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SOUTH AFRICAN EQUITY MARKET

Outlook for 2026

As we look ahead to 2026, South African markets sit at the intersection of a gradually improving domestic backdrop and a still-uncertain global environment. Moderating inflation, the prospect of easier monetary policy, and tentative progress on key structural constraints offer grounds for cautious optimism, even as global growth slows and volatility remains elevated. Against this backdrop, this outlook examines the key global and local macro forces shaping the year ahead.

1. Global & macro environment heading into 2026

Global growth in 2026 is expected to be moderate, reflecting the cooling seen after the post-pandemic recovery phase. Inflation in most major economies is moving closer to target levels, enabling gradual monetary easing, while structural themes, such as AI innovation, digital transformation, and infrastructure/energy transition, continue to shape long-term investment opportunities.

Emerging markets may benefit from renewed risk appetite if global interest rates fall and the US dollar weakens. This environment could support capital flows into attractively valued emerging market equities and bonds, especially where domestic reforms are credible. A weaker dollar and risk-on environment would also benefit commodities and commodity-exporting countries such as South Africa.

Commodity demand should remain stable, with upside risks linked to China's stimulus or global supply constraints in key metals. However, global volatility is likely to persist due to geopolitical tension, uneven economic performance across regions, and trade/energy disruptions.

2. South Africa – Macro outlook for 2026

South Africa is expected to experience modest but improving GDP growth of 1.2–1.5%. Stabilising electricity supply, incremental logistics improvements, and stronger export performance may support a slightly firmer economic foundation than in prior years. Inflation is expected to continue moderating within the South African Reserve Bank's target band, creating space for gradual rate cuts during the year.

However, structural challenges remain material:

- High public debt and fiscal constraints
- Fragile state-owned entities
- Weak labour market dynamics
- Logistics and infrastructure bottlenecks that reduce competitiveness

As a result, while the direction of change is positive, the pace is expected to be slow and vulnerable to global shocks.

3. Implications for the South African equity market

Valuations & flows

South African equities remain fundamentally undervalued compared with global peers and relative to SA's own historical valuation ranges. This creates potential for a valuation-led rebound if global emerging-market sentiment improves and domestic reforms maintain momentum.

Foreign flows will remain a major swing factor. Improved macro stability, credible policy execution, and global risk-on conditions could attract fresh allocations to JSE-listed equities.

Corporate earnings outlook

Resource earnings are highly sensitive to commodity trends, while banks and insurers may benefit from lower interest rates and more supportive credit conditions. Industrial and consumer-linked sectors may see slower but stabilising growth if household balance sheets improve slightly. But it's uncertain whether discretionary retailers such as Truworths, Mr Price and Foschini will benefit, given a growing structural shift in consumer spend as seen during 2025, where most discretionary spend was captured but mobile (data/voice), passenger vehicles and other recreational spend (gambling).

Large rand-hedge companies - those generating offshore revenue - provide a defensive buffer in volatile macro conditions, particularly if the rand weakens.

4. Three scenarios for 2026

Given the difficulty in forecasting in a very volatile and uncertain environment, a probability outcome is possibly the best approach. Below are the "Base", "Upside", and "Downside" scenarios for the JSE in 2026, integrating global context, SA macro dynamics, and equity-market implications.

A) Base case (Most likely) – Slow improvement, valuation-led gains

Expected JSE Total Return: c.8%-12% (ZAR)
Moderate global growth, stable commodity prices, and incremental domestic reforms support steady but unspectacular earnings. SARB eases policy gradually as inflation moderates. Foreign flows improve slightly.

- **Likely outperformers:** Banks, diversified miners, select domestic industrials, telecoms.
- **Styles:** Value and quality outperform; large caps lead, but mid-caps show selective rebound.

B) Upside scenario – Reform momentum & global risk-on

Expected JSE Total Return: 15%-25% (ZAR)
Reforms in electricity and transport gain momentum, commodities strengthen, and global investors rotate into emerging market equities amid a weaker dollar. Foreign inflows rise materially; earnings beat expectations. This coincides with less trade tension, easing of Russia/Ukraine tension and stimulus efforts in China finally taking shape, benefiting commodities and emerging markets trade partners, such as South Africa.

- **Likely outperformers:** Gold & diversified miners, banks, mid-caps, telecoms, global rand-hedge companies.
- **Styles:** Cyclical/value leadership, mid-caps outperform large caps.

C) Downside scenario – Global slowdown & local stagnation

Expected JSE Total Return: -5% to +2% (ZAR)
Global growth slows materially, commodities decline, and SA's logistics/energy issues re-emerge. We enter a very rocky and fragmented local election and results in the GNU stability coming into question and raises significant concern on who succeed Cyril Ramaposa. The rand weakens and capital flows turn negative. Corporate earnings come under pressure and consumer demand softens.

- **Likely outperformers:** Healthcare, staples, rand-hedges (Naspers/Prosus, Richemont), cash-generative defensives (Clicks, MRP, Sanlam, AVI).
- **Styles:** Quality and low volatility lead, defensive; growth and cyclicals lag.

5. Key variables to monitor in 2026

- Commodity prices: especially gold, PGMs, and iron ore
- Rand trajectory: driven largely by global risk sentiment
- Reform progress: electricity reliability, port/rail upgrades, fiscal consolidation
- Global interest rates and emerging market flows
- Corporate earnings cycles: resources vs. financials vs. SA Inc.
- Domestic consumption and credit health

Given all the above detailed uncertainty, we remain active, nimble and have a preference for liquid counters to capture alpha opportunities as they arise.

Author

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