

New benchmark problems – Market Commentary

Global markets were again led by Large US Tech in October, the Mag 7 in particular, as the Nasdaq returned +4.8% for the month. The MSCI World Index was relatively weaker, though still positive, at +2.0% while the Rest of the World, represented by the MSCI World ex-US, was weaker still, though also positive at +1.1%.

Emerging Markets were strong at +4.2%. South Africa underperformed, but positive, at +1.2% in USD terms. SA is still handily beating EMs and Developed Markets for the year-to-date at +45.8% vs +32.9% for the MSCI EM and +19.8% for the MSCI World.

The Growth style returned +4.2%, led by US Tech, while the MSCI Value Index was mildly negative at -0.5%.

Finally the S&P 500 was also more subdued at +2.3% vs the Nasdaq’s +4.8%.

The various market returns are summarised in Table 1 below.

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

	Oct-25	YTD 2025
FTSE/JSE ALSI (ZAR)	1.6%	33.9%
FTSE/JSE ALSI (USD)	1.2%	45.8%
MSCI World	2.0%	19.8%
MSCI World ex-US	1.1%	26.7%
MSCI EM	4.2%	32.9%
MSCI Value	-0.5%	16.3%
MSCI Growth	4.2%	22.8%
S&P 500	2.3%	17.2%
Nasdaq 100	4.8%	23.8%

*Total return indices, Source: Factset

We think South Africa’s Gold, and to a lesser extent Platinum, performance is about to throw up fresh benchmarking problems for managers and institutional investors. This is of course due to the +189.1% return by Gold shares for the year-to-date at the time of writing in November, and a somewhat corresponding +151.4% for Platinum shares.

The nature of the problem is that Gold shares have risen from an estimated weight of 7.5% in the FTSE All Share index at the start of the year to 16.3%. Platinum shares have correspondingly also increased from 4.1% to 7.8%, or collectively both have risen from 11.6% to 24.1%. There are no individual Gold and Platinum indices since the JSE collapsed these in 2021 to form a single Precious Metals Index – not convenient in our view since the two commodities have different drivers.

While international investors fret about Tech concentration in the S&P 500 and the MSCI World (the top US Tech shares comprise 36.4% of the S&P 500 and 25.0% of the MSCI World Index), investors in South Africa currently have to contend with concentrations in stocks leveraged to single volatile commodities.

Some index history and concentration on the JSE

In discussing the problem of concentration one should probably start with the move to free float indices in 2002. It was deemed that strategic or insider or other restricted

holdings are not frequently traded and therefore not readily available to investors therefore should not be included in indices. The practice is adopted globally, although “strategic holdings” do change hands and the JSE has to regularly adjust free float weights, sometimes substantially in the case of M&A.

We mention this because similar logic was applied to limit the weights of dual-listed companies in the creation of the SWIX shareholder-weighted indices in 2004.

In terms of concentration SAB’s peak weight in the ALSI prior to its delisting in 2016 was 12.7%. The first real problem however arose in 2017 when Naspers returned +103.2% and its weight in the index effectively doubled to near 20%. Since Naspers was not dual-listed its weight in the SWIX reached a peak closer to 25%.

The JSE launched the Capped SWIX in response to industry demand in 2016 to limit individual company weights prior to the Naspers problem. In the Capped SWIX share weights are arbitrarily limited to 10% - convenient both for investment managers and for institutional investors who have less of a concentration problem to deal with in their benchmarks. This somehow ignores the outperformance that created the concentration in the first place. Outperformance often persists.

Companies themselves of course take steps to limit their weights in indices and so in the Naspers case we saw the creation of Prosus and a cross-holding scheme to limit index weights. The structure has been partially successful - today Naspers stands at 10.5% (after further restructuring) and Prosus at a further 3.5% for a combined weight of 14.0% of the ALSI. Both trade at sizeable discounts to NAV however – likely not the kind of success investors are looking for. Both Naspers and Prosus have, of course, continued to outperform, discount to NAV included, after a period of volatility related to Chinese Tech regulation in 2021 and 2022.

Richemont’s strong performance between 2020 and 2023 saw its weight in the ALSI also increase to close to 20%. In response the company, without much fanfare, replaced its depositary receipts with secondary listing A shares and substantially reduced its index weight.

Which brings us back to Gold

Current JSE indices are being harmonised and the SWIX indices are being phased out leaving the ALSI and a Capped version (both still using SWIX methodology – effectively the SWIX is being retained under an ALSI name). In the current environment the ALSI will therefore continue to have relatively large concentrated exposure to shares leveraged to single commodity prices. The Capped version will not be dissimilar – the largest Gold shares, Gold Fields and AngloGold, at 7.5% and 6% in the ALSI, will be below the 10% Cap.

There is a further material difference to the past - in contrast to SAB, Naspers and Richemont, Gold is a commodity and not an outperforming consumer or luxury goods or tech company.

Is the problem unique?

Per the S&P / MSCI World commentary above, the problem, if it can be called that, has already been demonstrated to not be unique. In addition there are numerous other smaller markets around the world with greater concentration. Table 1 below illustrates some more prominent examples.

Table 1. Dominant shares in global markets

	Reference Index	Company	% weight
Netherlands	MSCI Netherlands	ASML	23.3%
Denmark	MSCI Denmark	Novo Nordisk	21.9%
South Korea	MSCI South Korea	Samsung	23.2%

The level of concentration often varies further by type of index and depth. For example if we consider the AEX Index of the Netherlands, rather than the MSCI version, we find that the top 3 shares, ASML, Shell and Unilever collectively comprise 46.4% of the index.

Similarly, staying with the MSCI South Korea in South Korea, Samsung and SK Hynix together comprise 39.5% of the index.

With respect to the US, 7 Tech shares comprising 36% of the S&P 500 with Nvidia, the largest, at 8.5%, does not appear particularly extreme.

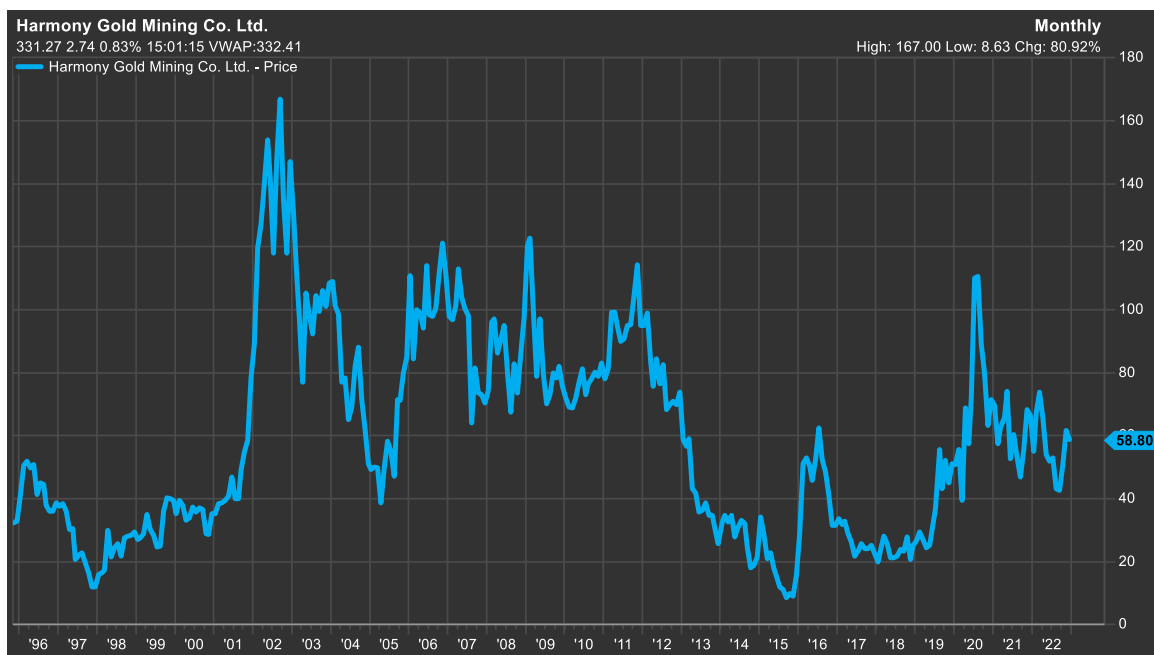
Can the problem disappear?

A possibility is that the problem disappears on its own i.e. what if share prices decline?

Some market commentators confidently suggest the Gold price, or more particularly, Gold mining company share prices are likely to decline as sharply soon. We think this is motivated by history. Chart 1 below presents Harmony’s share price prior to the recent rally

1. we choose Harmony as a high cost producer therefore more leveraged to the Gold price with more pronounced share price spikes
2. the fact that we have to exclude the most recent rally to better perceive prior rallies scale-wise in itself suggests the current rally is not similar to anything seen in recent history

Chart 1. Harmony Gold share price



Source: Factset

Previous spikes in Harmony's price can be seen clearly in Chart 1 above, most recently in 2020. Shareholders would see multiples of their investment returned over a short period only for this to disappear just as quickly.

We think this time is different. Indeed it has already been different – the bull market is in its third year. Nothing like it has been seen in at least the previous 30 years. We think this is because the geopolitical circumstances which led to the price rise persist and ensure a consistent central bank underpin for some years to come.

The difference this year to the previous two is that the rally has reached the retail investor which introduces additional volatility. Indeed bearing in mind the manner in which commodity prices move, we could see a full year of declines only for the upward trend to resume. Commodity demand and associated price moves are difficult to assess quantitatively, and especially so now in our view, therefore risk management is key.

But to answer the question for this section – we think retail flows have played a big part in this year's rally and we may see a temporary decline in price. We think it less likely that underlying institutional demand will cease.

So what is to be done?

In short, we think, nothing.

The relatively high Resources content of the South African market is volatile and difficult to manage. Because of this we see the South African market to be as difficult or more so than large global markets which, on average, tend to be more volatile than the domestic market.

The current concentration built up in single commodities makes things yet more challenging.

We do not think changing the benchmark is a solution and we wonder if we will see demand for changes to benchmarks (perhaps with an argument that commodity share prices have risen due to factors outside of South Africa and therefore should be restricted or excluded).

We think it is up to the manager to assess the risks in a difficult market and to manage accordingly.