2025: A year that rewarded **discipline**

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"We choose to go to the Moon in this decade and do the other things," said US President John F. Kennedy in his famous 1962 speech, **"not because they are easy, but because they are hard."** Markets seemed to heed this advice during 2025, performing well not despite the challenges, but because of them.

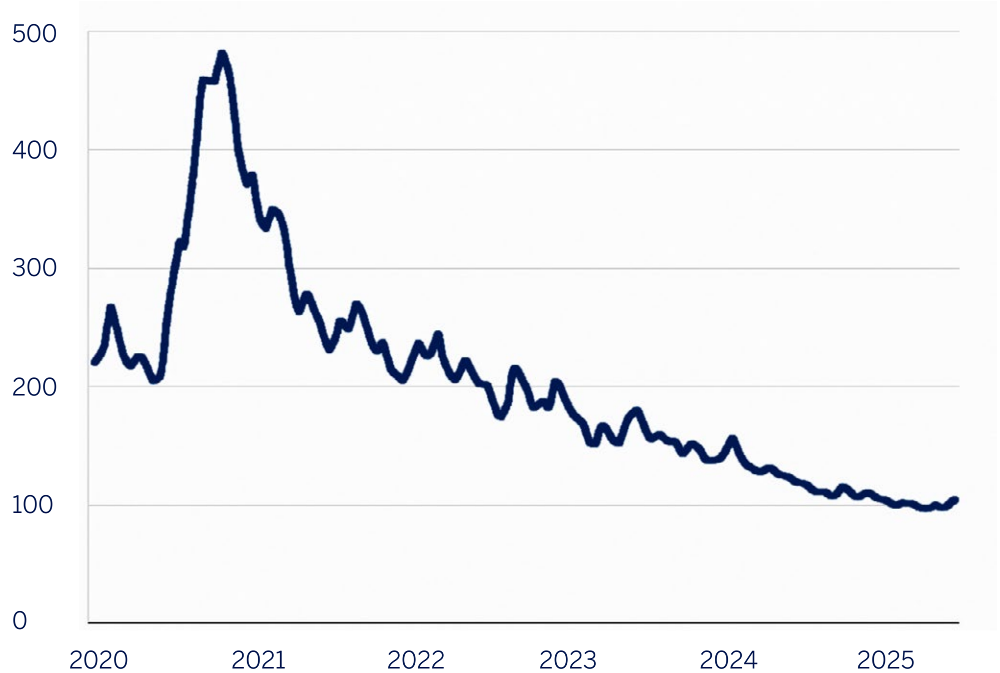
Trade wars, armed conflict, extreme weather – the headwinds were real. Yet markets found ways to succeed. Trade shocks became temporary dips. AI's unpredictability fuelled industry performance. Let us distill the lessons from this remarkable year.

When panic met preparation

2 April 2025 – "Liberation Day" – delivered one of the most dramatic market shocks in recent memory. According to Reuters, President Trump's sweeping tariffs triggered a crash that shed $2.4 trillion in value in a single day. The S&P 500 plunged 12.4% over the following week, its steepest decline since the COVID-19 pandemic.

The Economic Policy Uncertainty Index spiked to an all-time high of 536.9 in April 2025, surpassing even COVID-era levels. For context, this marked the most elevated reading since the index's inception in 1985, reflecting genuine investor anxiety about policy direction.

UNCERTAINTY ON A HIGH
GLOBAL ECONOMIC POLICY UNCERTAINTY INDEX



Source: Baker, Bloom & Davis via FRED Economic Data, Economic Policy Uncertainty Index

What separates winners from losers? Quality holdings and temperament. Investors holding businesses with genuine competitive advantages weathered the storm. Those who panicked are locked in losses that never needed to materialise.

The year international markets found their voice

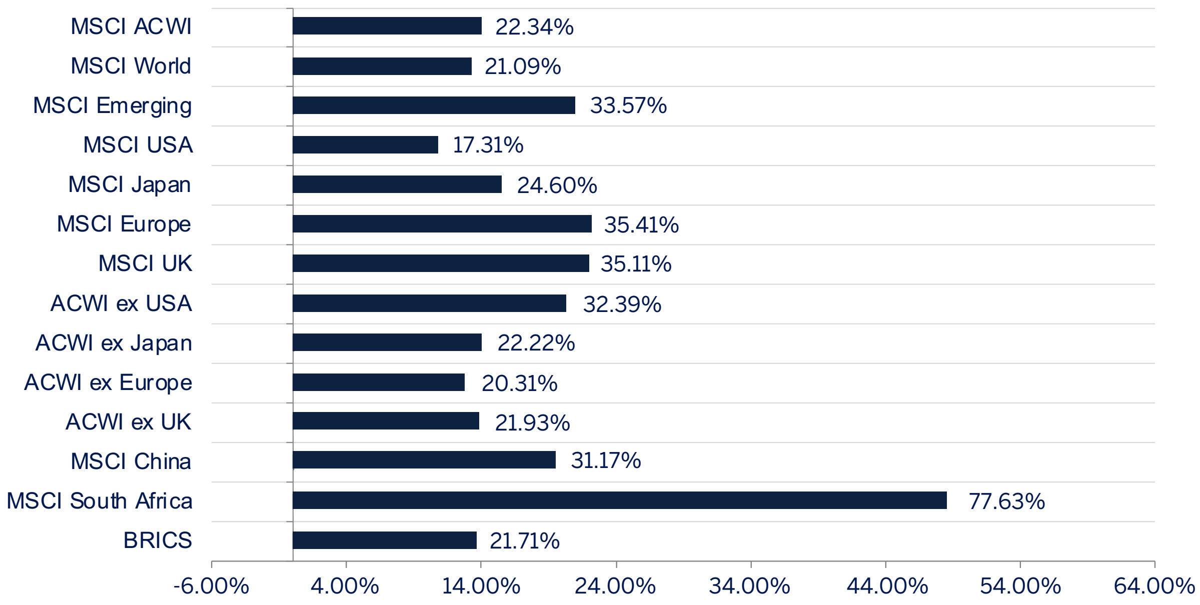
For over a decade, US equities dominated global returns. That changed in 2025. The MSCI All Country World ex-USA Index surged 32.4%, handily outpacing the S&P 500's 16.4% gain – international stocks' strongest performance since 2009.

Japan led developed markets with a 26% return. The UK's FTSE 100 climbed 21.5%, posting its best year since 2009. In Europe, historic defence spending reforms sent stocks like Rheinmetall soaring 154%.

And our own backyard delivered. South Africa's JSE All Share Index climbed approximately 42% in rand terms and over 60% in dollar terms, making it one of the world's top three performers. Only Brazil's Bovespa and Spain's IBEX 35 did better.

THE YEAR AMERICA DIDN'T WIN

MSCI REGIONS - 2025 (USD)



Source: FactSet

The lesson? Diversification across regions isn't just textbook theory – 2025 proved it delivers tangible returns. Markets written off as perpetual underperformers became the year's champions.

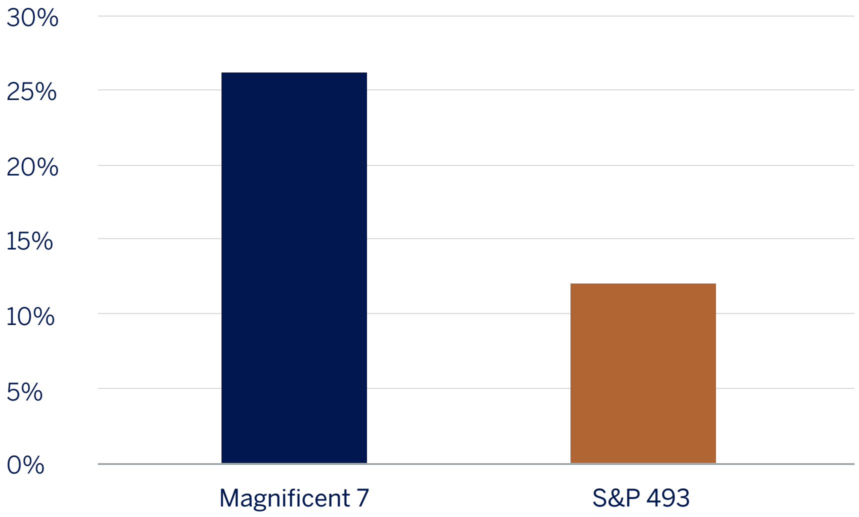
Uncertainty also impacts the sharp point of things: corporate earnings. Since Q2 of 2024, businesses in major international indices have been slashing their earnings forecasts. Hoarding cash comes at an opportunity cost. That money should be used to grow the business and increase productivity. Right now, caution seems to be the name of the game for investment committees.

When concentration meets risk

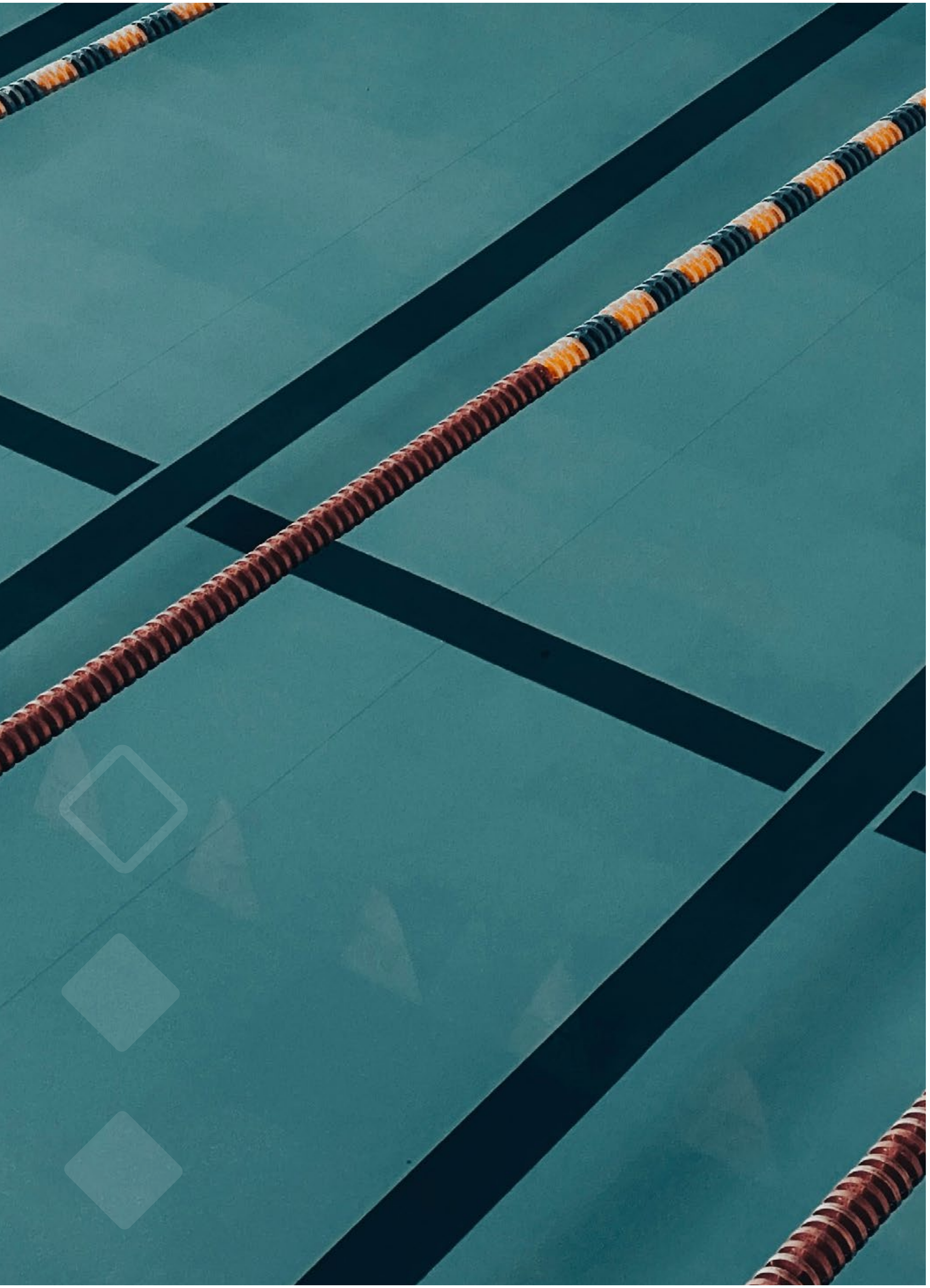
According to I/B/E/S (Institutional Brokers' Estimate System) data, analyst earnings estimates for the "Magnificent 7" technology companies showed 17% earnings growth in 2025 versus just 4% for the remaining 493 S&P 500 companies – a concentration that created both opportunity and risk.

Meanwhile, consumer defensive stocks gained just 1.1%. Real estate added 4.1%. The obvious trade got crowded, and concentration brought risk. At Melville Douglas, this is why we seek quality businesses at reasonable valuations across sectors and geographies, rather than chasing last quarter's momentum.

WHEN FEW DO THE HEAVY LIFTING
EARNINGS GROWTH CONCENTRATION MAGNIFICENT 7 VS. S&P 493
2025



Source: Baker, I/B/E/S Consensus Estimates, J.P. Morgan Asset Management



The rand renaissance

Few predicted South Africa's currency would strengthen by 12% against the US dollar in 2025. The catalyst? Multiple variables matter more than any single headline. Yes, precious metals rallied. But equally important was the government's medium-term budget statement, which landed better than expected.

The lesson is straightforward but often forgotten: single-factor analysis fails. Markets are complex systems where multiple forces interact. Those who waited for perfect clarity missed significant gains. Those who recognised improving fundamentals despite imperfect headlines were rewarded.

Principles over predictions

As we enter 2026, it is tempting to extrapolate 2025's trends indefinitely. History suggests caution. What endures are principles: quality businesses with sustainable competitive advantages outperform over time. Diversification provides resilience when shocks arrive. Valuation matters. Temperament trumps intelligence.

The markets of 2025 succeeded not despite the challenges but, in Kennedy's words, because they were hard. Those difficulties forced investors to think carefully about where genuine value resided. They punished complacency and rewarded preparation.

At Melville Douglas, we approach 2026 with the same philosophy that served our clients well through 2025's turbulence: buying quality businesses at sensible valuations, maintaining appropriate diversification, and keeping a long-term perspective even when headlines scream for action.

If you have questions about how your portfolio is positioned for the year ahead, please reach out to your portfolio manager.

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