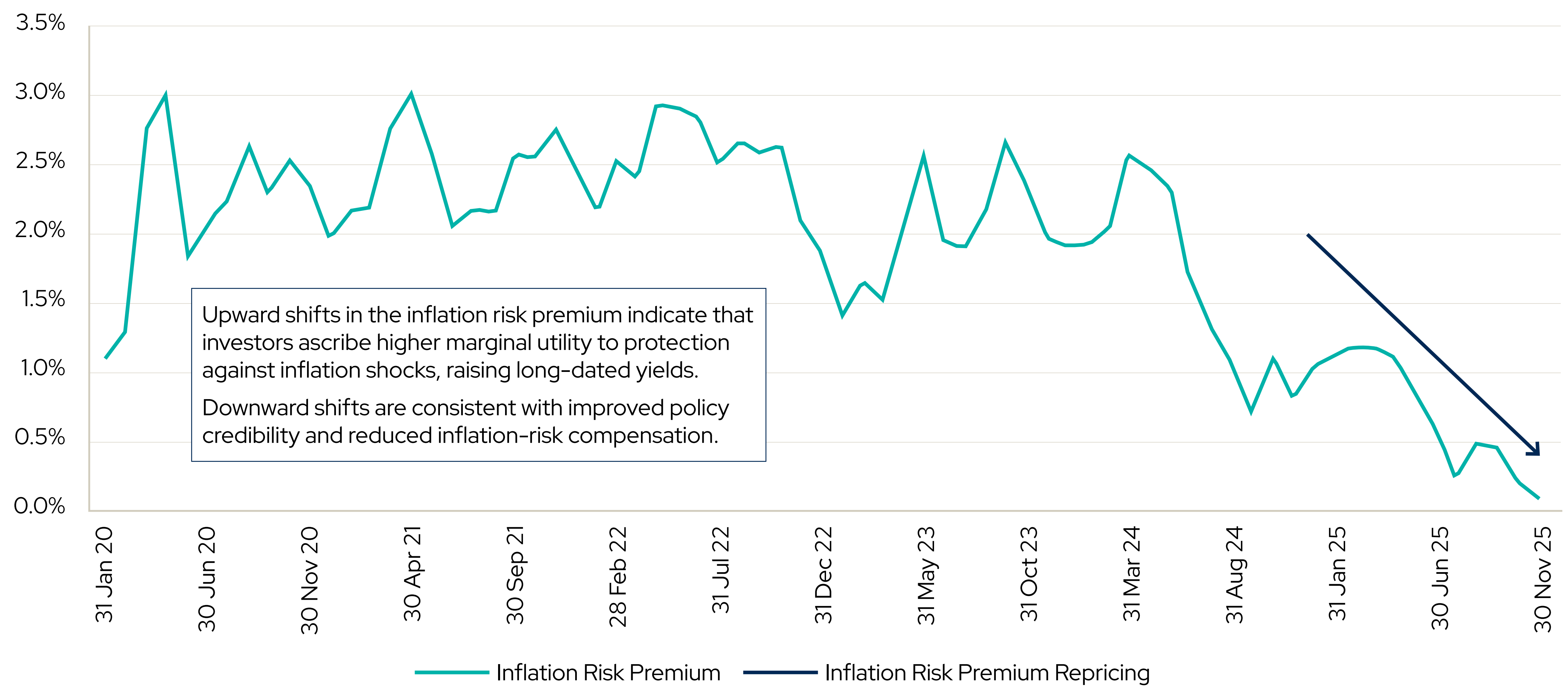
In representative-agent asset-pricing models this premium is positive whenever inflation tends to be high precisely in states of the world when the marginal utility of consumption is high, so that unexpected inflation erodes real payoffs in bad times, and it is therefore tightly linked to measures of inflation uncertainty, disagreement among forecasters and broader indicators of macro-financial stress.

Against this theoretical backdrop, the evolution of the South African 10-year inflation risk premium in 2025 – from roughly 3.0% in the wake of the COVID-19 pandemic, to around 0.1% by December – constitutes a textbook example of how a credible regime shift can compress compensation for tail inflation outcomes. High-frequency evidence shows that declines in 10-year breakeven rates of more than 100 basis points were driven far more by movements in inflation risk premia than by the relatively modest (≈20 basis point) downward drift in model-based inflation expectations themselves. This pattern is exactly what international studies find when monetary policy gains credibility and inflation volatility is durably reduced: inflation risk premia shrink, and can even turn slightly negative, as investors begin to treat low-inflation outcomes as the dominant tail risk.

The SARB's own analytical work on moving to a 3.0% point target stresses that such a regime lowers long-term inflation risk premia by narrowing the distribution of future inflation and by anchoring expectations more firmly. In our ACM decomposition this logic materialises numerically in the collapse of the 10-year inflation risk premium from around 3.0% – a sizeable "hazard-based" charge for the possibility of inflation spikes – to roughly 0.1%, a level consistent with a market that now views large adverse inflation surprises as low-probability events under a newly credible 3.0% inflation-targeting regime.

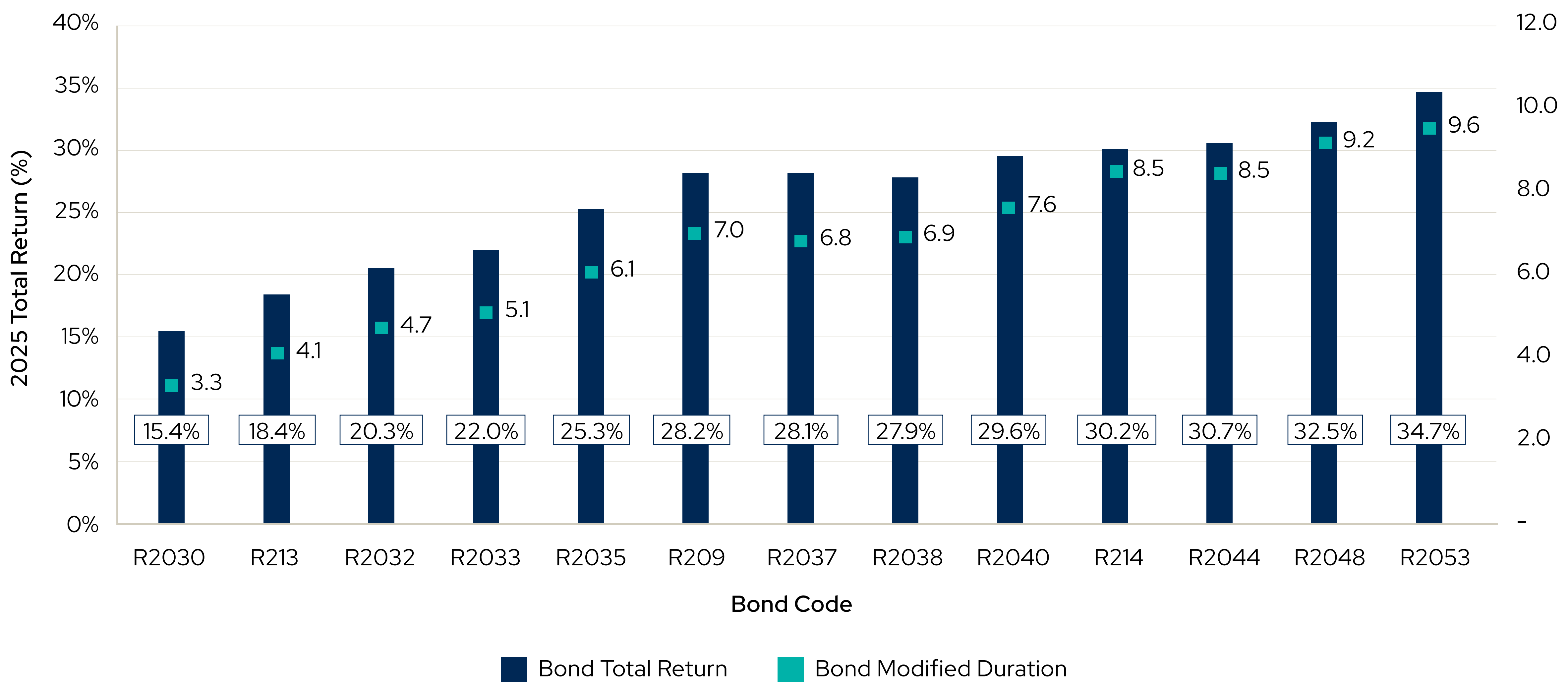
These term-structure dynamics are mirrored in cross-sectional realised returns. The table of government-bond total returns for 2025 exhibits an almost monotonic mapping from modified duration to performance. The now 4-year R2030, with a duration of 3.3, generated an 15.4% year-to-date year to date return; by contrast, the 22-year R2048 and 26-year R2053, with durations of 9.2 and 9.6 respectively, delivered year to date returns of 32.5% and 34.7%. Intermediate maturities line up along this duration ladder: the R2035 around 25.3% for a duration of 6.1, and the R214 approximately 30.2% for a duration of 8.5. This realised return structure is precisely what one would expect from a one-off, downward repricing of long-horizon inflation and risk premia: the bulk of the total-return variance across bonds is explained by duration exposure to a common yield-curve shock, rather than by idiosyncratic credit or liquidity factors.

10-Year inflation risk premium



Source: Prescient Investment Management, Bloomberg, 31 December 2025.

2025 YTD returns vs modified duration



Source: Prescient Investment Management, Bloomberg, 31 December 2025.

Global conditions in 2025 were far from uniformly benign. The external environment was characterised by "uneasy calm", with the global economy absorbing tariff-related shocks and policy rates in advanced economies declining only gradually from post-pandemic peaks. In that context, it is difficult to attribute South Africa's substantial flattening of long-end yields to a generic global duration trade. Rather, the cross-sectional pattern of returns and the decomposition of yields point to a country-specific macro re-rating. The sequence is analytically coherent: joint Treasury–SARB research on optimal targeting; formal adoption of a lower point target; forward-looking inflation expectations re-centred via communication and model-consistent projections; a decline in inflation volatility and in the sacrifice ratio associated with disinflation; and finally, a compression of inflation-related risk premia and term premia in the sovereign curve.

From the perspective of fixed-income portfolio construction, 2025 therefore represents a paradigmatic example of a macro-structural trade expressed through duration. Investors who positioned for compression in the inflation-linked components of the 10-year yield – rather than merely for cyclical policy easing – were rewarded as exactly those ACM nodes re-priced in response to the new target. The near-linear relationship between modified duration and year to date returns, evident in the duration–return scatter, is the market's quantitative verdict on the episode: long-horizon inflation and risk premia were the margin of adjustment, and the curve compressed along the dimensions that a rigorous term-structure decomposition had ex ante identified.

> In sum, the South African bond market in 2025 did not simply "rally"; it re-equilibrated around a new nominal anchor. The interplay between the SARB's enhanced credibility, the National Treasury's commitment to fiscal consolidation and the explicit adoption of a 3.0% inflation target produced a structural shift in the macro-financial regime. The ACM decomposition and the observable duration-driven return pattern together confirm that the compression in yields arose from precisely those components - average expected inflation, and inflation risk premia - that theory and prior analysis predicted would be most sensitive to a credible tightening of the inflation objective.

Finding clarity in uncertain times: rethinking risk through the income lens

by HENK KOTZE
Head of Cash & Income

JABULANI NGOBESE
Portfolio Manager

and NOXOLO SICUKU*
Implementation Specialist and Quantitative Analyst

When uncertainty rises, redefining risk through an income lens can restore discipline and clarity.

** Representative acting under supervision in terms of FAIS.*

The past year has been a masterclass in how markets can humble even the most seasoned investors. 2025 challenged consensus thinking, exposed fragilities in portfolios that leaned too heavily on high-beta growth themes and reminded us that risk isn't just how you feel; it's what you measure. For Prescient's Income Provider and Global Income Provider funds, 2025 proved to be an ideal environment to showcase the value of a disciplined, risk-first approach.

2025: The Year Risk Came Back into Focus

Investors entered 2025 with optimism that global inflation was anchored and that central banks would begin a smooth and predictable easing cycle. Instead, we saw inflation prove stickier in developed markets, diverging central bank policies, geopolitically induced volatility in energy markets, and a messy unwind in several crowded trades, from long-duration tech to parts of the credit complex.

> In South Africa, the SARB's pause-and-hold strategy frustrated markets early in the year but ultimately reinforced the need for a disciplined asset-allocation approach. Elevated real rates supported the carry trade, while the local curve remained sensitive to fiscal developments and shifting risk appetite. This backdrop rewarded strategies that were nimble and systematic rather than reliant on macro predictions.

Globally, the Fed's first rate cut in September came later than expected, creating crosscurrents in global bond markets. Short-end yields remained attractive while long-end volatility persisted, and credit markets repriced pockets of idiosyncratic risk, particularly in lower-rated segments. Investors who assumed a smooth rally in global fixed income were forced to reassess.

Across both local and global markets, 2025 was the year where investors rediscovered that risk isn't the probability of missing out but the probability of losing capital.

A Different Way of Seeing Risk

At Prescient, we define risk through measurable, time-bound capital-preservation targets.

- Local Income Provider
  No loss of capital over rolling 3-month periods.
- Global Income Provider
  No loss of capital over rolling 12-month periods.

These are not marketing lines; they are engineering constraints. They force an investment process where every asset, every trade, and every position has to earn its place through a measurable contribution to the portfolio's risk-adjusted return.

This risk lens reshapes our universe. It naturally emphasises liquid, high-quality income assets - from SA money market and short-duration credit locally, to global investment-grade credit, short-dated Treasuries and income ETFs offshore. It also forces humility: the process doesn't care about the latest narrative, the noise, or "gut feel" macro calls. What matters is whether the asset can deliver a return without violating the capital-preservation target.

The result? Portfolios that compound reliably and behave predictably, even when markets don't.

How the Risk Lens Shaped Portfolio Positioning in 2025

1. Leaning into Front-End Rates

With high real yields in SA and attractive short-end yields globally, both funds benefited from overweight positions in shorter-duration assets. This allowed us to earn elevated income while reducing exposure to long-end volatility, which surprised many in 2025.

2. Selective Credit, Not Stretching for Yield

2025 rewarded credit investors with discipline. Our systematic screen avoided lower-quality issuers showing deteriorating fundamentals, preventing drawdowns seen in parts of the high-yield and EM credit complex. Instead, we focused on short-dated, higher-quality corporate exposure and ETFs that offered liquidity, diversification, and transparency.

3. Optimising Through Liquidity

Both funds maintained meaningful liquidity buffers and used them opportunistically, rotating into assets where spreads temporarily overshot fair value and stepping back when markets were complacent.

4. Global Income Provider: Using the 12-Month Margin of Safety

The longer capital-preservation horizon allowed the Global Income Provider Fund to capture opportunities in USD short credit, floating-rate structures, and selective duration pockets where the expected return compensated for macro uncertainty.

5. Proactive risk positioning

A practical example of this discipline and our commitment to staying true to our process was the shift in our local bond positioning during the third quarter of 2025. Our bond model is driven by four factors: valuations, economics, financial conditions, and sentiment. The dark navy line in the chart below (chart 1) represents our bond score, which informs our bond view, while the green dots show the fund's duration at different points in time.

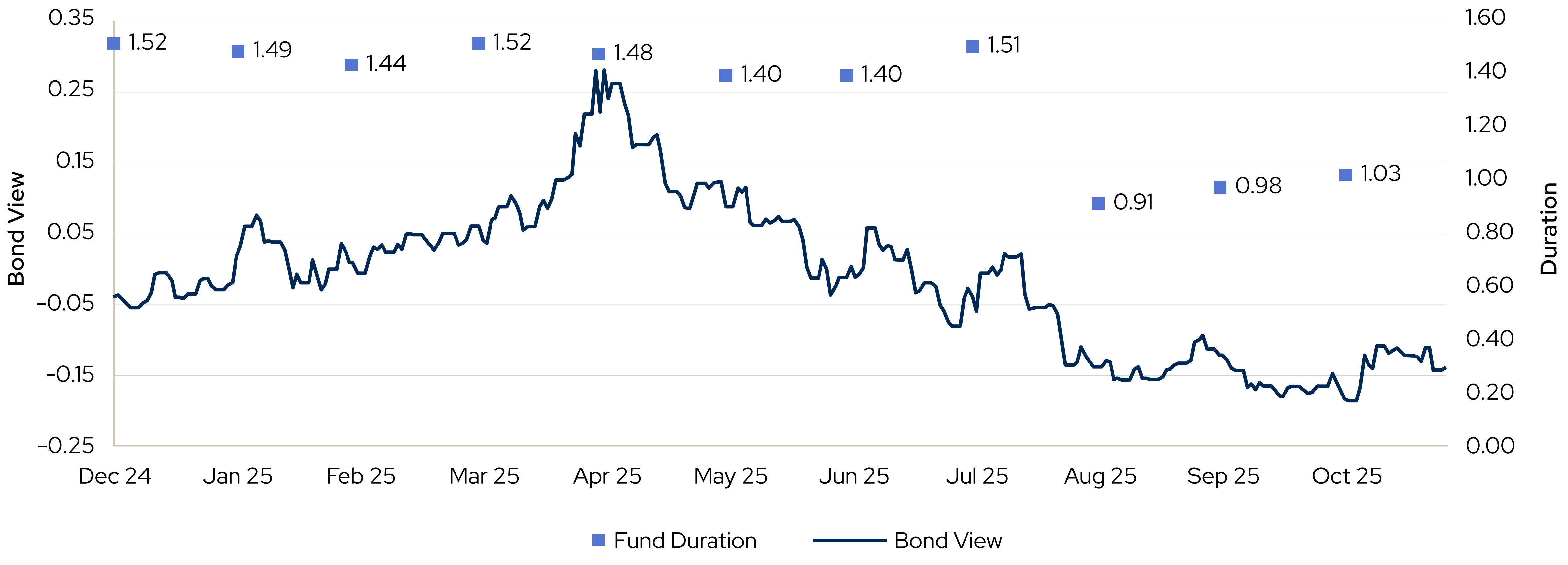
As the bond view shifted from more constructive during the first half of the year to a more negative stance in August 2025, we reduced the portfolio's duration from 1.5 years to 1 year by selling a portion of our bond holdings.

Frustratingly, bonds continued to move lower in yield, but we remained committed to our process, and once we saw that the compensation for risk was insufficient, we aligned the portfolio with what we saw as optimal.

> We do not try to time the market but rather to always be optimally positioned given our view on return vs risk. We have always stated that we are not peer-aware in how we manage the income fund, and there will be times when our relative performance may lag. We have seen it before and will see it again. We have been managing income mandates for more than 25 years and believe in our process and recipe.

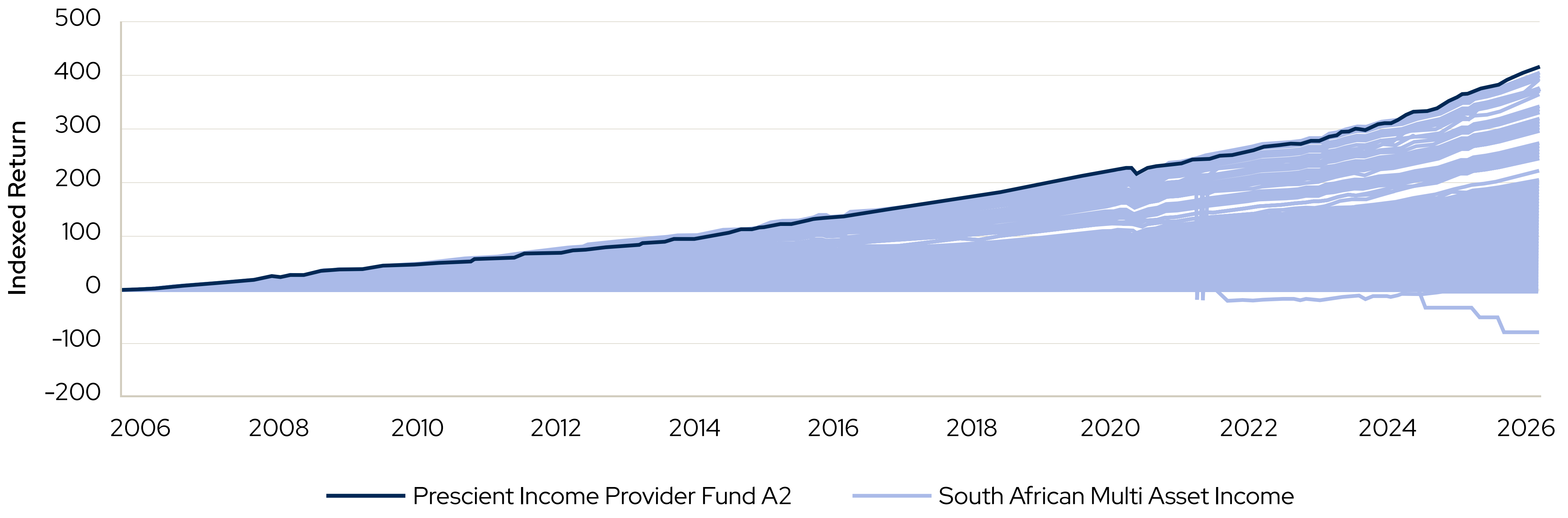
We are currently not constructive on South African bonds, primarily because lower yields do not sufficiently compensate us for the risks in the market. The disciplined process we apply in managing the Income Fund has allowed it to navigate various market conditions successfully, delivering not only on its return target but, more importantly, on its risk target. This same approach has contributed to the model portfolio being the top-performing income fund in its category since inception (chart 2).

Bond Score Jan 25 – Nov 25



Source: Prescient Investment Management, November 2025.

Since Inception Indexed Return



Source: Prescient Investment Management, ProfileData as on 2025-11-27

These positioning choices weren't driven by narratives. They were driven by a systematic risk framework.

Looking Ahead to 2026: The Return of Balance

We expect 2026 to be a transition year. Monetary easing cycles will likely proceed, but not in a straight line. Growth divergences between regions are widening. Fiscal pressures remain elevated in many markets. And risk appetite is starting to reset after years of investors being forced up the risk curve in search of yield.

The big theme heading into 2026 is **risk-off migration**, and this matters for both local and global investors.

Why Income Is Becoming the Natural Destination

At both a retail and institutional level, we are seeing growing momentum toward reducing risk. Investors are reassessing exposures to equities, high-yield credit, and alternative assets after a volatile two-year stretch. Markets are realising that high front-end real yields both in SA and globally now allow investors to earn meaningful returns without stretching into risky assets.

This is where the Prescient Income Provider Fund and Prescient Global Income Provider fund come into their own.

They offer:

- Predictable, repeatable income
- Measurable capital-preservation targets
- Risk controls are built into the process and not bolted on
- Diversified return sources across cash, treasuries, credit, and other income-generating assets

> In an environment where investors want to take risk *off* without sacrificing returns, these characteristics become powerful.

What to Watch in 2026

1. **The Pace of Global Rate Cuts**

   Too fast or too slow could both create volatility. This will be the defining macro theme for the year.

2. **Fiscal narratives in SA and abroad**

   Bond markets will increasingly differentiate between strong and weak fiscal economic anchors.

3. **Credit dispersion**

   2026 is likely to see wider spreads between high-quality and lower-quality issuers. Systematic credit selection will matter.

4. **Currency volatility**

   FX remains a key driver of global fixed income returns. Our process-driven hedging framework helps us manage this efficiently.

5. **The income advantage**

   Opportunities in short-dated global credit and money-market equivalents remain attractive, supporting the case for income strategies.

Conclusion: When the World Gets Loud, Go Back to First Principles

2025 reminded investors that stories can mislead, but numbers don't. Risk isn't what you fear; it's what you can measure and control. And as we enter 2026, the opportunity in both local and global income markets is as compelling as it has been in more than a decade.

> The Prescient Income Provider and Global Income Provider Funds are designed for exactly this kind of environment: where preserving capital, earning consistent income, and maintaining liquidity are not luxuries, but necessities.

In uncertain times, clarity comes from a simple question:

Does the risk you are taking serve you – or surprise you?

In 2026, more investors will choose the former. And assets that generate income will be where they can be found.

Data science: the next frontier

by TIMOTHY TERBLANCHE
Head of Data Science

and CHLOE TOWNSEND
Data Scientist

Advances in data science are opening new ways to uncover early economic signals beyond traditional indicators.

Throughout 2025, we invested significant effort in building a data science capability that meets modern standards. For any data science team, the core building blocks for success are technical capability and quality data. Once these foundations are in place, meaningful insights follow. To this end, we migrated more of our algorithms to cloud infrastructure, unlocking the computational power needed to process vast datasets at speed.

> A simple rule of thumb applies to data: the more information we have, the better we can explain a system. This holds true for financial markets. Imagine a world where we could capture every transaction, every discussion, every interaction. Predicting market movements would become trivial. While we can never reach that point, the principle remains. Every additional piece of information brings us closer to understanding what drives markets. This is why we have been dedicating considerable effort to sourcing new datasets that could provide a genuine analytical edge.

We are excited about what lies ahead in 2026. Here, we offer a preview of something we are currently developing.

Unlocking the Federal Reserve's Beige Book

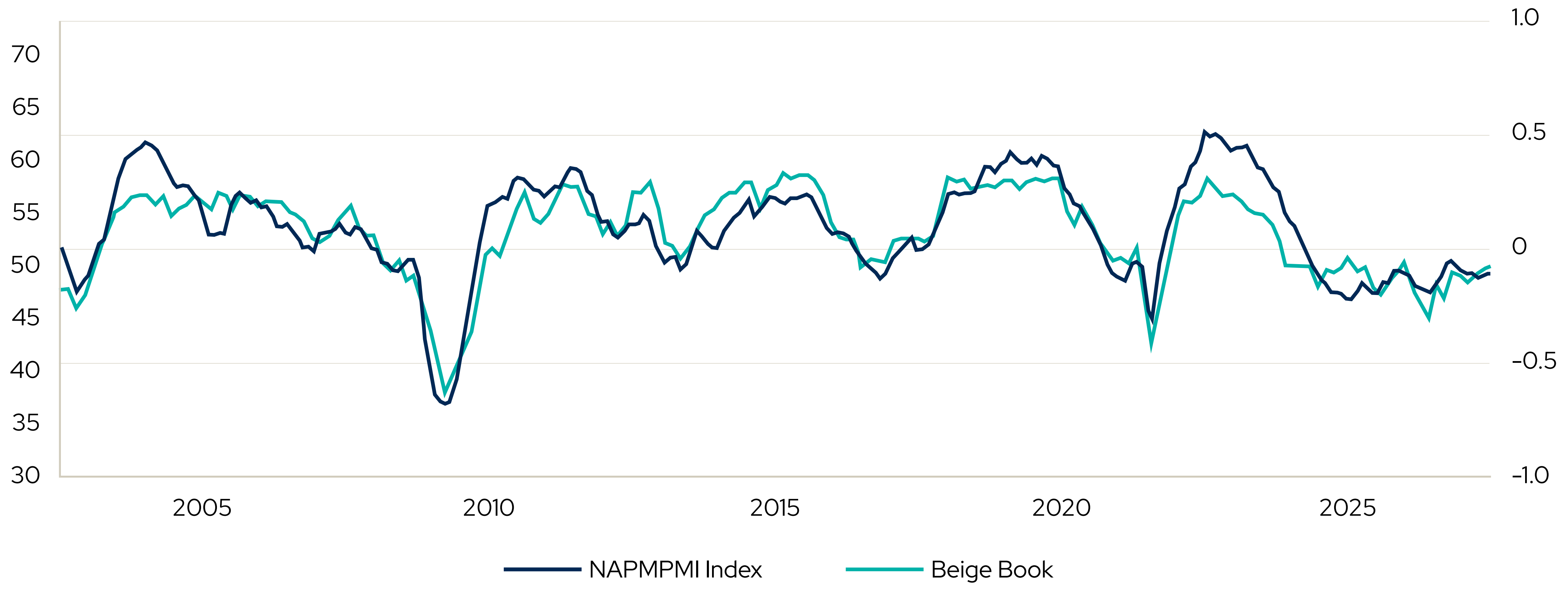
Continuing our research around the Federal Reserve, we are producing more detailed analysis of the drivers of economic conditions. To achieve this, we have turned to the Beige Book publications. These lengthy documents are often overlooked by market participants, yet they contain a treasure trove of detailed, ground-level information. The Beige Book is a qualitative economic report published eight times a year, based on anecdotal information gathered from businesses, industry contacts, and regional Federal Reserve Banks across the country. It covers conditions across sectors such as manufacturing, services, labour markets, consumer spending, and pricing pressures.

Let us take manufacturing as an example. Observing shifts in manufacturing sentiment earlier than the broader market matters because manufacturing is often the first part of the economy to turn when conditions change. When factories begin to report softer orders, rising inventories, or pressure on margins, these developments typically precede visible declines in production, employment, and corporate earnings by several months. Traditional indicators often lag actual conditions on the ground. By quantifying Beige Book manufacturing sentiment using natural language processing techniques, we can detect these changes before they surface in widely watched indicators such as the Purchasing Managers' Index (PMI), industrial production figures, or earnings revisions.

Our Beige Book Manufacturing Indicator

The chart below shows our Beige Book manufacturing indicator (in green) against the Manufacturing PMI (in dark blue), a widely followed monthly aggregate of US manufacturing activity. The key advantage of our indicator is that it augments the current indicators available, giving us an even deeper view of events. Unlike traditional backward-looking indicators, the Beige Book draws directly on real-time feedback from business leaders and industry participants who are operating on the manufacturing floor. PMI responses are framed as changes versus the prior month and therefore report what has already occurred, capturing outcomes rather than the underlying pressures. In contrast, Beige Book commentary reflects emerging dynamics across production lines, supply chains, labour availability, and input costs. As a result, PMI tends to move after conditions have already shifted inside firms, whereas the Beige Book often highlights risks or relief earlier, providing qualitative insight that meaningfully augments conventional measures such as PMI.

Manufacturing Purchasing Managers' Index vs Beige Book sentiment



Source: Prescient Investment Management, 8 January 2026.

What the Data Reveals

Beyond the familiar patterns of the 2008 financial crisis and the COVID-19 pandemic, the chart reveals several other notable periods.

Between 2012 and 2013, US manufacturing sentiment was weighed down by heightened global and domestic uncertainty. The Eurozone sovereign debt crisis raised fears of contagion, while US fiscal cliff negotiations created caution around corporate investment and hiring decisions, particularly among export exposed manufacturers who faced uncertain demand from overseas customers.

This was followed by a more pronounced industrial slowdown between 2014 and 2016. The collapse in energy prices led to sharp capital expenditure cuts in the energy and mining sectors. A strengthening US dollar further reduced export competitiveness and dampened broader manufacturing activity.

More recently, 2022 to 2023 marked another challenging phase. The surge in inflation and the Federal Reserve's aggressive tightening cycle compressed demand, elevated input costs, and curtailed capital spending. This resulted in sustained weakness across both survey-based indicators and qualitative business sentiment.

Looking Ahead

This Beige Book sentiment analysis represents just one example of how we are applying data science to extract actionable insights from unconventional sources. By combining natural language processing with financial domain expertise, we aim to provide our clients with a more timely and nuanced view of economic conditions than traditional indicators alone can offer.

> The ability to process qualitative information at scale opens new possibilities for understanding market dynamics before they become apparent in headline figures. Keep your eyes open for more valuable insights from our Data Science team in the months ahead.

Prescient flagship funds

Prescient Income Provider

Income producing with downside risk managed while offering inflation protection.

FIND OUT MORE

Real: CPI + 1% p.a.
Horizon: 3+ months

Prescient Income Plus Fund

High yield via credit exposure with inflation protection.

FIND OUT MORE

Real: CPI + 3% p.a.
Horizon: 3+ months

Prescient Flexible Bond Fund

Savings for retirement, offering systematic exposure to local bonds, enhanced with high-performing yield assets

FIND OUT MORE

Real: CPI + 3% p.a.
Horizon: 3+ years

Prescient Defensive Fund

Savings for retirement and other goals offering a more conservative asset allocation including equities and offshore assets.

FIND OUT MORE

Real: CPI + 4% p.a.
Horizon: 3+ years

Prescient Balanced Fund

Long term savings for retirement offering an aggressive asset allocation to mostly equities and offshore assets.

FIND OUT MORE

Real: CPI + 6% p.a.
Horizon: 5+ years

Prescient Equity Fund

Long term savings aiming to consistently outperform peers.

FIND OUT MORE

Real: CPI + 7% p.a.
Horizon: 5+ years

Prescient offshore flagship funds*

Prescient Global Income Provider Fund

Diversified Global Income exposure within a well maintained risk framework.

FIND OUT MORE

Real: CPI + 1% p.a.
Horizon: 3+ months

Prescient Global Balanced Fund

diversified exposure to a mix of offshore assets with an aim to achieve long term capital growth appreciation.

FIND OUT MORE

Real: CPI + 5% p.a.
Horizon: 5+ years

Prescient Core Global Equity Fund

Cost-effective access to diversified global equity markets.

FIND OUT MORE

Real: US CPI + 6% p.a.
Horizon: 7+ years

*The funds are approved under section 65 of CISCA.

Prescient

INVESTMENT MANAGEMENT

Cape Town

Block B, Silverwood, Silverwood Lane
Steenberg Office Park, Tokai, 7945
Tel: +27 21 700 3600
Fax: +27 21 700 3700

Johannesburg

Unit 7, First Floor, Katherine & West
114 West Street, Sandton, 2196
Tel: +27 11 044 2600
Fax: +27 11 044 2601

**These funds are approved under section 65 of CISCA.*