Value Winning (Outside the US) – Market Commentary

Another blowout performance by the Mag 7 led the Nasdaq to deliver the best return in Developed Markets for September at +5.5%. Second best really, since the Netherlands returned +12.7%, driven by ASML (+30.8%), as might be expected. The S&P 500 returned +3.6% while the rest of the world, measured by the MSCI World ex-US Index, managed +2.1%.

Given the strong Tech returns, one would also expect Growth to outperform Value and this was duly the case at +4.6% vs Value at +1.7%.

Emerging Markets performed yet better than Developed Markets, also on AI-related movements with the MSCI Emerging Markets Index returning +7.2% for September. South Africa returned +9.3% in USD outperforming the MSCI EM Index however this was driven exclusively by Gold and Platinum where Gold shares were up +30.6% and Platinum +48.8% respectively in USD terms over the month.

The various market returns are summarised in Table 1 below.

Table 1. South African and global equity returns (USD) for September 2025*

	Sept-25	YTD 2025
FTSE/JSE ALSI (ZAR)	6.6%	31.7%
FTSE/JSE ALSI (USD)	9.3%	44.1%
MSCI World	3.2%	17.4%
MSCI World ex-US	2.1%	25.3%
MSCI EM	7.2%	27.5%
MSCI Value	1.7%	16.9%
MSCI Growth	4.6%	17.9%
S&P 500	3.6%	14.5%
Nasdaq 100	5.5%	18.1%

*Total return indices, Source: Factset

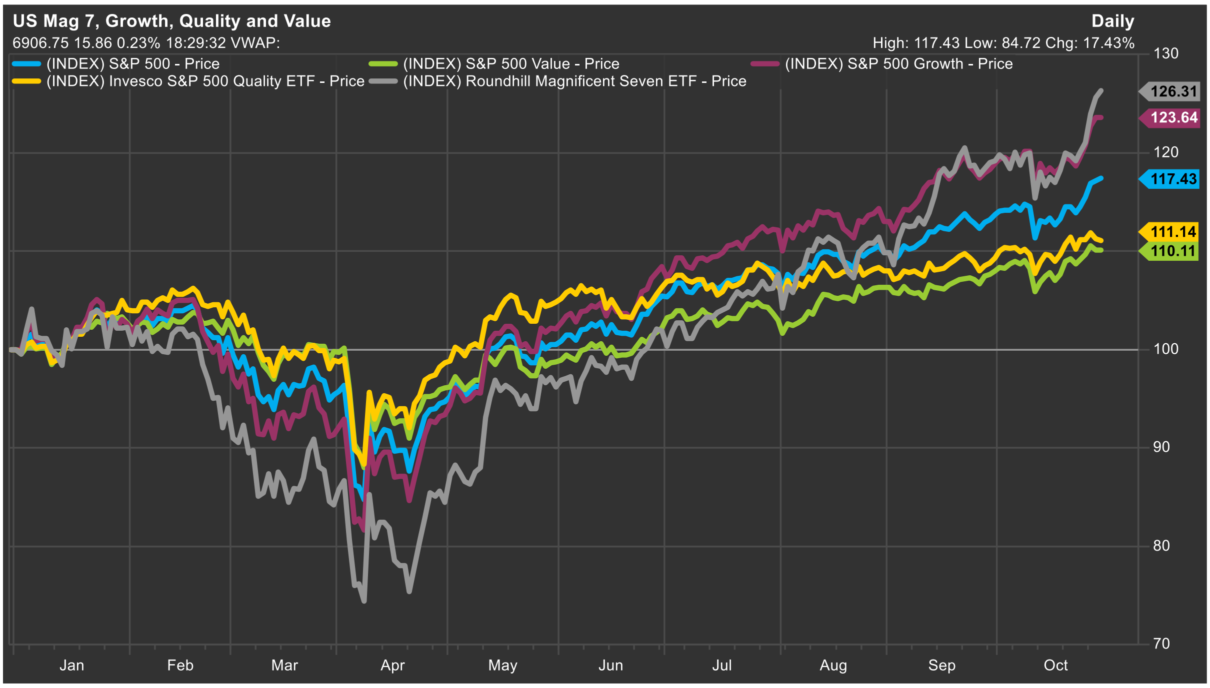
The Mag 7 returned +8.5% in September vs the S&P's +3.5% marking another month of strong outperformance by Big Tech. Beyond this the Financial Times today speaks of a "junk rally" in the US - meme stocks up +72.6% in 2025, and unprofitable Tech +62.1% (we are not actually negative on the latter). Other highfliers include the Goldman Sachs Most Shorted Index, up +40.1% i.e. hurting short sellers, and US Drones and Quantum Computing at +101.1% and +105.9% respectively. One could call it an Everything-rally, of sorts.

Stable compounding companies feature much further down the list at +7.3%, positive but hardly winning.

Separately if one considers a performance table of Rand-based global equity funds, Value funds are clearly winning for the year. Other investment approaches are spread near-randomly across the bottom of the performance table. Why so?

Chart 1 below compares performance for the Mag 7, Growth, Value and Quality in the US for 2025 to provide some sort of context for movements.

Chart 1. US Mag 7, Growth, Value and Quality performance for 2025



Source: Factset

Per Chart 1 above, Quality and Value are underperforming by about -7%, while the Mag 7 and Growth (which includes both the Mag 7 and unprofitable Tech among others) are outperforming by +6% and +9% respectively.

2025 presented a good experimental year for performance assessment since it included April's Liberation Day tariff-driven volatility i.e. amongst the strong growth there was a short and sharp burst of uncertainty and recession fears. The episode is instructive about what happens in a downturn - the Mag 7 and Growth, which includes the Mag 7 as well as the wider Tech sector, underperformed the most in short order.

Conventional wisdom seems to suggest Value falls the least courtesy of its built-in margin of safety. We note however that the Quality shares declined at most as much as Value and recovered better, only to underperform in a rising market later in the year.

The above is as it should be – we have commented on occasions past that Tech underperforms most severely in a downturn and conversely leads in a rising market. Value is supposed to have a margin of safety through a lower valuation and is meant to provide protection in a downturn. We think this is somewhat false and depends on the circumstances of the downturn. The quality of earnings of Value companies tends to be poor and prices are typically low for a reason i.e. something already went wrong with the company prior.

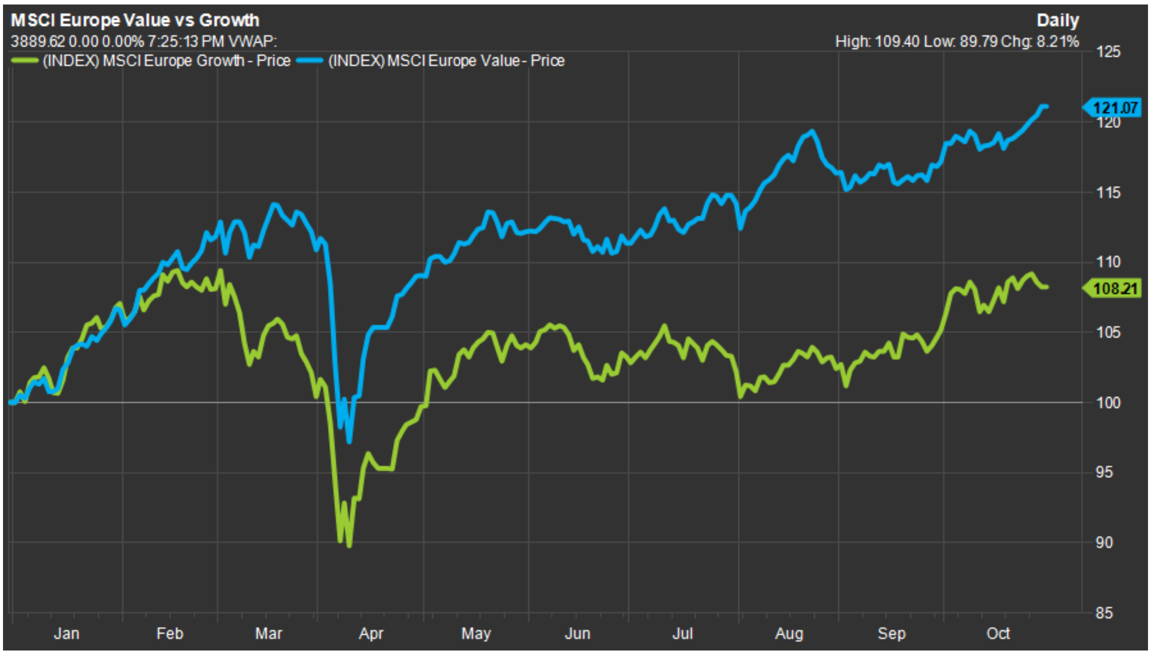
This leaves the Quality companies with steady earnings growth providing protection in a downturn but lagging in an Everything-rally.

We caution that Growth, Value and Quality are defined differently by different investors and the indices in Chart 1 above are based on the definitions of the index providers. These are nevertheless sufficient for the purposes of market commentary.

What about markets outside the US?

Europe, Japan and Canada are the other Developed Markets comprising the MSCI World Index. In Charts 2 and 3 below we compare Value and Growth performance in Europe and Japan.

Chart 2. MSCI Europe Value vs Growth



Source: Factset

Value significantly outperformed in Europe in 2025.

Chart 3. MSCI Japan Large Cap Value vs Growth

Source: Factset

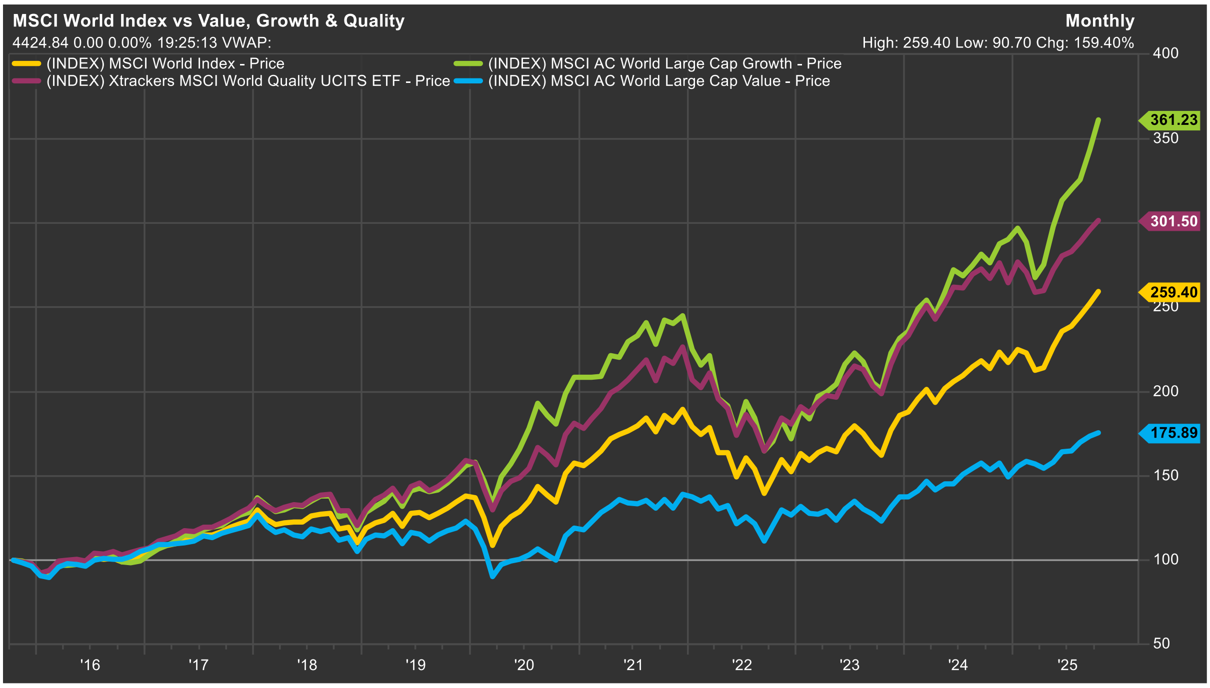
While outperformance in Japan has been marginal in 2025 it has been significant since 2020.

Overall we think the Gold and Defence rallies have a lot to do with this outperformance in ex-US markets in 2025 while Tech has dominated in the US.

What about the longer term record?

On a longer term basis Value has significantly underperformed per Chart 4 below.

Chart 4. MSCI World Index vs Large Cap Value, Large Cap Growth and Quality



Source: Factset

We further note that the close performance of Growth and Quality in the Chart above should not surprise since Quality tends to be some form of subset of Growth.

What about the future?

The past record is of course past, and what should concern investors most is what follows.

We briefly outline some scenarios and hazard some predictions here.

Value tends to outperform in a rising rate environment where economic (or earnings) growth is subdued, as in 2022. Stagflation is an outcome which combines these. It is currently well-known that there is some pressure on the US labour market. At the same time the (short term) interest rate cycle appears to be on a downward trajectory. If the current political pressure exerted on the rate-setting process leads to interest rates declining too quickly and inflation is allowed to rise again, we could see Value outperform.

An outright recession will likely lead to declining earnings and lower interest rates. Quality shares are likely to outperform in this scenario.

Finally, if there is no recession i.e. a soft landing, and inflation is contained we suspect Growth and Quality will continue to outperform.

Of the above, we are unable to comment on the probability of a recession except to say we continue to be cognisant of the risks even as the market appears sanguine. Things change quickly as we saw in April.

With respect to interest rates we suspect the trend will be down, supportive of Quality and Growth.

Value tends to outperform in a narrow set of circumstances. While there is some talk of stagflation we suspect the risk of this is low and certainly not at all close to a 1970s environment.