

LOCAL & GLOBAL INFLATIONARY PRESSURES REMAIN ELEVATED

Inflation re-emerged as a key market theme during July, with both South Africa and the United States facing renewed price pressures, largely driven by higher energy costs stemming from continued geopolitical tensions in the Middle East. Despite the high readings, central banks on both sides of the Atlantic elected to leave interest rates unchanged.

South African headline inflation accelerated to 5.0% year-on-year in June, up from 4.5% in May and above market expectations. This marks the highest inflation reading in two years and the fourth consecutive monthly increase, highlighting a gradual but persistent rise in price pressures.

The primary contributor was another sharp increase in fuel prices, which rose 34.3% year-on-year, reflecting the earlier surge in global oil prices following heightened conflict in the Middle East. Transport-related inflation also accelerated meaningfully, with passenger transport costs increasing 12.5% compared with 4.0% in the previous month.

While higher fuel prices were expected to lift headline inflation, the increase in transport costs suggests that these higher input costs are beginning to filter through to the broader economy. These so-called "second-round effects" occur when businesses pass rising operating costs on to consumers, increasing the risk that inflation becomes more persistent rather than remaining confined to fuel prices.

Despite the stronger inflation data, the South African Reserve Bank (SARB) kept the repo rate unchanged at 7.00%. The decision suggests that policymakers remain comfortable adopting a wait-and-see approach, recognising that economic growth remains subdued while hoping that oil prices ease before inflation becomes more deeply entrenched.

Inflation also remained well above target in the United States, with the latest reading of 3.5% considerably higher than the Federal Reserve's long-term objective of 2%.

At its July meeting, the Federal Reserve left interest rates unchanged, reinforcing its cautious approach as policymakers weigh the inflationary impact of higher energy prices against signs of moderating economic activity.

Bond markets reacted negatively to the decision. Long-term US Treasury yields climbed to their highest levels since 2007, reflecting investor concerns that inflation could remain elevated for longer than previously anticipated. Markets are increasingly worried that higher oil prices, together with ongoing geopolitical uncertainty, may delay the timing of future interest rate cuts.

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HIGHLIGHTS

Inflation Remains Elevated

- SA inflation increased to 5.0%
- US inflation remains above target
- Energy prices driving inflation
- Interest rates remain unchanged

Trade Policy Returns

- US announces new global tariffs
- Supply chain risks increase
- Inflation concerns remain elevated
- Markets watching policy developments

AI Investment Boom

- Asian technology attracts record investment
- SK Hynix posts record US listing
- CXMT shares surge on debut
- Semiconductor demand remains strong

Long-term Investment View

- AI continues to reshape industries
- Asia becoming increasingly important
- Valuations remain attractive
- Diversification remains essential



US TRADE POLICY TAKES CENTRE STAGE (again)

Trade policy returned to the spotlight during July as President Donald Trump announced a new round of tariffs affecting more than 60 trading partners.

The new measures impose import duties of at least 10%, with countries including the United Kingdom, the European Union, Japan, South Korea, Taiwan and Mexico facing tariffs ranging from 10% to 12.5%.

These actions follow a Supreme Court ruling earlier this year that invalidated many of the tariffs introduced during the administration's "Liberation Day" programme. Rather than abandoning its trade agenda, the administration has relied on alternative legal mechanisms to implement new tariffs, including legislation relating to national security and investigations into alleged forced labour practices.

The renewed escalation in trade restrictions adds another layer of uncertainty to the global economic outlook. Higher tariffs can increase costs for businesses and consumers, disrupt global supply chains and place upward pressure on inflation. While the full economic impact will take time to emerge, investors are likely to remain sensitive to further developments in US trade policy over the coming months.

A BLOCK-BUSTER IPO MONTH FOR ASIAN TECH STOCKS

Artificial intelligence continued to drive significant investment into semiconductor companies, with two landmark transactions highlighting the strength of investor demand across Asia's technology sector.

South Korean memory-chip manufacturer SK Hynix completed a record-breaking US listing during July, raising approximately US\$26.5 billion through its Nasdaq debut. The transaction represents the largest US initial public offering ever completed by a foreign company, surpassing Alibaba's landmark listing in 2014. The offering provides US investors with direct exposure to one of the world's leading suppliers of advanced memory chips used in artificial intelligence applications.

Meanwhile, China's leading DRAM manufacturer, CXMT Corp, enjoyed an extraordinary market debut in Shanghai, with its shares rising 466% on the first day of trading. The listing was the largest initial public offering in Asia this year and propelled the company to one of the highest valuations in China's equity market.

These developments highlight the growing importance of Asia within the global artificial intelligence ecosystem. While much of the attention has been focused on US technology giants that lead in AI software, cloud computing and large language models, many Asian companies occupy equally critical positions further down the value chain. Firms such as SK Hynix, Samsung Electronics and Taiwan Semiconductor Manufacturing Company (TSMC) are global leaders in the production of advanced semiconductors and memory chips that power AI applications, while Chinese technology companies continue to invest heavily in AI infrastructure and hardware.

From an investment perspective, Asian technology companies also tend to trade at lower valuations than many of their US counterparts, reflecting lower market expectations despite their strong competitive positions. This has led some investors to view parts of the Asian technology sector as offering a more attractive balance between growth potential and valuation. Nevertheless, the sector remains highly cyclical and sensitive to geopolitical developments, export restrictions and fluctuations in global technology spending. As with any rapidly evolving industry, maintaining diversified exposure remains the most prudent approach for long-term investors.

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