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The economy

The global economy remained resilient in the third quarter despite persistent geopolitical tensions, trade uncertainty and renewed inflation pressures. Investment in technology and artificial intelligence (AI) continued to support activity, particularly in the United States, while economic performance across regions continued to be uneven. The International Monetary Fund projects global growth of approximately 3.1% in 2026, indicating continued but moderate expansion.

The United States stayed relatively resilient, supported by technology investment and consumer spending, while parts of Europe continued to face weaker industrial activity and elevated energy costs. Several emerging markets benefited from infrastructure investment, domestic demand and commodity exports. Inflation nevertheless remained a concern as higher food and energy prices offset some of the progress previously achieved through tighter monetary policy. Central banks consequently retained a cautious approach to further monetary easing.

Commodity markets experienced heightened volatility during the quarter. Oil prices rose sharply as geopolitical tensions and supply disruptions intensified, adding to global inflation pressures and increasing costs for energy-importing economies. Gold continued to be supported by geopolitical uncertainty and safe-haven demand, although prices were volatile as movements in bond yields and the US dollar influenced investor sentiment.

South Africa's economic performance remained subdued. Activity continued to be constrained by weak investment, elevated borrowing costs and external headwinds, although household consumption and services provided some support. Following six consecutive quarters of expansion, real GDP contracted by 0.2% in the second quarter, highlighting the fragility of the domestic recovery.

Inflation remained elevated during the quarter, ending September at 4.5%, with higher fuel and transport costs contributing to renewed price pressures. Against this backdrop, the South African Reserve Bank raised the policy rate by 25 basis points to 7.25% in September, reflecting concern about the inflation outlook.

Business confidence was still mixed. Continued progress with electricity and logistics reforms provided support, while subdued economic growth, weaker external demand and global uncertainty remained constraints.

Subsequent to quarter-end, the October Medium-Term Budget Policy Statement reinforced the improving fiscal narrative, with Government maintaining its commitment to fiscal consolidation and debt stabilisation. Together with improving sovereign credit fundamentals and the potential for further rating improvements, this provided some support to investor sentiment.

Financial markets

Global financial markets stayed relatively resilient during the quarter, supported by continued investment in technology and AI-related sectors. Equity markets generally delivered positive returns, although volatility increased as investors reassessed inflation expectations, monetary policy and geopolitical developments. Bond markets remained sensitive to changing interest rate expectations, while currency markets reflected shifts in global risk sentiment and divergent monetary policy paths.

South African financial markets experienced a more challenging quarter. Domestic equities and bonds produced modestly negative returns, although valuations and prospective real yields continued to provide support to their longer-term investment case.

The local equity market delivered mixed returns across sectors. Resources and energy-related companies benefited from higher commodity prices, while parts of the consumer and interest rate-sensitive sectors faced a more difficult environment. Despite weaker near-term returns, valuations across parts of the domestic equity market were still relatively attractive. Companies with strong balance sheets, sustainable cash flows and the ability to navigate a subdued economic environment remained comparatively well positioned.

South African government bonds came under pressure as inflation concerns and higher interest rates pushed yields higher. While this weighed on short-term returns, higher yields improved prospective returns for long-term investors. Government bonds therefore continued to offer relatively attractive real yields, although fiscal, inflation and global risk factors remain important considerations.

The South African Reserve Bank's continued focus on price stability reinforced the credibility of the domestic monetary policy framework. Higher short-term interest rates also meant that money market and cash investments continued to offer attractive nominal and real yields.

The rand remained volatile during the quarter, reflecting changes in global risk appetite, commodity prices and the US dollar. Relatively high domestic interest rates and improving perceptions of South Africa's fiscal position nevertheless provided some support. The investment returns of the major asset classes in which South African retirement funds invest are shown below.

Returns to 30 September 2026

Asset class	Q3 2026	Calendar YTD	1 year (p.a.)	3 years (p.a.)	5 years (p.a.)	10 years (p.a.)
All Share Index	-0.3%	-3.2%	4.6%	18.7%	15.3%	11.5%
Listed property	-1.1%	3.4%	20.2%	26.5%	15.9%	4.6%
STeFI Composite	1.7%	5.1%	7.0%	7.8%	7.1%	6.8%
All Bond Index	-0.7%	3.5%	12.8%	17.7%	12.1%	10.3%
MSCI All Country World Index (rand)	1.9%	12.4%	11.5%	16.6%	14.0%	15.0%
Bloomberg Global Bond Index (rand)	-2.3%	-3.5%	-7.1%	-1.0%	-0.2%	1.9%
Rand (+ stronger, - weaker)	-0.2%	0.9%	5.1%	5.1%	-1.6%	-1.6%
Inflation	0.5%	4.3%	4.5%	4.1%	5.4%	5.8%
Gold (USD)	4.2%	-3.5%	3.7%	32.3%	32.9%	28.3%
Brent crude oil (USD)	8.3%	61.1%	48.5%	2.1%	5.0%	9.6%

Source: Iress

Key investment risks

Several risks continue to warrant close monitoring. Globally, geopolitical tensions, trade disputes and further disruptions to energy markets could place additional pressure on inflation and economic growth. Persistent inflation could also require major central banks to maintain restrictive monetary policy for longer than previously anticipated, creating risks for both equity and fixed income markets.

Domestically, South Africa continues to face structural challenges, including weak economic growth, infrastructure constraints, logistics inefficiencies and high unemployment. Higher fuel prices and currency weakness could add to inflation pressures and keep domestic interest rates elevated.

Progress with economic reforms therefore remains important. Delays in implementation, fiscal slippage or a deterioration in global investor sentiment towards emerging markets could place pressure on capital flows, the rand and domestic asset valuations.

Investment outlook

The longer-term investment outlook for South African assets remains constructive, although risks remain elevated. Valuations across parts of the domestic equity market continue to provide potential opportunities, while South African government bonds offer attractive prospective real yields. Progress with fiscal consolidation and structural reforms in energy and logistics provides additional support, although weak economic growth and implementation risks remain important constraints.

The current environment continues to favour a diversified investment approach. Domestic bonds offer attractive income and the potential for capital gains, should inflation moderate and interest rates eventually stabilise. Within equities, selective opportunities are still found among companies with strong balance sheets, sustainable cash flows, pricing power and the ability to generate earnings through a subdued economic environment.

Continued improvement in South Africa's fiscal position and further progress with energy and logistics reforms could strengthen economic growth and corporate profitability over the medium term. Further improvements in sovereign credit ratings or an acceleration in reform implementation could also provide support to domestic asset valuations.

However, global geopolitical, inflation and market risks remain elevated and volatility is likely to persist. Domestic equities and bonds therefore continue to offer potentially attractive long-term return opportunities, but these should be considered within appropriately diversified portfolios and against the prevailing risks.

Information for this article has been obtained from: Stats SA, SARB and Iress

2 November 2026

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