Amplify SCI Defensive Balanced Fund

Fund Commentary | September 2025

Kim Silberman
Economist and Macro Strategist
Matrix Fund Managers

"Gold and bitcoin continue their meteoric rise in response to uncertainty about the US dollar as a reserve currency and US rates as a benchmark risk-free proxy."

Market overview

EM flows benefit South African assets, which outperform peers

Investor capital flowed into emerging markets (EM) over the past quarter, driving up EM bond and equity returns by 4.4% and 10.1% respectively. SA bonds and equities outperformed EM indices, returning 6.9% and 12.9% respectively, benefiting from stronger commodity prices. Platinum, palladium and gold were up 17.1%, 14.3% and 16.6% respectively over the quarter, according to Bloomberg. The rand appreciated in response, strengthening by 3% against the US dollar. The US dollar appreciated 0.9% on a global trade-weighted basis, from 96.9 to 97.8.

The US yield curve steepened by around 20 bps from the two-year point onward. Domestically, the yield curve bull-flattened over the quarter, with front-end yields declining by 20-30 bps and the long end rallying by roughly 60 bps. This broad-based rally in nominal bonds led to a notable compression in spreads relative to inflation-linked bonds.

Breakeven inflation down since end-June

Five-year breakeven inflation averaged 3.7% since end-June, down from 4.4% in the first half of the year. The decline reflects three key drivers:

- lower-than-expected inflation prints, with August CPI surprising at 3.3% year-on-year versus expectations of 3.6%;
- a sharp moderation in the BER's two-year ahead inflation expectations survey—from 4.7% in March to 4.2% in September; and
- the South African Reserve Bank's July announcement of a lower formal inflation target of 3%, down from 4.5%.

Gold and bitcoin continue their meteoric rise in response to uncertainty about the US dollar as a reserve currency and US rates as a benchmark risk-free proxy. Over the third quarter, the Trump administration escalated their attack on the US Federal Reserve (Fed) and US statistics agencies, undermining the credibility of Bureau of Labor Statistics data releases, with allegations that both institutions are incompetent and politically motivated. Political interference in monetary policy is not unprecedent as evidenced in the 1970s, during Nixon's presidency.

Trump's attacks on the independence of the Fed have made investors uneasy

In mid-August Bill Pulte, the Trump-appointed director of Federal Housing, publicly criticised Fed Chair Jerome Powell and called for his resignation. Pulte also sent two criminal referral letters to the Department of Justice, alleging that Fed Board Governor Lisa Cook was guilty of mortgage fraud. A week later, during the Jackson Hole Economic Policy Symposium, Trump posted on social media that he had fired Cook. The announcement was made without an investigation, evidence or due process, in defiance of the long-standing legal principles that protect Fed officials. Cook has refused to resign, and her lawyers have argued in the Supreme Court that if Mr Trump was successful in his attempts to fire her it would "transform the Federal Reserve into a body subservient to the president's will". Notably, Governor Kugler, who resigned from the Board in August after less than two years, was also accused of mortgage fraud. According to CNBC, Kugler declined to comment on any pressure to resign from the Fed.

AI remained the main driver of US markets

Equity markets around the world continued their climb. US stocks continued to perform well, with technology shares again leading the way as the Nasdaq (+11.4%) outperformed the S&P 500 (+8.1%). Enthusiasm over AI remained the major driver of US markets, and by implication overall global averages. The "hyperscalers" show no sign of scaling back on capex plans, and the latest trend appears to be the pushing of further capex growth onto the tier-2 cloud providers such as Oracle and CoreWeave. The listed AI ecosystem is becoming ever more entwined with the unlisted players, particularly Open AI which has officially become the most valuable private company in

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history, raising capital at a valuation of US$500 billion. The company continues to demonstrate immense confidence in its future profitability and capital-raising ability as it secures deals for future computing capacity above its current revenue (let alone profit) run rate. Somewhat concerningly, the AI ecosystem is also becoming more circular with a flurry of product and infrastructure providers investing in their customers and vice-versa.

Portfolio performance and positioning

Performance

The Amplify SCI Defensive Balanced Fund delivered performance of 5.9% after fees over the quarter and was up 13.1% over the past 12 months (well ahead of its inflation plus 3% return target).

Contributions to return over the third quarter were from domestic equity (+2.6%), domestic bonds (+2.5%), domestic property (+0.5%), domestic money market (+0.4%) and foreign equity (+0.3%). Foreign fixed income (-0.1%) detracted from the quarterly return.

Positioning

We continue to favour a well-diversified portfolio with money market and floating-rate note holdings comprising 17% of the portfolio, local equity exposure of 22%, local property exposure of 5%, foreign equity at 9% and foreign fixed income at 11% (including a 2% allocation to inflation-protected US treasuries). The fund's exposure to domestic bonds is 36% (including a 16% allocation to inflation-linked bonds), resulting in a duration of 2.6 years at the fund level.

Total equity exposure of 31% is within the 40% mandate limit. Foreign equity exposure at 9% remains at cautious levels, considering the stretched valuations and lack of earnings momentum across most developed markets and especially the US. Total foreign exposure is 20%.

The fund holds active equity sector overweight positions in Investment Holdings, Media and Tech and Diversified Mining, while maintaining active underweight positions in Insurance, General Financials and Telcos.

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(FSP: 44663)

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