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in the moment

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Financial markets outlook: April 2026

Key market takeaways

- The escalation of the Iran conflict into war has introduced near-term market volatility, particularly via the energy channels, but historical evidence suggests that unless such shocks are accompanied by a United States (US) recession, their impact on global asset class returns tends to be temporary. We thus remain resolute that asset class fundamentals, valuation dispersion and capital flow dynamics remain the dominant drivers of medium-term returns rather than shorter-term geopolitical shocks. In this regard, the global economy continues to benefit from fiscal stimulus in several large economies and lagged monetary easing, while a broadening of earnings growth outside the narrow cohort of mega-cap technology stocks underpins the US equity market.

- Against this backdrop, the divergence between global and South African (SA) asset classes is particularly pronounced. Valuations in developed market (DM) equities and bonds are generally elevated, while SA asset classes continue to embed significant risk premia despite improving domestic fundamentals, creating a favourable asymmetry between upside potential and downside risk for SA assets.

- Within global markets, we see equities as preferable to bonds, supported by synchronised regional earnings growth, fiscal expansion and the lagged impact of previous interest rate cuts. However, return dispersion is increasing. DM equities, particularly the US, face valuation headwinds and diverging prospects for perceived artificial intelligence (AI) winners and losers, while emerging market (EM) equities offer superior value and earnings momentum, supported by a structurally expensive US dollar and improving profit expectations. Global bonds, in contrast, are confronted by inflation risks and poor supply dynamics, undermining their traditional defensive role, while global property is dented by higher global bond yields, refinancing challenges and unattractive relative valuations.

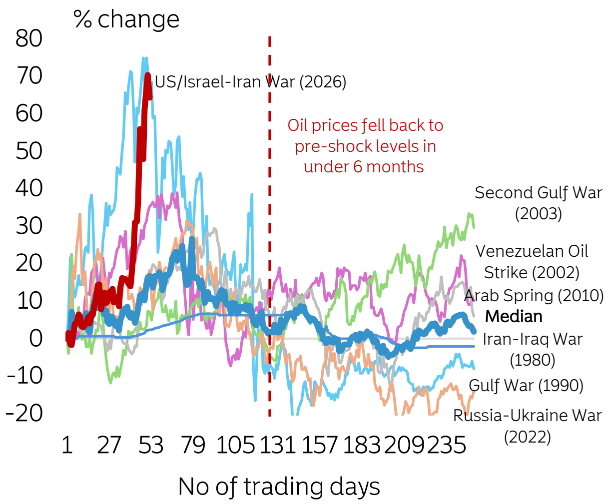
- In SA, the combination of positive growth momentum (albeit from a low base), falling interest rates, contained inflation and renewed foreign investor interest provide strong support for local risk assets in a post-Iran world. SA equities remain deeply discounted relative to both their own history and EM peers, while listed property is benefiting from improving sector fundamentals and declining funding costs. SA nominal bonds offer attractive real yields in a global and historical context, particularly given improving fiscal credibility. Meanwhile, there is a lack of fundamental support for inflation-linked bonds (ILBs) with a broadly sideways inflation trend expected until the end of 2027. While cash offers decent positive real yields, we see potential cash returns as inferior to other assets.

- Portfolios should therefore maintain a clear preference for SA asset classes over global asset classes, in our view, complemented by selective exposure to global EM equities and real assets such as gold. We see global bonds, global property and local and global cash as the least attractive assets on a forward-looking risk-return basis.

The historical short-term impact of geopolitical shocks like the Iran war on capital markets

The Iran conflict has dominated market narratives in early 2026, primarily through its impact on oil prices and associated inflation concerns. Historical analysis by UBS across multiple geopolitical episodes indicates that oil prices typically experience sharp spikes following major geopolitical shocks, with a median oil price increase of approximately 25%, before normalising over a period of under six months (see chart 1). More extreme spikes, such as those observed during the First Gulf War or the Venezuelan oil strike, have exceeded 40%, but these too had reversed within a comparable short time frame.

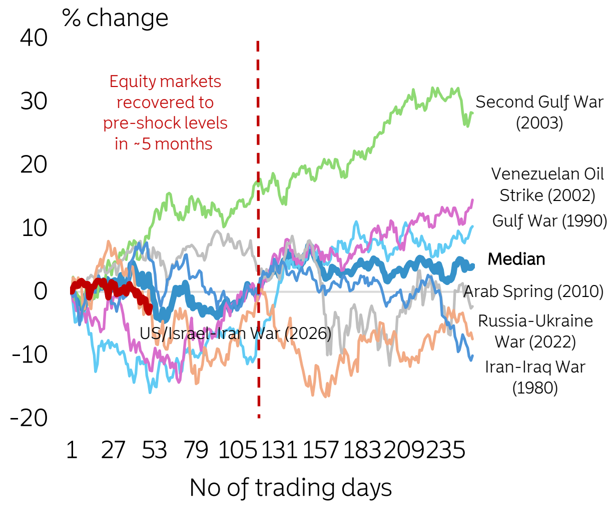
Chart 1: Historical oil price behaviour after geopolitical shocks



Source: UBS

Equity markets have historically exhibited similar behaviour, according to UBS. In the absence of an associated US recession, US equity markets have tended to experience median drawdowns of around 5%, with maximum drawdowns close to 15%, followed by a recovery in around five months (see chart 2).

Chart 2: Historical US equity market performance after geopolitical shocks



Source: UBS

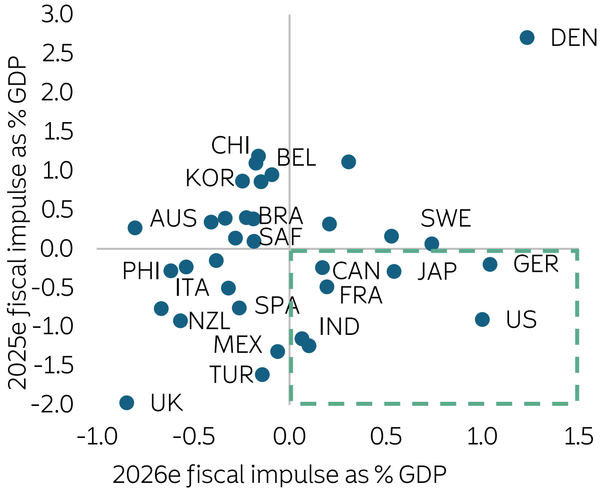
The critical variable for markets is whether elevated oil prices persist long enough to materially undermine global growth and trigger a US recession. Practically, this depends on the time frame of a normalisation of trade flow through the Strait of Hormuz. While oil prices have risen sharply since late February, the US economy entered the Iran war with relatively strong momentum, supported by prior interest rate cuts and ongoing fiscal stimulus. As a result, while downside risks to growth have increased, the balance of probabilities currently still points to an environment of slower but still positive US expansion rather than outright recession. This backdrop remains broadly favourable for risk assets, particularly equities, even as it poses challenges for fixed-income markets through higher issuance and enhanced inflation pressure.

In essence, history suggests that geopolitical shocks, while disruptive in the short term, are rarely the primary drivers of medium-term asset class returns. Instead, fundamentals, valuations, earnings trajectories, policy settings and capital flow dynamics remain the decisive forces shaping investment outcomes over a one-year horison and beyond.

Expected fundamentals should continue to favour global equities over bonds

Global equities continue to benefit from a supportive policy backdrop. Many major economies have shifted from a 2025 negative fiscal impulse to a positive impulse in 2026 (see chart 3), while the US Federal Reserve (Fed) remains in easing mode, albeit currently delayed by the Iran conflict. Historically, global equity markets have performed well in the 18 to 24 month window following the first Fed rate cut, provided the easing cycle wasn't accompanied by recession.

Chart 3: Many large countries are expected to move to a positive fiscal impulse in 2026



Source: Nedbank

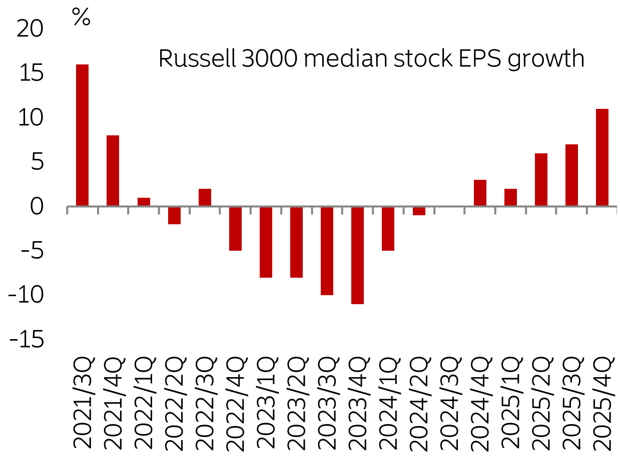
Profit growth is also becoming more synchronised across regions. Whereas 2025 saw a highly uneven earnings environment, with Europe and the UK experiencing negative and weak profit growth, respectively, 2026 is expected to deliver positive earnings growth across developed and emerging markets alike. Consensus forecasts indicate stronger growth in EMs relative to DMs, driven largely by the technology and materials sectors (see chart 4).

Chart 4: Synchronised positive regional global profit growth in 2026

Source: Factset, Citi

In the US, earnings support has broadened materially. Median earnings growth across the Russell 3000 index has turned decisively positive (see chart 5), indicating that performance is no longer confined to a narrow group of mega-cap stocks. This broadening of US earnings growth has been accompanied by the improving relative performance of equal-weighted equity indices compared to market capitalisation weighted benchmarks, signalling healthier market breadth.

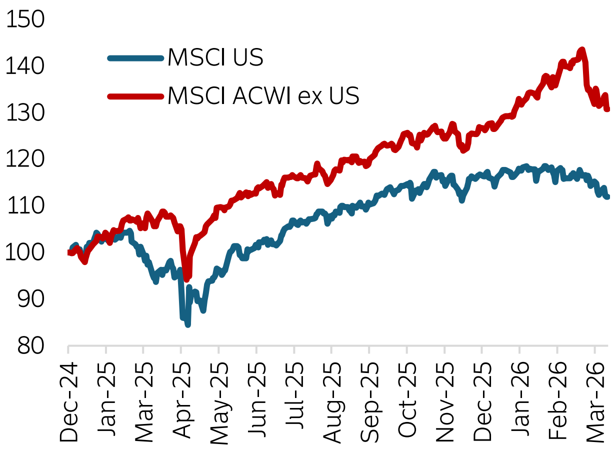
Chart 5: Strong earnings momentum support for broad US equity market



Source: Morgan Stanley

A defining recent feature of the global equity cycle has been the performance divergence between perceived "AI winners" and "AI losers". While the early stages of the AI investment boom rewarded most companies exposed to the AI theme, equity markets have lately begun to discriminate in favour of corporates that are likely beneficiaries of AI deployment while penalising companies with business models deemed at risk from being disintermediated by AI. As a result, sectors considered relatively “AI immune” (like commodities, industrials, materials, healthcare and consumer goods) have outperformed sectors perceived as vulnerable to AI disruption, such as media, business services, logistics and certain financial services. This trend has been evident both in Europe, where these “new economy” sectors have sharply underperformed the “old economy” sectors since the middle of 2025, as well as globally, with the US underperforming non-US equity markets since early 2025 (see chart 6), with the latter having a higher weighting to more traditional (non-AI) economy sectors.

Chart 6: Performance divergence between US and non-US equities since early 2025

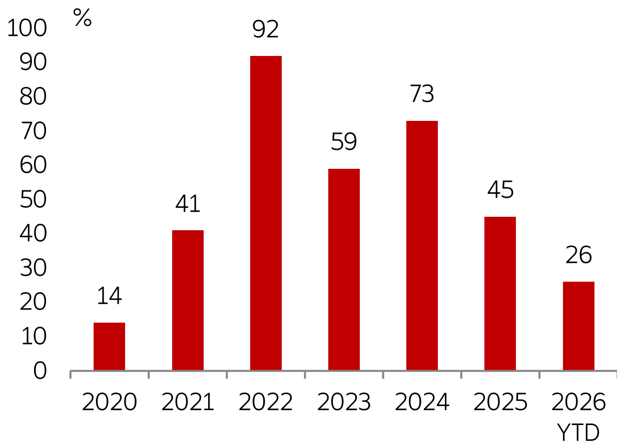


Source: Bloomberg, Momentum Investments

More generally, investors have increasingly questioned the likelihood that sufficient future returns would be forthcoming from the massive capital expenditure undertaken for AI development. For example, the four major US hyperscalers (Microsoft, Amazon, Alphabet and Meta) are forecast by Jefferies to increase capital expenditure to approximately US$620 billion in 2026 (a roughly 65% year-on-year increase and consuming more than 80% of their combined operating cash flow in the year).

Another notable development has been the gradual diversification of global equity flows away from the US. In 2024, around 73% of global equity inflows were directed towards US equities, reflecting the dominance of the mega-cap technology stock theme in markets at the time. So far in 2026, this figure has declined to roughly 26%, as investors increasingly allocate new capital to non-US DMs and EMs (see chart 7). This shift reflects an incremental re-direction of new investment flows, driven by valuation considerations, political uncertainty and the desire for broader diversification. This trend is likely to resume once near-term geopolitical concerns subside.

Chart 7: Declining US share of global equity inflows in 2025-26



Source: Bank of America

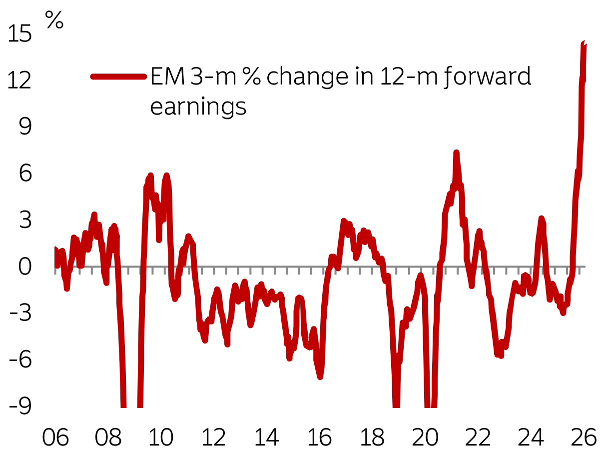
DM equities remain expensive relative to historical averages and to other regions. The relative valuation of US equities versus US government bonds is at levels rarely observed historically. While strong earnings momentum can sustain such valuation premia for extended periods, it reduces the margin of safety and increases sensitivity to adverse surprises, whether from inflation, policy or growth. DM equities are best characterised as offering reasonable but not exceptional forward returns, with elevated valuation risk partially offset by earnings support and policy tailwinds. In our view, this supports a modest DM underweight relative to more attractively valued equity regions and other asset classes.

In contrast, EM equities stand out as one of the most compelling opportunities among global asset classes, with several powerful forces aligning in their favour.

Firstly, EM performance is closely linked to the US dollar cycle. Historical evidence indicates that US dollar bull and bear markets tend to be long-lasting and sizeable. While the dollar has weakened since 2024, the magnitude of its decline remains modest relative to previous bear markets and valuation measures suggest the dollar remains expensive on a real trade-weighted and purchasing power parity basis. Once the dollar likely resumes its weakening trend following the resolution of near-term geopolitical stress, EMs are likely to benefit both from improved capital flows and currency translation effects. The lagging EM/DM equity performance relative to the magnitude of US dollar weakness from 2025 suggests that this cycle is still in its early stages. Historically, EM/DM equity outperformance occurs over multi-year cycles following sustained dollar weakness, rather than the short-term outperformance seen from 2025.

Secondly, earnings momentum in EMs is strong and improving. Forward earnings revisions have been strongly positive, driven largely by high technology exposure in countries such as Taiwan, South Korea and China (see chart 8). Importantly, EM equities are not merely a value trade, but also provide exposure to structural growth themes, including AI adoption, digitalisation and supply chain realignment.

Chart 8: Strong positive profit momentum in EM driven by the technology sector



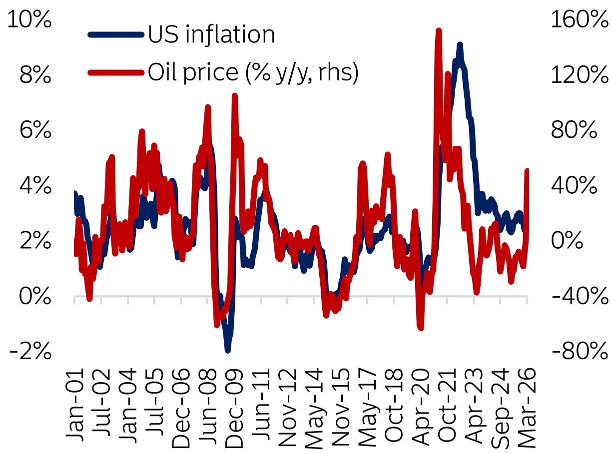
Source: UBS

Thirdly, valuations in EMs remain attractive relative to DMs, even after the pre-Iran outperformance. This valuation discount provides both downside protection and scope for rerating once global risk sentiment improves.

Taken together, we think these factors support a large overweight position in EM equities within a global portfolio, particularly for investors with a one year or more horison and tolerance for short-term volatility.

Global government bonds face a challenging outlook. While slower growth and risk-off episodes would normally support bond prices, the current environment is dominated by inflation risk and deteriorating supply dynamics. Oil price increases linked to the Iran war have revived concerns around inflation (see chart 9). At the same time, fiscal deficits across major economies are widening again, pointing to increased bond issuance. In the US, a significant proportion of outstanding government debt is also set to mature within the next year, exacerbating refinancing needs and supply pressures.

Chart 9: Upside inflation risk from higher energy prices is problematic for global bonds



Source: Iress, Momentum Investments

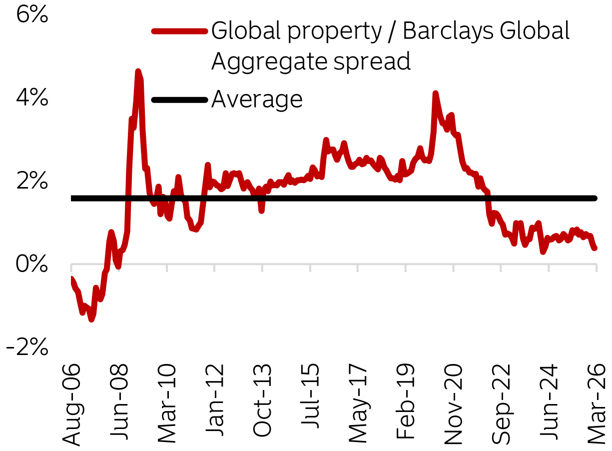
These dynamics have undermined the traditional safe-haven role of government bonds. In recent geopolitical episodes, bonds have failed to deliver consistent protection, as inflation fears often outweighed flight-to-safety flows.

Furthermore, from a valuation perspective, global bonds outside the US appear expensive relative to equities. While US bonds trade at a rare discount to US equities, the absolute level of yields still offers limited real return potential given inflation uncertainty. As a result, in our view, global government bonds warrant a large underweight stance within asset allocation as long as the US economy doesn't experience a recession.

We think US cash currently offers a somewhat better alternative to long-duration fixed-income exposure, as expected returns are similar, while cash provides capital protection and optionality in an uncertain geopolitical environment. Nevertheless, real global cash returns remain modest and as such justify an underweight asset allocation positioning relative to global equities and most SA asset classes, in our view.

Global listed property sits at the intersection of equity-like risk and bond-like sensitivity to interest rates. While occupancy levels have improved in certain sectors, particularly Retail and Industrial property, Office property remains under pressure. With funding costs expected to decline as current funding rates are lower than the in-place cost of debt, earnings should benefit. However, valuations remain stretched relative to fixed income, with yield spreads to investment-grade (IG) bonds below historical averages (see chart 10). At the same time, global property looks cheap relative to equities.

Chart 10: Global listed property remains expensive relative to global IG bonds



Source: Bloomberg, Momentum Investments

Although global listed property offers income and diversification benefits to investment portfolios, we think its sensitivity to higher fixed-income yields and inferior risk-reward potential to other assets support a moderate underweight position in a diversified portfolio.

Favourable fundamentals and valuations for SA equities, listed property and nominal bonds

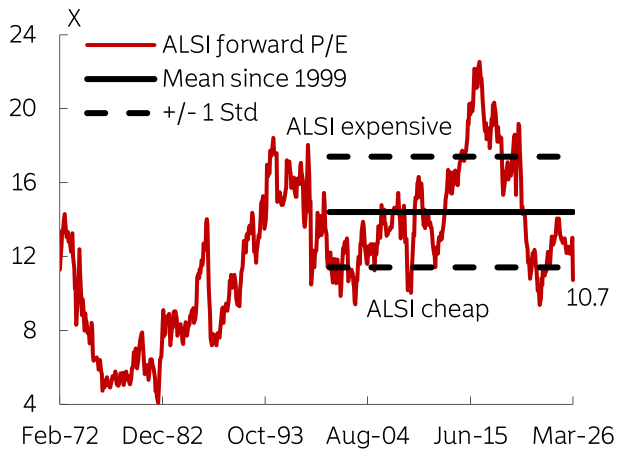
South Africa entered 2026 with improving macro fundamentals relative to recent years. While absolute economic growth remains modest, the direction of travel is positive. GDP growth has accelerated from 0.5% in 2024 to above 1% in 2025, with expectations of further improvement in 2026. This positive growth delta is supportive of SA risk assets, particularly equities and listed property. In addition, contained local inflation, a downward trend in interest rates and fiscal improvement also underpin SA nominal bonds.

Importantly, SA asset prices still embed substantial risk premia, reflecting years of political, fiscal and structural uncertainty. As these risks stabilise or recede, even modest improvements in fundamentals can drive meaningful rerating and attractive real returns.

We think SA equities represent one of the most compelling opportunities across local and global asset classes. Several factors underpin our view.

Firstly, valuations are exceptionally attractive. Even assuming conservative earnings growth far below consensus forecasts, the SA equity market trades significantly below its long-term average valuation since 1999 (see chart 11). This provides a strong margin of safety and meaningful rerating potential. SA equities also offer superior dividend yields and one-standard deviation cheap forward P/Es relative to EM peers, enhancing total return prospects.

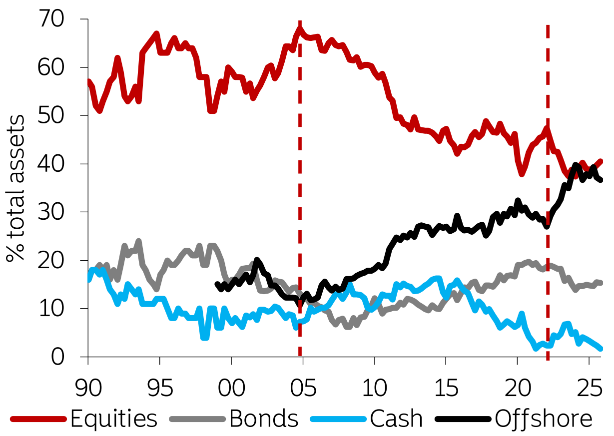
Chart 11: SA equity market forward P/E



Source: Iress, Momentum Investments

Secondly, earnings growth is expected to be robust, driven by improving domestic conditions, lower interest rates and operational leverage within many companies.

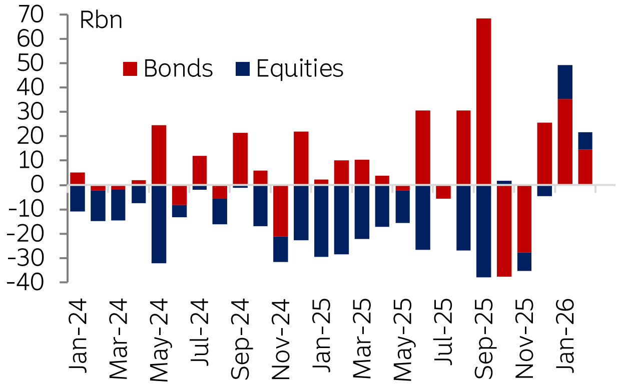
Chart 12: SA fund manager exposure to asset classes



Source: SBG Securities

Thirdly, ownership dynamics are favourable. Local institutional investors have materially reduced equity exposure over the past decades to fund offshore diversification and this selling pressure has largely run its course (see chart 12). At the same time, foreign investors remain underweight SA within global EM portfolios. Recent inflows into SA equities in early 2026 signal renewed offshore interest (see chart 13). Initially concentrated in gold counters, foreign buying has broadened to include SA-focused companies, particularly banks. Although short-term selling pressure has emerged in response to global risk aversion in March, structural under-ownership suggests scope for sustained global inflows once geopolitical volatility subsides.

Chart 13: Foreign net purchases of SA equities and bonds

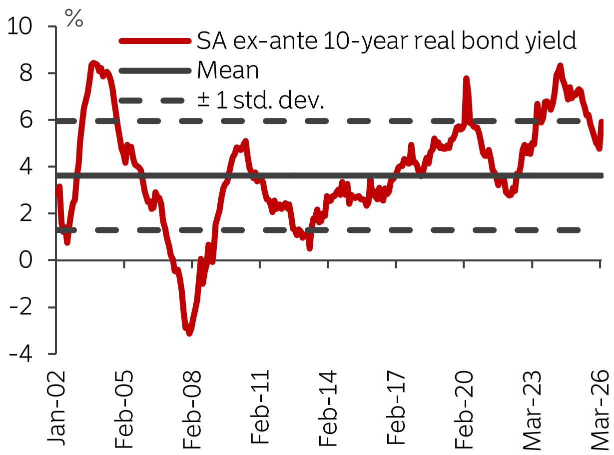


Source: Absa

While SA's high-beta nature means equities can underperform sharply during global risk-off episodes like the current Iran conflict, this volatility also amplifies upside during recoveries. On balance, the combination of low valuations, improving fundamentals and supportive flows justifies a moderate to large overweight allocation to SA equities, in our view.

Due to the Iran-related sell-off in March 2026, SA nominal government bonds now offer more attractive real yields by both historical and global standards (see chart 14). Part of the current yield premium reflects the prevailing global risk-off environment, while improvements in local fiscal metrics and investor confidence have narrowed risk premia from the 2024 national election highs without fully eroding forward return potential.

Chart 14: SA ex-ante 10-year real bond yield



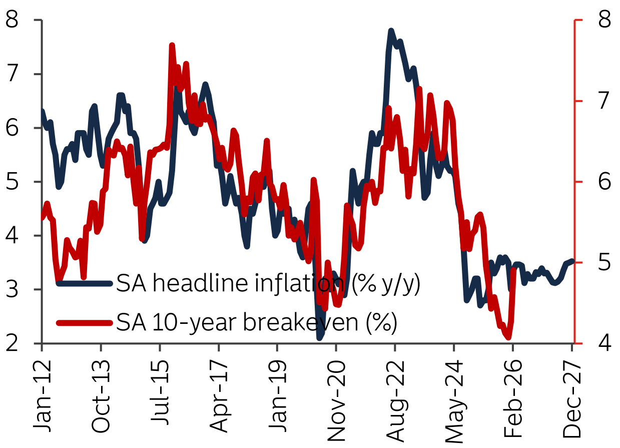
Source: Iress, Momentum Investments

Foreign investors have been consistent net buyers of SA bonds throughout 2025 and up to the Iran war in 2026, attracted by high real yields and the country's improving macro stability. Although nominal yield spreads to US bonds have compressed, real yield spreads remain attractive.

With inflation expected to predominantly remain within the inflation target band and the SA Reserve Bank (SARB) likely to resume its cutting cycle once there is more certainty about the impact of the war in Iran on local inflation via the oil and currency transmission mechanisms, nominal bonds offer scope for capital appreciation in addition to high carry. In our view, this supports a small overweight allocation to SA nominal bonds.

In contrast to nominal bonds, SA ILBs appear less attractive. Break-even inflation rates are unlikely to widen meaningfully given the expected broadly sideways inflation trajectory (see chart 15), while accruals are low relative to history. As a result, ILBs offer lower return upside compared to nominal bonds.

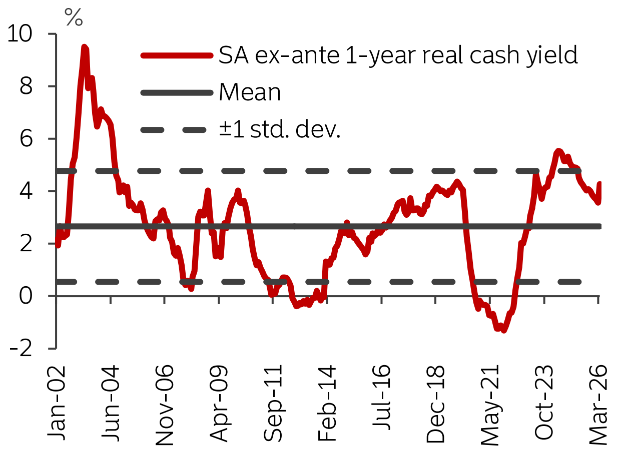
Chart 15: Breakevens not expected to provide fundamental support for ILBs



Source: Iress, Momentum Investments

Similarly, while SA cash still offers decent positive real yields above long-term averages, potential returns have declined from 2024 highs as interest rates fell (see chart 16). Cash therefore has a liquidity role but is currently inferior as a return-seeking asset, in our view.

Chart 16: SA ex-ante one-year cash yield



Source: Iress, Momentum Investments

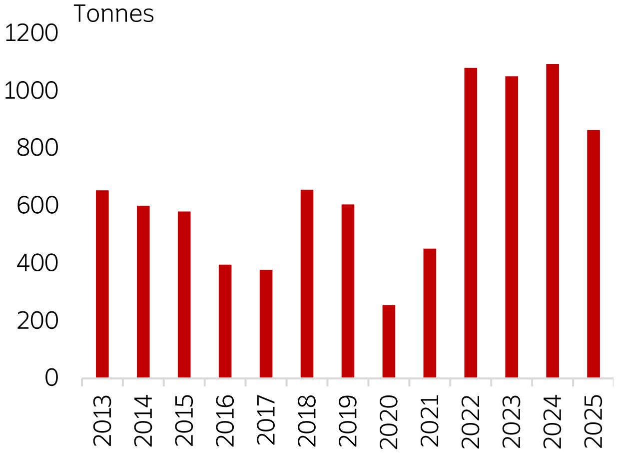
SA listed property stands out as a high-conviction opportunity. Sector fundamentals have improved markedly, particularly in the Retail and Industrial subsectors. Limited new supply, declining vacancies and rising rental reversions support earnings growth, while falling interest rates reduce funding costs and solar installations drive improved margins. The Office sector remains challenged but shows early signs of stabilisation, supported by return-to-office trends, ESG upgrades and demand growth from business process outsourcing.

Although recent listed property results have surprised to the upside and companies have increased their forward guidance, valuations remain depressed, reflecting years of pessimism and elevated yields. As funding costs decline and earnings recover, the sector offers attractive income and capital growth potential. We think all these factors validate a large overweight allocation to SA listed property.

Gold has a valuable role as a portfolio diversifier

Gold occupies a unique position in global asset allocation. Historically, real US interest rates have been the dominant driver of gold prices, reflecting the opportunity cost of holding a non-yielding asset. Since 2022, however, this relationship has broken down, with gold prices remaining elevated despite higher real yields. The primary driver of this divergence has been unprecedented central bank buying, particularly from EM central banks seeking to diversify reserves away from the US dollar amid concerns about financial sanctions and the "weaponisation" of currencies (see chart 17).

Chart 17: Central bank gold buying continuing at historically high levels



Source: Bloomberg, Momentum Investments

However, EM central banks still hold relatively low allocations to gold within their reserve portfolios (see table 1). This indicates support for the gold price should major reserve holders, such as Russia, China, India and Türkiye, move toward the significantly higher gold reserve ratios common in DMs. Additionally, if US Treasuries were to see a permanent deterioration in their safe-haven status amid rising questions about the reliability of the US as an investment destination, gold would likely benefit directly. Such a shift would also further reduce the correlation between gold and Treasuries, enhancing gold's role as a portfolio diversifier.

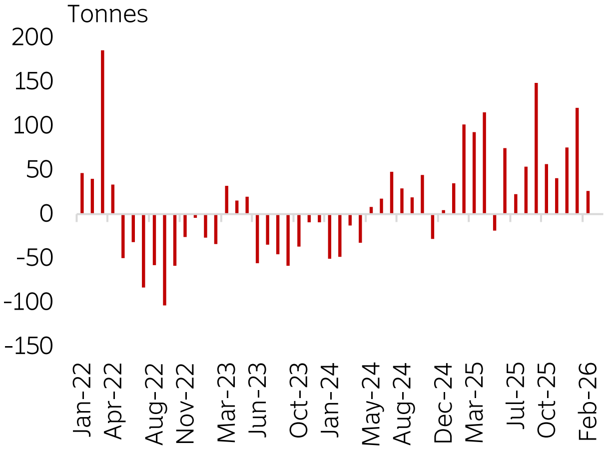
Table 1: EM central bank gold exposure is still very low relative to DM central banks

	Gold holdings (tonnes)	Gold as % of central bank reserves
US	8 133	84.2%
Germany	3 350	84.0%
Italy	2 452	81.3%
France	2 437	81.8%
Russia	2 317	47.0%
China	2 308	9.6%
Switzerland	1 040	15.2%
India	880	19.4%
Japan	846	9.7%
Netherlands	612	74.2%
Türkiye	603	53.4%
Poland	550	30.1%
ECB	508	56.2%
Taiwan	424	10.1%
Saudi Arabia	323	10.0%
UK	310	22.5%
Spain	282	33.8%
Iraq	175	27.1%
Brazil	172	7.6%
SA	126	25.2%
Mexico	120	7.1%

Source: World Gold Council

More recently, gold buying by exchange-traded funds (ETFs) due to strong inflows from 2025 (see chart 18) and even gold buying by the stablecoin provider Tether (which was the largest non-sovereign buyer of physical gold in the fourth quarter of 25, holding more gold than the SARB at the time) have accentuated recent price appreciation and added volatility to gold prices. However, it needs to be acknowledged that these speculative positions by weaker gold holders are more likely to reverse during periods of risk aversion like the current Iran conflict, with negative short-term impacts on the gold price.

Chart 18: Net gold ETF inflows have risen sharply since 2025



Source: World Gold Council, Momentum Investments

From a portfolio construction perspective, gold provides valuable diversification benefits, with low correlation to both global and SA equities, bonds and cash. In rand terms, gold has also historically been a strong performer, supported by long-term currency depreciation. Despite elevated prices, the strategic case for gold remains intact, supporting a moderate overweight allocation as a portfolio diversifier and hedge against systemic risk.