



Financial markets review and outlook summary: July 2026

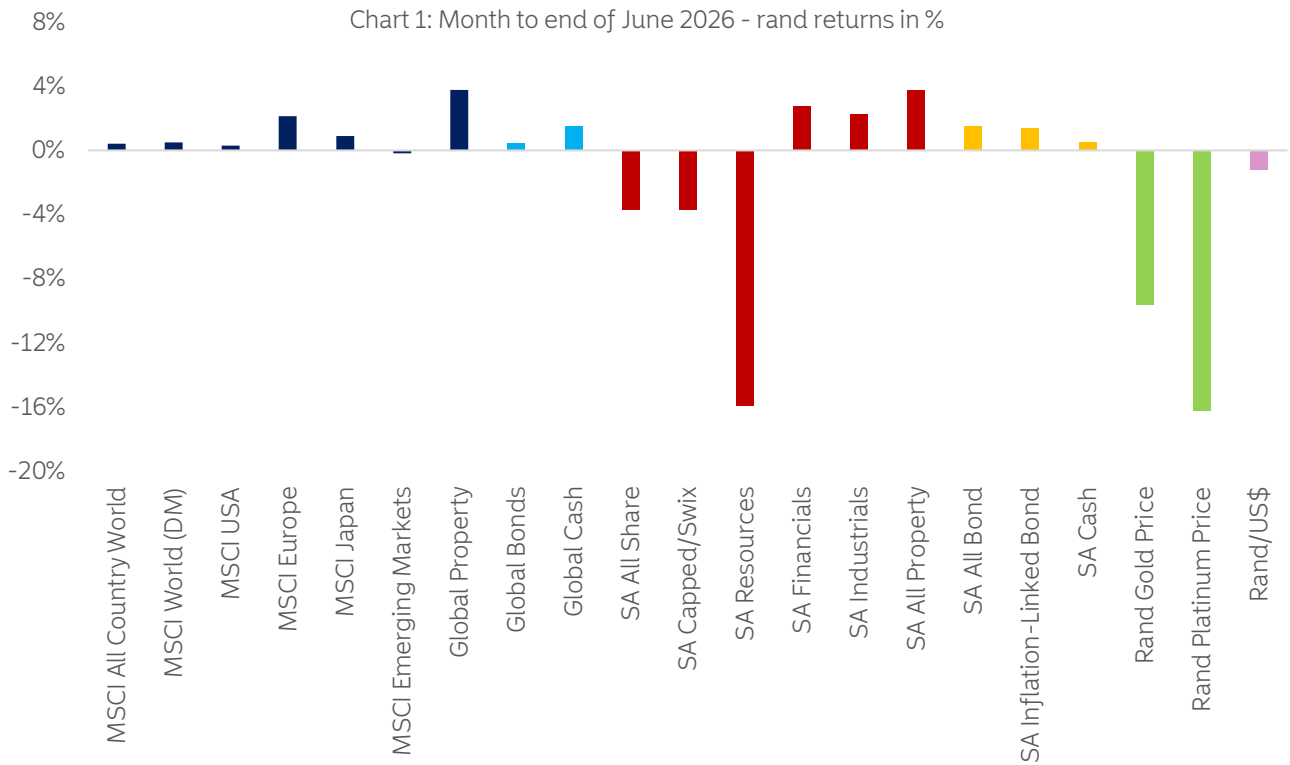
Key financial markets review takeaways for the second quarter of 2026

- The Iran war remained the dominant influence on global markets during the second quarter of 2026, with investor sentiment swinging repeatedly between fears of further escalation and hopes for a negotiated settlement. Elevated oil prices throughout April and May pushed global inflation expectations higher and prompted markets to reassess the likely path of interest rates. Strong United States (US) economic data, especially labour market indicators, combined with more hawkish-than-expected commentary from new Federal Reserve (Fed) Chair Kevin Warsh, reinforced expectations that the next US policy move could be an interest rate hike rather than a cut.
- More bearish inflation and monetary policy expectations, together with ongoing concerns about fiscal profligacy, drove developed market (DM) bond yields to multi-decade highs, causing global bonds to produce the weakest returns among the global asset classes in the second quarter, while also weighing on precious metal prices. As a result, the gold and platinum exchange-traded funds (ETFs) were the weakest-performing investments for South African (SA) investors during the quarter.
- The decline in precious metal prices, combined with rand strength, also placed considerable pressure on SA resource shares. Although local financial and industrial companies generated positive returns, their gains were insufficient to offset losses in the resources sector, resulting in negative overall returns for the SA equity market in the period. Improving confidence that the Iran conflict would ultimately move towards resolution benefited SA fixed-income assets and listed property, with the latter ending the quarter as the best-performing local asset class.
- Global equities were the strongest-performing asset class in the quarter, supported by resilient US corporate earnings, continued enthusiasm around artificial intelligence (AI)-driven investment themes and moderating stagflation fears. Emerging markets (EM) significantly outperformed DMs, largely due to exceptional gains in semiconductor-heavy markets such as South Korea and Taiwan. Within DMs, the US delivered the strongest performance, with technology companies once again acting as the primary drivers of returns.

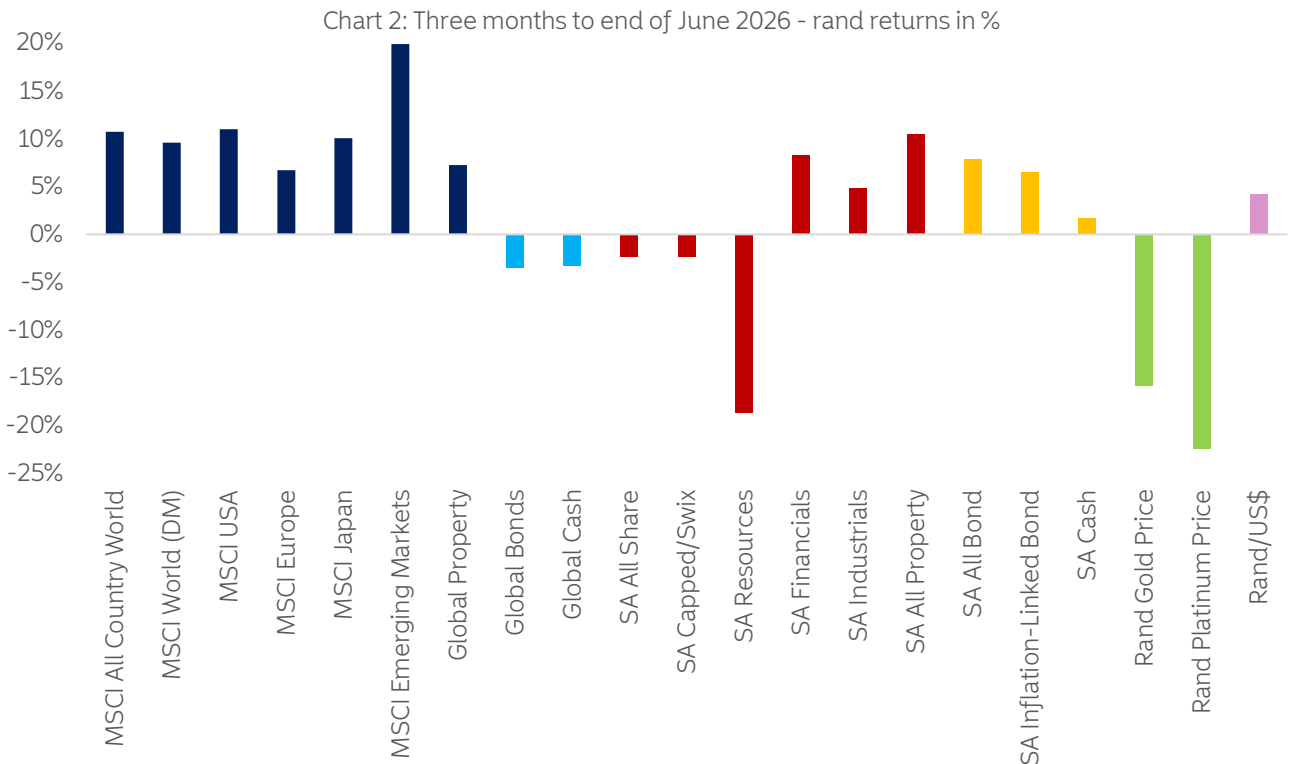
Key financial markets outlook takeaways

- Our overarching asset allocation positioning remains unchanged: a clear preference for SA equities, listed property and nominal bonds, complemented by selective exposure to EM equities and diversification assets like gold, while remaining cautious on global fixed income and global property. SA asset classes continue to stand out as offering undeniable value, with valuations remaining depressed relative to both history and EM peers. This creates a favourable risk-reward asymmetry for investors. For our detailed financial market outlook, please click [here](#).

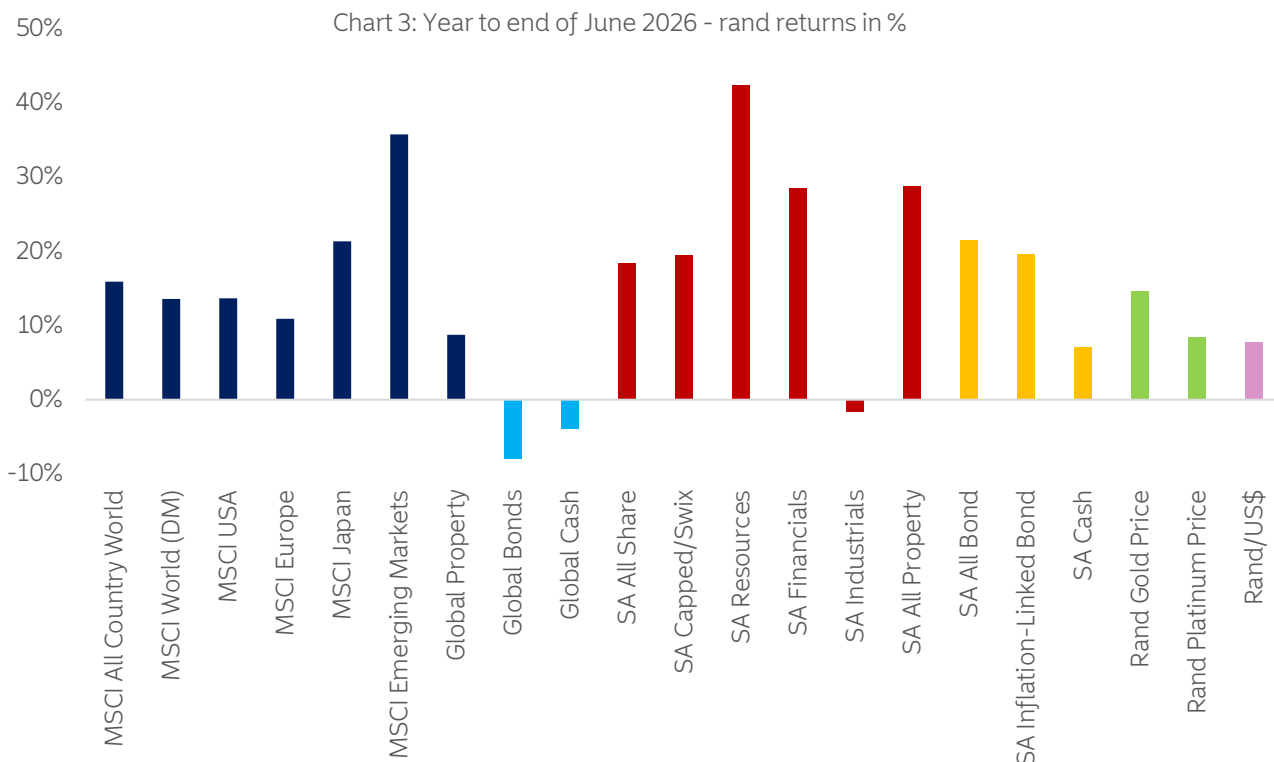
Asset class returns



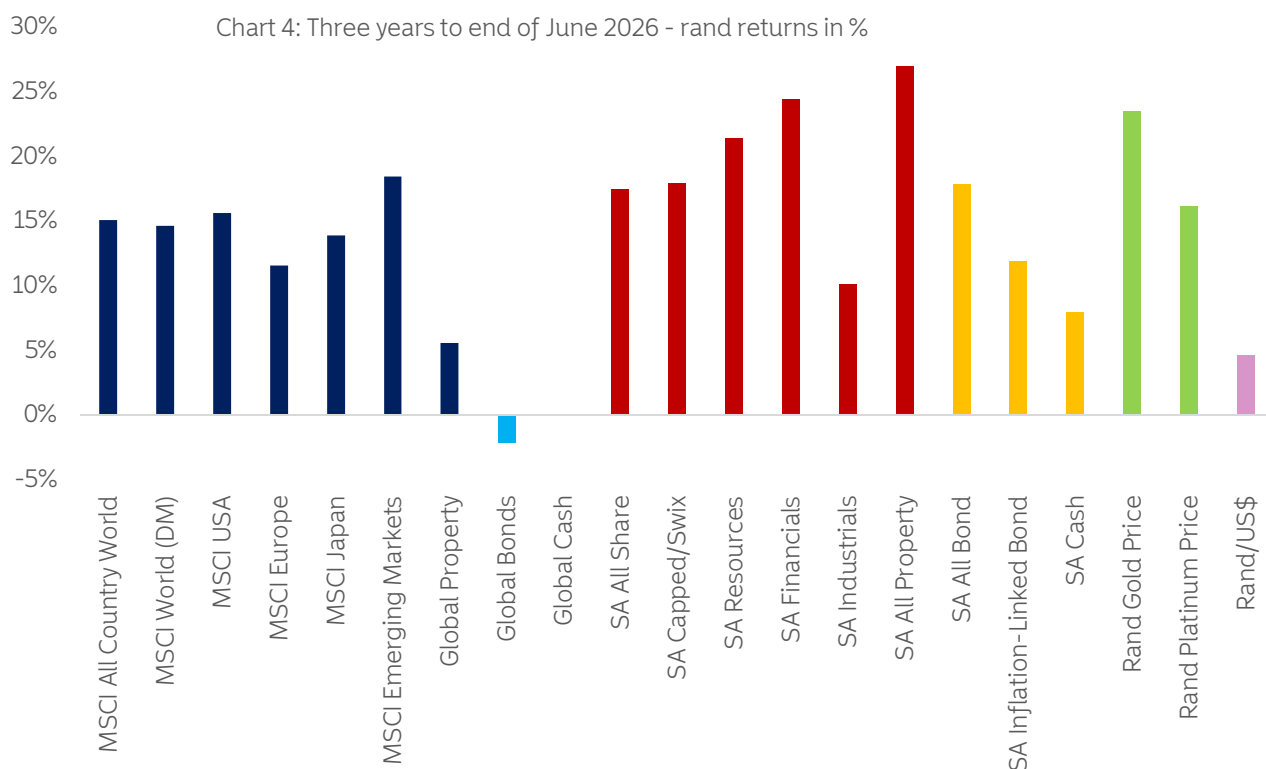
Source: Momentum Investments, various sources



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General improvement in global risk sentiment supported global equities and EM assets

The war in Iran remained the dominant theme in global capital markets in the second quarter of 2026, with a continual seesawing of newsflow between conflict escalation and de-escalation driving performance. Oil prices stayed elevated during April and May, driving up inflation expectations worldwide and a resultant bearish change in anticipated paths for policy rates. Strong reported economic data in the US, particularly for the labour market, and more-hawkish-than-expected initial utterances from the new Fed Chair Kevin Warsh, also contributed to a shift in expectations during the quarter for the next Fed interest rate move to be a hike rather than a cut.

More hawkish global monetary policy expectations, together with ongoing concerns about fiscal profligacy, helped drive DM bond yields to multi-decade highs in the second quarter. These higher bond yields, particularly of US real yields, exposed the vulnerability of gold as a non-interest-bearing asset in the quarter. As a result, the gold ETF, together with the platinum ETF, were the weakest-performing assets for SA investors in the second quarter.

The combination of falling precious metal prices and a stronger rand also put SA resource shares under severe downward pressure in the second quarter. Good returns from SA financial and industrial shares in the quarter were not sufficient to counter the sharp resource sector decline, leaving overall SA equity returns in negative territory.

The general improvement in global risk sentiment during the quarter, as it became increasingly likely that some sort of a settlement will be reached on the Iran war, enticed foreign investors back to the high-yielding SA bond market after a short exit in March, assisting 10-year nominal yields to decline by 80 basis points in the quarter. Not only did this cause strong returns from both nominal bonds and inflation-linked bonds (ILBs), but it also aided SA listed property to provide the highest returns among the local asset classes in the quarter.

When the US and Iran signed a draft ceasefire deal around mid-June, oil prices plummeted, reaching pre-war levels by the end of the month. This calmed some of the stagflationary fears towards the end of the quarter, supporting global equities and causing some rebound in sovereign bonds. Nevertheless, global bonds and cash registered the lowest rand returns among all main asset classes in the quarter, with only the gold and platinum ETFs producing more negative returns.

Robust US reported results for the first quarter of the year leading to widespread upward revisions to

forward profit expectations, together with a rampant showing by global semiconductor stocks in the US and EM on the back of increased confidence about the sustainability of AI infrastructure demand, helped global equities to be the strongest-performing overall asset class in the second quarter. Among global equities, EM outperformed DM by a large margin, due to rampant semiconductor stocks in South Korea and Taiwan. Technology counters also supported strong returns by the US equity market, the outperformer within DM.

Asset class outlook summary (our view for the year ahead)

<p>SA cash</p> <p>While SA cash still offers decent positive real yields above long-term averages, potential returns have declined from 2024 highs as interest rates fell. Although cash always plays a liquidity role in portfolios and serves a short-term capital preservation function during geopolitical stress periods, we currently see it as an inferior return-seeking asset on a one-year view.</p>	<p>SA nominal government bonds</p> <p>SA nominal government bonds continue to offer attractive real yields, while fundamental fair-value analysis suggests the potential for capital appreciation. As local inflation first stabilises and then retraces after the Iran war, policy rates should decline again. Bond yields are hence expected to fall, resulting in capital gains supplementing income returns.</p>
<p>SA inflation-linked bonds (ILBs)</p> <p>SA ILBs should receive near-term fundamental support from rising inflation due to the war-related spike in energy prices. However, this support is expected to diminish soon as inflation moderates, reaching the 3% target by the second quarter of 2027, reducing ILBs' relative attractiveness compared to nominal bonds beyond the very short term.</p>	<p>SA listed property</p> <p>SA listed property companies continue to report strong results, with improving distributions and dividends reflecting firmer operational performance and lower funding costs. Operational fundamentals have improved significantly, supported by lower vacancies, positive base rental growth and broadly stable cost-to-income ratios. Overall, SA listed property offers a compelling combination of improving fundamentals, attractive valuations and supportive macro conditions.</p>
<p>SA equities</p> <p>We see SA equities as a compelling investment in a post-Iran war environment, with the combination of attractive valuations, recovering fundamentals and structural positioning supporting a strong investment case going forward. SA equities trade at significant discounts to both its own history and EMs, with forward price-to-earnings multiples and multiple relatives well below historical averages. The domestic macroeconomic environment should improve after the war in Iran. Once inflation has peaked and expectations for a resumption of a falling interest rate cycle take hold, corporate profitability should be buoyed.</p>	<p>Global equities</p> <p>US positive earnings surprises have been substantial and widespread. Moreover, corporate profit growth is expected to be robust worldwide in 2026-27, not just in the US. Despite this supportive fundamental environment for global equities, there are some risks. Valuations, particularly in the US, remain elevated, and the sustainability of returns is increasingly dependent on interest rate dynamics. Strong economic data, often supportive of US equities via the profit driver, currently triggers market declines amid expectations of tighter future monetary policy.</p>
<p>Global bonds</p> <p>Global bond markets face structural headwinds. Rising inflation, elevated fiscal deficits, high issuance levels and significant US refinancing risks, with a large portion of debt maturing soon, are contributing to persistently high bond yields. These dynamics remain fundamentally negative for bond returns and undermine their traditional defensive role.</p>	<p>Global listed property</p> <p>While selective opportunities exist, global listed property continues to face macro challenges, primarily related to interest rate sensitivity. The risk of rising bond yields would increase financing costs and reduce the relative attractiveness of property income yields compared to fixed-income assets even more from current already expensive levels.</p>

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