Each month our newsletter begins with an update on economics and markets, both from at home and abroad. This month, to begin with, we want to explain why those economic updates are so important for our portfolios. We will begin with probably the most important economic indicator, interest rates.

How Interest Rates Affect Financial Markets

Interest rates may seem just like another number that's read in the news, but they play a vital role in how money moves around the world, and in how our investments perform. Central banks (like the SARB) raise or lower rates. By doing this, they are adjusting the "price" of borrowing money. That decision then ripples through every corner of the economy and the markets.

Here is how it plays out in various markets:

- **Equities (stocks):**

  Higher interest rates increase the cost of borrowing, this causes companies to delay projects, or it can pinch their profits, which can decrease share prices. Growth and technology stocks are generally hardest hit when interest rates rise.

  When interest rates go lower, borrowing for companies is cheaper, and business and consumer spending picks up. This has a positive effect on profits and share prices of companies and stocks generally do well.

- **Property and Credit:**

  As you are well aware, rising interest rates increase the cost of home loans and they make credit more expensive. This has the effect of slowing down the housing market and decreasing consumer spending.

Interest rates are essentially the lever that sets the tone for the market. While we just highlighted two of the markets that interest rates affect, interest rates affect multiple other areas of the economy. Next month, we will highlight the reasons that might cause the SARB to adjust interest rates.

18 Queensbridge Estate, Kingfisher Lane, Assagay, 3610 | hello@ridgetop.co.za | www.ridgetop.co.za | 031 765 6625

Ridgetop Investment Managers (Pty) Ltd | Reg No.: 2006/016008/07 | Authorised Financial Services Provider: 27962 | Director: AE Smith

Market Update

- The JSE gained 1.2% in October, led by gains in the banking sector. The JSE is now up 29% for the year.
- The S&P 500 gained 2.24% as the FED lowered interest rates and despite a continued US Government shutdown.
- The FTSE 100 gained 3.92% and the Euro Stoxx 50 gained 2.47% in October.
- The MSCI World Index gained 2% as most developed markets produced good equity returns in October.

Economic Update

- According to the latest report by the World Bank, South Africa is only expected to grow by 0.9% in 2025, underlining the need for structural reforms to lift growth.
- The prime lending rate in South Africa remains at 10.50%
- Inflation year on year in September was 3.4%.
- The US Federal Reserve cut interest rates by 0.25% but cautioned that more rate cuts are not guaranteed as the government shutdown is delaying the release of key economic data.

Until next month, stay patient, and remember – rates may move up or down, but discipline and diversification never go out of style.

The Ridgetop Team

"The big money is not in the buying and selling, but in the waiting."
— Charlie Munger

18 Queensbridge Estate, Kingfisher Lane, Assagay, 3610 hello@ridgetop.co.za www.ridgetop.co.za 031 765 6625

Glossary

- JSE ALSI: (Johannesburg Stock Exchange All Share Index): The primary stock exchange of South Africa, measuring the performance of all listed companies in South Africa.
- MSCI World: A global equity index which tracks shares from developed markets
- S&P 500: The primary stock exchange of the USA. Measuring the performance of the largest 500 companies in the USA. Used as a benchmark for US equity performance.
- Prime Lending Rate: The reference rate for various loans which is closely tied to the South African Reserve Bank's Repo rate.
- REPO Rate: The interest rate at which the South African Reserve Bank lends money to commercial banks.
- US Federal Reserve: Central Bank of the USA, responsible for managing the country's money supply, setting interest rates, and keeping inflation and employment stable.

18 Queensbridge Estate, Kingfisher Lane, Assagay, 3610 hello@ridgetop.co.za www.ridgetop.co.za 031 765 6625