LAURIUM BCI STRATEGIC INCOME FUND

Commentary & Attribution | December 2025

The quarter was shaped by significant policy uncertainty in the US, beginning with an October government shutdown that delayed most economic data releases. Inflation eased modestly, with CPI at 3% and PCE remaining sticky at 2.8%, still above the Federal Reserve's 2% target. Despite this, the Fed delivered cumulative rate cuts of 75 basis points over three meetings, lowering the fed funds rate to 3.50%–3.75%, reflecting growing concerns around labour market weakness rather than inflation. Policymaker divisions and limited data availability kept markets cautious, with expectations for further easing tempered. Bond yields drifted higher, with the US 10-year reaching 4.17% in December, as a relatively hawkish Fed signalled a slower and more measured path of rate cuts into 2026. Global bond markets delivered muted returns over the period.

Local bonds continued to benefit from idiosyncratic factors, as South Africa was officially removed from the Financial Action Task Force (FATF) list after addressing inefficiencies in its anti-money laundering policies. The spread between South African and US bonds fell to a 12-year low due to improved fundamentals. Structural reforms are gaining momentum, with Phase 2 of Operation Vulindlela showing progress, as just over 43% of the reforms are on track.

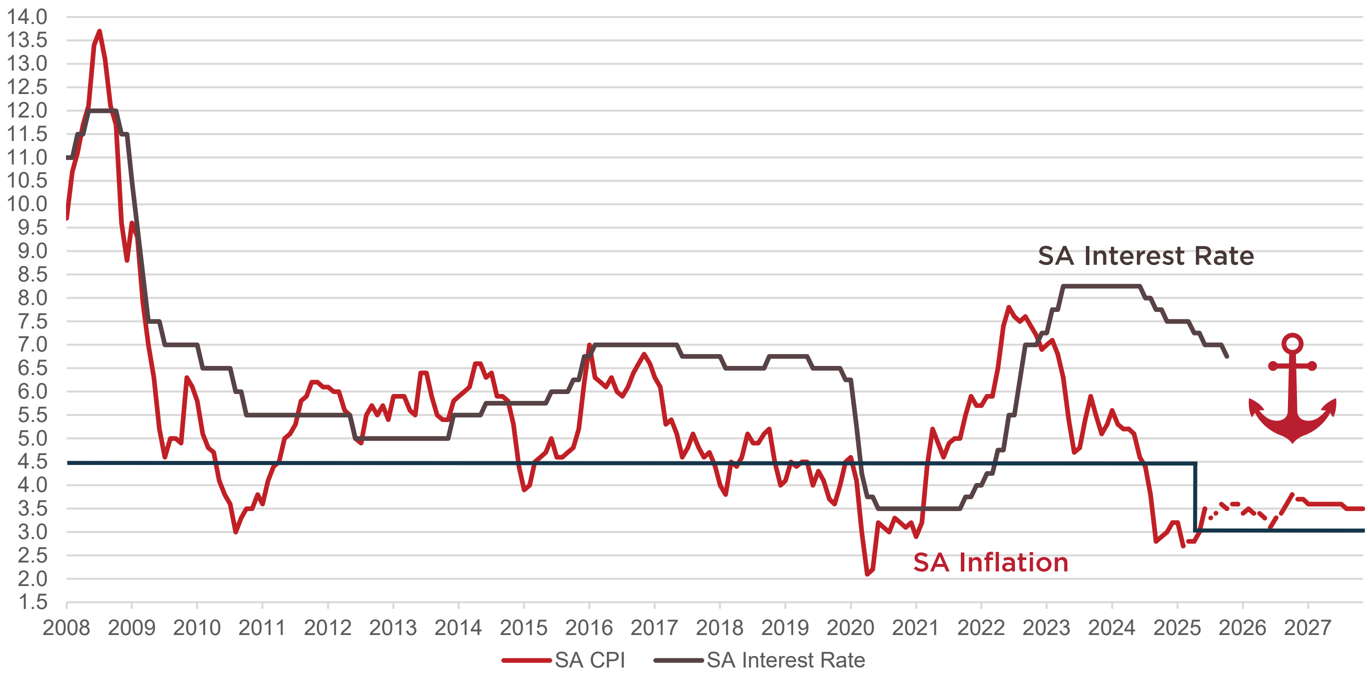
Finance Minister Enoch Godongwana delivered the second Medium-Term Budget Policy Statement (MTBPS) under the Government of National Unity (GNU). The statement officially announced the adoption of inflation targeting, formalised at 3% with a tolerance band of ±1%. This highly anticipated policy alignment strengthens the coordination between the National Treasury (NT) and the Reserve Bank. The NT team, led by Duncan Pieterse, maintained a focus on fiscal sustainability. The debt-to-GDP ratio is projected to peak in FY25/26 at 77.9%, compared to 77.4% in Budget 3.0. With revenues running ahead of estimates. As the country transitions from a consumption-led economy to one driven by investment in infrastructure, adherence to fiscal consolidation has become imperative. Treasury is expected to deliver a primary surplus over the next three years, reaching 2.5% in FY28/29.

There are, however, notable spending pressures within the fiscus; the Social Relief Distress grant court case outcome still looms with the potential to double the number of recipients for the grant. With moderate cash buffers built in place, an underlying well-subscribed switch, and floating rate auctions, including the GFECRA distribution. This allowed Treasury to reduce fixed nominal weekly bond issuance by R700m (weekly). This move prompted an immediate positive response in yields, where the 10-year bond R2035 ended the month at 8.49% from 8.85% (start of the month). The overall tone of the speech echoed what appears to be a revival of credibility from Treasury. We now expect a marginal budget deficit of 4.5% in FY25/26, moderating to 2.7% in FY28/29.

Following the recent announcement in the Medium-Term Budget, the National Treasury team successfully issued its US dollar bonds with 12-year and 30-year maturities. The offering attracted approximately $14 billion in bids for its $3.5 billion issuance, demonstrating a growing positive sentiment towards South Africa. Encouragingly, the fourth quarter business confidence showed an uplift in business conditions, suggesting some positive momentum after a decline for several months.

Post-budget rally quickly found additional tailwind as S & P rating agency upgraded South Africa's foreign currency rating one notch to BB from BB-, with a positive outlook. The key to unlocking long-term growth potential lies in the acceleration of economic reforms while addressing infrastructure pressures. The ratings upgrade bodes well for a country that hasn't seen upgrades in decades. Local currency performance echoed the positive spotlight on the sovereign, outperforming major currencies over the quarter by 4.3%.

Figure 1:
South African Inflation and Interest Rate
Source: Bloomberg, Absa



South African inflation was fairly contained over the quarter. Food inflation continued to heat up, CPI drifted higher in October at 3.6%, still within the new prescribed target range. Following the adjustment of the local inflation target, the South African Reserve Bank (SARB) will look to price setters to gauge future inflation expectations. The BER two-year inflation expectations showed a welcome improvement, with average expectations (across analysts, people and trade union officials) declining to 3.7% from 4.2%, while the current year's expectations eased to 3.7% from 3.8%. This reflects progress toward the central bank's goal of anchoring inflation expectations.

The SA bond market returned 9.0% for the quarter, bringing YTD returns to a stellar 24.2%. Domestic yields rallied across the curve, with the 10Y yield falling 95bps over the quarter; with the 1-3 year sector returning 2.5%, 3-7 year 5.0%, 7-12 year 9.2% and 12+ sector at 13.1%. The Strategic Income fund had exceptional returns for the quarter (4.4%) and a strong year (13.1%), outperforming its SA cash-plus benchmark by 2.6% net of fees. We remain constructive on the outlook of the SA bond market. Rising confidence that structural improvements domestically are underway, with a potential for growth uplift over time. Potential headwinds through the global geopolitical channel warrant an active stance with managing duration in the near term. We have tactically reduced bond exposure from a structural overweight position over recent months. We expect to increase our duration position as opportunities arise..

Performance declaration for Laurium BCI Strategic Income Fund (Class B)	**FUND**	**BENCHMARK** (110% of STeFI call)
Annualised return since inception	+8.5%	+6.9%
Cumulative return since inception	+147.7%	+110.5%
1 Year (annualised)	+13.1%	+8.0%
3 Year (annualised)	+11.3%	+8.6%
5 Year (annualised)	+9.3%	+7.0%
Highest rolling 1-year return (cumulative since inception)	+14.1%	
Lowest rolling 1-year return (cumulative since inception)	+4.6%	
Fund inception date	7 November 2014	