



Financial market outlook for 2026: Equities and local rule

Key market takeaways

- Anticipated rising United States (US) inflation, fiscal stimulus measures, Federal Reserve (Fed) rate cuts amidst a potential threat to Fed independence, together with higher and more synchronised global regional profit growth in 2026, fundamentally favour global equities over bonds. Although US equities look expensive against US bonds, they will likely remain supported as long as profit growth remains solid in a soft-landing scenario. However, the magnitude of future US equity returns should be constrained by high valuations that have little room for disappointment.
- A weaker US dollar, driven by structural and cyclical factors, will likely have positive implications for emerging market (EM) equities relative to developed market (DM) equities, as has been the case in the past. In addition, EM earnings revisions have turned positive, while EM has also become an attractive way to access the global artificial intelligence (AI) investment theme.
- We are cautiously confident about the prospective trajectory of the South African (SA) economy and local asset class returns in 2026, with further local rate cuts and some growth acceleration expected from a low base. SA's recent strong equity performance may help rekindle long-dormant foreign investor interest in SA equities, as has already been the case for SA bonds. An increased global allocation to EM equities could simultaneously result in material global inflows supporting SA equities, particularly given that SA is a high-beta play on EM equities. Due to strong profit momentum, SA equities remain attractively valued against global peers and its own history.
- Although the SA nominal bond spread with the US has fallen to levels last seen in 2013, the real ex-ante SA bond yield is still above its historical average, providing an underpin for the asset class. While the absolute level of SA inflation-linked bond (ILB) yields is still high, the absence of inflationary pressures in the coming year points to a lack of fundamental support for ILBs. The combination of moderately rising inflation in 2025 and 150 basis points of SA Reserve Bank (SARB) rate cuts since September 2024 has pushed available real SA cash rates down towards its long-term average, making local cash an inferior investment alternative among the SA asset classes, in our view. In contrast, SA listed property fundamentals continue to improve, with reported net operating income growth the strongest since 2018 and the earnings recovery guided to continue in 2026.
- Risks to global markets would be a deterioration in the AI theme, less Fed rate cuts than expected, a hard landing for the US economy or geopolitical risk escalation. The main local risk would be the disintegration of the coalition Government of National Unity (GNU).

2025 was the year of Trump for global financial markets

The unpredictability of Trump's policy pronouncements since his inauguration on 20 January this year has forced global financial markets to continually re-evaluate the basic principles underlying investment thinking and portfolio positioning. What market participants have come to realise is that in the Trump era, nothing is sacrosanct or safe – not policy, not institutions and certainly not historical alliances.

It is quite ironic (and probably an unintended consequence) that Trump's alienation of the rest of the world has caused the rest of the world to move closer together in a unified play on the adage that 'the enemy of my enemy is my friend'.

Trump 2.0 has turned out to be Trump 1.0 on steroids. The 2017-2021 period of Trump's first term was characterised by Trump's regular postings on then Twitter (now X) that often changed the investment world from the previous status quo. In his second term, Trump has been even more aggressive and more frequent in his utterances about market-moving issues on his own Truth Social media platform. Trump has also so far in his second term been the second-most active ever of all US presidents with the

issuance of executive orders, with his order frequency outpacing those of Hoover (who presided during the early part of the Great Depression, 1929-'33) and only second to F.D. Roosevelt (whose terms included the latter part of the Great Depression as well as World War II, 1933-'45) (see chart 1).

Chart 1: Trump 2.0 so far has had the second-highest-ever frequency of US presidential executive orders

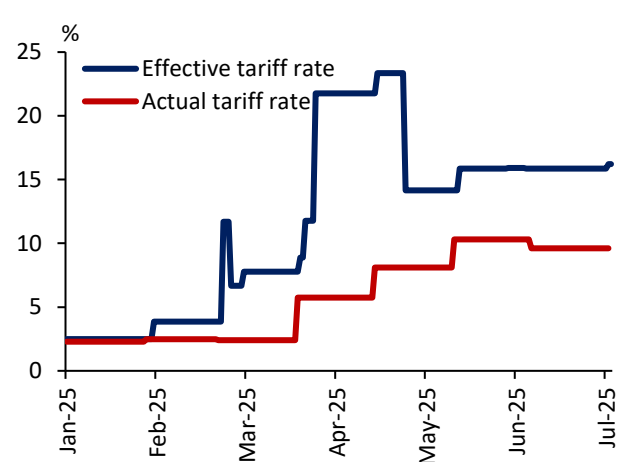


Source: The American Presidency Project, Momentum Investments; Trump 2.0 data up to 20 November 2025

Expected fundamentals should continue to favour global equities over bonds

Although the overall US tariff rate based on Trump's announced tariff orders at the time of writing is in the mid-teens, the actual effective US tariff rate based on the latest actual import duties collected by US Customs is much lower around the 10% level (see chart 2). This differential can be explained by pre-emptive inventory building by US import companies in the run up to tariff implementation, import behaviour changes by importers and consumers, as well as delayed data gathering during the US government shutdown. It is thus likely that the actual US tariff rate will drift upwards in due course as import inventories run out and updated import duty data becomes available. This would be in line with the typical time lag between announced tariff increases and when they are finally reflected in the economy. As such, the negative tariff impact on US inflation and growth should become more evident in the coming months, with potential adverse readthroughs for both US bonds and equities.

Chart 2: Actual US effective tariff rate expected to drift towards announced rate

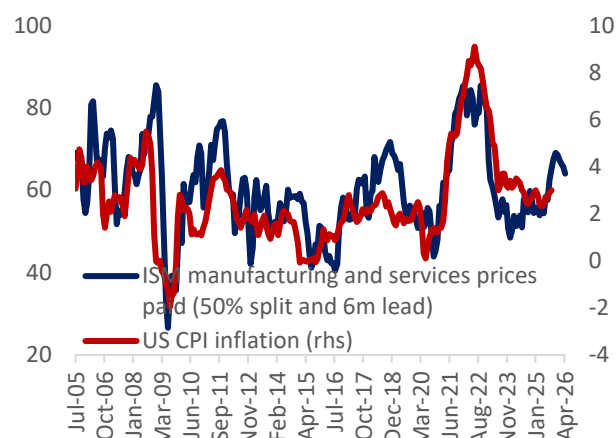


Source: IMF, Momentum Investments

Reinforcing the anticipated rising risk from delayed tariff rates for US inflation going forward is the upward trend

projected for inflation from leading price surveys on US manufacturing and services (see chart 3).

Chart 3: Price surveys project rising US inflation

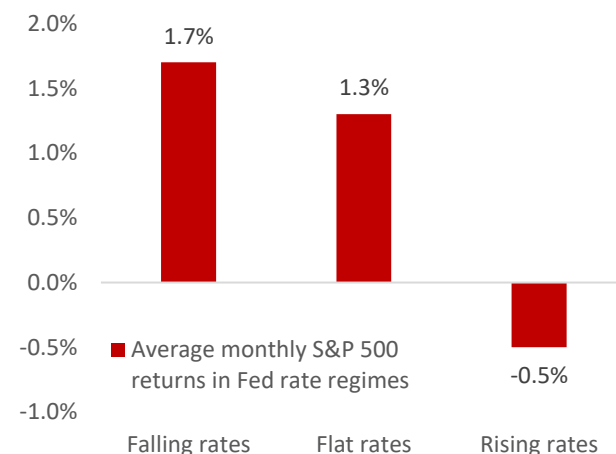


Source: Bloomberg, Iress, Momentum Investments

In our view, the combination of anticipated rising US inflation, forthcoming fiscal stimulus measures and a potential threat to US central bank independence from the Trump administration to force policy rates lower are all risks to the US bond market, while at the very least less negative for US equities than bonds, if not outright equities positive.

Research by Morgan Stanley shows that the US equity market historically performed best when US policy rates were in a falling cycle, as is expected to continue in 2026, even though the magnitude of future Fed rate cuts is heavily debated (see chart 4). In addition, analysis by Citi illustrates that when US rate cuts took place during soft-landing economic growth periods historically, global equity returns were particularly strong, pointing to potential further equity upside from current levels. Although equity markets in Europe, Japan and EM outpaced the US historically in these soft-landing rate cutting periods, we think the rest of the world outperformance of the US may be less pronounced this time due to the current large weighting of technology in the US equity market and with technology historically being a large outperforming sector in soft-landing rate cut cycles.

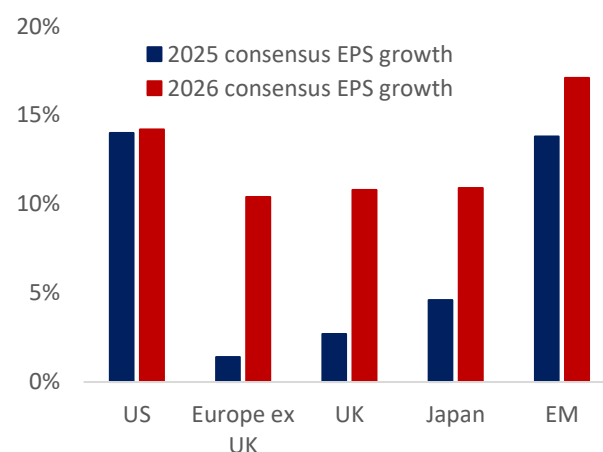
Chart 4: US equities perform best during Fed rate cutting periods



Source: Morgan Stanley

While the anticipated regional profit growth outcomes are very dispersed for 2025, the consensus expectations for 2026 are much more synchronised and at a higher level than in 2025, providing more broad-based support for global equity markets (see chart 5).

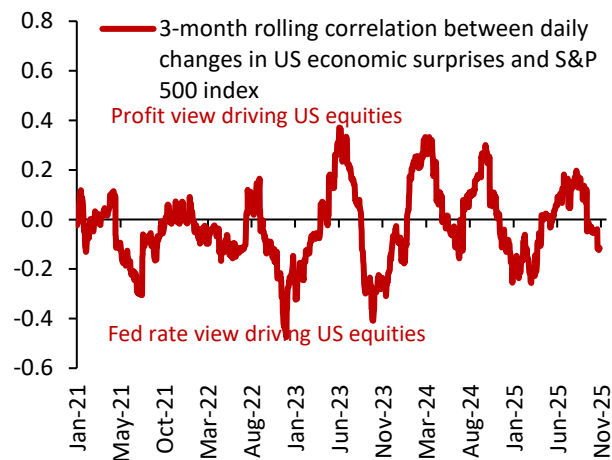
Chart 5: Higher and more synchronised global regional profit growth expected in 2026



Source: Citi, Factset

However, with a negative correlation re-established between US economic surprises and the US equity market during the second half of 2025 (see chart 6), pointing to the Fed rate view becoming the dominant driver for equities (good growth news thus negative for equities at the moment), there is a risk to US equities should this remain in place and the view of US interest rates become more circumspect.

Chart 6: Fed rate view increasingly driving US equities in the second half of 2025

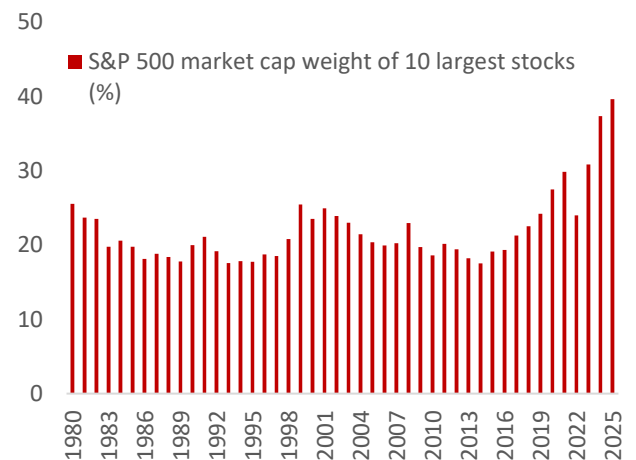


Source: Bloomberg, Momentum Investments

Furthermore, during the US earnings reporting seasons in both the second and third quarters of 2025, it was evident that there is already a lot of positive profit news discounted in US share prices, as positive earnings surprises were much less rewarded through higher share prices than in the past, whereas negative earnings surprises were penalised much more than the historical norm. This implies that although US equities will likely remain supported as long as profit growth remains solid, the magnitude of future returns will be constrained by valuations that have little room for disappointment.

The US stock market is now the most concentrated ever, with the combined market capitalisation of the largest 10 stocks in the S&P 500 index constituting more than 40% of the index (see chart 7). Such a narrow market typically increases investment risk due to the increased vulnerability it induces to the overall equity market should a specific theme impact negatively on a small number of large stocks, particularly if most of these large-cap stocks are impacted by the same variables (as is the case with the current dominance of technology stocks in the US index). However, in recent years the impact of the positive AI theme on the large-cap technology stocks supported the overall US equity market. Furthermore, in 2025, the aggregate US equity market benefitted as the large-cap stocks were more positively influenced by the growth-positive elements of Trump's policies (like tax cuts and deregulation) than the growth-negative policy parts (tariffs and immigration), which were more detrimental to some of the smaller market cap sectors.

Chart 7: The most concentrated US stock market ever



Source: MRB, 2025 data is at the end of October 2025

Although global bond yields have risen from historical lows since the pandemic, bond yields outside the US remain unattractive relative to their corresponding equity markets, with equity earnings yields multiple times higher than bond yields. While this relative valuation support for equities versus bonds is not evident in the US, the fundamentally more supportive environment for US equities than bonds described above, could continue to override US equity valuation concerns for some time.

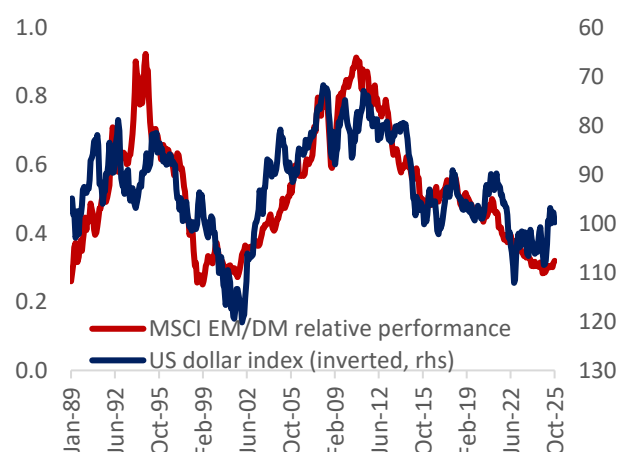
In our view, there are both structural and cyclical factors that point to a weak US dollar environment remaining intact in 2026. Structurally, the volatility in current US policymaking, coupled with the disregard for previous alliances and agreements under the Trump administration, has led foreign investors to reassess the long-standing perception of the US as a secure and reliable investment destination, especially given the significant exposure many have to US assets. While a large-scale divestment of existing US holdings is unlikely in the near term, new investment flows may be less inclined to favour the US compared to previous years. Such a shift would have a negative impact on the US dollar, as would threats to the independence of the Fed.

Additionally, some cyclical factors could work against the US dollar. These include a tariff-induced slowing of the US economy in the near term, which would narrow the positive growth gap with other DMs, as well as anticipated Fed rate cuts exceeding those in other DMs. Together, these factors would suggest a weaker dollar environment moving forward.

A weaker US dollar will likely have positive implications for EM equities relative to DM equities, as has been the case in the past. This is due to three key reasons: Firstly, a weaker dollar directly enhances EM equity returns in dollar terms. Secondly, EM commodity exporters stand to gain from higher dollar-denominated commodity prices. Thirdly, EM corporates and sovereigns with dollar-denominated debt will see a reduction in debt repayments in local currency terms if the dollar weakens, improving their balance sheets and/or overall profitability.

The relative EM equity outperformance of DM equities in 2025 has been lacklustre compared to the significant dollar weakness experienced this year (see chart 8), pointing to significant catch-up potential for EM equities going forward if dollar weakness is maintained.

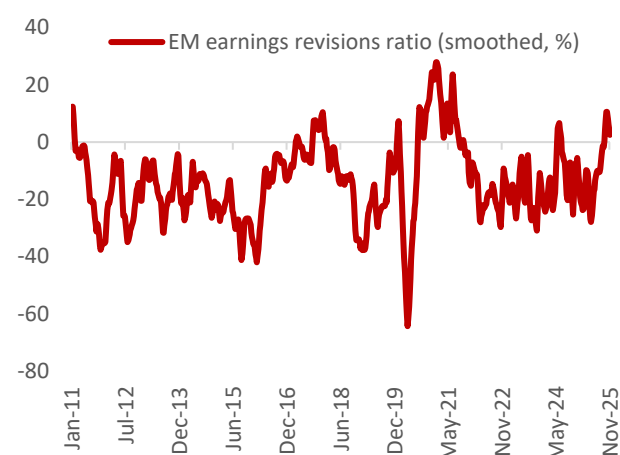
Chart 8: EM/DM outperformance has lagged US dollar weakness in 2025



Source: Bloomberg, Momentum Investments

Apart from a weak dollar, there has also been broad-based earnings support for EM equities this year, with earnings revisions for the overall region turning positive in 2025 (see chart 9) and with most EM sectors now having positive profit momentum.

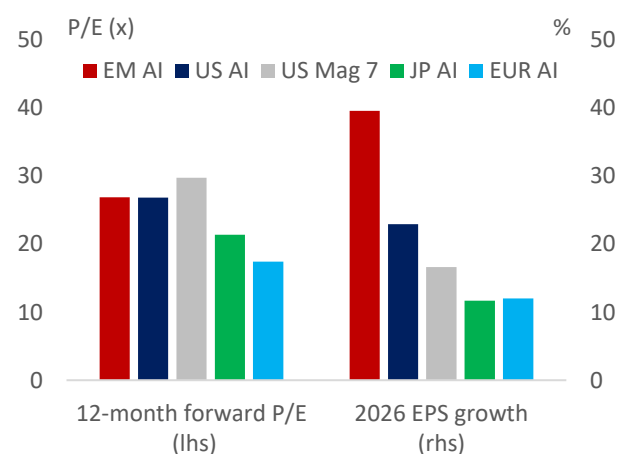
Chart 9: EM earnings revisions in positive territory



Source: MRB, I/B/E/S

EM has also become an attractive means to access the global AI investment theme. Although EM AI P/E valuations have caught up with those in DM, the growth rate expected from EM AI companies far exceeds that from DM AI stocks (see chart 10).

Chart 10: EM is an attractive means to access the AI theme

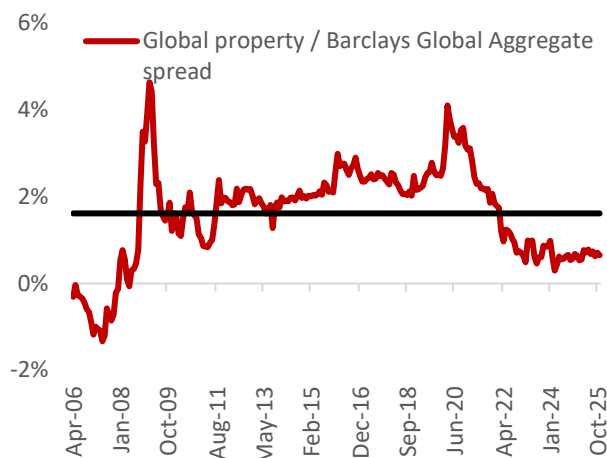


Source: Citi

Fears about a near-term US growth slowdown have caused a tapering of US real estate investment trust (REIT) income growth expectations, overriding support from lower bond yields. Delinquency rates in the commercial real estate sector have drifted up in 2025, while concerns are also mounting about a looming refinancing maturity wall at much higher rates, thus putting pressure on valuations. Furthermore, vacancy rates remain high across most US listed property sub-sectors. Although global property currently remains cheap relative to global equity, its valuations seem expensive relative to most fixed-income

assets, including nominal and real US Treasuries and global investment-grade (IG) bonds, with yield spreads well below historical averages (see chart 11).

Chart 11: Global listed property looks expensive relative to global IG bonds



Source: Bloomberg, Momentum Investments

Fundamental and valuation underpin for SA equities and to a lesser extent nominal bonds

SA assets experienced positive support during the second half of 2025 from a move to a lower inflation target (to 3%, from 4.5% previously), the country’s removal from the Financial Action Task Force’s (FATF) grey list and a sovereign ratings upgrade from S&P ratings agency to a higher sub-investment grade notch while keeping a positive outlook in place. This makes us cautiously confident regarding the prospective trajectory of the SA economy and local asset class returns, provided that local policymakers continue to support rather than disrupt these improving conditions.

Rand strength associated with the above improvements and SA inflation consistently surprising to the downside in 2025 allowed the SARB to continue cutting interest rates, with further rate cuts likely in 2026. Falling local interest rates have historically been positive for both SA bond and equity returns, with equities the better-performing asset class (see table 1).

Table 1: SA equities typically outperformed bonds during falling rate cycles

	Average returns		Hit ratio*	
	1 month	3 months	1 month	3 months
All Share Index	3.9%	12.4%	71%	86%
SA Inc	2.9%	10.5%	67%	86%
Mid Caps	2.9%	9.3%	74%	81%
Small Caps	2.3%	8.2%	74%	74%
SA Bonds	1.0%	2.9%	59%	63%

*Probability for positive returns

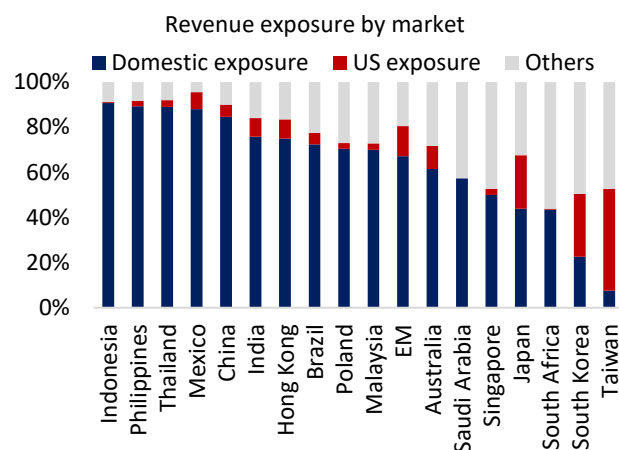
Source: RMB Morgan Stanley

The combination of lower inflation and interest rates has possible implications for the disposable incomes of consumers. With consumption the dominant demand-side component of SA’s gross domestic product (GDP), this should extend the positive momentum in the local economic growth cycle into 2026, albeit from a low base. As a result, the earnings of SA companies with exposure to the local economy should be reinforced.

At a time when the US tariff theme is prevalent in global financial markets, the SA equity market is very much protected from the negative impacts of higher tariffs on the country. This is because large SA listed companies have minimal direct revenue exposure to the US and are therefore unlikely to face any material direct top-line impact from US tariffs on SA imports. This stands in sharp

contrast to major EM peers such as Taiwan and South Korea, whose listed corporates have significantly higher US revenue exposure and are thus more vulnerable to tighter US trade measures (see chart 12).

Chart 12: SA's equity market has negligible direct revenue exposure to the US

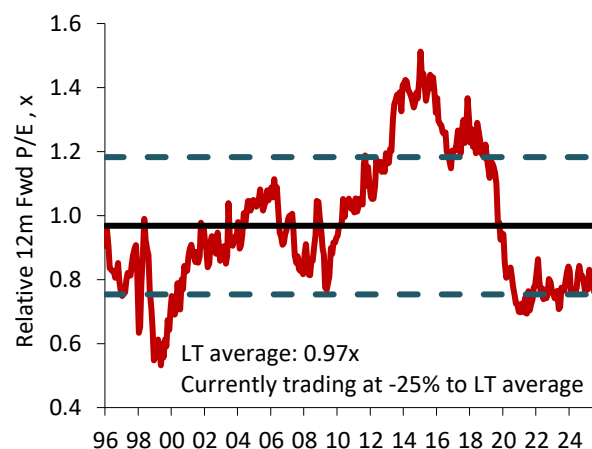


Source: UBS

This does not imply that SA listed corporates will be entirely unaffected by higher tariffs. Certain companies could still experience indirect top-line pressure from the negative impact on domestic economic growth conditions. However, it is important to note that less than half of the total revenue generated by SA's equity market is derived from the domestic economy. As such, the overall sensitivity of the SA equity market to local economic fluctuations (and to indirect tariff effects) is limited.

Although the SA equity market has been one of the best-performing global markets in 2025, this has been driven more by strong profit growth rather than a valuation rerating. Indeed, SA earnings momentum has been the strongest within EM in 2025, accompanied by a relative EM derating, thus keeping SA's forward P/E discount to EM close to pandemic lows (see chart 13).

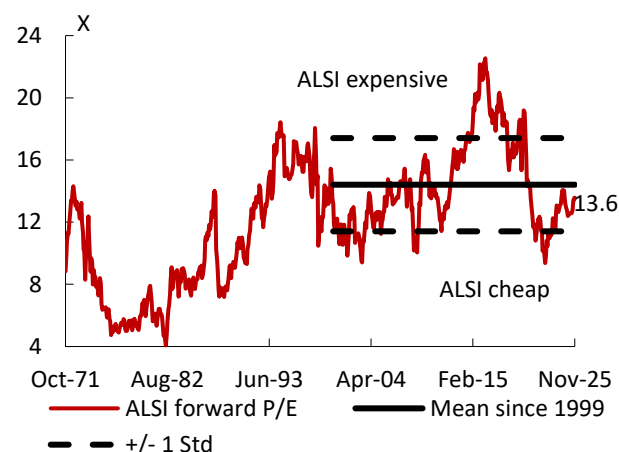
Chart 13: SA/EM forward P/E relative



Source: S&P Securities

Based on our conservative 16% earnings growth assumption for the SA equity market over the next year (the consensus estimate is 21%), we estimate that the SA equity market forward P/E is currently just below one-half of a standard deviation below its historical average (see chart 14).

Chart 14: SA equity market forward P/E

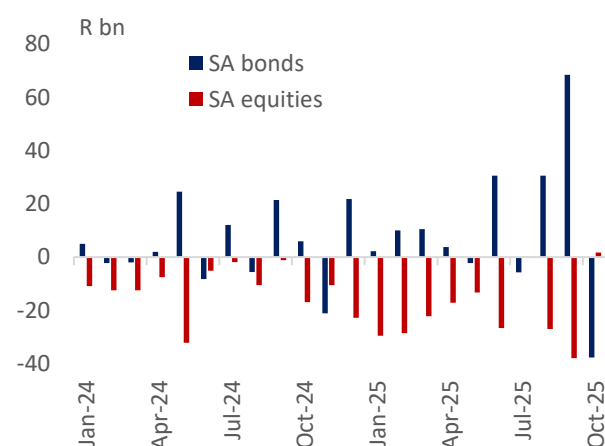


Source: Iress, Momentum Investments

Although foreign investors seem to have bought into the improving fundamentals for the SA bond market, they have remained strong net sellers of SA equities in 2025 (see chart 15). As such, they have not benefited from the strong relative returns of SA equities in EM and global portfolios this year. The combination of strong returns and net selling has caused the SA equity market to become even more under-owned within global EM funds, currently ranking as the third-largest underweight position in these funds. SA's recent strong equity performance may help rekindle long-dormant foreign investor interest in SA equities. At the

same time, an increased global allocation to EM equities, driven by anticipated dollar weakness and increased diversification in response to policy uncertainty under a Trump administration, could result in material global inflows supporting SA equities, particularly given that SA is a high-beta play on EM equities.

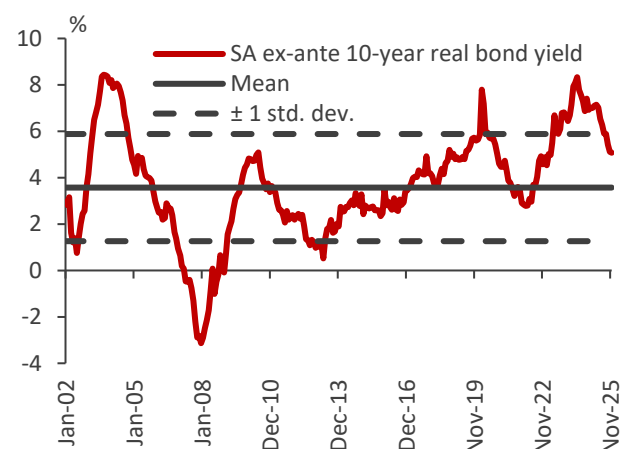
Chart 15: Foreigners have been large net sellers of SA equities but strong net buyers of SA bonds in 2025



Source: Absa, SA Treasury, JSE

The 175 basis points rally by SA nominal bonds in 2025 on the back of positive surprises from actual local inflation numbers, the introduction of a 150 basis points lower inflation target, improving fiscal numbers and a sovereign ratings upgrade has eroded the positive spread with global bonds. Although the SA nominal bond spread with the US has fallen to levels last seen in 2013, the real spread with the US is still above historical averages, as is the real ex-ante SA bond yield relative to its own past (see chart 16). This indicates that there is still some support for SA vanilla bonds from attractive real yields.

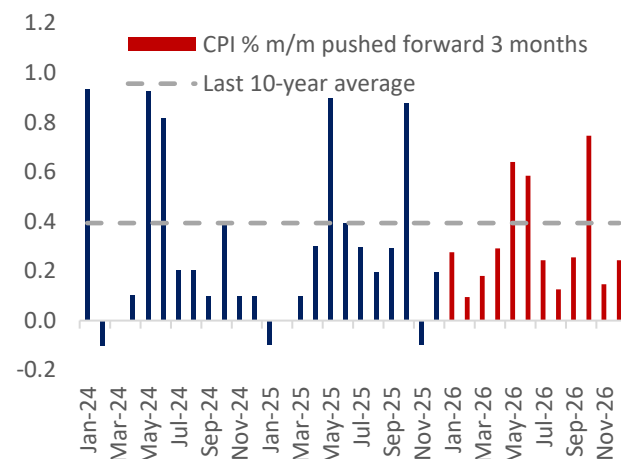
Chart 16: SA ex-ante 10-year real bond yield



Source: Iress, Momentum Investments

Although the absolute level of SA ILB yields is still high, the absence of inflationary pressures in the coming year points to a lack of fundamental support for ILBs, with no breakeven widening expected in 2026 and monthly inflation accruals predominantly low and below average in the next year (see chart 17).

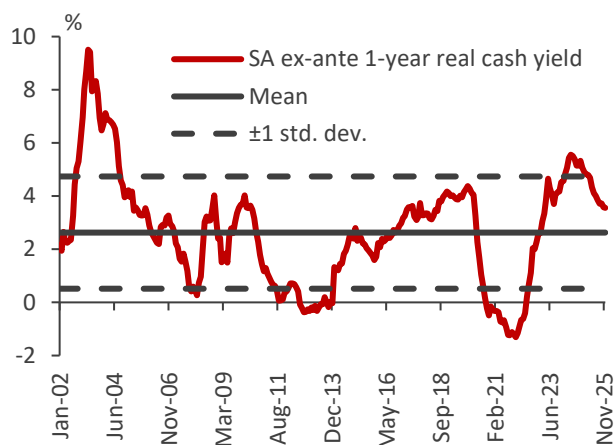
Chart 17: Lack of fundamental support for ILBs with low inflation accruals in the next year



Source: Iress, Momentum Investments

The combination of moderately rising inflation in 2025 and 150 basis points of SARb rate cuts since September 2024 has pushed available real SA cash rates down towards its long-term average, making local cash an inferior investment alternative among the SA asset classes (see chart 18).

Chart 18: SA real cash yield falling towards long-term average

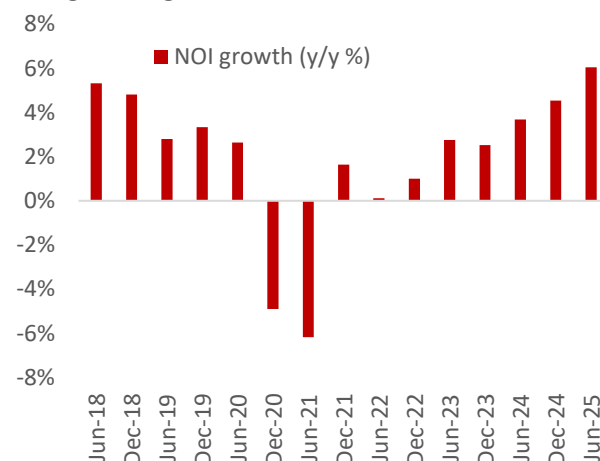


Source: Iress, Momentum Investments

Fundamentals in the listed property space continue to improve. Companies are reporting the strongest like-for-like net operating income (NOI) growth since 2018 (see chart 19), with the earnings recovery guided to continue in 2026. Retail and Industrial NOI growth remains much higher than in the Office sub-sector. The recent renewed sensitivity of property yields to SA bond yields also suggests investors have confidence in the sustainability of

listed property earnings. Listed property funding conditions have also improved, with funding rates now the lowest in three years. Furthermore, the sector's balance sheet recovery remains intact due to previous asset disposals and rising asset values. Vacancies are lowest in the Industrial sector and the highest in the Office sector.

Chart 19: Listed property counters are reporting the strongest NOI growth since 2018



Source: SBG Securities

Potential risks to financial markets

With technology stocks such a large part of the US and thus global equity markets, concerns about whether tech companies will ultimately be able to monetise their huge past and future AI capital expenditure commitments represent a risk to markets. Should the AI theme deteriorate, the already-high valuations of the technology stocks could be exposed and the AI spending pillar of the US economy could come under pressure.

Related to this, there will be a risk to markets should expectations about Fed rate cuts be disappointed in 2026, particularly with long-duration assets like AI-related equities so sensitive to discount rate assumptions. In contrast, should a less independent Fed cut rates more than fundamentally justified, equities will likely react positively to enhanced growth prospects, while the bond market could come under pressure if the Fed's inflation-fighting credibility is questioned.

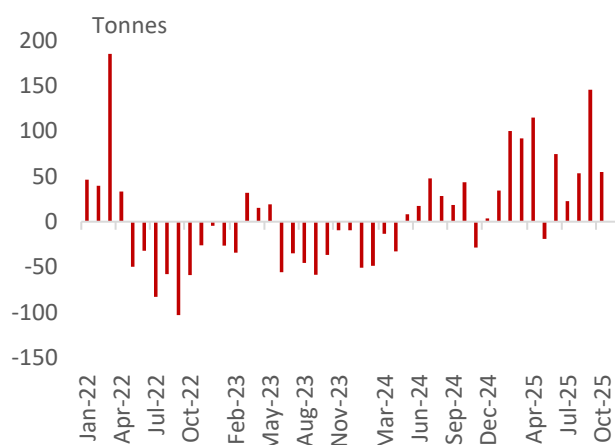
The near-term negative risk to US growth and inflation due to the delayed impact from tariffs could also undermine US equity and bond markets in the early part of 2026. Although not our base case, should there be an adjustment in US growth expectations from the current soft-landing scenario towards a recessionary outcome, this will put the profit outlook and equity markets at risk.

Geopolitical uncertainty is likely to remain a reality for financial markets in 2026. Against the backdrop of an unpredictable and fluid US foreign policy, escalation in the Russia-Ukraine war, the Israel-Hamas conflict, China-Taiwan tensions, US-China trade strains and North Korea's nuclear ambitions are all known risks that have the potential to destabilise global markets.

Taking these potential risks into account, gold is expected to maintain its strategic importance in central bank and investment portfolios as a natural portfolio diversifier and risk-mitigating asset.

Since the outbreak of the Russia–Ukraine conflict in February 2022, gold purchases by EM central banks have been the primary catalyst behind the appreciation of the US dollar gold price. Elevated geopolitical risk and rising concerns over the security of US dollar assets in the global financial system, particularly following the financial sanctions that resulted in the freezing of Russia’s dollar-denominated reserves, often described as the ‘weaponisation of the dollar’, have materially contributed to this trend. More recently, increased uncertainty around US policy direction in the Trump era has further intensified EM central banks’ and global investors’ apprehension about their concentrated exposure to dollar assets, reinforcing the shift toward gold as a strategic alternative. Unsurprisingly, gold exchange-traded funds’ (ETF) inflows have risen sharply in 2025 (see chart 20).

Chart 20: Net gold ETF inflows have accelerated in 2025



Source: World Gold Council, Momentum Investments

Despite these developments, EM central banks still hold relatively low allocations to gold within their reserve portfolios (see table 2). This indicates further potential upside 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 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 2: EM central bank gold exposure is still very low relative to DM central banks

Gold as % of central bank reserves	
United States	80.4%
Germany	80.4%
Italy	77.0%
France	77.7%
Russia	40.6%
China	7.7%
Switzerland	12.3%
India	15.2%
Japan	7.8%
Türkiye	48.9%
Netherlands	70.7%
Poland	24.1%
ECB	49.8%
Taiwan	8.1%
Saudi Arabia	8.0%
UK	18.3%
Spain	28.3%
Iraq	21.6%
Brazil	5.0%
South Africa	22.1%
Mexico	5.7%

Source: World Gold Council

On the local front, the paramount risk for SA financial markets would be the disintegration of the coalition GNU. In this regard, escalating political instability in the run up to local government elections (anticipated to take place anytime from late 2026), as national coalition partners campaign directly against one another on local platforms, could unsettle markets.

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