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A Year in Review: Navigating Volatility in 2025 and Looking Ahead to 2026

Richard Harris | November 2025

As we close the books on 2025, it is worth reflecting on what has been one of the most eventful and volatile years in recent memory. From extraordinary shifts in trade policy to outperformance in emerging markets and precious metals, this year has challenged conventional wisdom and rewarded those who remained adaptable. As we look towards 2026, understanding the forces that shaped 2025 will be crucial for positioning portfolios to capture opportunities while managing the risks that lie ahead.

The Year That Was: Major Macroeconomic Events of 2025

The Tariff Shock and Trade Policy Whiplash

The defining moment of 2025 came on April 2nd, "Liberation Day", when President Trump announced sweeping tariffs that sent shockwaves through global markets, representing the most aggressive protectionist stance since the 1930s. Markets responded sharply, with the S&P 500 falling 17% in just four days, erasing trillions in market value.

The subsequent 90-day pause on most tariffs (except those on China) provided temporary relief, but the damage to business confidence and supply chains was already done. By year-end, the effective US tariff rate stood at approximately 18%, up from 2.4% at the start of 2024, generating over \$300 billion in tariff revenue but also creating some inflationary pressures and economic uncertainty. Markets have since rebounded and, despite the much higher effective tariff rate in the US, inflation has remained relatively subdued, though still about a percent above the Fed's target.

Fiscal Dominance and the "One Big Beautiful Bill"

In July, Trump's "One Big Beautiful Bill" passed the Senate, permanently extending the 2017 Tax Cuts and Jobs Act while adding \$3.3 trillion to the national debt over the next decade. This came despite the administration's earlier promises of fiscal austerity through the Department of Government Efficiency (DOGE), which had been tasked with cutting \$2 trillion in spending. The contradiction between rhetoric and reality underscored what we have discussed in previous newsletters: political gridlock makes spending cuts almost impossible, leaving perpetual stimulus as the path of least resistance.

US national debt climbed beyond \$36.5 trillion by mid-year, with interest costs exceeding \$1 trillion annually, approximately 14% of federal spending. The Moody's downgrade of US debt and failed Treasury auctions highlighted growing concerns about fiscal sustainability, pushing 10-year

Geopolitical Tensions and the Dollar's Decline

2025 was marked by significant geopolitical turbulence. The Israel-Iran conflict escalated in June when US forces attacked Iranian nuclear facilities, briefly unsettling markets before a Trump-brokered ceasefire stabilised sentiment. Ongoing conflicts in Ukraine, Gaza, Myanmar, and Congo, along with the most violent India-Pakistan clash in decades, reinforced 2025 as one of the most divided years since the Cold War.

The US dollar index fell over 11% at its lowest point, the worst start to a year since 1973, as investors questioned America's dominance and the sustainability of the dollar's reserve currency status. This weakness, however, provided a tailwind for emerging markets and commodities priced in dollars.

Central Bank Policy Divergence

Central banks around the world took divergent paths in 2025. The Federal Reserve maintained a hawkish stance through much of the year despite growing economic concerns, keeping rates elevated even as GDP contracted by 0.3% in Q1. Chairman Powell's August speech at Jackson Hole finally signalled openness to rate cuts, acknowledging increased employment risks, a shift well received by equity markets.

In contrast, the European Central Bank and Bank of England began rate-cutting cycles earlier, responding to slower growth and inflation approaching their 2% targets. The People's Bank of China implemented comprehensive stimulus measures, including reserve requirement cuts and targeted support for housing and consumption. Japan maintained ultra-low rates at 0.5% despite inflation above target, carefully managing the yen carry trade unwinding that had caused global market turbulence earlier in the year. However, towards the end of the year, concerns around the carry trade have resurfaced as Japanese bond yields climbed on worries that the BOJ would need to raise rates at their December meeting.

Leading markets higher in 2025: Emerging Markets and Precious Metals

Emerging Markets

One of 2025's most significant surprises, for some, was the strong outperformance of emerging markets compared to their developed counterparts. After years of US exceptionalism, capital began rotating towards markets offering more attractive valuations, stronger growth prospects, and reduced vulnerability to US policy uncertainty.

China's technology sector led the way, albeit from a low base, with Hong Kong's Hang Seng rising 33% year to date, benefiting from government stimulus measures, a shift in global capital and renewed optimism around AI and chip manufacturing. Mainland China also delivered significant returns this year despite ongoing property sector challenges and general economic weakness.

South Africa's JSE All Share Index climbed to record highs above 100,000 points, gaining over 30% for the year, even though domestic economic growth remained subdued at 0.9%. However, as highlighted in our September newsletter, this performance was driven primarily by precious metals, resources, and offshore exposure through Naspers/Prosus, rather than domestic economic strength. Only 25% of listed shares achieved double-digit returns in the first half, underscoring extreme market concentration.

The Golden Year

Although other precious metals such as silver and platinum produced larger gains, gold was the most talked-about standout performer of the year, surging to all-time highs above \$4,000 per ounce – a gain of over 50% for the year. The precious metal benefited from multiple tailwinds: the Fed's pivot towards easing, dollar weakness, geopolitical uncertainty, and robust central bank buying as nations sought to diversify reserves away from dollar-denominated assets.

Platinum rallied an impressive 70% by November on supply deficits and renewed investor

shock while generating positive returns as economic uncertainty persisted.

Looking Ahead: The Case for Lower Rates in 2026

As we move into 2026, several factors point to a lower interest rate environment globally. Although market indices remain elevated, US economic growth has slowed significantly, with leading indicators suggesting continued weakness. Inflation, while still above target, has moderated from its peaks, and the Fed's preferred core PCE measure has stabilised around 2.7–2.9% (approximately 1% above target). With unemployment risks rising and wage growth normalising, the Fed has room to ease policy without reigniting inflation.

We expect the Federal Reserve to implement rate cuts in 2026, reducing the federal funds rate during the year. Trump has made this intention clear, and the announcement of a new Fed chair will likely add momentum to this outlook. Europe and the UK are likely to continue their easing cycles, with the ECB potentially cutting rates below 2% if growth remains sluggish. China will likely maintain accommodative policy to support its property sector and boost domestic consumption.

Lower rates should support risk assets, particularly benefiting rate-sensitive sectors such as real estate and small-cap equities, which have lagged behind the mega-cap technology dominance of recent years. Emerging markets are also likely to benefit from this environment. Despite the likelihood of short-term interest rates moving lower, bond investors continue to monitor longer-duration bond yields, as concerns remain about high levels of global debt.

Perpetual Stimulus: The New Normal

As discussed in our June newsletter, political dysfunction has made fiscal discipline virtually impossible. Governments worldwide remain trapped in a cycle where spending cuts are politically toxic, leaving them reliant on central banks to accommodate ever-growing deficits through "fiscal dominance" – where monetary policy becomes subservient to fiscal needs.

This dynamic creates a ratchet effect: spending rises sharply during crises but never fully returns to previous levels. The result is persistent currency debasement, asset price inflation, and increasing wealth inequality, as those holding financial assets benefit disproportionately from monetary expansion.

For 2026, expect more of the same. With elections approaching in multiple countries and populist pressures increasing, politicians will continue to favour stimulus over austerity. Central banks will maintain "easy money" policies despite inflation concerns, supporting asset prices but gradually eroding currency purchasing power. This environment favours hard assets – gold, real estate, commodities, and select equities – over cash and fixed income investments.

Key Concerns for 2026

Market Concentration and Valuation Risk

Extreme market concentration remains a significant risk. The top 10 S&P 500 companies account for 40% of the index, with just four stocks, Nvidia, Microsoft, Apple, and Alphabet, representing roughly 25%. These companies are expected to spend hundreds of billions of dollars on AI infrastructure in 2026, and questions about return on investment remain significant. Any disappointment in AI monetisation could trigger sharp corrections given elevated valuations.

Debt Sustainability

With US debt approaching \$38 trillion and elevated debt-to-GDP ratios worldwide, sustainability becomes a pressing issue as interest rates remain high. Annual US interest payments now exceed \$1 trillion and are rising. If bond markets lose confidence in governments' ability to service debt, borrowing costs could surge, forcing difficult choices between austerity and monetary accommodation.

Geopolitical Fragmentation

regional conflicts, and potential tariff escalations continue to create uncertainty for supply chains and corporate planning. Trade hostilities or military conflicts could derail growth and reignite inflation.

Inflation Persistence

While inflation has moderated, tariffs, deglobalisation, labour market tightness, and fiscal profligacy pose risks of renewed price pressures. Productivity gains from AI should generally exert disinflationary pressures, but many question at what cost to the labour market. If inflation remains persistent, central banks may be unable to ease as much as markets anticipate, disappointing investors and constraining growth.

Positioning for 2026

We remain constructive on risk assets for 2026, particularly outside the US, where valuations are more attractive and the likelihood of further dollar decline persists. Our strategy emphasises diversification across geographies, asset classes, and sectors, with primary allocations to companies where valuations make sense, emerging markets, commodities, and precious metals as hedges. The rotation away from US mega-cap technology towards broader global markets likely has further to go. Active management will be crucial as market concentration unwinds. We maintain sufficient cash reserves to capture opportunities as volatility creates dislocations, with currency diversification and hard asset exposure essential in an era of ongoing stimulus.

Market Update

In November, the record 43-day U.S. government shutdown ended after Congress brokered a fragile funding deal. The absence of key economic data releases, including labour market and inflation reports left investors navigating without clear signals. Sentiment remained cautious as concerns over inflated AI-related valuations were a drag on equities. Despite heightened volatility, U.S. markets staged a sharp rally in the final week on growing confidence that the Federal Reserve would cut rates by 25 bps in December amid signs of a cooling labour market. The S&P 500 and Dow Jones gained 0.13% and 0.32% respectively, while the Nasdaq Composite fell 1.64%, breaking its seven-month winning streak.

In Europe, equity markets were broadly flat through November. The EURO STOXX 50 index gained 0.25%, France's CAC 40 closed mostly unchanged down 0.06%, while Germany's DAX slipped 0.51%. Eurozone GDP grew 0.2% in Q3, up from 0.1% in the prior quarter. In the UK, the FTSE 100 ended the month unchanged, halting a four-month advance as growth momentum softened. GDP growth slowed to 0.1% in Q3 from 0.3% previously, underscoring a subdued economic trajectory.

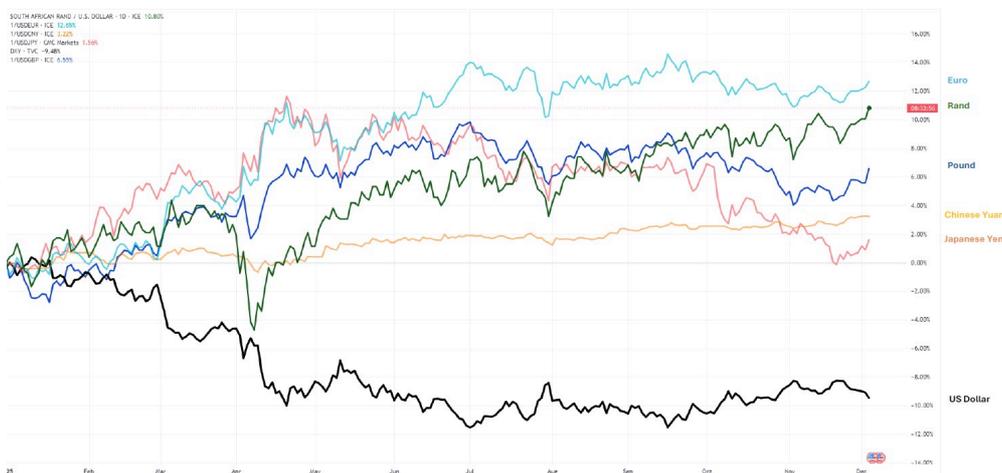
In Asia, Japanese equities retreated with the Nikkei down 4.21%. Inflation pressures persisted: Tokyo core CPI rose to 2.8%, the core-core measure (excludes energy and fresh food) also rose to 2.8%, remaining firmly above the Central Bank's target of 2% for 3 and a half years to date. This led to a spike in yields with the Japanese 10-Y climbing to over 1.9%. In China, weak domestic demand and faltering momentum across key indicators weighed on sentiment. The Shanghai Composite fell 2.8%, and Hong Kong's Hang Seng slipped 0.18%. Manufacturing PMI improved slightly to 49.2 but remained below the 50-point expansion threshold for an eighth straight month, while non-manufacturing PMI contracted to 49.5.

Locally, the SARB delivered a widely anticipated rate cut, citing continued improvement in inflation dynamics. This was followed by South Africa's first sovereign credit rating upgrade in 20 years from S&P Global. The All Share Index rose 1% in November, marking its ninth consecutive monthly gain and surpassing 115,000 points mid-month. The rand appreciated 1.26% against a softer U.S. dollar, trading below R17/US\$, supported by firm commodity prices and confidence in local policy.

Commodities posted mixed returns. Natural Gas and Silver surged 19.54% and 16.49% respectively. Gold rose 5.39%, buoyed by expectations of further U.S. monetary easing, ongoing central bank purchases, and geopolitical uncertainty. Platinum group metals were mixed:

Chart of the Month

The chart below highlights the performance of major global currencies against the US Dollar year to date. The Dollar has led global currencies since 2020, as capital has flowed to the United States at the expense of many trading partners. However, 2025 told a very different story, with the Dollar, as measured by the DXY, declining by approximately 10% against major trading partners. The Rand has outperformed most of its peers due to foreign flows into our bond market and tailwinds from strong basic material prices in 2025.



"Time is the friend of the wonderful company, the enemy of the mediocre."
- Warren Buffett



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