

# FOREWORD

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The 75<sup>th</sup> issue of Foreword is just one of those good story issues. Almost every piece just seems to share the positivity we've been waiting for, despite all the worries in the world.

This quarter's edition explores how investors can keep perspective amid change. Portfolio Manager **JC Xue** opens with *The AI Revolution: Learning from Past Bubbles*, asking whether today's surge in artificial intelligence will mirror past manias — or chart a more sustainable path. **Rashaad Tayob** then examines *The Rand's Remarkable Recovery* and *China's Next Act*, unpacking two stories of resilience: a currency that defied expectations and an economy redefining what 'emerging market' means.

Closer to home, **Nancy Hossack** considers whether 2025 is the year SA Inc. equities shine in *SA Inc. Shares — Undervalued, Under-owned, Underestimated*, while **Farzana Bayat** highlights *The Fixed Income Opportunity* — where discipline and patience still pay.

Finally, **Christina Castle** invites readers to rethink what it means to stop working, in *Retirement, Reimagined* — a thoughtful reflection on how longer lives call for flexible portfolios and flexible mindsets. And we round off with our quarterly wrap, *Markets in a Nutshell*.

Through each article runs the common thread of adaptability. Whether in markets, policy, or personal finance, staying grounded amid change is the ultimate long-term strategy.

Enjoy the read.

Regards

Paul Cluer  
Managing Director



## THE AI REVOLUTION: LEARNING FROM PAST BUBBLES

Artificial intelligence is transforming industries and reshaping how we work, communicate and invest. History reminds us that every great technological leap attracts speculative excess. The railway mania of the 1840s and the dot-com boom of 2000 both began with genuine innovation, drew in enormous capital, and ended in overbuild and collapse. Portfolio Manager JC Xue considers whether the current AI cycle will follow the same pattern.

### FASTER FEEDBACK, FEWER MISSTEPS

A key difference between today's AI surge and the dot-com era lies in adoption speed. In the 1990s, internet use was still novel and profitability distant. Consumers had to buy a computer, go online, learn to navigate the web, and then trust a new e-commerce model before spending a cent. The long lag between investment and returns made it easy for capital to pour in unchecked.

That lag has disappeared in the AI speculation. Billions of people already have internet-connected smartphones, and can use tools like ChatGPT instantly. Once the computing infrastructure — GPUs for training and servers for inference — is in place, user adoption and monetisation happen almost immediately. Faster feedback on investment decisions means fewer opportunities for the kind of prolonged overbuilding that defined earlier bubbles.

### A SELF-LIMITING SUPPLY SIDE

The supply side also looks different. The fibre-optic buildout of the dot-com era was virtually unconstrained, with multiple firms laying overlapping networks. In contrast, the AI boom depends on a handful of critical chokepoints — most notably TSMC's advanced chip-making capacity. You cannot simply hire more builders to ramp up chip production: these natural bottlenecks limit how quickly capital can flood into the system.

### BUILDERS AND USERS ARE THE SAME

Another important distinction is that today's largest investors in AI infrastructure are also its first and biggest users. Microsoft, Google and Meta are integrating AI directly into their existing businesses — enhancing ad targeting, improving productivity and embedding new AI tools like Microsoft Copilot. Unlike the internet infrastructure firms of the 1990s, these companies see clear and immediate returns on their investment.

### THE RISK OF REPETITION

Even so, the ingredients for a bubble are present. The race towards artificial general intelligence has become an arms race among tech titans. Ambition and competition can override caution, leading to redundant investment as each player builds its own vast data-centre network. At the same time, valuations for early-stage AI firms are beginning to stretch credulity — some AI startups command multi-billion-dollar valuations before earning a cent of revenue.

### STAYING DISCIPLINED

For investors, the lesson is familiar. Revolutionary technologies can create immense long-term value, but they also breed overconfidence. At Foord, we prefer AI beneficiaries whose valuations remain anchored in reality — companies such as TSMC, Google, Alibaba and Tencent. The AI revolution may prove more grounded than past manias, but the discipline to distinguish promise from speculation remains as critical as ever.



## THE RAND'S REMARKABLE RECOVERY

Only six months ago the rand seemed in freefall. In April, during the tariff-driven sell-off, it nearly breached R20 to the US dollar. By early October it was trading near R17, its strongest point in more than two years. For a currency that often serves as the world's favourite shock absorber, the turnaround has been remarkable. Portfolio Manager Rashaad Tayob explains what lies behind the move — and what it means for investors.

### RAND STRENGTH OR DOLLAR WEAKNESS?

The rand's rebound began as part of a global retreat from the dollar. The greenback fell about 7% in the second quarter as investors started to price in rate cuts by the US Federal Reserve. But the story has since become more local. Since midyear, the dollar has steadied while the rand has continued to climb — supported by foreign inflows into emerging markets and a powerful rally in gold and platinum prices.

Over the past quarter, the rand has outperformed most emerging-market peers and even commodity currencies such as the Australian dollar. For once, South Africa's high real yields and trade surplus have combined with improving risk sentiment to support the currency rather than punish it.

### A WORLD LOSING FAITH IN FIAT

The rand's recovery has also played out against a broader backdrop of doubt about the world's paper currencies. Gold has surged past successive records — first \$3 000, then \$4 000 an ounce — as investors hedge against the erosion of value in fiat currencies (see Did You Know?). The BRICS bloc, led by China, has been diversifying reserves into gold, prompting renewed talk of a future alternative to the dollar-based system.

Rising government debt across developed economies has supported that narrative. With little sign of fiscal restraint and central banks now cutting rates, investors are questioning how long fiat currencies can hold their value. Long-term bond yields in the US have risen even as policy rates fell — a subtle signal of unease about inflation and debt sustainability.

### WHAT IT MEANS FOR INVESTORS

The April sell-off was revealing. For decades, the dollar strengthened whenever global markets turned risk averse. This time, however, both risk assets and the dollar fell together — a sign that investors are beginning to look elsewhere for safety.

In the short term, caution is warranted after such a sharp rally in the metal and persistent bearishness on the dollar. A tactical holding in US currency still makes sense. But, over the long run, diversification across currencies — and into real stores of value like gold — will remain essential for protecting wealth in a world where money itself is being quietly revalued.



## CHINA'S NEXT ACT

Despite its listing global emerging market stock indices, China already produces more electricity than the United States, India and the EU combined. It operates seven of the world's ten busiest ports. It also ranks as the largest global economy, if you exclude the effects of exchangerates. Portfolio Manager Rashaad Tayob writes that China's 'emerging market' label is starting to sound outdated.

I recently returned from hosting Foord's Orient Express investment tour through Singapore, Macau, Shenzhen and Shanghai. On the ground, China feels like a country that has outgrown old definitions. It is innovating, scaling and competing at a speed the rest of the world struggles to match.

### SPEED AS A COMPETITIVE EDGE

Take Chagee, a modern tea-store chain that has opened 5 000 outlets in just two years. Its model — low franchise fees, fast payback, consistent quality — captures the essence of what locals call 'China speed'. The ecosystem enables rapid scaling with minimal friction. It is a reminder that scale itself can be a source of innovation.

### FACTORIES THAT BUILD THE FUTURE

China's manufacturing strength has reached a new level. Electric vehicles and industrial robots can be assembled from domestically sourced components using modular supply chains. This means anyone with a good design can build a car or robot, quickly and cheaply. The result is relentless competition, but also extraordinary productivity gains.

### EVERYDAY DIGITAL FINANCE

In China, cash and credit cards have largely disappeared. Almost every transaction — from taxis to market stalls — runs through WeChat Pay or Alipay. These homegrown platforms have built a frictionless payment system that makes Western networks look cumbersome by comparison. It shows how technology can reshape an entire economy when adoption is nearly universal.

### TURNING HOTELS INTO BRANDS

Atour Hotels — a mid-range hotel chain — has discovered that selling comfort can be more profitable than providing it. With 1 800 hotels and plans for 3 000 more, Atour also sells branded bedding and homeware found in its hotels. Remarkably, almost half of its product customers have never stayed in one of its hotels. The company has turned its brand into a lifestyle — a sign of how China's middle class is redefining consumption.

### THE RISE OF LOCAL CHAMPIONS

Chinese consumers increasingly prefer domestic brands. This is not just because they are cheaper, but because they are better. Local companies now match or surpass global rivals in quality and design. From cars to cosmetics, shoppers are proud to buy local. The result is a thriving internal market that continues to expand, even as global demand slows.

### WHY IT MATTERS FOR INVESTORS

For global investors, China's transformation presents both challenge and opportunity. It remains the largest contributor to global growth and a source of industrial and technological leadership. Despite the headlines, the investment case is clear: the world's largest economy cannot be ignored. Foord's global funds provide measured, mandate-dependent exposure to this long-term story, balancing opportunity with disciplined risk management.



## SA INC. SHARES — UNDERVALUED, UNDER-OWNED, UNDERESTIMATED

After years of selling pressure, South African equities are showing signs of revival. The JSE hit record highs in September, driven by mining stocks — after gold and platinum prices surged to all-time peaks. Yet the real story lies beneath the surface: years of foreign disinvestment have left SA Inc. shares deeply undervalued. Portfolio Manager Nancy Hossack explains why this may be the year SA Inc. equities reclaim the spotlight.

## VALUE IN NEGLECT

Foreign investors have steadily cut exposure to non-mining South African shares, pushing valuations to levels seldom seen outside crises. Valuations of domestically focused companies — especially financials and industrials — are now far below those in global markets. Investors pay roughly half as much for a rand of earnings on the JSE's Financial and Industrial Index as they do for equivalent exposure on the S&P 500 Index in the US. That discount is as wide as it was during the dot-com bubble — but it will not last forever.

## SMALL COMPANIES, LARGE OPPORTUNITY

The selloff has been most severe among smaller, domestically focused firms. Large-cap retailers such as Clicks trade on multiples near 25 times earnings; smaller peers like Rhodes Food closer to seven. Dividend yields tell the same story: about 4.5 percent for the broader market, and near 5 percent among small caps — more than double what investors earn on US equities. For patient investors, these are exceptional starting points.

## A RERATING WAITING TO HAPPEN

If US market valuations were to normalise from 27 to 19 times earnings, future returns would shrink sharply. In South Africa, even a modest rerating — from about 12 to 15 times — would lift expected real returns meaningfully. For small caps, the upside is greater still.

## REFORM AND RESILIENCE

Sustained progress on energy, logistics and fiscal reform remains vital. Power shortages and transport bottlenecks still constrain growth, though new public-private partnerships are starting to help. A credible fiscal path would further compress risk premiums and attract capital back into local markets.

Despite the challenges, sentiment is improving, yields are generous and valuations remain low. After a decade in the shadows, South African equities — long unloved, now surprisingly strong — may finally be ready to shine.



## THE FIXED INCOME OPPORTUNITY

Governments are again living beyond their means. In the United States, spending exceeds revenue by some \$2 trillion a year. One-fifth of federal income is now devoted to interest payments. South Africa faces a similar problem: public debt has risen sixfold in 15 years, while the economy has barely grown. The world has left behind the era of cheap money, but not the habits it encouraged. Portfolio Manager Farzana Bayat considers how this shift is reshaping the bond market.

### THE END OF CHEAP DEBT

For more than a decade after the global financial crisis, borrowing was almost free. Low interest rates masked the true cost of public spending and encouraged governments to delay hard choices. Those days are over. Higher interest rates are forcing a reckoning. In the US, the bill for servicing debt now exceeds the defence budget. In South Africa, it absorbs nearly a quarter of all tax revenue before a rand reaches public services.

Markets are taking notice. In April, bond yields rose even as the dollar weakened — an unusual signal that investors are questioning America's fiscal reliability. Across the globe the comfort of easy money has given way to the constraints of arithmetic.

### THE ATTRACTION OF INFLATION PROTECTION

For investors, this backdrop has revived the appeal of inflation-linked bonds (ILBs). These bonds pay coupons that rise with the cost of living, guaranteeing a return above inflation. Real yields in South Africa are near 5% — the highest in a generation. This is a rare combination of safety and income in a world of fiscal excess.

Market expectations for future South African inflation have eased to about 3.5%. If inflation proves higher, these bonds will outperform normal bonds. If inflation trends even lower, ILBs will still deliver a secure real return of ~5%. Few assets offer such an asymmetric payoff — great returns for very little risk. They should be a core investment of all retirement portfolios.

### WHEN CREDIT PAYS TOO LITTLE

In contrast, corporate debt markets here and abroad offer almost no extra reward for extra risk. Some South African firms now — unbelievably — borrow more cheaply than the government itself. With too much money from yield-hungry investors chasing too little issuance, credit spreads — the difference between government and corporate bond rates — have narrowed to levels that no longer compensate for risk.

Far better investment best opportunities will emerge when conditions reverse — when fear, not complacency, widens spreads and restores fundamental value to the corporate bond market. Until then, patience remains a virtue.

### A CAUTIOUS CONCLUSION

High debt levels and high interest rates make fixed income investing more complex than it once was. Long-dated government bonds remain vulnerable to fiscal slippage, and corporate bonds look thinly priced. ILBs stand out as a rare opportunity: backed by the state, shielded from inflation and offering real yields unseen for decades. In a world struggling with debt, they are one of the few assets that still pay investors properly for the risks they take.





## RETIREMENT, REIMAGINED

The old idea of retirement — a single moment when work stops and leisure begins — no longer fits the modern world. Longer lives, shifting work patterns and uncertain finances are turning retirement into a gradual process rather than a fixed event. Christina Castle, author of Foord's *Teach Your Child to Invest* series, explores how the boundary between work and retirement is becoming more fluid — and why that may be a good thing.

### A LONGER JOURNEY

For most of the past century, retirement was designed for shorter lives. People worked until their early sixties and spent a decade or two living off savings and pensions. That formula is breaking down. Many will now spend as long in retirement as they did raising children or paying off a mortgage. Yet few have the resources to fund thirty years without income.

Governments are trying to adjust. Germany has proposed raising its retirement age to 73. Emmanuel Macron has spent enormous amounts of political capital raising the French retirement age by a few years. But individuals, too, are adapting. Some work longer by choice; others out of necessity. Either way, the line between working life and retirement is blurring.

### THE RISE OF THE BLENDED RETIREMENT

Rather than a sudden exit from the workforce, more people are easing out gradually — consulting, mentoring, or turning hobbies into modest income streams. Some scale back to part-time roles; others start small businesses or volunteer. The arrangement offers flexibility, social connection and purpose — things often lost in a full stop.

The financial logic is equally clear. Working a few extra years can extend savings and delay drawing down capital. It can also reduce the emotional shock of leaving behind routine and identity — a shift that catches many new retirees off guard. Retirement, seen this way, becomes a series of adjustments rather than an abrupt change.

### MONEY MATTERS — BUT SO DOES MEANING

Longer lives require more planning, not only for income but also for relevance. Financial security matters, but so does purpose. Studies show that continued engagement, whether through work or community activity, improves health and wellbeing in later years. The most successful retirees are those who treat the transition as a phase of reinvention, not retreat.

### PLANNING FOR FLEXIBILITY

For investors, the implications are practical. Retirement portfolios should be built for adaptability — able to fund early leisure, late-care needs, and possible income gaps in between. Diversification across growth and income assets remains essential. So too does accepting that retirement may include some form of continued work, whether for enjoyment or necessity.

At Foord, we see retirement not as an end point but as a continuum. The goal is resilience: portfolios — and people — that can adapt as circumstances change. After all, retirement is no longer something to finish, it is something to invest in wisely.





## DID YOU KNOW? FIAT CURRENCY

Most of the world's money has value not because it is backed by anything tangible, but because governments decree that it does. This is the essence of a fiat currency — money created by order (fiat in Latin) rather than by convertibility into gold or another asset. Since the 1970s, when the United States ended the dollar's link to gold, all major currencies have operated on this system.

Fiat currencies rely on confidence: in the government that issues them, the central bank that manages them, and the economy that sustains their demand. When that confidence weakens — through inflation, excessive borrowing or political instability — the currency's value can quickly erode.

The recent surge in the gold price and interest in digital or alternative reserve assets reflect growing unease with this model. As debt mounts and money creation expands, investors are once again asking whether value defined purely by decree can endure indefinitely.



## MARKETS IN A NUTSHELL

	WORLD	SOUTH AFRICA
<b>Equities</b>	Global equities rose sharply to new highs as trade tensions eased and the AI frenzy continued — developed markets gained in mid-single-digits, but emerging markets outperformed after the MSCI China Index jumped 20%	The FTSE/JSE All Share surged by double-digit gains to an all-time high as gold and platinum miners rallied on record bullion prices — industrials and financials also advanced, with Naspers and Prosus rebounding alongside Chinese tech stocks
<b>Bonds</b>	Global bonds were subdued as the US Federal Reserve delivered its first rate cut of the year — government bond yields declined modestly, but corporate bond credit spreads tightened to paper-thin levels in the risk-on environment	Local bonds rallied as inflation moderated and foreign demand strengthened — while the SA Reserve Bank came out strongly in favour of lowering the inflation target to a fixed 3% from its current 3–6% range
<b>Currencies</b>	The US dollar dipped after the Fed's dovish pivot, now down 12% against the euro this year — the other majors also firmed, while emerging-market currencies recovered on renewed risk appetite	The rand gained against the weaker dollar, supported by broad emerging market strength, high carry yields and improved terms of trade as precious metals prices jumped — despite persistent political and fiscal uncertainty
<b>Commodities</b>	Metals dominated the quarter after gold surged to fresh highs near \$4 000/oz and platinum rallied on tightening supply — copper traded higher after the collapse of Freeport McMoRan's key Indonesian mine	
<b>Economy</b>	Global growth stayed resilient as US economic activity was sustained on continued massive investment into AI infrastructure — the Chinese economy is stabilising on targeted stimulus, but Europe is stagnating	SA GDP grew weakly, buoyed by better mining and manufacturing output — consumption improved slightly, but fixed investment and employment remained weak
<b>Monetary and fiscal policy</b>	The US Federal Reserve cut rates 0.25% in September, its first rate cut this year, while the EC and BoE paused — meanwhile the US government faced a shutdown from October after budget negotiations faltered	The SARB cut the repo rate by 0.25% in July, but held rates steady thereafter, even as inflation moderated to below 3% — citing uncertainties relating to US reciprocal tariffs



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