

QUARTERLY SERIES | Q3 2026

Quarterly Economic Overview

A more challenging inflationary environment is reshaping the global policy landscape

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30 September 2026

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GLOBAL

Energy supply shocks and geopolitical trade fragmentation have kept inflation sticky despite resilient economic growth.

LOCAL

Stubbornly elevated inflation risks at 4.4%, forcing the SARB to hike the repo rate to a restrictive 7.25% to prevent long-term price expectations from unanchoring.

AT A GLANCE

Q3 2026 in numbers

FTSE/JSE All Share Index	-0.27%
MSCI ACWI Index	1.69%
FTSE/JSE All Bond Index	-0.68%
WGBI	-2.43%
FTSE/JSE All Property Index	-1.47%
Brent crude oil, price per barrel	$103.53
USDZAR	R16.42

In local currencies. As at close 30 September 2026.

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Johannesburg. Mentenova monitors global and local conditions quarterly for the funds it advises.



SECTION 01

Markets in Review

The third quarter of 2026 was defined by a single overarching shock: escalating geopolitical tensions in the Middle East and their increasingly broad-based economic and market implications. What initially appeared to be a contained geopolitical event quickly evolved into a global inflation shock as disruptions to energy supply and shipping pushed commodity prices higher. This complicated the outlook for central banks, which were forced to balance renewed inflationary pressure against slowing growth and increasingly fragile financial conditions. The resulting adjustment was felt across asset classes, with the relative performance of markets increasingly determined by their sensitivity to energy prices, interest rates and the underlying resilience of domestic growth.

Equities

Global equity markets diverged sharply in Q3, with performance increasingly reflecting exposure to the AI investment cycle, domestic economic resilience and sensitivity to higher rates and energy prices. Developed markets outperformed, with the MSCI World Index gaining 1.96% over the quarter. The US S&P 500 Index led much of the gains, rising 2.30%, supported by resilient corporate earnings, continued AI-related capital expenditure and an economy that proved more resilient than most developed-market peers. The strength of earnings and continued investment in AI infrastructure provided an important offset to the broader pressure from higher energy prices and rising yields, although gains were increasingly concentrated in areas with stronger earnings visibility and exposure to the AI investment cycle. Japan was one of the key detractors within developed markets, with the Nikkei 225 Index declining 4.10% after a strong start to the quarter. While a weaker yen remained supportive of Japanese exporters, the rise in Japanese Government Bond yields placed increasing pressure on equity valuations and raised concerns around the potential repatriation of Japanese capital from overseas markets. Europe also underperformed, with the STOXX 600 Index declining 0.72%, as fiscal pressures in France, higher energy costs and weakening manufacturing activity weighed on investor sentiment.

Emerging markets were comparatively weaker, with the MSCI Emerging Markets Index declining 0.24% over the quarter. Much of the intra-quarter volatility was driven by the combination of higher commodity prices, weaker Chinese demand, tighter global financial conditions and heightened geopolitical risk. Asian markets were among the largest detractors. Korea's KOSPI declined 19.24%, reflecting a combination of broad risk-off sentiment, pressure on the semiconductor cycle and the country's high sensitivity to Chinese demand. China's CSI 300 fell 11.70% as persistent property-sector weakness, subdued domestic demand and continued US-China trade tensions weighed on investor confidence, with the absence of a sufficiently credible policy stimulus catalyst adding to the structural concerns. India's NIFTY 50 also retreated following a strong run, with higher oil prices becoming an increasing headwind through their impact on the import bill, inflation and fiscal position. South Africa's FTSE/JSE All Share Index was broadly flat over the quarter, declining 0.27%. However, the headline performance masked considerable intra-quarter volatility, with the resource-heavy market particularly sensitive

to the energy shock, earnings expectations and changes in global commodity prices. The sharp September sell-off in resources ultimately offset earlier gains.

Fixed Income

Fixed income markets faced a particularly challenging quarter as the combination of higher energy prices, persistent inflation and a less accommodative monetary-policy backdrop drove a broad-based repricing of global sovereign bonds. The WGBI declined 2.43%, with duration emerging as a significant headwind as investors reassessed the path of inflation and interest rates. US Treasury yields rose sharply over the quarter, increasing by 82 bps and ending at 5.28% as the Federal Reserve's September decision and guidance around the policy path contributed to a broader repricing across global rates. The increase in yields reinforced the challenge for long-duration assets, particularly as investors demanded greater compensation for inflation and policy uncertainty.

Locally, the FTSE/JSE All Bond Index declined 0.68%. The South African rates market experienced significant volatility following the SARB's surprise hold at its July meeting, which was criticised by several global banks as potentially undermining policy credibility and increasing the risk premium embedded in both bonds and the rand. Bond yields subsequently fell sharply in mid-July after Governor Kganyago indicated that the inflationary impact of the Iran conflict could prove temporary and that inflation could return to the 3.00% target sooner than previously expected. This optimism proved short-lived, however, as persistent inflation pressures prompted the SARB to raise rates by 25bps in September. The repricing pushed the South African 10-year yield to its highest level of the quarter, before closing at 9.02%. Inflation-linked bonds were a notable exception, gaining 1.44% over the quarter as the combination of higher inflation risks and a significant repricing of South African inflation expectations supported demand for real-return assets. Investor appetite remained robust, particularly at the long end of the curve. In early September, the government sold R675 million of the 2.5% 2046 inflation-linked bond at a real yield of 4.28%, with a bid-to-cover ratio of 2.83x. The strong demand highlighted continued investor appetite for long-duration inflation protection despite elevated real yields.

Property

Listed property was similarly pressured by the global rates repricing, with higher bond yields increasing the opportunity cost of holding yield-sensitive assets and prompting a broad-based de-rating. The FTSE EPRA NAREIT Global REITs Index declined 5.74%, while the S&P Global Property Index fell 5.27%. The global sector's heavy US weighting meant that the increase in US Treasury yields and the Federal Reserve's September policy stance were particularly important drivers of performance. Europe's STOXX 600 Real Estate Index was the weakest among the major regional property markets, declining 8.28%, as fiscal concerns, rising energy costs and a less supportive monetary-policy backdrop compounded existing concerns around the region's growth outlook. South African listed property proved more resilient, with the FTSE/JSE All Property Index declining 1.47%. The sector's lower sensitivity to the global rates shock, together with its domestic earnings exposure, provided some insulation from the broader global sell-off. Nevertheless, elevated domestic bond yields remained a headwind for valuations and relative attractiveness.

Commodities

The Middle East conflict was the dominant force in commodity markets during the third quarter, with the Bloomberg Commodity Index gaining 16.19%, driven primarily by a sharp increase in energy prices. Oil emerged as the clearest expression of the geopolitical shock, as disruptions to shipping through the Strait of Hormuz, attacks affecting Saudi Aramco infrastructure and restrictions on Iranian oil exports intensified concerns around global supply. Brent crude oil prices surged during the quarter before ending at approximately $103.53 per barrel, with the geopolitical risk premium increasingly reflected in forward pricing. The move in oil was particularly

significant for the broader investment landscape given its implications for global inflation, household purchasing power and the monetary-policy outlook.

Platinum was another strong performer, gaining 10.54%. The metal benefited from its dual exposure to industrial and precious-metal demand, while improved electricity supply in South Africa supported greater production stability. A broader bid across precious metals also provided support. Gold remained well supported by geopolitical uncertainty, central-bank demand and a modestly weaker US dollar through much of August. However, gains were constrained by the subsequent rise in real yields as expectations around tighter US monetary policy increased.

Palladium was broadly flat as weak automotive demand in China and Europe offset broader support from precious metals. Nickel declined 2.08%, reflecting weaker Chinese demand and continued concerns around excess supply, particularly from Indonesia. Iron ore was the largest detractor, declining 4.11%, as renewed concerns over Chinese growth and persistent weakness in the property sector weighed on demand expectations.

FIGURE 1: Market overview

30 September 2026 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)
FTSE/JSE ALSI Total Return	-5.8%	-0.3%	-3.2%	4.6%	18.7%	15.3%	11.5%
FTSE/JSE Capped All Share Index Total Return	-5.8%	-0.3%	-3.1%	5.6%	18.8%	15.2%	11.5%
S&P 500 Total Return	-0.3%	2.3%	12.7%	15.7%	22.9%	13.8%	15.3%
STOXX 600 Total Return	-2.4%	-0.7%	9.5%	16.6%	15.1%	9.7%	9.1%
Nikkei 225 Total Return	1.3%	-4.1%	34.6%	51.0%	30.3%	20.1%	17.3%
MSCI World Total Return	-1.2%	2.0%	12.1%	15.7%	21.9%	12.4%	13.4%
MSCI ACWI Total Return	-1.1%	1.7%	13.4%	17.2%	22.3%	12.1%	12.9%
MSCI EM Total Return	-0.5%	-0.2%	23.7%	29.6%	24.7%	9.4%	9.5%
MSCI World Value Index	-2.2%	4.0%	15.3%	19.3%	19.9%	12.4%	10.9%
MSCI World Growth Index	-0.1%	0.0%	9.0%	12.0%	23.7%	12.0%	15.5%
MSCI World Small Cap Index	-4.1%	-3.6%	12.7%	16.0%	18.4%	7.5%	10.2%
FTSE UK Series FTSE All Share TR	-1.9%	2.4%	9.8%	16.8%	15.5%	11.0%	8.1%
MSCI AC Asia Ex. Japan Index	-0.4%	-0.4%	25.8%	31.3%	26.1%	9.8%	10.1%
MSCI Europe Excluding United Kingdom Index	-2.6%	-1.9%	9.8%	16.5%	15.4%	10.0%	10.2%
Shanghai Shenzhen CSI 300 Index	-5.6%	-11.7%	-4.1%	-3.9%	8.5%	0.3%	5.3%
Korea Stock Exchange KOSPI Index	0.3%	-19.2%	63.5%	102.0%	43.0%	19.7%	15.1%
Taiwan Stock Exchange Weighted Index	4.1%	4.9%	68.1%	88.9%	46.5%	26.9%	21.9%
NSE Nifty 50 Index	-6.0%	-4.9%	-12.4%	-6.8%	6.3%	6.6%	11.7%
Ibovespa Brasil Sao Paulo Stock Exchange Index	5.0%	8.3%	15.6%	27.4%	16.9%	10.9%	12.3%
Nasdaq-100 Index	3.3%	0.6%	21.0%	24.0%	28.3%	16.6%	21.2%
Bloomberg Magnificent 7 Total Return Index	4.2%	11.1%	9.2%	14.1%	36.9%	25.4%	36.4%
Bloomberg US Large Cap ex Magnificent 7 Total Return I	-2.1%	-2.2%	13.0%	15.1%	19.2%	10.6%	12.3%
Dow Jones Industrial Average TR	-4.1%	-2.3%	7.2%	11.5%	17.0%	10.6%	13.1%
STEFI	0.6%	1.7%	5.1%	7.0%	7.8%	7.1%	6.8%
ALBI	0.0%	-0.7%	3.5%	12.8%	17.7%	12.1%	10.3%
IGOV	0.7%	1.4%	6.7%	15.6%	12.2%	9.3%	6.4%
WGBI	-2.3%	-2.4%	-2.8%	-2.7%	3.1%	-2.9%	-0.8%
Bloomberg Global Inflation-Linked Total Return Index	-3.0%	-2.8%	-2.5%	-1.8%	3.6%	-3.0%	0.3%
Bloomberg US Agg Total Return	-2.6%	-3.5%	-2.9%	-1.8%	4.1%	-0.6%	1.1%
Bloomberg EuroAgg Total Return Index	-1.9%	-3.8%	-2.5%	-2.3%	2.6%	-2.2%	-0.5%
Bloomberg Global Agg Corporate Total Return Index	-2.9%	-3.4%	-3.2%	-2.5%	5.5%	-0.4%	1.7%
Bloomberg US Corporate High Yield Total Return Index	-2.5%	-1.8%	0.1%	1.4%	8.0%	3.6%	5.0%
Bloomberg Pan-European High Yield Total Return Index	-1.8%	-1.5%	0.3%	1.0%	6.6%	2.8%	3.7%
J.P. Morgan EMBI Global Core Hedged EUR	-3.8%	-4.8%	-3.3%	-0.8%	7.1%	-0.8%	0.4%
FTSE/JSE All Property Index	0.5%	-1.5%	3.1%	20.3%	26.5%	15.5%	3.8%
MSCI US REIT Total Return	-5.3%	-6.1%	10.4%	8.6%	12.8%	4.3%	5.6%
S&P Global Property Total Return	-5.0%	-5.3%	2.4%	2.0%	10.5%	1.6%	3.6%
STOXX 600 Real Estate Total Return	-7.1%	-8.3%	-4.9%	-4.1%	5.3%	-5.5%	-1.0%
FTSE EPRA Nareit Global REITs TR Index	-5.4%	-5.7%	5.8%	5.0%	10.9%	2.3%	3.7%
Crude Oil	14.4%	42.0%	70.1%	54.5%	2.8%	5.7%	7.8%
Aluminium	-2.2%	2.7%	5.8%	18.2%	10.5%	2.1%	6.6%
Copper	0.8%	7.7%	16.0%	40.3%	20.3%	10.0%	11.5%
Gold	-6.3%	3.7%	-3.7%	7.7%	31.0%	18.8%	12.2%
Platinum	-4.5%	10.5%	-16.7%	8.9%	23.6%	12.1%	5.3%
Nickel	-5.6%	-2.1%	-4.6%	4.6%	-5.2%	-2.5%	4.1%
Palladium	-11.5%	-0.3%	-25.4%	-4.2%	-1.1%	-8.8%	5.3%
Iron Ore	-4.8%	-4.1%	-13.8%	-8.8%	-8.5%	-5.7%	4.5%
Bloomberg Commodity Index Total Return	0.6%	16.2%	32.9%	40.6%	15.6%	11.3%	7.9%
USDZAR	1.9%	0.2%	-0.8%	-4.9%	-4.6%	1.7%	1.8%
GBPZAR	-0.2%	0.2%	-2.4%	-6.2%	-1.9%	1.4%	2.0%
EURZAR	-0.6%	-0.6%	-4.3%	-8.1%	-2.4%	1.3%	1.9%
JPYZAR	3.6%	3.6%	-1.2%	-10.5%	-6.2%	-5.1%	-2.6%
Dollar Index Spot	2.0%	0.3%	3.2%	3.8%	-1.5%	1.5%	0.6%

Source: Bloomberg

SECTION 02

United States

The third quarter of 2026 highlighted the continued resilience of the US economy, but also the growing macroeconomic costs of sustaining that momentum. Economic activity remained firm, supported by resilient household consumption and a strong investment cycle centred on artificial intelligence, while business activity remained firmly in expansionary territory. However, this strength has been accompanied by persistent inflationary pressures, elevated fiscal deficits and rising long-term borrowing costs. The labour market has stabilised rather than materially weakened, reducing the urgency for monetary easing, while renewed energy-price pressures and elevated producer inflation have kept the Fed focused on the upside risks to prices. Against this backdrop, the US economy remains in a relatively unusual position: growth is strong enough to withstand restrictive policy, but the combination of sticky inflation, AI-driven capital intensity and fiscal expansion is increasingly placing upward pressure on interest rates and raising questions around the sustainability of the current expansion.

Growth has remained resilient despite external pressures but is increasingly reliant on consumption and AI investment

The US economy entered Q3 2026 with stronger-than-expected resilience despite persistent geopolitical and energy-market pressures. Tensions surrounding the Strait of Hormuz continued to generate volatility in energy prices and raised concerns around supply disruptions, but these headwinds have so far failed to materially derail domestic activity. Real GDP expanded at an annualised rate of 2.2% in Q2 2026, supported by private consumption, investment and exports, while government consumption remained a drag. Domestic demand therefore remained the key pillar of the expansion, with gross fixed investment benefiting from continued spending on information-processing equipment and AI infrastructure.

The AI build-out has become an increasingly important component of the US investment cycle and broader economic activity. Strong demand for AI-related equipment and infrastructure is supporting capital expenditure and providing a near-term boost to growth, while also raising expectations for future productivity gains. However, the increasing concentration and capital intensity of this investment warrant closer scrutiny. Higher financing costs could become a constraint as firms require increasing amounts of capital to sustain the pace of investment, while strong demand for AI-related equipment may also keep pressure on investment costs. The key question for the medium-term outlook is therefore whether the productivity gains generated by AI investment will ultimately justify the scale of capital being deployed. For now, however, the strength of consumption and technology-related investment continues to provide a meaningful buffer against external shocks.

FIGURE 2: US GDP composition by component

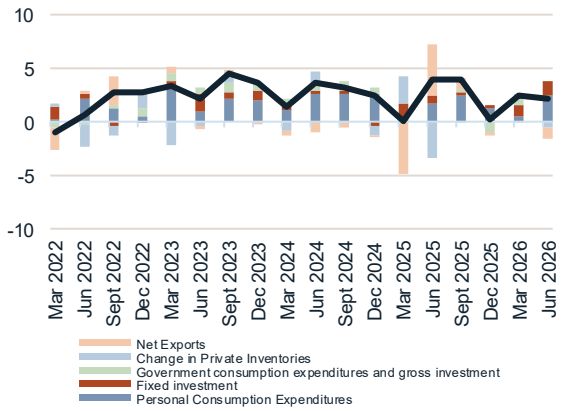
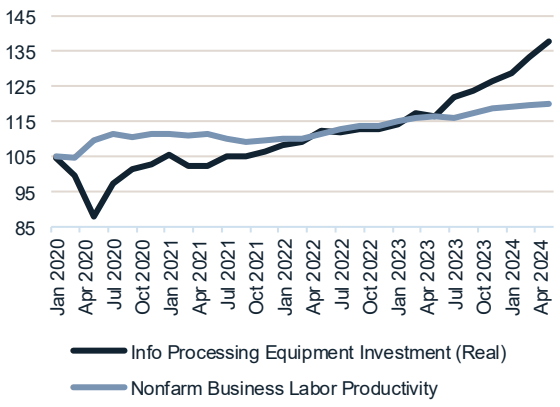


FIGURE 3: US Tech Investment vs labour productivity



Source: Bloomberg, BEA, Figure 3 (Index, 2020=100)

Domestic demand remains firm, yet economic momentum is becoming increasingly uneven

The resilience of domestic demand is underpinned by a labour market that, while cooling, has shown signs of stabilisation. The unemployment rate edged down from 4.2% in June to 4.1% in August, while nonfarm payroll growth rebounded to 162k from just 21k in July. The improvement suggests that the earlier weakness in hiring may have been temporary rather than indicative of a broader deterioration in labour demand. Wage growth has also moderated to 3.1% YoY, moving closer to levels consistent with the Fed's inflation objective assuming continued productivity gains, while labour-force participation remained broadly stable at 61.6%. The labour market is therefore cooling without yet showing signs of a sharp deterioration that would materially undermine household demand.

This resilience is particularly evident in consumer spending, which has remained considerably stronger than industrial activity. Retail sales have held up despite a deterioration in household confidence, suggesting that consumption continues to benefit from relatively healthy labour-market conditions and accumulated household balance-sheet strength. However, the divergence between spending and sentiment warrants monitoring. A more pronounced deterioration in consumer confidence could eventually translate into weaker spending and broader economic activity, particularly if labour-market conditions weaken further. At the same time, subdued industrial production indicates that the recovery remains uneven, with manufacturing yet to become a meaningful driver of the expansion. The US economy therefore continues to exhibit a notable divide between resilient domestic consumption and softer industrial activity.

Business activity has nevertheless remained supportive of the near-term outlook. Both manufacturing and services PMI remained firmly in expansion territory in September, with the composite PMI reaching 58.4, pointing to broad-based momentum across the private sector. The resilience of business activity contrasts with the deterioration in consumer confidence, which fell to 81.9 in September. This suggests that businesses remain willing to invest and expand activity despite households becoming increasingly cautious about the economic outlook. For now, this divergence is supportive of continued growth, although a widening gap between business activity and household expectations could become a source of downside risk if weaker sentiment begins to affect hiring, investment or spending decisions.

Sticky inflation limits the scope for monetary easing

Inflation remains one of the key constraints on the US outlook. Headline CPI reaccelerated to 3.4% YoY in August, while core inflation moderated to 2.4%. Although the moderation in core inflation points to some easing in underlying price pressures, headline inflation remains well above the Fed's 2.0% target, as the renewed energy-price volatility presents an additional upside risk. Producer price inflation has also remained elevated, with PPI accelerating to 5.4% YoY in August. While higher producer prices do not necessarily translate one-for-one into consumer inflation, the persistence of upstream price pressures increases the risk of renewed pass-through into final prices.

Against this backdrop, the Federal Reserve faces an increasingly difficult trade-off between supporting growth and containing inflation. After holding rates steady through July and August, the Fed raised the target range by 25bp in September, reflecting continued concern around inflation despite resilient domestic activity. Firm consumption, strong investment and a stabilising labour market provide policymakers with limited incentive to ease aggressively, while inflation remains sufficiently elevated to constrain the pace of future cuts. Market participants have consequently repriced the expected path of monetary policy, with the adjustment increasingly reflected in longer-dated Treasury yields.

The combination of persistent inflation, elevated fiscal deficits and rising term premia has placed additional upward pressure on long-term borrowing costs. This creates an important feedback mechanism for the economy: while higher yields may eventually weigh on interest-sensitive sectors and investment, they also increase the cost of financing the government's debt burden. The Fed therefore remains constrained from providing rapid monetary accommodation, even as some areas of the economy begin to show signs of slowing.

FIGURE 4: US CPI

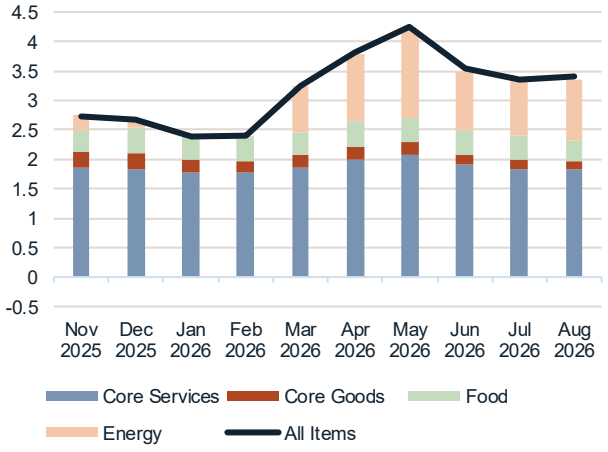
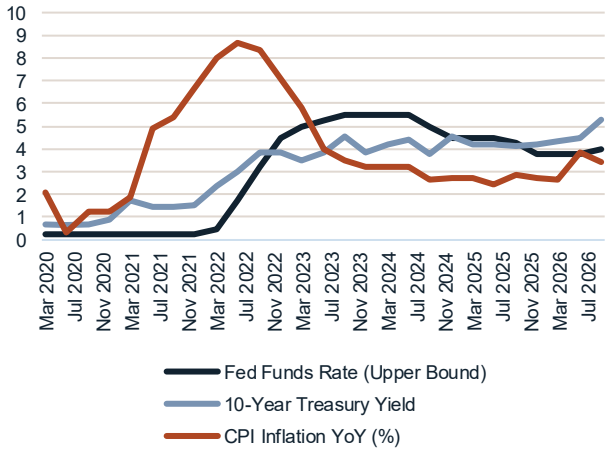


FIGURE 5: The Fed tightening bind: Rates, inflation & term premia



Source: Bloomberg

Fiscal pressures are adding to long-end yield risks

The fiscal position remains a structural source of risk for the US economy. The interaction between elevated deficits, substantial Treasury issuance and higher interest rates is becoming increasingly important for financial markets. As Treasury yields rise, higher refinancing costs will place further pressure on debt-servicing expenditure, potentially reinforcing the need for continued borrowing and increasing the supply of government debt. This dynamic can contribute to higher term premia and place persistent upward pressure on the long end of the yield curve, even if the Fed begins to lower short-term policy rates.

The fiscal trajectory therefore represents an increasingly important macro risk, particularly for long-duration assets. While the US economy has so far demonstrated considerable resilience, the combination of sticky inflation, elevated government borrowing requirements and high debt levels limits the policy flexibility available to cushion future shocks. The key risk is consequently shifting from whether the US economy can maintain near-term growth given the current combination of resilient demand, persistent inflation and fiscal expansion can be sustained without requiring materially higher long-term borrowing costs.

SECTION 03

Eurozone

The eurozone has weathered the latest energy shock better than feared with activity still expanding and parts of the manufacturing cycle showing signs of improvement. But that resilience is being tested by renewed inflation pressure, a more hawkish ECB and persistent weakness in the region's largest economies. For investors, the opportunity is therefore less about buying "cheap Europe" broadly and more about identifying where improving earnings can outweigh tighter policy and structural constraints.

Better than feared but hardly booming

The eurozone has held up better than many expected. Growth remained positive in the second quarter and September PMIs showed both manufacturing and services still expanding. That matters because the region has absorbed another major energy shock without slipping straight into recession. But the recovery is uneven, and that is where the investment story becomes more interesting.

Germany is waiting for the fiscal cavalry, and France has less room to kick the can

Germany is still struggling to find a durable industrial recovery. The sharp fall in August factory orders is another reminder that the country's manufacturing base remains vulnerable, while the much-anticipated fiscal boost from infrastructure and defence spending is likely to take time to filter through. The August print of a -10.6% MoM decline is a significant negative signal for German industrial activity and is consistent with the broader Euro Area theme of uneven recovery, with Germany bearing a disproportionate share of the energy shock impact relative to peers such as Spain and Italy. France faces a different problem: weaker growth, stretched public finances and limited room to support the economy without putting further pressure on borrowing costs. Together, the eurozone's two largest economies remain the weak points in an otherwise improving regional picture. Ultimately, Germany's fiscal support is too slow to matter in the near term while France's fiscal position leaves little policy cushion.

FIGURE 6: Eurozone PMI data

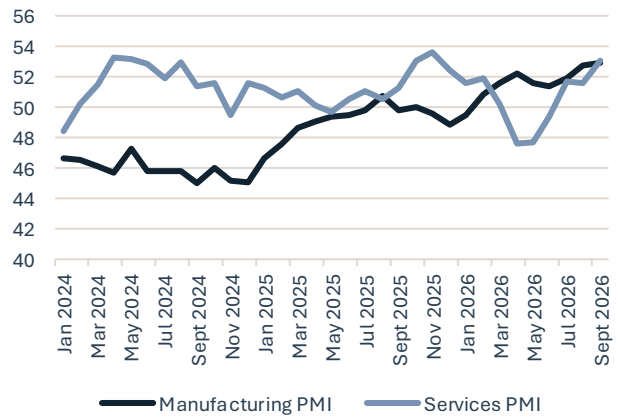
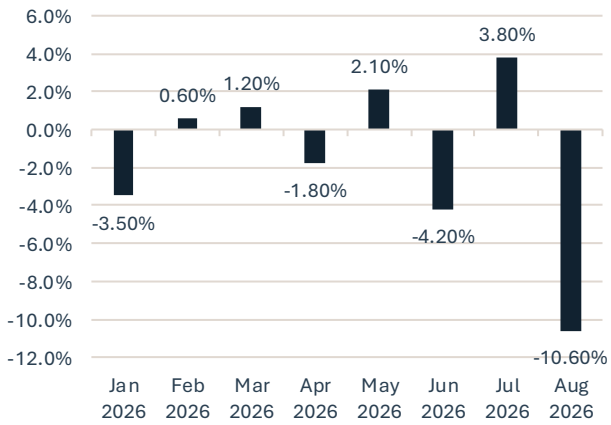


FIGURE 7: Germany factory orders MoM



Source: Bloomberg

The ECB is fighting inflation, perhaps too enthusiastically, as not all inflation is created equal

At the same time, inflation is forcing the ECB to lean in the opposite direction. Headline inflation rose to 3.8% in September, prompting a sharp reversal from last year's easing cycle. Rates have already been increased twice this year, and markets expect more tightening as shown in the FRA rates chart below. The question is whether the ECB is now fighting the right battle.

Much of the latest inflation shock comes from energy. Beneath the headline numbers, imported goods prices remain soft, wage pressures are easing, and underlying inflation appears better anchored. Should the energy

shock fade, this disinflationary backdrop could easily reassert itself. Therefore, it remains a risk that the ECB tightens too far just as growth is beginning to lose momentum.

FIGURE 8: Euro Area CPI YoY and ECB rate

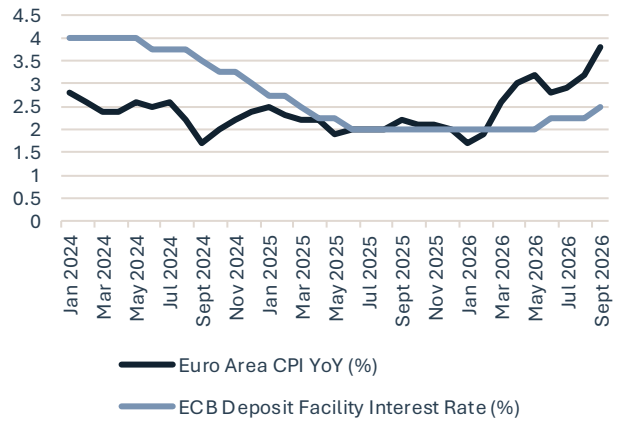
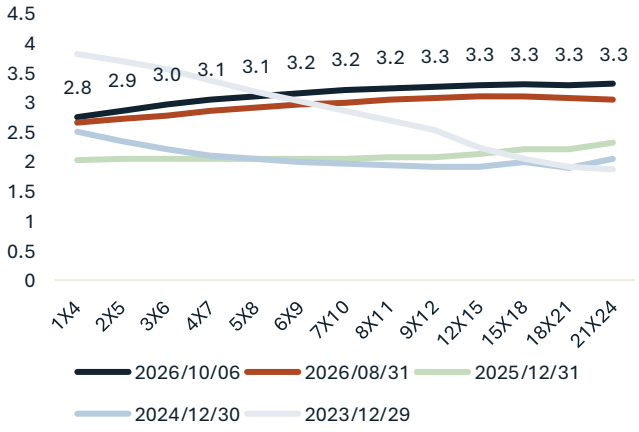


FIGURE 9: Eurozone forward rate agreement (FRA) rates



Source: Bloomberg

Cheap for a Reason?

While valuations remain attractive and the region offers useful diversification away from expensive US technology exposure, it is important to note that cheapness doesn't automatically translate into good investments. Germany still needs an earnings recovery, while France carries an increasingly visible fiscal risk premium. The eurozone has enough cyclical momentum to stay interesting, but not enough policy flexibility to make the outlook comfortable. As Figure 11 illustrates, while the eurozone's real GDP growth differential with the US has narrowed, the underlying direction remains unchanged, with US growth continuing to outpace the eurozone. Therefore, given the macro backdrop, the eurozone is a market of selective opportunity, whether in terms of equity exposure or sovereign differentiation, rather than broad conviction.

FIGURE 10: STOXX 600 vs S&P 500 Forward PE ratio

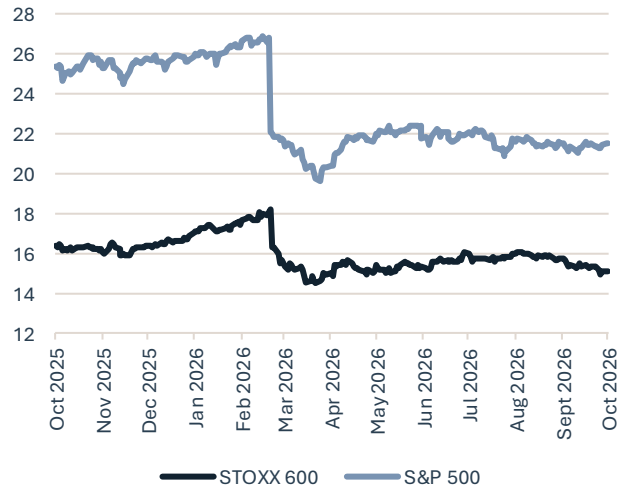
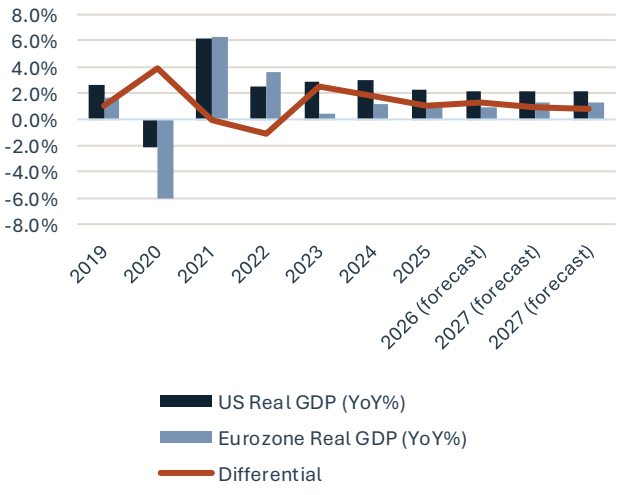


FIGURE 11: US and Eurozone real GDP YoY



Source: Bloomberg

SECTION 04

United Kingdom

The UK economy is showing tentative signs of recovery, but the rebound remains fragile beneath the surface. Sticky inflation, a weak labour market and limited fiscal room leave the Bank of England (BOE) with little flexibility to support growth without risking its inflation credibility. For investors, that creates an environment where valuations are becoming more attractive, but the lack of a clear macro catalyst still argues for a selective rather than aggressive stance.

The UK economy is improving; the recovery is not yet strong or stable enough for the Bank of England to trust

There are signs that the UK economy is improving, but the picture remains uneven. GDP grew by 1.4% year-on-year in the second quarter, while three consecutive months of expansion in the services PMI suggest that the economy is moving beyond its mid-year soft patch. The IMF has also upgraded its 2026 growth forecast from 0.8% in April to 1.0%, with growth expected to strengthen further to 1.3% in 2027 as the drag from the Iran-related energy shock gradually fades. That is encouraging, but the labour market and inflation backdrop are less supportive.

The UK unemployment rate remains close to 5% as of July. Recruitment activity has shown some improvement, with both permanent placements and temporary staff billings recently moving back above the neutral 50 level. However, forward-looking indicators remain more cautious. Bank of England Agents' employment intentions are broadly flat, while Lloyds Bank's staffing expectations weakened sharply in September. Together, these indicators suggest that although current recruitment conditions are improving, employers remain hesitant about future hiring, pointing to continued softness in the labour market ahead. The economy is therefore expanding but without much confidence behind it. That leaves the Bank of England in an awkward position. The economy is not strong enough to absorb aggressive tightening easily, but inflation is not soft enough to justify rate cuts either.

FIGURE 12: UK job placements and hiring intentions

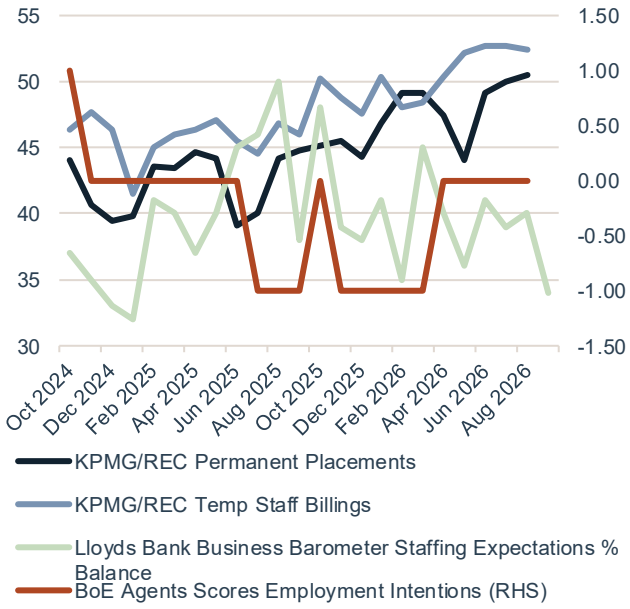
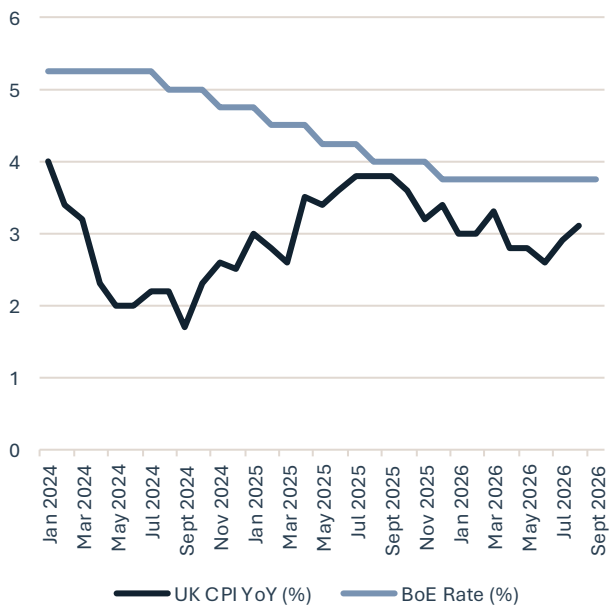


FIGURE 13: UK inflation and BOE interest rate



Source: Bloomberg, KPMG/REC

Markets are betting the BoE will blink hawkish as inflation refuses to cooperate

CPI rose to 3.1% in August from 2.9% in July, and UK business inflation expectations have risen, with planned selling price increases also trending higher. Markets have responded by becoming much more hawkish, pricing in a sizeable amount of tightening over the next year (The OIS is implying one 25bps hike by Jan 2027 and about total 2-3 hikes of 25bps over the next 12 months). That creates a clear policy tension for the BoE as it may need to defend its inflation credibility even as higher rates place more pressure on households, housing and employment. On the other end, fiscal policy offers little relief. Government borrowing has overshot expectations, debt-interest costs are climbing, and the upcoming budget comes with limited room for manoeuvre. Higher gilt yields (10-year gilt yield at 5.4%) are already weighing on the housing market and broader activity, reinforcing the link between fiscal credibility and economic growth.

Valuation supports UK equities, but sector composition limits upside

For investors, UK equities therefore offer better value than momentum. Equity valuations are attractive, and the market's multinational exposure provides some protection from weak domestic demand. But the index remains heavily tilted towards defensives, financials, energy and materials, with relatively little exposure to technology. That makes it less compelling when global markets are led by growth and tech. While gilts are also becoming more interesting as yields rise, like their US counterpart, they are not yet a straightforward opportunity. Higher yields improve entry levels, yet they also reflect real uncertainty around inflation, fiscal policy and the BoE's next move.

SECTION 05

Japan

The third quarter of 2026 for Japan reflected a structural shift towards normalisation rather than a broad-based acceleration. Economic indicators pointed to modest improvement, with the labour market remaining tight, wage growth becoming increasingly embedded, and underlying inflation approaching the Bank of Japan's target. However, growth remained uneven, as fiscal support and public demand provided a near-term floor, while private investment stayed cautious, industrial activity lost momentum, and households remained hesitant despite improving incomes. Against this backdrop, the Bank of Japan continued its tightening cycle, marking a decisive move away from the deflationary regime of the past three decades.

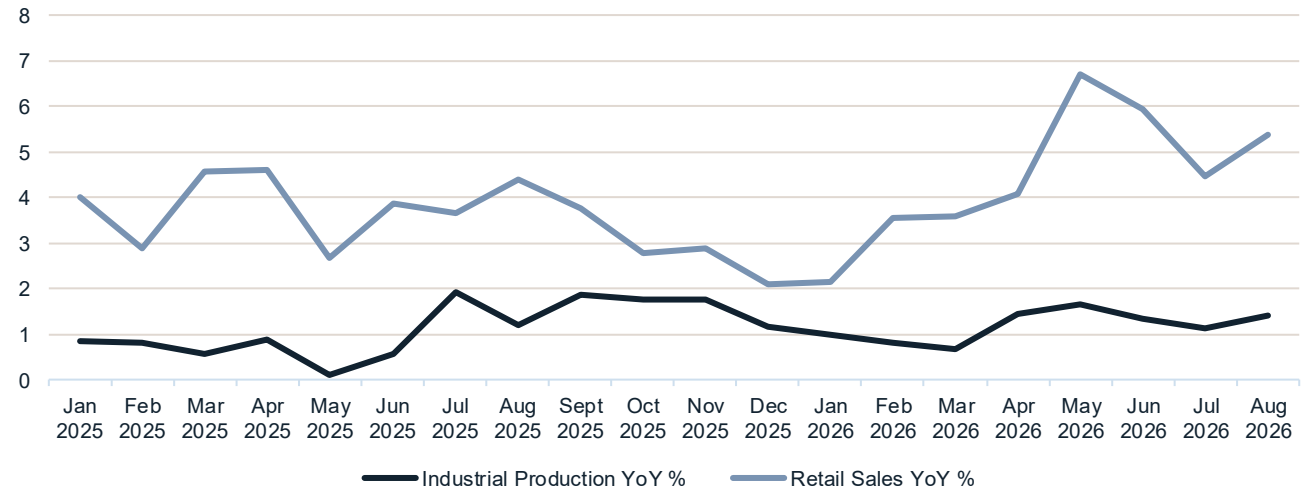
A structural shift towards normalisation, but growth remains uneven

Japan's Q3 2026 macroeconomic backdrop reflected a structural shift towards normalisation rather than a broad-based acceleration in activity. Real GDP expanded 0.9% YoY in Q2 2026, its strongest quarterly reading in more than a year, although the composition of growth remained uneven. Government consumption (+2.66% YoY) continued to provide much of the support, while gross fixed capital formation declined 1.18%, highlighting continued caution among the private sectors. Rising financing costs as the Bank of Japan tightens policy are likely contributing to this hesitancy and could limit the extent to which stronger nominal growth translates into a broader private-sector recovery.

The external position provides an important structural offset. Japan's current-account surplus remained substantial at 5.22% of GDP in Q2, reflecting the country's large net creditor position and persistent income surpluses from overseas investments. This structural income surplus provides resilience to the domestic economy and helps explain why Japan can maintain a strong external balance despite periods of weak goods-trade performance. However, it does not fully compensate for softer domestic investment, leaving the composition and durability of domestic demand as the more important question heading into Q4.

The activity data reinforce this picture of solid but uneven momentum. Industrial production accelerated sharply through Q3, reaching 1.13% YoY in July accelerating further to 1.42% in August, well above the sluggish sub 1% pace recorded in Q1. Retail sales have also remained in positive territory, although momentum has been volatile, rising 6.7% in May, slowing to 4.5% in July, rebounding to 5.3% in August. The moderation from the previous quarter suggests that stronger wages have not yet translated into a sustained acceleration in household demand.

FIGURE 14: Business activity remains solid



Source: Bloomberg

Trade provides a further indication of the uneven nature of the recovery. Exports remained strong, increasing 19.3% YoY in August following a 23.2% increase in July, but imports accelerated more rapidly to 28.0%, reflecting higher energy and raw-material costs associated with yen weakness and elevated global commodity prices. The widening gap contributed to a deterioration in the trade balance, which reached -JPY18.4bn in August from -JPY13.4bn in July. Overall, the economy is expanding, but the headline improvement masks a more fragile composition of growth, with government spending and external income providing important support while private investment and household demand remain less convincing.

The deflationary regime is fading as wages and prices become increasingly entrenched

The more significant structural change is occurring in Japan's inflation and wage dynamics. Headline and core CPI both remained at 1.9% YoY in July and August, indicating that price pressures have stabilised at levels that are historically elevated for Japan. The fact that core inflation is running in line with headline inflation suggests that price pressures are becoming increasingly broad-based rather than being driven solely by volatile food or energy components. This represents a meaningful departure from the deflationary environment that characterised Japan for decades.

The labour market is reinforcing this shift. Unemployment remained exceptionally low, edging up to 2.5% in August from 2.4% in July but remaining within its narrow 2.4 - 2.7% range for the year. More importantly, labour cash earnings accelerated to 3.8% YoY in August, reflecting the continued impact of the annual Shunto wage negotiations and intensifying competition for workers amid a structurally shrinking labour force. The combination of near-record-low unemployment, sustained wage growth and persistent inflation suggests that Japan may finally be moving towards a more durable reflationary regime.

This is arguably the most important structural development in the country's macroeconomic outlook. For decades, weak wage growth and deflation reinforced one another: households had little incentive to bring forward consumption, while firms remained reluctant to raise prices or invest aggressively. The combination of a structurally tight labour market, stronger wage growth and greater corporate willingness to pass higher costs through to consumers is beginning to break this cycle. If wages continue to grow faster than inflation, household purchasing power should improve, providing a more durable foundation for consumption and allowing the BOJ to normalise policy without relying solely on cost-push inflation.

However, the transition is not yet complete. Producer price inflation surged to 7.7% YoY in July before easing marginally to 7.6% in August, more than four times the rate of headline CPI. The gap highlights significant cost pressures across Japan's industrial and manufacturing sectors, driven by yen weakness, elevated commodity prices and higher energy costs. Firms have so far been unable or unwilling to fully pass these costs through to consumers, creating a trade-off between further consumer-price increases and pressure on corporate margins. The extent to which businesses can preserve profitability while maintaining investment will therefore be an important determinant of whether Japan's reflationary transition becomes self-sustaining.

Business confidence remains supportive, although momentum is moderating

Business conditions remained firmly in expansionary territory through Q3, but the direction of travel points to a gradual moderation in momentum. The September Manufacturing PMI declined to 54.1 from 54.9 in August, while the Services PMI eased to 51.6 from 52.5 and the Composite PMI to 52.5 from 53.5. All three remain above the 50-expansion threshold, indicating that private-sector activity continues to grow, but the consistent MoM moderation suggests that the pace of expansion is becoming less pronounced.

The Tankan survey provides a somewhat more constructive signal. Taken together, the surveys suggest that Japan's recovery retains a reasonable degree of underlying momentum, but the economy is no longer accelerating at the pace implied by the improvement in some headline indicators. The key question is whether stronger wages and improved confidence can translate into stronger household consumption and private investment before tighter monetary conditions begin to weigh more materially on activity.

The BOJ has moved from reflation support to genuine policy normalisation

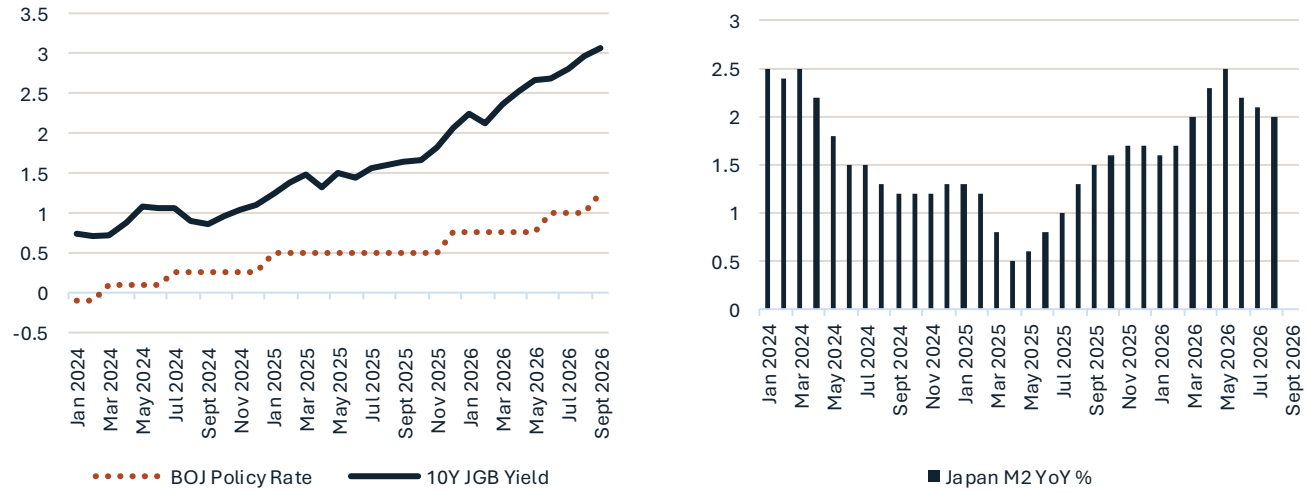
The changing inflation and wage environment has given the Bank of Japan greater confidence to move decisively away from its historically accommodative policy stance. Q3 marked a further acceleration in the normalisation cycle, with the BOJ delivering its third 25bp hike of the cycle in September, taking the policy rate to 1.25% - a level not seen in Japan for nearly two decades. The tightening cycle has now delivered a cumulative 75bp of hikes since December 2025, while OIS markets are pricing a further 75bp over the next 12 months.

The financial-market consequences are already visible across the Japanese government bond curve. The 10-year JGB yield reached 3.06% on 30 September, a multi-decade high, reflecting both expectations of further policy tightening and a broader reassessment of Japan's inflation regime. The significance of the move in long-term yields extends beyond the policy rate itself: investors increasingly appear to view Japan as having moved away from the deflationary environment of the past towards a structurally higher nominal-growth and inflation regime.

Importantly, the transmission of tighter monetary policy into the real economy remains incomplete. M2 money-supply growth has remained relatively stable at around 2.0 - 2.5% YoY, suggesting that credit conditions have not yet been meaningfully curtailed. This provides some near-term support to activity but also means that the full effects of the BOJ's tightening cycle have yet to emerge. As policy rates and long-term yields continue to rise, the key challenge will be balancing the need to prevent inflation expectations from becoming entrenched against the risk that higher financing costs suppress private investment and household demand.

Japan therefore enters Q4 in a fundamentally different position from the one it occupied for much of the past two decades. The deflationary cycle is fading, wages are becoming a more meaningful source of domestic demand, and the BOJ has moved into genuine policy normalisation. However, the recovery remains uneven, with private investment and consumption yet to fully respond to higher nominal incomes. The sustainability of the reflationary transition will ultimately depend on whether wage growth, household demand and corporate investment can reinforce one another before tighter financial conditions become a material drag on activity.

FIGURE 15: BOJ Normalisation: Policy rate, long-end yields & transmission lag



Source: Bloomberg

SECTION 06

South Africa

GDP GROWTH (Q2 QoQ)	CPI (AUGUST 2026 YoY)	REPO RATE	BRENT CRUDE
-0.2%	**4.4%**	**7.25%**	**~$103.5**
1st contraction in 6 quarters↓	Persistent inflation	Second 25bps hike in 2026↑	Increasing ↑

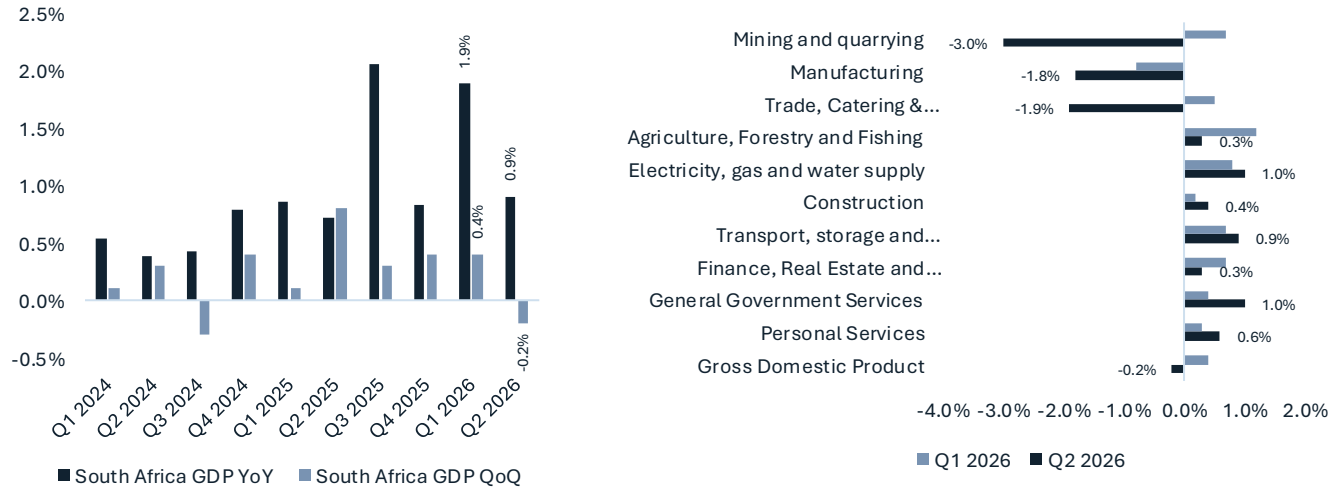
South Africa's economy contracted in Q2 due to declines in mining, manufacturing and trade, while geopolitical tensions and elevated oil prices keep inflation above the 3% target. Persistent inflationary pressure led the SARB to hike its repo rate by 25bps and decrease 2026 growth projections to 1.2% from 1.4%. Despite low economic growth and a weak labour market, SA ABSA Manufacturing PMI moved into expansion from improvements in new orders and business activity, while fiscal management and structural reforms continue to improve, which could lift future growth.

South Africa ended six consecutive quarters of growth with its first GDP contraction since Q4 2024

After six consecutive quarters of growth from Q4 2024, South Africa's GDP declined by 0.2% on a quarterly basis during Q2 2026, while the 0.5% QoQ growth in Q1 was revised lower to 0.4%, resulting in a 0.9% YoY increase compared to the 1.9% yearly growth seen in Q1. This decline in growth was expected given the escalating geopolitical tensions and oil shocks that occurred at the end of the first quarter due to South Africa's dependence on oil imports.

The significant production side detractors from economic growth during Q2 were mining and quarrying, decreasing by 3.0% due to declines in gold, platinum group metals, iron ore and manganese ore; manufacturing which fell for a third quarter at 1.8%; and trade, catering and accommodation, decreasing 1.9% after the 0.5% expansion in Q1. The remaining seven industries contributed marginally to GDP, with growth seen across agriculture, forestry and fishing (0.3%); electricity, gas and water (1.0%); construction (0.4%); transport, storage and communication (0.9%); finance, real estate and business services (0.3%); general government services (1.0%); and personal services (0.6%). While on the expenditure side, the main drags on economic growth were attributed to gross fixed capital formation declining by 0.2% and a 4.9% surge in imports offsetting the 0.9% increase in exports as household consumption rose slightly by 0.4%.

FIGURE 16: SA Q2 GDP dragged down by the mining, manufacturing and trade industries



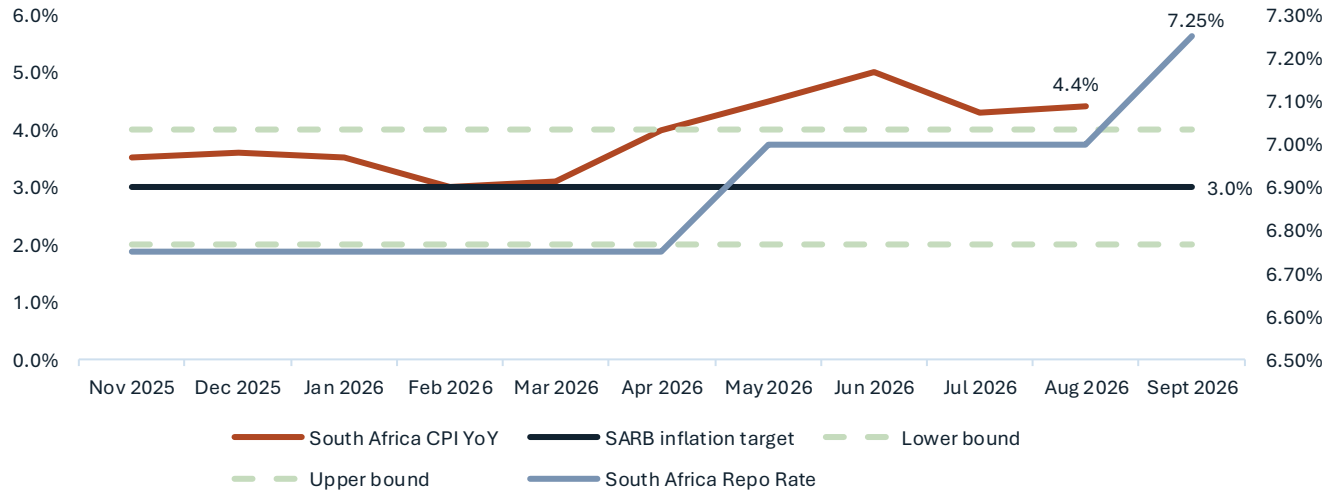
Source : Bloomberg

Escalating geopolitical tensions and persistent inflation lead the SARB to hike by 25bps

In addition to the weak economic growth, South Africa's inflation remains above the upper bound of its inflation target set at 3% with a +/-1% tolerance level. Inflation reached a two-year high of 5% in June before cooling to 4.3% in July and rising slightly to 4.4% in August as a 52 cent per litre decrease in petrol prices assisted in controlling August's inflation. Despite the 1.3% decline in fuel prices during August, transport remains one of the largest contributors to CPI, with fuel prices 20% higher than last year. Other contributors to August's inflation were increases in housing and utilities at 5.2%, insurance and financial services at 5.7%, with transport higher at 8.8%.

This emphasises the impact of the geopolitical conflict and oil shocks on SA's inflation and economic growth. Due to this persistent inflation, the SARB announced the decision to hike the repo rate by another 0.25% in 2026 to 7.25% to control inflationary pressures and maintain its credibility, especially considering the renewed geopolitical tensions and elevated oil prices. Furthermore, the SARB also revised its growth projection downward to 1.2% from 1.4%, with expectations of inflation to exceed 5% in 2026 before reaching the 3% target in 2027, as supply chain disruptions, elevated food and oil prices, combined with higher fuel prices, lead to inflationary pressure and impact economic growth.

FIGURE 17: Persistent inflationary pressures lead the SARB to hike interest rates by 25bps

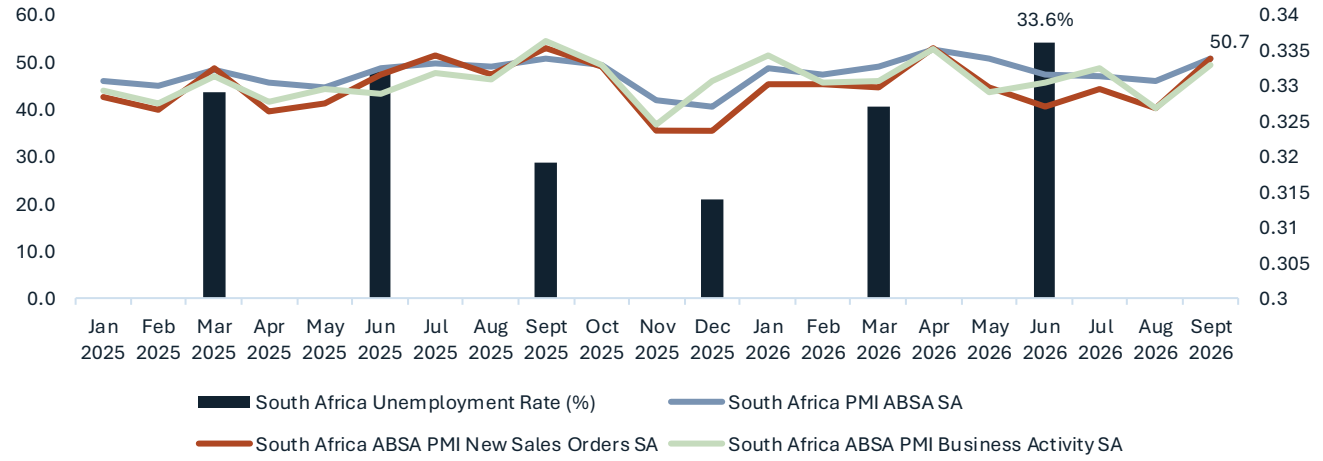


Source: Bloomberg

Despite weak local conditions, South Africa's Manufacturing PMI moves into expansion while reforms together with ratings upgrade could lift future growth

South Africa's economic growth is also impacted by its weak labour market, as the unemployment rate for Q2 climbed to 33.6% from 32.7% in Q1, with youth unemployment, which accounts for people between the ages of 15 and 34, significantly higher at 47.4%. This impacts domestic activity and consumer spending required to drive economic growth. In contrast to these detractors, improvements in new order sales from 40.6 in June to 50.8 in September combined with increased business activity to 43.1 in September from 41.4 in June resulted in South Africa's ABSA Manufacturing PMI moving into expansion during September at 50.7 after being in contraction for the previous three months, indicating improving sentiment despite domestic challenges.

FIGURE 18: SA ABSA Manufacturing PMI moved into expansion despite weak labour market and economic growth



Source: Bloomberg

Furthermore, South Africa has continued fiscal management, and structural reforms can attract foreign investments as developed markets grapple with heightened fiscal deficits. Positive outlooks from various rating agencies such as Moody's and Fitch together with the possibility of moving to investment grade, could further boost SA's economic growth with Goldman Sachs predicting investment grade status by 2028. Therefore, despite near-term risks to inflation and economic growth, South Africa continues to improve structurally as electricity supply improves and freight reforms progress, strengthening its position amidst global uncertainty, with Eskom and Transnet both reporting profits in the latest financial year at R30.3 billion and R4.6 billion, respectively. These positive factors are important as it improves confidence in the local economy while also attracting foreign investors and capital flows that have the ability to boost economic growth.

SECTION 07

Emerging Markets

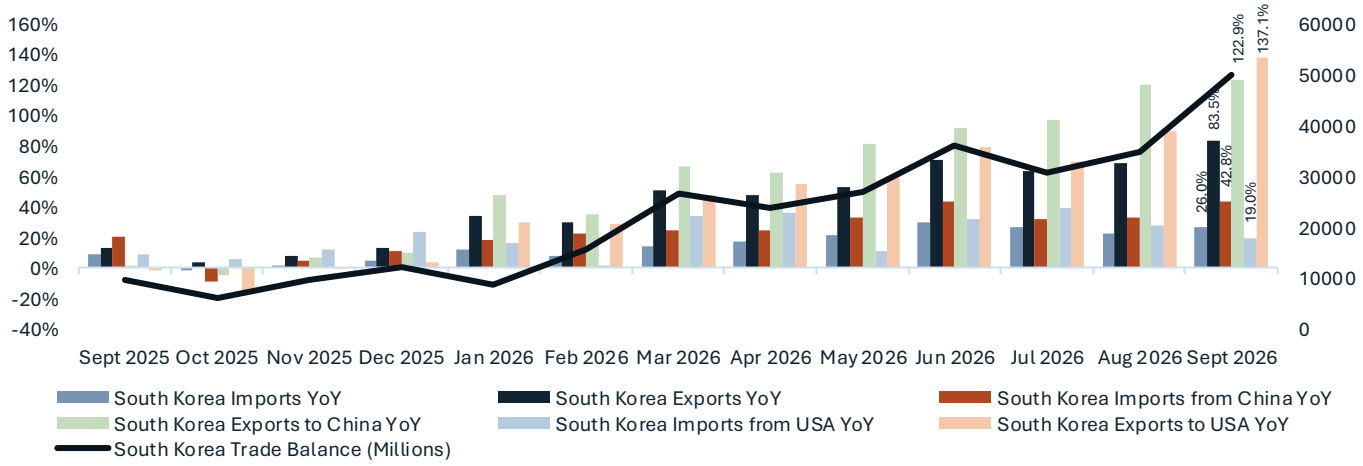
Despite the volatility associated with the Middle East tensions, which have extended beyond seven months, together with the lack of progress in developing a peace agreement, emerging markets continue to benefit from the continuous demand and investment in artificial intelligence, especially in the Asian region. While weak domestic conditions in China drag growth, offsetting gains from exports, as India's proves its resilience, boosted by improving business activity, consumption and government investment. Away from Asia, Brazil experienced weak business activity and political uncertainty, impacting its expansion while its Monetary Policy Committee continued its rate-cutting cycle to bring the Selic rate to 13.75%.

South Korea grew at its fastest pace since Q3 1979, driven by AI demand and exports reaching all-time highs, but inflation remains above the 2% target

Taking a closer look at South Korea, benefiting from a high concentration in technology and AI-related stocks, its Q2 GDP grew 0.6% on a quarterly basis while expanding 3.7% YoY, driven largely by exports in semiconductors and machinery, which rose 1.3% from Q1. Additionally, its Q2 YoY expansion in nominal terms of 26.4% was the fastest growth witnessed since Q3 1979 of 27.7%, nearly 47 years later. The Bank of Korea further revised its 2026 growth forecast upward to 3.3% from 2.6%, with similar upward revisions provided by the OECD from 2.6% to 3.7%, the Asian Development Bank (ADB) from 2.6% to 3.2%, and the ASEAN+3 Macroeconomic Research Office (AMRO) from 3.1% to 3.3%, as all four organisations cite robust exports and the AI boom as the main tailwinds for the economy.

These upward revisions are further supported by South Korea's exports reaching an all-time high of US$120 billion in September, with semiconductor exports rising 263% on a yearly basis, exceeding monthly exports of US$60 billion for the first time in September, while non-semiconductor exports increased 23% YoY. Furthermore, South Korea's YoY exports reached 83.5% in September as exports to the US increased 137% and to China 123%, while its imports rose 26.0%, leading to an approximate US$50 billion trade surplus, with the Trade and Industry Minister Kim Jung-kwan indicating that annual exports could surpass US$1 trillion by November.

FIGURE 19: South Korea's exports continue to reach record highs due to the AI boom



Source: Bloomberg

However, in contrast to the benefits of robust exports and AI investments, stronger-than-expected growth combined with concerns of rising inflation led the central bank to hike its benchmark interest rate for two consecutive sessions in Q3 to 3%, a 25bps hike seen in July and in August, as inflation remained above the 2% target. Persistent inflation remains a concern, rising to 3.1% in August from 2.8% in July before cooling to 2.9% in

September, with the Bank of Korea expecting inflation to remain close to 3% in October as they assess the impact of the two rate hikes before continuing its policy tightening. Looking ahead, South Korea is expected to continue benefiting from the AI boom, demand for semiconductors, robust export momentum, strong corporate earnings and recovery in consumption, with expectations that these benefits will result in national tax revenue reaching a record of $353 billion in 2026, further won strength from exports and management of imported inflation in order to provide policymakers with flexibility regarding the resumption of its rate-hiking cycle.

Strongest first-half of the year growth in five decades experienced in Taiwan as a central player in the global AI boom

In conjunction with South Korea, Taiwan remains at the centre of the global demand for AI, benefiting as a major supplier of semiconductors. Taiwan's economy rose 12.9% in Q2 2026 while experiencing the fastest first-half-of-the-year growth of 14.1% in nearly five decades. Like South Korea, the significant expansion witnessed in 2026 can be attributed to a surge in investment and exports associated with semiconductors and AI, with the ADB expecting GDP to rise by 11% this year, up from its previous 9.5% forecast. Additionally, Taiwan's monthly export orders rose above $100 billion for the first time in August, reaching $102.9 billion, which is a 71.4% increase from a year earlier. Furthermore, its YoY exports rose 41.0%, with August exports at a record of $82.4 billion, while imports were at 60.1 billion, a 44.3% YoY increase. AI-related exports such as electronic components and products associated with information and communication contributed to 80% of exports, with machinery/electrical equipment exports increasing 46.9% on a yearly basis.

Confidence in Taiwan's economy is also seen in its Manufacturing PMI increasing from 55.2 in June to 56.7 in September, on the basis of continued investment and expansion of its AI supply chain, strong corporate earnings and a stable labour market which encourage consumer spending. However, uncertainty surrounding Middle East tensions and volatility in oil prices urge investors to remain cautious as inflation still remains above the 2% threshold despite softening to 2.04% in August from the 2.56% and 2.52% readings seen in June and July, respectively. The National Development Council (NDC) has also cited monetary policy across other major economies and uncertainty surrounding US tariff policies combined with strong cloud-computing demand as additional factors that could keep inflation elevated as investors expect a possible tightening cycle to begin in December, after its 28 November local elections and its monitoring of sticky price pressures.

Despite a surge in exports, China's growth continues to be dragged by weak domestic conditions

Despite China's limited exposure to the Middle East tensions and oil shocks, due to its strategic transition to renewable energy and oil reserves, its economy experienced the weakest GDP growth in three years, at 4.3% during Q2 2026, declining from the strong 5% expansion seen in Q1. This is largely due to its persistent property market slump, which negatively impacts consumer spending and results in weak domestic demand combined with weak investment. Additionally, even though China's Manufacturing PMI is currently at 50.1, above the 50 neutral level, it did enter the contractionary territory in July at 49.2 and remained in contraction in August at 49.8 before returning to expansion in September, following the surge in exports of AI-related products. China's inflation declined to 0.5% in July from 1% in June but has since climbed to 0.8% in August.

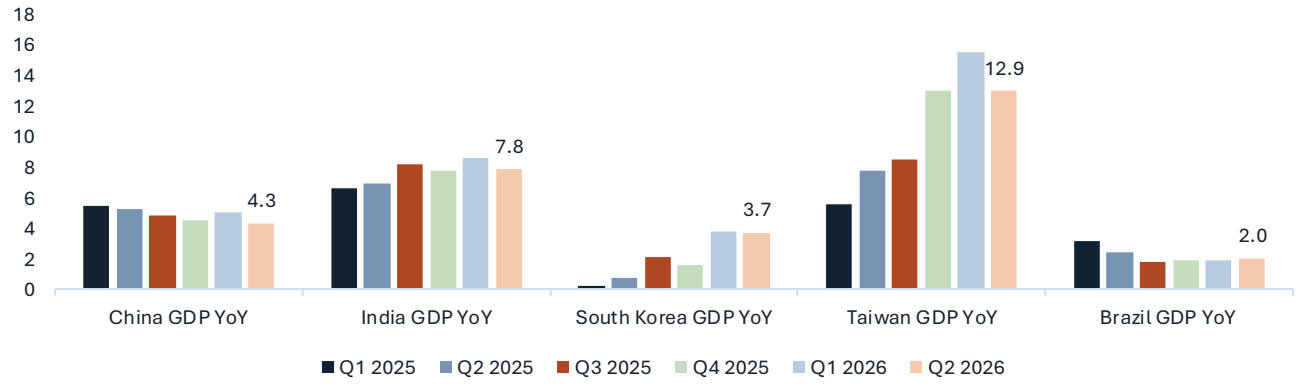
In contrast to its slow growth, China's exports rose 25% in August, driven by Chinese electric vehicles and the global expansion of AI; however, its 28.2% surge in imports, combined with its weak domestic conditions, limited the benefits to economic growth, unlike its other Asian peers. This emphasises China's two-speed economy, as the technology sectors continue to benefit from government support and global demand, but weak consumer demand and the deteriorating property market remain a drag on economic growth. In an effort to boost economic growth and the property market, China's central bank announced a 25bps cut to its pledged supplementary

lending facility (PSL) interest rate to 1.5% and interest subsidies for new mortgages received by first-time homebuyers with the aim of assisting national strategies to boost the economy.

India receives several upward revisions in economic growth following better than expected Q2 GDP growth, but global factors and weather disruptions could weigh on future expansion

India's economic growth of 7.8% in Q2 exceeded the Reserve Bank of India's forecast of 7%, resulting in several institutions, including the OECD, ADB, S&P Global Ratings and Fitch Ratings, revising their growth estimates upwards between 6.9% and 7.1% for the 2027 financial year that began in April 2026 and extends to March 2027. These institutions have indicated several reasons for their projections, including a resilient economy despite global geopolitical shocks and weak trade terms at the start of the year, while some cited increased government investment, stronger domestic activity and consumption combined with robust industrial activity and exports as factors influencing India's growth expectations. Furthermore, India's Manufacturing PMI remained in expansion throughout Q2, initially declining from 54.2 and 53.5 in June and July, respectively, to 52.8 in August before rising to 55.1 in September.

Figure 20: China experiences the weakest growth in three years during Q2 at 4.3% while India's Q2 growth of 7.8% exceeded expectations



Source: Bloomberg

However, despite expectations of strong growth and increasing PMI, investors should also consider the risks still impacting India's growth, such as geopolitical uncertainty, elevated oil prices, rising global interest rates and bond yields, which make India a less attractive investment destination. These factors, combined with weather disruptions such as the El Niño condition, weigh on future growth and inflation, which continued to rise from 4.38% in June to 4.82% in August, indicating that investors should be considerate of both the positive factors driving growth and the negative influences limiting expansion.

Weak business activity and political uncertainty impacted Brazil's economic growth, while the central bank continued to lower its Selic rate to 13.75%

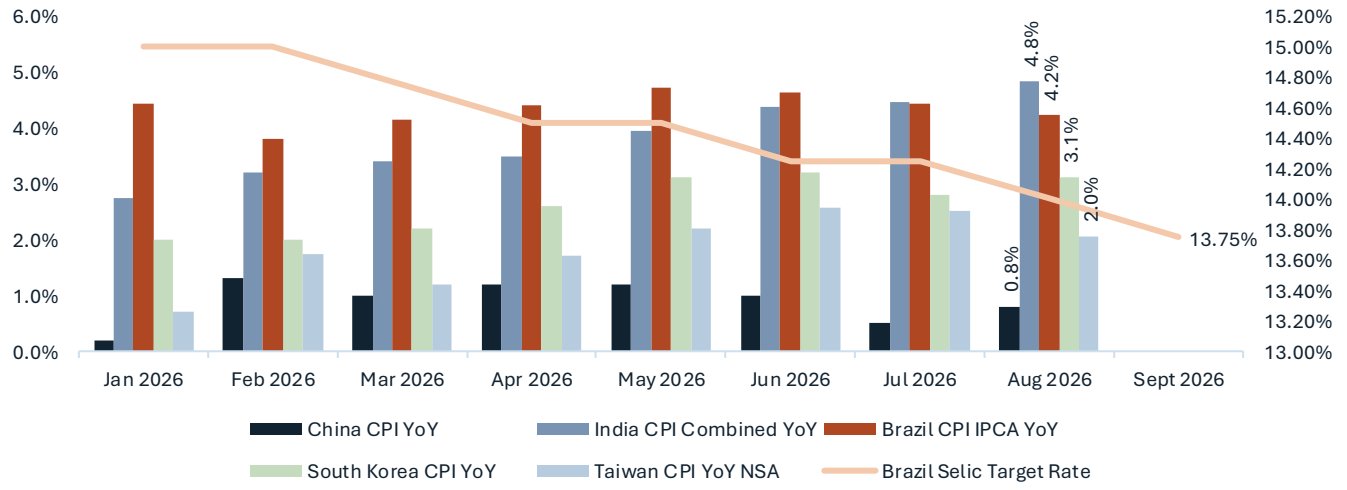
Shifting away from the Asian region, Brazil's economy advanced 0.5% over the second quarter, resulting in 2.0% YoY GDP growth in Q2, which was lower than expected, leading the Finance Ministry in Brazil to revise down its 2026 growth projections from 2.3% to 2.0%. Economic growth is impacted by weak economic activity combined with lower output expectations in services and industrial sectors that offset the possible gains in agriculture. This is further seen in Brazil's Manufacturing PMI entering contraction during Q2 at 47.5 in July from 50.8 in June and remaining below the neutral level of 50 in August and September at 46.3 and 44.8, respectively. Additionally, S&P Global Brazil Composite PMI Output Index fell at the fastest pace in a year to 47.4 during September, while the S&P Global Brazil Services PMI Business Activity Index declined from 50.5 in August to 49.2 in September. This

emphasises the challenges impacting Brazil's growth, such as weak demand, a decline in new orders and business activity, increased unemployment combined with uncertainty surrounding global geopolitical tensions and local presidential elections that dampen business and consumer confidence.

Despite declining employment within the services sector, Brazil's overall labour market was more stable, with the unemployment rate declining for the three months until August to 5.3%, the lowest over the same periods since 2012. The manufacturing sector contributed 265k jobs, while 306k jobs were added by construction, with an overall 0.8% increase in the number of employed people. Additionally, Brazil's exports in the first four weeks of September rose 22.2% while imports climbed by 7.4%, leading to a trade surplus of $6.45 billion, driven by crude oil shipments amidst the Middle East tensions.

Furthermore, even though inflation has reduced from 4.64% in June to 4.22% in August, within the central bank's target of 3% +/-1.5%, the Monetary Policy Committee in Brazil cut its Selic rate by 0.25% in both August and September from 14.25% to 13.75% as part of its rate-cutting cycle, and President Luiz Inacio Lula da Silva attempt at re-election. However, despite the stable labour market, declining inflation, and benefits from crude oil shipments, Brazil's economy is still faced with weak demand, slow economic growth, business activity and volatility in its tight presidential election, that investors need to consider when making investment decisions.

Figure 21: Brazil's Monetary Policy Committee cut its Selic rate twice by 25bps during Q2 as inflationary pressures continue to impact emerging markets



Source: Bloomberg

In conclusion, there are diverging economic environments across emerging markets in Asia, especially South Korea and Taiwan, benefiting significantly from the continuous AI investment and semiconductor demand that drives their economic growth while also monitoring the impact of Middle East tensions on oil prices, inflation and interest rate paths. Similarly, India is impacted by geopolitical tensions, but its resilient economy, improving domestic activity, and consumption lead to positive growth outlooks. In contrast, the Brazil market benefits from elevated oil prices but faces domestic challenges that limits it economic growth; therefore, investors should be aware of the various benefits and risks offered within the emerging markets region in order to identify possible diversification benefits offered by the region.

SECTION 08

Appendix

Financial market performance as at 30 September 2026 (in ZAR)

	1 mth	3 mths	YTD	1 yr.	3 yr. (p.a.)	5 yr. (p.a.)	7 yr. (p.a.)	10 yr. (p.a.)
Local Equity Indices								
FTSE/JSE All-Share Index (ALSI)	-5.82%	-0.27%	-3.22%	4.62%	18.68%	15.29%	14.37%	11.50%
FTSE/JSE Resources 20 Index	-9.76%	16.62%	0.36%	10.68%	31.47%	20.08%	20.63%	18.77%
FTSE/JSE Industrials Index	-4.87%	-9.97%	-13.55%	-14.60%	8.60%	9.54%	9.80%	7.27%
FTSE/JSE Financials Index	-3.66%	-3.74%	3.77%	23.41%	22.16%	16.58%	12.16%	9.48%
FTSE/JSE Capped All Share Index	-5.82%	-0.27%	-3.07%	5.58%	19.26%	13.92%	13.16%	9.38%
FTSE/JSE All-Share Top 40 Index	-6.45%	0.25%	-3.63%	3.70%	18.82%	15.76%	14.87%	12.00%
FTSE/JSE Mid Cap Index	-1.91%	-0.70%	-6.53%	3.81%	15.82%	10.33%	10.11%	7.00%
FTSE/JSE Small Cap Index	1.72%	-0.84%	2.91%	15.89%	22.53%	17.12%	18.28%	10.55%
FTSE/JSE Listed Property Index (SAPY)	0.46%	-1.14%	3.42%	20.24%	26.54%	15.87%	8.23%	4.56%
FTSE/JSE Capped Listed Property Index	0.42%	-1.48%	3.17%	20.44%	26.59%	15.49%	7.25%	2.82%
FTSE/JSE SA All Property Index	0.49%	-1.47%	3.05%	20.30%	26.49%	15.51%	8.01%	3.80%
Local Interest-Bearing Indices								
FTSE/JSE All-Bond Index (ALBI)	0.01%	-0.68%	3.54%	12.82%	17.68%	12.14%	10.92%	10.31%
FTSE/JSE All-Bond Index 1 - 3 years	0.47%	1.92%	4.71%	7.32%	9.56%	8.14%	8.06%	8.25%
FTSE/JSE All-Bond Index 3 - 7 years	-0.07%	0.25%	2.81%	7.90%	13.45%	10.16%	10.12%	9.92%
FTSE/JSE All-Bond Index 7 - 12 years	-0.21%	-0.71%	3.25%	12.72%	19.12%	13.12%	11.85%	11.15%
FTSE/JSE All-Bond Index +12 years	0.20%	-1.47%	4.32%	17.95%	21.99%	14.02%	11.98%	10.89%
Inflation Linked Government Bonds (IGOV)	0.68%	1.44%	6.73%	15.62%	12.18%	9.31%	8.46%	6.38%
Short-Term Fixed Interest Composite Index (SteFi)	0.56%	1.72%	5.13%	6.97%	7.78%	7.08%	6.48%	6.75%
Inflation Index								
Consumer Price Index (1 month lagged)	0.00%	0.94%	3.96%	4.36%	4.02%	4.89%	4.63%	4.65%
International Indices								
MSCI World Index	0.79%	2.12%	11.12%	10.04%	16.35%	14.28%	15.78%	15.41%
MSCI Emerging Market Index	1.45%	-0.08%	22.65%	23.33%	19.00%	11.27%	12.18%	11.51%
MSCI All Country World Index	0.87%	1.85%	12.39%	11.49%	16.67%	13.96%	15.36%	14.96%
FTSE World Government Bond Index (WGBI)	-0.38%	-2.28%	-3.65%	-7.44%	-1.56%	-1.27%	-0.51%	1.00%
S&P Global Property	-3.13%	-5.12%	1.48%	-2.95%	5.50%	3.30%	3.48%	5.48%
USA S&P 500	1.62%	2.47%	11.77%	10.10%	17.28%	15.70%	17.50%	17.41%
UK FTSE 100	-2.14%	2.08%	7.10%	9.78%	13.47%	13.88%	11.53%	10.59%
Euro STOXX 50	-2.71%	-1.19%	5.68%	6.35%	14.52%	13.23%	12.78%	12.36%
Japan Nikkei 225	4.83%	-0.67%	33.03%	34.93%	22.21%	13.96%	14.67%	14.26%
Currency Movement								
Rand/Dollar (R16.42= 1 Dollar)	1.97%	0.16%	-0.87%	-4.87%	-4.57%	1.68%	1.14%	1.81%
Rand/Euro (R18.62= 1 Euro)	-0.47%	-0.50%	-4.22%	-8.25%	-2.32%	1.27%	1.71%	1.91%
JPY/Rand (9.58 Japanese Yen= 1 SA Rand)	-3.41%	-3.46%	1.17%	11.90%	6.59%	5.37%	4.31%	2.63%
Rand/Pound (R21.78= 1 Pound)	-0.18%	0.25%	-2.24%	-6.23%	-1.88%	1.37%	2.25%	2.03%

Source: Bloomberg



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