



Financial markets outlook: October 2026

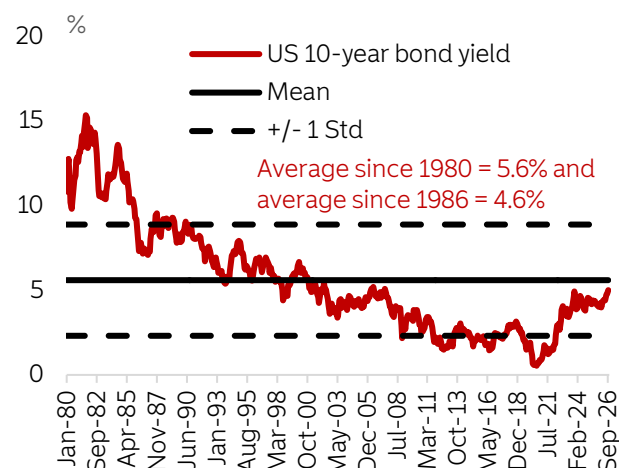
Key market takeaways

- Global markets remain dominated by the interplay between growth, inflation and interest rates. US bond yields appear high relative to the post-global financial crisis (GFC) period, but less exceptional over a longer history. In our view, the path of Federal Reserve (Fed) policy rates remains the key anchor for the US bond outlook. The critical question is whether a sustained decline in inflation and confidence in the Fed's credibility will allow markets to begin pricing lower policy rates from later in 2027.
- Global equity returns continue to receive substantial support from strong earnings, which have more than offset valuation declines in 2026. Profit growth has also been robust across regions, with positive earnings revisions becoming more broad-based. However, equity markets are increasingly sensitive to rising bond yields, as higher discount rates compress valuation multiples even when underlying profits remain sound.
- Emerging market (EM) equities should benefit from a favourable cyclical backdrop, particularly if a shift in Fed rate expectations from tightening to easing in 2027 weakens the US dollar and supports capital flows and financial conditions. We therefore prefer EM to developed market (DM) equities.
- In our view, South African (SA) assets offer the most compelling overall opportunity set. Attractive starting valuations, robust income potential and favourable positioning create meaningful asymmetric upside should fundamentals or risk appetite surprise positively. This underpins our preference for local over global assets. SA equities remain attractively valued and underowned, nominal government bonds offer compelling real income and potential capital appreciation, and listed property is supported by improving operating fundamentals.
- Strong EM central bank demand has altered gold's traditional relationship with US real yields since 2022, while exchange-traded fund (ETF) flows have amplified shorter-term price movements. The case for holding gold remains strongest as a portfolio diversifier rather than as a simple directional view on real interest rates, although the metal should also benefit if US real rates decline later in 2027 in anticipation of Fed rate cuts.
- Our overarching asset allocation stance favours EM and SA equities, SA listed property and local nominal bonds, complemented by an allocation to gold for portfolio diversification. Our highest-conviction Underweights are global and SA cash. Following the sharp rise in global government bond yields, we see little to distinguish global bonds from DM equities and therefore hold similarly small Underweight positions in both asset classes.

It has become difficult to differentiate between global equities and bonds – we now have similar small Underweights in global bonds and DM equities, and a large EM equity Overweight

A judgement on the level of prevailing US bond yields depends heavily on the chosen starting point. Relative to the unusually low yield environment that followed the global financial crisis, current yields appear elevated. Against a longer historical record, however, they look less extreme (see chart 1). Of course, a conclusion that yields are either historically “high” or “low” does not automatically imply that they will fall or rise. Rather, the prospective US bond yield path fundamentally depends on the evolution of policy rates, realised inflation, future inflation expectations and the term premium investors demand for holding long-dated government debt.

Chart 1: US bond yields are below the post-GFC average but more in line with long-term averages



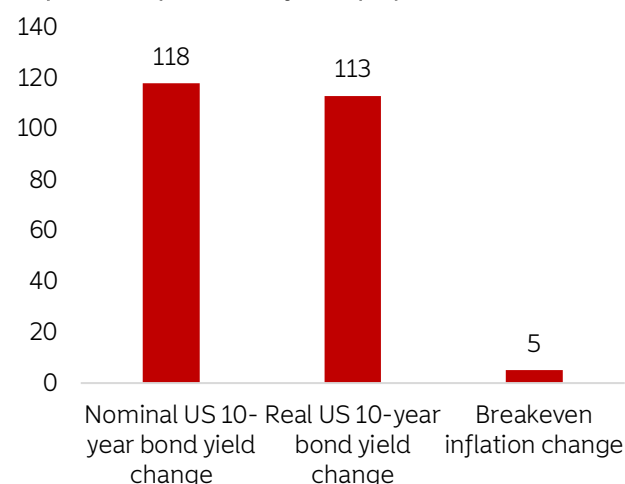
Source: Iress, Momentum Investments

In our view, the direction of Fed policy rates remains the central anchor to the US bond view. Long-term yields are, in principle, a reflection of anticipated future short-term rates, although fiscal risk and term-premium effects can create meaningful deviations. We therefore place particular emphasis on market expectations regarding Fed policy. If US growth remains resilient and inflation proves persistent, rate hikes could continue and rate cuts are likely to be delayed, keeping long yields elevated for longer.

Moreover, if confidence in the Fed’s inflation-fighting credibility weakens, the risks to bonds would become even more pronounced. Investors could demand greater inflation compensation at the same time as real

yields remain under upward pressure, pushing nominal bond yields higher still. This would contrast with the pattern since the Iran war, when almost the entire rise in US nominal bond yields has reflected higher real rates (associated with more hawkish Fed policy expectations) rather than an increase in market-based inflation expectations (see chart 2).

Chart 2: Drivers of US nominal bond yields since the US/Iran war (27 February 2026), bps

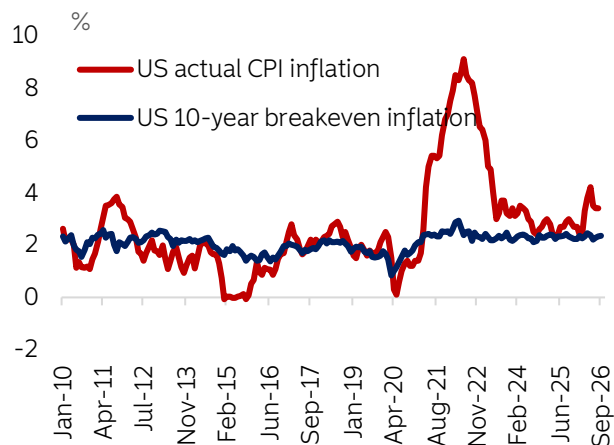


Source: Iress, Momentum Investments

Indeed, market-based inflation expectations have not fully reflected the rise in realised inflation since 2021 (see chart 3), while breakeven inflation has also lagged the recent increase in energy prices. This may indicate that investors expect the oil-driven inflation impulse to fade, but it leaves bonds vulnerable if the shock proves more persistent.

An upward repricing of breakeven inflation would add a second source of pressure on nominal bond yields, beyond the current real-yield channel. These potential risks are why we retain a small Underweight position in global bonds despite higher running yields supporting future returns.

Chart 3: US market-based inflation expectations have been low versus realised inflation since 2021



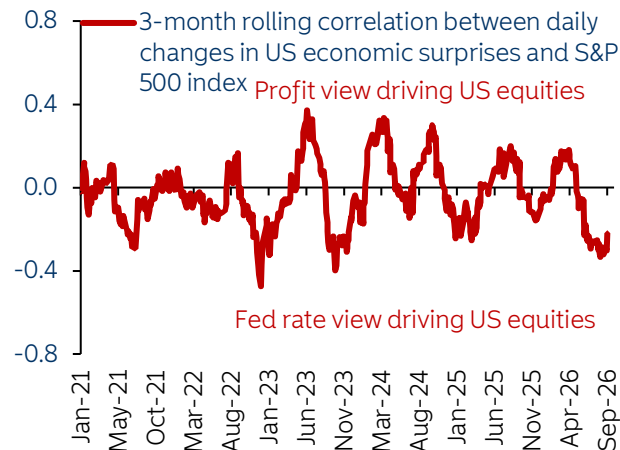
Source: Iress, Momentum Investments

Research from Barclays shows that US equities have historically generated positive returns during rising Fed rate cycles. Across five cycles since 1990, annualised US equity returns remained positive, with a median gain of 5.6% and a range from 0.1% to 7.8%. This cautions against treating higher policy rates as negative for shares as rising rates often coincide with firm nominal economic growth and improving corporate revenues, which can offset the pressure from higher discount rates.

However, there is a risk to equities from meaningful upside breakouts in bond yields. Recent episodes show that when US yields move to new highs, equity markets can retreat as valuation multiples compress. The direction and speed of the yield move matter as much as the absolute level.

Although “good” growth news support earnings, it also induces more negative expectations for policy rates. In the current environment, the profit outlook is no longer the dominant driver of US equities. Correlations indicate that positive US macroeconomic surprises are now negative not only for US bonds but also for US equities, as investors fear that stronger growth could prompt the Fed to raise rates further (see chart 4).

Chart 4: Profit view not dominant driver of US equities recently, but rather Fed rate expectations



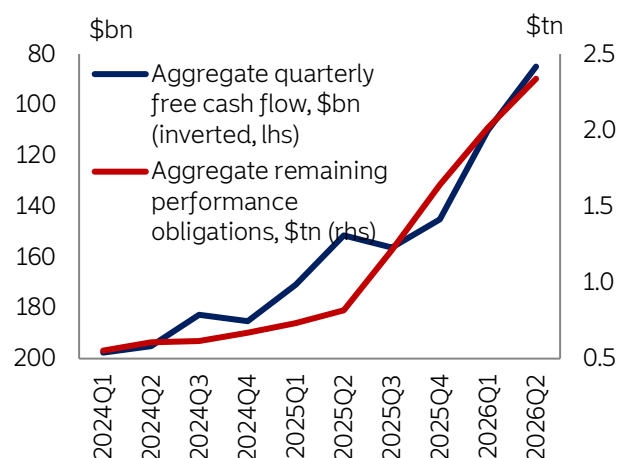
Source: Iress, Momentum Investments

The fundamental earnings backdrop nevertheless still remains constructive for US equities. Profit momentum is expected to remain strong through the second half of 2026, although high base effects are likely to slow the pace in the first half of 2027. Furthermore, profit strength has broadened beyond a narrow group of US technology leaders and beyond the US, with DM economic surprises similarly positive and earnings revisions supportive. Across DM, 2026 equity returns have been driven by robust profits, with valuations derating.

Artificial intelligence (AI) remains an important part of the global equity story. Alpine Macro finds that hyperscalers’ substantial capital expenditure is underpinned by significant committed customer demand (see chart 5), easing some concerns about the eventual monetisation of these investments. It also notes that the median spread between AI stocks’ return on invested capital and their cost of capital is positive and widening, suggesting that the sector is creating rather than destroying economic value in aggregate.

Furthermore, declining correlations among major AI-related shares indicate that investors are increasingly differentiating between prospective winners and losers, rather than applying indiscriminate dot-com-style exuberance across the sector.

Chart 5: AI capex spree backed up by substantial committed demand

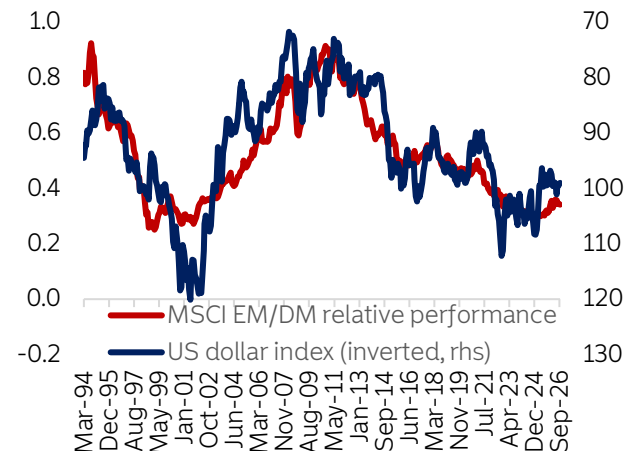


Source: Alpine Macro

Global bonds outside the US remain expensive in absolute terms compared with equities, yet US bonds have traded at a discount to US equities since July 2023, an unusual configuration this century. Following the sharp rise in global government bond yields, we currently see little distinction between global bonds and DM equities and therefore hold similarly small Underweight positions in both asset classes.

The performance of EM assets remains closely linked to the outlook for the US dollar. Dollar weakness since 2025 has supported EM equities' relative outperformance by easing financial conditions, improving the local-currency translation of dollar liabilities and encouraging capital flows into higher-beta markets (see chart 6). Sustained EM equity outperformance will likely require renewed dollar weakness. In our view, a turnaround in Fed rate expectations from tightening to easing in 2027 could provide the trigger for some renewed dollar weakness and positive EM relative returns.

Chart 6: Renewed US dollar weakness required for sustained EM equity outperformance

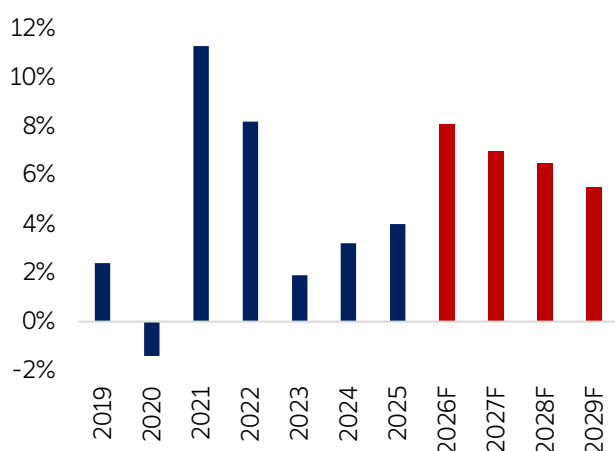


Source: Iress, Momentum Investments

Within global equities, we carry a large EM Overweight, with DM equities a small Underweight. The preference is not an unqualified call on rising global risk appetite but rather reflects lower EM starting valuations, the potential benefit from dollar weakness and a stronger expected profit profile. It also creates a natural bridge to the SA opportunity set, as SA equities typically exhibit high sensitivity to EM equity performance and global commodity conditions.

Global listed property fundamentals are resilient. Occupancy levels remain high outside the Office subsector, new supply has declined and recent company results show an acceleration in same-property net operating income. Looking ahead, funds-from-operations (FFO) growth is expected to rise from roughly 4% towards about 6.5% to 7% a year over the next three years, despite the continuing headwind from high funding costs (see chart 7).

Chart 7: Higher FFO growth expected in coming years

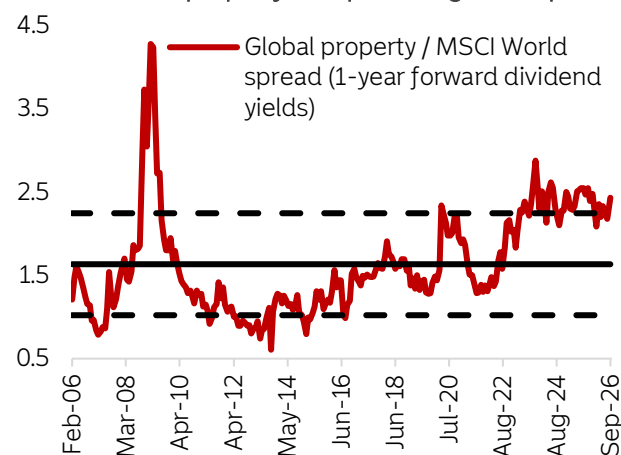


Source: UBS, Sesfikile Capital

Valuation is more nuanced. Global listed property appears expensive relative to investment-grade bonds, with a yield spread of negative 0.1% compared with a historical average of 1.5%. Against global equities, however, it offers a better relative value proposition, with a current spread of 2.4% compared with a historical average of 1.6% (see chart 8).

In our view, the combination of positive fundamentals and contradictory valuations supports a Neutral allocation to global listed property rather than a large directional position.

Chart 8: Global property cheap versus global equities



Source: Bloomberg, Momentum Investments

SA listed property, nominal bonds and equities stand out as the strongest investment opportunities

In our view, SA assets continue to offer the strongest overall opportunity set, reflected in our preference for local over global assets. SA equities remain cheap and underowned, nominal government bonds offer attractive real income and potential capital appreciation, while local listed property is supported by improving operating fundamentals.

Low positioning provides significant support for the SA equity market. Following the February 2022 regulatory increase in offshore allocation limits, local portfolio managers financed a sharp rise in global exposure by aggressively selling SA equities and bonds. However, foreign asset exposure peaked in June 2024, with structural selling pressure on SA assets absent since (see chart 9).

Chart 9: Local selling pressure on SA equities due to 2022 increased offshore allocation now in the past

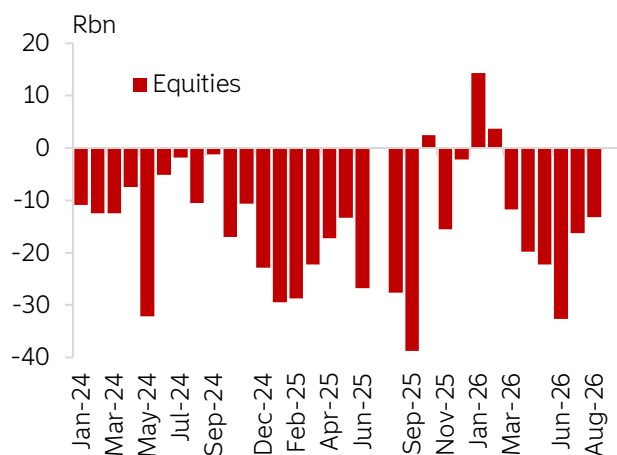


Source: SBG Securities

Global EM managers have maintained a persistent Underweight in SA equities over many years. According to the latest data, SA is the third-largest Underweight in GEM equity funds, behind only Taiwan and Saudi Arabia. Similarly, foreign investors have been persistent

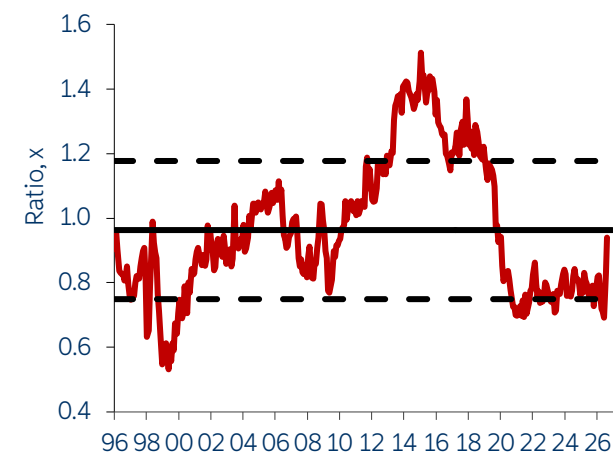
and substantial net sellers of SA equities on the Johannesburg Stock Exchange (JSE) in recent years. Although there was tentative SA equity buying by foreigners in early 2026, this was sharply reversed after the Iran war (see chart 10). With no positioning overhang in SA equities either domestically or in the EM space, if sentiment or domestic fundamentals improve, both investor bases may need to rebuild positions from a low base, creating the potential for a powerful catch-up phase for SA equities.

Chart 10: Foreigners abandoned tentative SA equity buying in early 2026 due to impact of Iran war



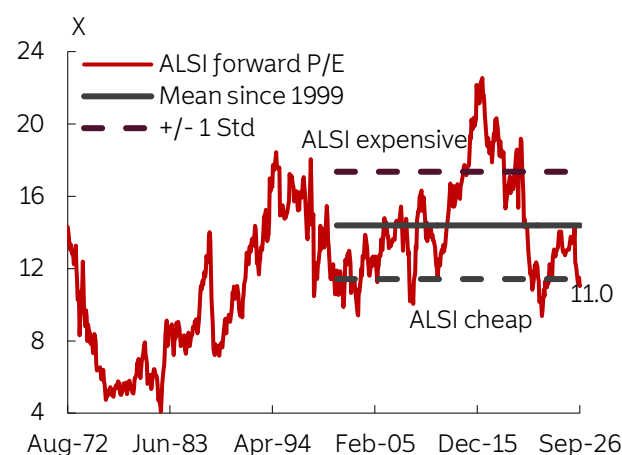
Lower gold and platinum group metal (PGM) prices since the start of the Iran war have contributed to downward SA earnings revisions. In addition, EM forward multiples have come down due to falling AI-linked share prices in EM Asia (viz. Samsung, SK Hynix and TSMC) without a concomitant decline in their forward earnings forecasts. The combined impact has been to reduce SA's forward price-earnings (P/E) discount to EM (see chart 11). Although SA equities no longer appear unequivocally cheap relative to EM across all valuation measures, they continue to offer a superior dividend yield and remain a credible high-beta play on EM equities.

Chart 11: SA's forward P/E discount to EM has evaporated in recent months



Even under conservative assumptions, SA equities offer an attractive valuation and return proposition. Using 14% earnings growth over the next year, below the 19% consensus forecast, the SA equity market is still around one standard deviation below its average forward P/E valuation since 1999 (see chart 12). The substantial margin of safety embedded in current SA equity valuations creates significant asymmetric upside should fundamentals or risk appetite outperform expectations. We think this positive optionality justifies a moderate Overweight stance on SA equities.

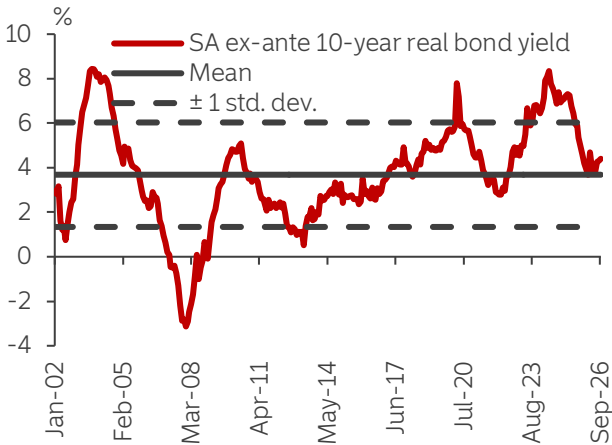
Chart 12: SA equity market forward P/E



SA nominal bonds are one of our highest-conviction Overweight domestic positions. EM real bond yields are generally attractive relative to DM, and SA ranks behind only Brazil and Mexico within the large-country EM peer group. Furthermore, the SA real yield is still slightly

above its own historical average (see chart 13). This offers a meaningful income cushion and potential capital appreciation once inflation moderates and the Iran-induced risk premium normalises.

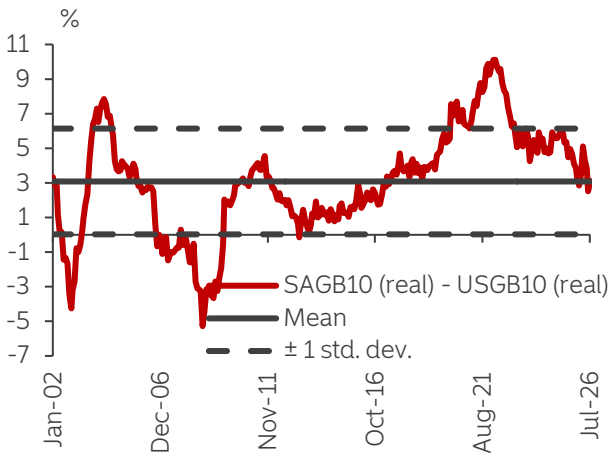
Chart 13: SA ex-ante 10-year real bond yield



Source: Iress, Momentum Investments

An approximate 300 basis points decline in SA nominal bond yields since the market-friendly 2024 national election, together with the recent rise in US yields, has made SA yields less attractive relative to US Treasuries than in the past. The nominal SA-US yield spread premium has narrowed to its lowest level since 2007 and is now 1.4 standard deviations below its average since the introduction of inflation targeting. More positively, however, the real SA-US yield spread remains close to its post-inflation-targeting average (see chart 14).

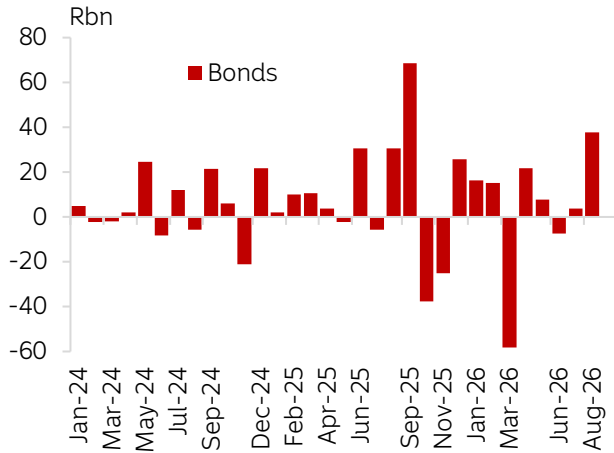
Chart 14: Real SA/US bond yield spread



Source: Iress, Momentum Investments

Even after incorporating sovereign and supply-demand risk premia above those currently priced by the market, our fair-value estimate for SA bond yields remains well below prevailing levels. Encouragingly, foreign investors broadly resumed buying SA bonds since April, bouncing back from the sharp sell-off in the Iran war's first month (see chart 15).

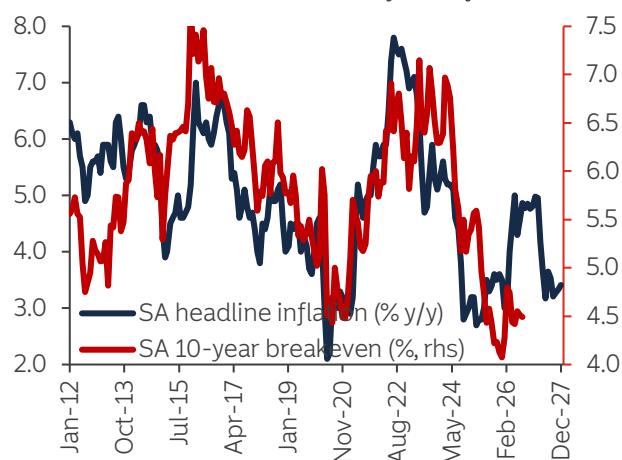
Chart 15: Foreign net purchases of SA bonds



Source: Absa, SA National Treasury

Although breakeven inflation should rise in response to the near-term, oil-driven inflation spike, SA inflation-linked bonds (ILBs) offer a less compelling medium-term investment case (see chart 16). Inflation is expected to fall below 4% in the second half of 2027, while accruals are likely to remain below average over the next year. ILBs may thus provide near-term tactical protection against rising inflation, but we see nominal bonds offering a stronger strategic combination of carry and potential capital gains beyond the immediate horizon. A Neutral stance on ILBs therefore remains appropriate at this stage.

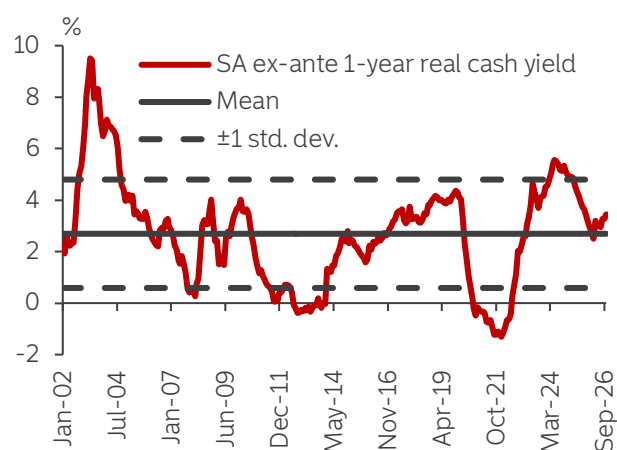
Chart 16: SA ILBs – breakevens reflect inflation trend



Source: Iress, SGB Securities

Local cash is less attractive than it was at the 2024 SA policy rate peak. The prospective real cash yield has declined because the SA Reserve Bank began cutting rates in September 2024 and inflation has risen. Even so, the ex-ante real cash yield is 0.4 standard deviations above the post-inflation-targeting average (see chart 17). SA cash remains useful for liquidity, but the opportunity cost of a large strategic allocation is high, particularly as other local asset classes show much higher return potential. We therefore favour a large Underweight SA cash position.

Chart 17: SA ex-ante one-year cash yield



Source: Iress, Momentum Investments

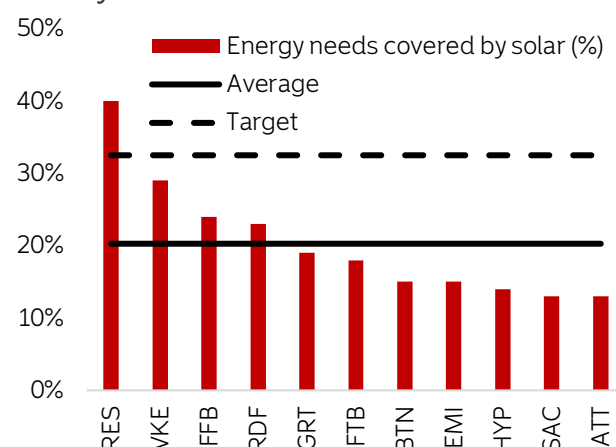
SA listed property combines improving fundamentals with an attractive expected return profile. Retail is the strongest segment, with improving distributions and

dividends driven by falling vacancy rates, positive and accelerating rental reversions, healthy rent affordability and planned store expansions exceeding supply. These conditions increase confidence that earnings growth can sustain Retail returns rather than relying on lower interest rates or a valuation rerating to drive returns.

Industrial property is supported by supply-chain modernisation, e-commerce and on-shoring. Higher building costs are constraining new supply and contributing to rising rental growth. Offices remain the weakest area, but vacancies continue to compress as return-to-office trends, environmental requirements and business process outsourcing support demand. Rental reversions are improving, although still meaningfully negative.

The solar rollout adds a further earnings lever for SA listed property companies, with further solar investment envisaged by most companies from current levels (see chart 18). Estimated yields on solar capital expenditure exceed 15%, comfortably above typical funding costs and acquisition yields. Balance sheets are also solid, with loan-to-value ratios back below 2019 levels. This combination of operational recovery, accretive solar investment and healthier leverage underpins our large Overweight in SA listed property.

Chart 18: SA listed property companies' energy needs cover by solar

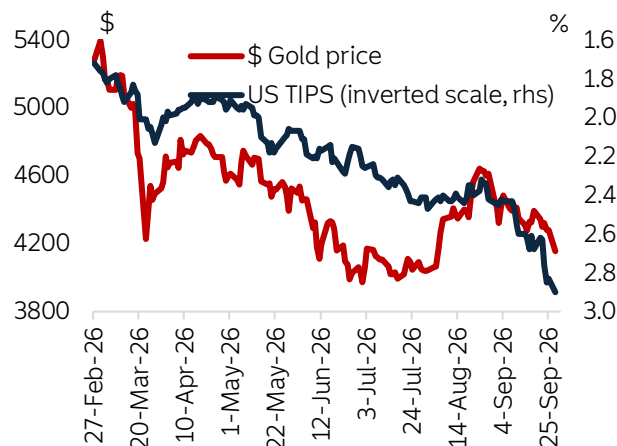


Source: Sesfikile, company reports

Gold has a valuable role as a portfolio diversifier and benefits from sustained EM central bank demand

US real interest rates have historically been the dominant long-term driver of the dollar gold price because they represent the opportunity cost of holding a non-interest-bearing asset. That relationship broke down after Russia's invasion of Ukraine in 2022, when the weaponisation of the dollar encouraged (particularly EM) central banks to start diversifying reserves away from a perceived overexposure to dollar assets. Non-real-rate factors, including central bank and investment demand, have provided substantial support to the gold price in recent years. Even so, EM central banks' gold allocations remain low relative to those of their DM counterparts, suggesting scope for further accumulation. Since the Iran conflict, however, gold's traditional relationship with real interest rates has reasserted itself, leaving the metal once again sensitive to movements in US real yields (see chart 19).

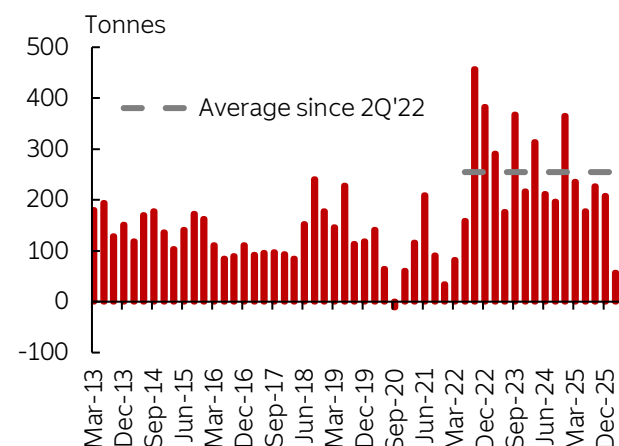
Chart 19: Gold's negative relationship with real bond yields has been re-established since the Iran war



Source: Iress, Momentum Investments

Central bank gold purchases rebounded in the second quarter of 2026 after a conflict-related lull in the first quarter, producing the strongest second-quarter buying on record (see chart 20). According to official data, the largest second quarter central bank buyers were Poland, China, Uzbekistan, Kazakhstan and Singapore, with Russia the largest seller. Structural EM central bank demand creates a more durable support base for the gold price than investment or speculative flows alone, but it does not remove the potential for short-term volatility.

Chart 20: Central bank gold buying rebounded strongly in 2Q26 after a 1Q26 lull

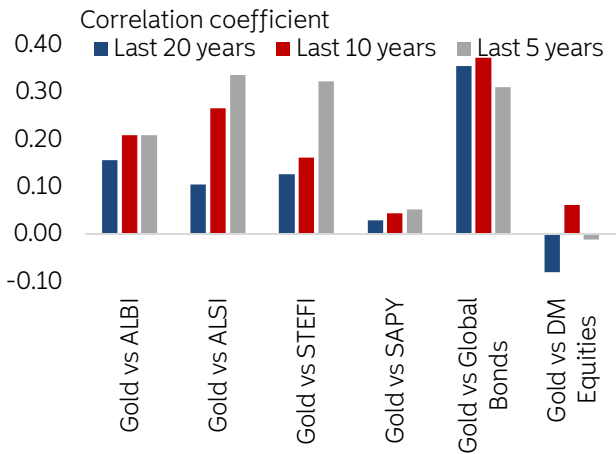


Source: Bloomberg, Momentum Investments

Gold exchange-traded fund flows have amplified price movements since 2025. Some investors have used ETFs to hedge concentrated exposure to US dollar assets, while more speculative participants have entered after strong price gains. As the latter can be less stable holders, ETF flows can accelerate both rallies and corrections in the gold price.

Gold's strategic role as a portfolio diversifier remains persuasive as gold has limited correlation with other major asset classes (see chart 21). While it can also protect portfolios in risk-off environments, its high volatility needs to be acknowledged. For rand-based investors, long-run rand depreciation has provided an additional gold ETF return tailwind. Our gold Overweight reflects its portfolio diversification benefits, sustained EM central bank demand and the prospect of lower US real rates later in 2027.

Chart 21: Gold has little correlation with other asset classes



Source: Iress, Bloomberg, Momentum Investments

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