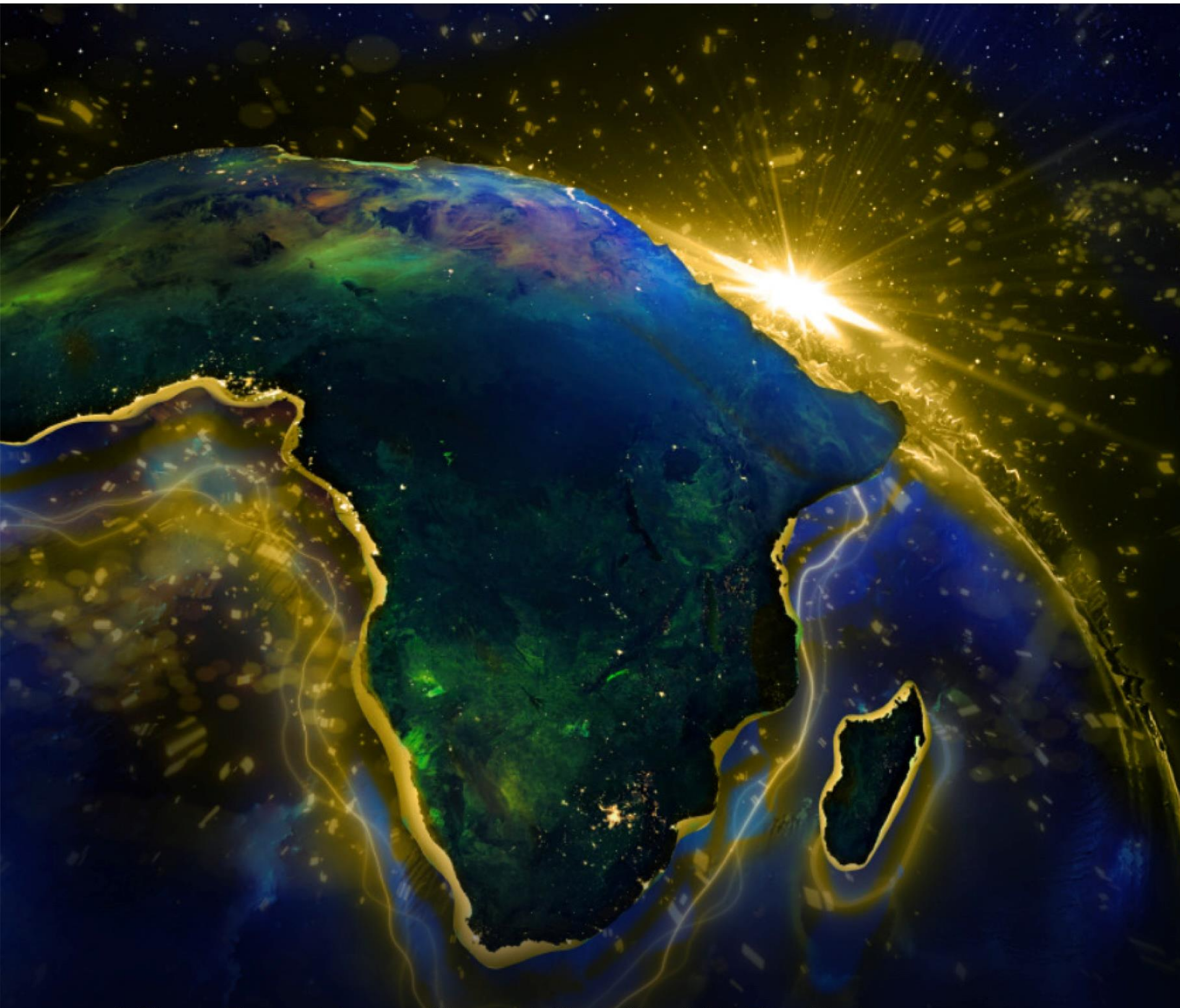
The Economy 2026



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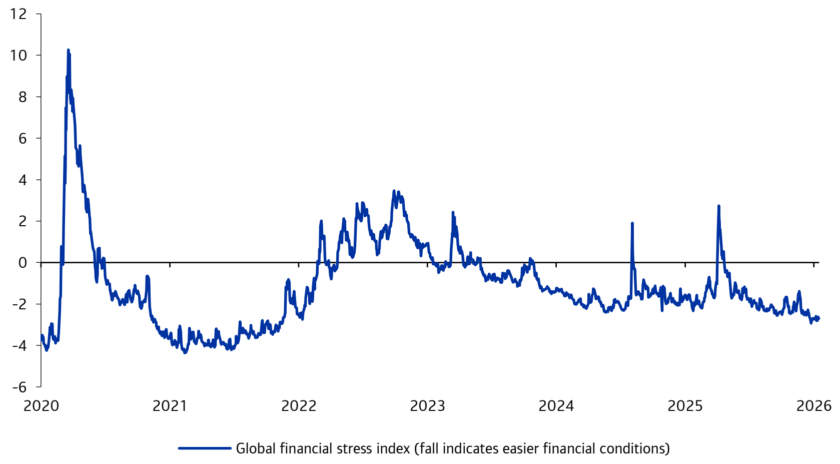
G10 outlook for 2026

Resilience, with risks

The global economy has proven remarkably resilient in the face of the huge US tariff shock last year. This resilience is expected to continue in 2026. Indeed, global growth seems likely to be a few tenths higher than last year, at close to 3.5%. Countries have found ways to adapt to the tariff shock. China has reorientated its trade to other parts of the world to such good effect that the contribution of trade to GDP last year was the highest it has been since 1997. While other countries have not been able to replicate China's successful trade strategy, they have found other ways to cope. Monetary easing has continued for many and there are notable attempts to ease fiscal conditions as well, particularly in Germany and Japan. Another tailwind for the global economy rests on the continuation of accommodative global financial conditions. Not only have major central banks – except the Bank of Japan – been able to reduce policy rates to, or near to, 'neutral', but global equities have stayed strong, credit spreads have narrowed, and asset price volatility has fallen to historically low levels. The result has been a substantial easing in global financial conditions amidst a turbulent period (Figure 1).

A substantial easing in global financial conditions

Figure 1: Global financial conditions have eased considerably



Source: US Treasury

Even the US economy, which was expected to bear the brunt of the damage caused by tariffs has likely grown by around 2% last year thanks, in no small measure, to the boom in AI-related activity such as the building of data centres. We doubt that this activity will slow materially in 2026 and, if we add to this the boost from tax cuts contained in President Trump's 'one big, beautiful bill' from last year, it seems likely that growth this year could get close to 3%.

Demand-side pressures on inflation are unlikely to be problematic this year. For while growth is expected to be slightly stronger this year than 2025, there is little indication that demand will be sufficient to 'pull' prices up. However, supply issues could still exert some inflationary pressure, even if they are not likely to be anything like the scale that we saw during the pandemic. Reorientating supply chains to account for tariffs and upward pressure on wages from the tough crackdown on migration are just two factors that seems set to keep inflation in the US above the Federal Reserve's 2% target. Other developed countries should have more success in keeping inflation down. This is partly due to likely facing disinflationary pressure from tariffs, not inflationary pressure, as the US. An added danger of higher inflation can be found in commodity prices. Upward pressure on many commodity prices reflects several factors; amongst them 'safe asset' demand for some metals, like gold and silver, and critical minerals demand as rival nations such as the US and China seek to ensure access to sufficient critical minerals, and other commodities, to power technological advances, notably in artificial intelligence. Nonetheless, the general outlook for global inflation seems to be one of quiescence with price growth not far from target for those that target inflation.

Swan-like situation

On the surface, the global economy seems to be moving gracefully along, with growth quite stable and inflation under control. However, this apparent serenity on the surface masks the thrashing around under the water line; much like a swan that looks calm on the surface – but whose legs are kicking like fury to keep moving ahead. The scrambling by governments and firms to combat existing tariffs and the uncertainty created by new US tariff threats are just two such issues that threaten to sink growth. There is also a sense, in the US in particular, that the robustness of growth is just an AI-generated mirage because the rest of the economy is very weak and thrashing around. In China, GDP is holding up only because policymakers have been able to make trade account for an ever-increasing proportion of growth. While, in Europe, there are none of the longer-term structural changes happening that are needed to lift the region's growth potential but, instead, just short-term fiscal firefighting such as increased defence spending. In addition to these economic and policy challenges, there is also the risk that global equity prices are sitting atop an AI-led bubble that could pop at any moment, and the risk that bond yields surge higher as the bond vigilantes come out in force against excessively large government debt piles. In short, it seems that nothing is changing, but everything is changing, particularly when it comes to the geopolitical backdrop, and that represents a risk to the serenity of growth and inflation.

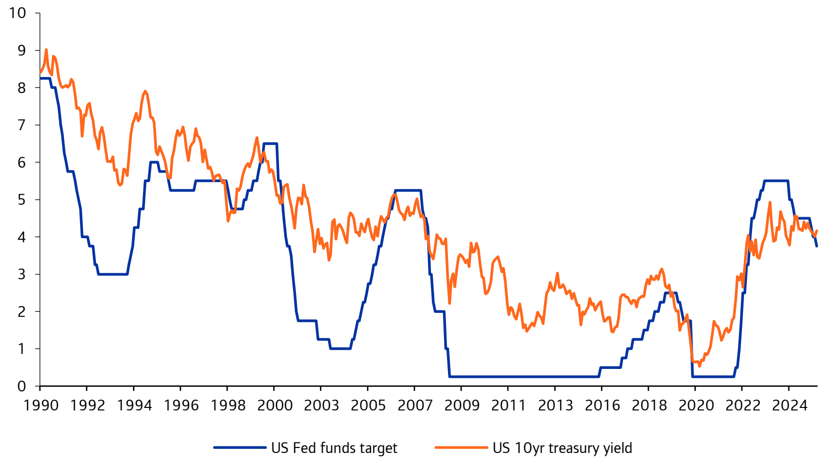
Two issues that threaten to sink growth

It seems that nothing is changing, but everything is changing

A new watchword

Last year's financial market watchword, at least in the first half of the year was undoubtedly 'tariffs'. The uncertainty created by tariffs has left central banks biased to ease policy even if the economic impact of tariffs has not been as bad as feared so far. However, there's another watchword that has come along: debasement. The concern that high levels of government debt either create a desire within central banks to push for excessively loose monetary policy, or cause politicians to lean on central banks to keep policy rates lower than they should be. These concerns have driven a wedge between how the front end of bond markets have responded to rate cuts relative to the long end.

Figure 2: Recent rate cuts have not lowered bond yields



Source: Bloomberg

For while short-term yields have followed the fall in policy rates, debasement concerns have kept yields elevated at the longer end. This, in turn, has obstructed the passthrough of monetary policy in countries where mortgage rates are driven by long-term bond yields, such as the US. This is extremely unusual. Normally, central bank rate cuts produce lower long-term yields, even if the decline in yields is smaller than that of the policy rate. But in the US 10-year treasury yields are around 50 bps higher than when the Fed started its 175 bps of rate cuts back in September 2024. And while these debasement fears have been most pronounced in the US, many other developed countries have seen similar movements due, in part, to the fact that other bond markets tend to track the treasury market quite closely. In the UK, for instance, 150 bps of base rate cuts from the Bank of England since the summer of 2024 has also been accompanied by a 50 bps rise in 10-year gilt yields. Looking ahead, the problem is that more rate cuts could produce even higher long-term bond yields, not lower yields, should these debasement concerns escalate. For instance, a Fed that's seen to be pushed to take rates towards its own estimate of the 'neutral' rate, at 3%, when inflation remains above target, runs the risk of seeing 10-year treasury yields rise to over 5% this year.

Debasement concerns have kept yields elevated at the longer end

A second factor that could keep longer-term yields elevated relates to the possibility that some developed-country central banks that have been cutting policy rates in recent years could start to lift rates again as soon as this year. Central banks in places such as Australia, New Zealand and Sweden could all hike rates later this year and, if they do not do so, it seems very likely in 2027. Now clearly these do not rank as major central banks like the Fed or ECB. Nonetheless, their direction of travel on monetary policy will likely be seen by investors as a blueprint to how major central banks will adjust policy in future years. Gone seem to be the days when policy rates would stay at the low point of the easing cycle for some years. This profile looks as if it is being replaced by one where more persistent inflationary pressure will force central banks to start lifting rates not long after they have reached the low point of the rate cycle. This is not to suggest that major developed-country central banks will have to lift policy rates as dramatically as they did in 2021 and 2022 to cope with the Covid-related inflation shock. But the idea that central banks can take rates down to levels that are deemed 'neutral' and hold them there for many years seems to be based on shaky foundations.

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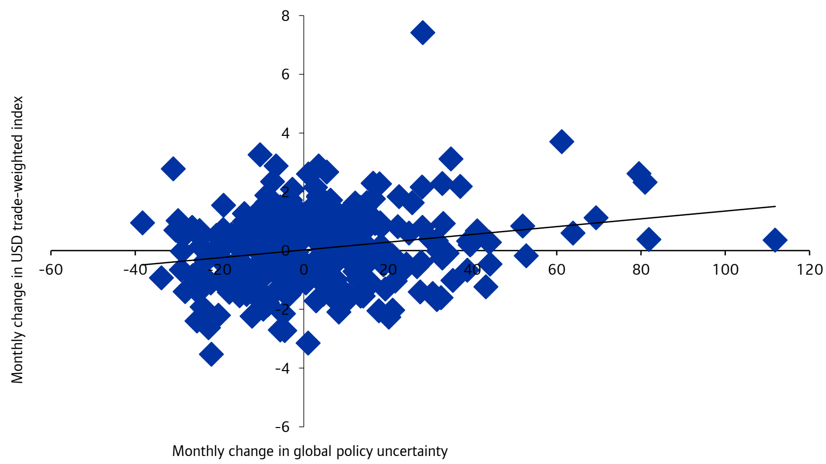
Not so safe

Just as debasement concerns in the US appear to have been part of the reason why longer-term treasury yields have failed to fall with Fed easing, so the dollar appears to have lost much of its safe-asset allure. We usually find that the dollar rallies when global risk aversion or uncertainty increases (Figure 3). But starting with the global uncertainty created by last April's US tariff reveal, it seems that the dollar no longer attracts such safe-asset demand. The more recent uncertainty created by the US's claim to Greenland and new tariff threats towards European countries also failed to lift the dollar. Instead, the market seems to have a new safe asset: gold.

The market seems to have a new safe asset: gold

Figure 3: Usually a positive correlation between the dollar and uncertainty



Source: Federal Reserve, Bloomberg

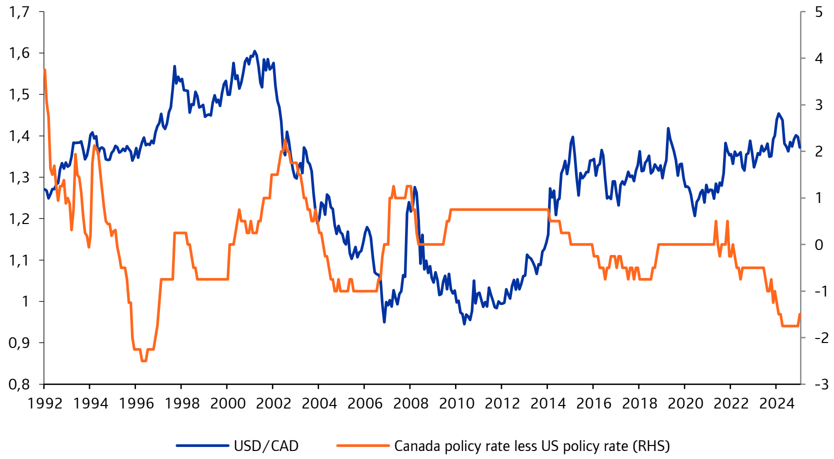
In addition to this apparent demine in the dollar's safe-asset status, there also appears to be a conflict in the minds of investors. On one side, there's still little doubt that the US is the 'exceptional' economy, at least amongst developed countries, and that this can produce exceptional concerns, particularly in equities. Indeed, this year could see a GDP growth rate of close to 3%, or at least twice the growth expected in countries like the UK and Japan, or the euro area. This sort of sentiment seems likely to support the dollar. But, on the flipside we sense that there are concerns about the methods being employed to generate this 'exceptional' growth. These mechanisms include tariffs, political pressure on the Fed to ease, rapid deregulation, migration curbs and tax cuts at a time of high debt. They are actions that understandably do not sit well with many investors, and they seem to be creating a tug-of-war for the dollar. The 'head' might be telling investors to buy US assets, including the dollar, because prospective returns are higher, but the 'heart' may be suggesting caution as US policies could produce adverse effects. These two forces appear to have balanced each other out since the middle of last year as the dollar has been very stable. This stability may not be over. But we sense that the bears are more likely to win out over the long haul, which is why we see the dollar falling around 5% this year in trade-weighted terms, or just over a half of the decline that we saw in 2025.

Creating a tug-of-war for the dollar

A multipolar world

While the US is still clearly the dominant global force in economic, political and financial market terms it does appear that its influence is waning. Some of this simply relates to the fact that its share of the global economy is falling, and some to the 'America First' choices of the US Administration. On the flipside others, notably China, seek to increase their global economic and financial footprint. The slow but inevitable shift to a more multipolar world seemingly depletes the role and influence of the former hegemon: the US. For instance, US economic growth is likely to be solid in 2026 but the benefit that this can bring others is undoubtedly diminished by the influence of US tariffs. That's negative for other developed and developing countries. But the flipside is that the US's ability to dictate the global financial cycle should be similarly constrained. We can already see this because sharp increases in global risk aversion, which would traditionally lift the dollar and treasury prices, and so put pressure on other currencies and riskier assets, especially in the developing world, are now pushing the dollar and treasury prices down. The result is that many policymakers around the world can follow domestically-orientated policies with less concern that divergence with the US will lead to financial market difficulties.

Figure 4: Large gap between policy rates



Source: Bloomberg

Canada, for instance, is an economy with incredibly close links to the US. But faced with US tariffs and other US provocation, Canadian policymakers know that they must reorientate their economy in other directions. That's going to be a painful economic experience – but this reorientation is helped by the fact that reduced US dominance in the financial space has helped the Bank of Canada pull policy rates a full 150 bps below the fed funds target. That's a gap that has not existed in nearly 30 years, and there's been little adverse impact on the Canadian dollar.

This decline in US hegemony could prove particularly beneficial

This decline in US hegemony could prove particularly beneficial not just for Canada but for many emerging market countries that have often been hit hard in the past by tighter financial conditions brought about by rising US rates and/or a stronger dollar.

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EM in 2026

The tariff timer, the USD, and the mineral rush

Introduction

A year ago, we cautioned that emerging markets' apparent bloom masked a blight. Growth was respectable, inflation docile, and balance-sheets clean. However, the various auxiliary expectations for monetary policy, the path of the USD, China and others, seemed overly confident. Add to that an ever-thickening bramble of tariffs and geopolitical thorns, and the garden's nettles dwarfed the roses. Still, forecasters opened 2025 confidently, pencilling in 3.5% global growth, then spent the next 12 months re-writing their sums.

A spring tariff tantrum—Washington lifting the effective levy on roughly one-third of global trade—sent the April consensus plunging. By May, the planet was thought to be heading for its feeblest expansion since Europe's double-dip of the early 2010s. Yet, the ports kept humming, AI-fed capital expenditure surged, and consumers—flush with real wage gains—proved resilient. After six consecutive monthly revisions, 2025 closed with growth a little south of 3.0%, a reminder that the dismal science is at its dreariest when politics does the driving.

The dismal science is at its dreariest when politics does the driving

For emerging markets in 2026, we find ourselves repeating a decade-old caveat: the only constant in macro forecasting is its chronic brittleness. The models crave serenity; reality serves adrenaline. This is a recurring theme. Brexit shoved sterling through ranges no spreadsheet had even sketched. Trump's 2018 tariffs arrived just as Beijing throttled shadow credit, and EM export orders missed consensus by eight points overnight. Covid turned the predicted global minus-three into minus-four. A year later, European gas futures jumped fourteenfold after Russia rolled out tanks, flipping the Bundesbank's plus-one Germany into minus 0.2%. The lesson: forecasts age fastest when history-in-the-making accelerates.

Now, silicon's accelerating arms race, the green transition's ravenous appetite for exotic metals, and great-power efforts to turn supply chains into constraints, are unfolding all at once. Together, they are wrenching the world economy from a familiar, equilibrium-seeking contraption into something fast-moving, non-linear, and ill-suited to yesterday's spreadsheet dedication. Because the metamorphosis is only half-complete, we are condemned to inhabit a generational rupture whose final shape no model yet dares draw.

Economic growth

The contours of the emerging order remain amorphous; whether it will rhyme with the post-Cold-War blueprint, is anyone's guess. After posting 4.5% in 2024 and 4.3% in 2025, the emerging-market bloc is expected to ease—barely—to 4.0 % this year. That is still a full percentage point above its 20-year mean, and squarely inside the pre-Covid corridor of 4-4.5%. The engine is merely slipping from fourth to third, not seizing up. Barring a calamity, emerging markets will once again outrun the rich world, preserving the 250 bps premium they have enjoyed every year since 2003, save 2009.

The contours of the emerging order remain amorphous

Most of the deceleration is 'Made-in-China'. China's Q4 slowdown was the sharpest since the pandemic. Nominal GDP's 3.8% print marked a fourth straight annual deceleration. Although deflation persists, policymakers remain unruffled, promising only incremental redistribution toward elderly care, pensions, health and education while keeping the core focus on "new productive forces" and service-supply. To this end, both fiscal and monetary policy will be mindful of economic vitality, but measures will merely extend the existing playbook rather than signal a directional shift. Looking ahead, 2026 should feel familiar. Central-government fiscal support will edge higher, cushioning local-debt headaches without resurrecting the old infrastructure spree; consumer spending is likely to nudge up only modestly as services outpace still-weak goods demand; property pain should ease slightly under targeted support, yet starts and investment will stay in low single-digit decline; headline inflation is set to hover just above zero amid flat producer prices; and with external demand still the main prop, real GDP growth is expected to slow to around 4.0-4.5 %.

The Middle Kingdom still adds torque—growing now at much the same speed as the rest of the EM pack—but the once-yawning two-to-three-point gap has narrowed to a rounding error. Because China still makes up roughly one-third of aggregate EM output, for every half-point it sheds, it knocks about 0.15 percentage points off the headline figure—enough on its own to explain the gentle easing while the rest of the bloc firms.

Africa illustrates the point: heavier copper and gold volumes in Zambia and Ghana, plus Ethiopia and Nigeria clawing back fiscal space after recent debt deals, will add more than half a percentage point to the EM aggregate this year. What might have been a slide is thus shaping up as a plateau.

Table 1: Growth forecasts (per cent, y/y)

Region	2019-23	2024	2025	2026
Latin America	2.1	2.4	2.4	2.3
Sub-Saharan Africa	3.2	3.8	4.0	4.0
Emerging Asia	5.0	5.2	5.0	4.8
China	5.2	5.0	4.8	4.2
India	5.4	6.8	6.7	6.2
Brazil	2.0	2.7	2.3	1.7
Mexico	1.3	1.2	0.6	1.3
Turkey	4.2	3.2	3.2	3.2

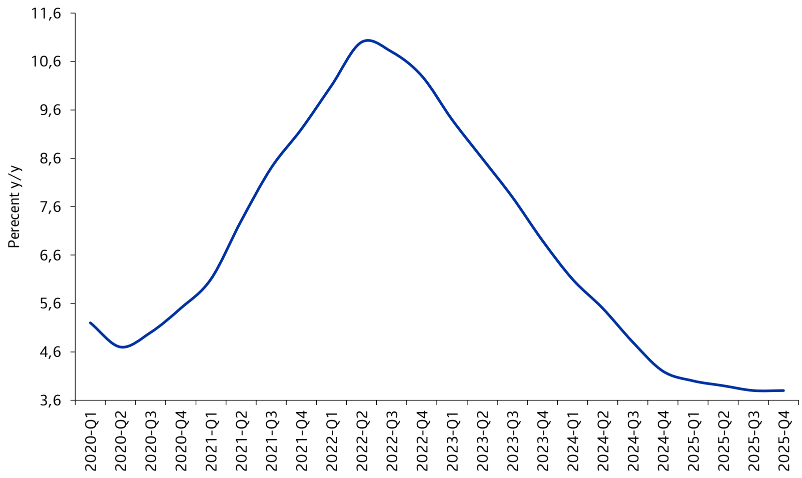
Source: IMF, Bloomberg, Consensus Economics & SBR

Inflation and rates

Across emerging markets, the inflation narrative has slipped from fire-fighting to fire-walling. Median headline CPI has slid from 11% in late 2022, to 3.8% by Q4:25—the lowest since the pandemic and, more importantly, inside (or almost) every big central-bank target band, save Turkey and Argentina. The usual suspects are to blame: a firmer currency against a bruised USD, food-and-energy prints that have calmed after two years of war and weather shocks, and output gaps that remain slightly negative, even where growth looks brisk. The consensus expects the glide to continue, nudging the EM aggregate to 3.5% in 2026—roughly a percentage point below the 2010-19 average and near enough to rich-world readings that the “inflation premium” once used to justify double-digit local yields is starting to look antique.

The consensus expects the glide to continue, nudging the EM aggregate to 3.5% in 2026

Figure 1: Inflation trajectory far less threatening



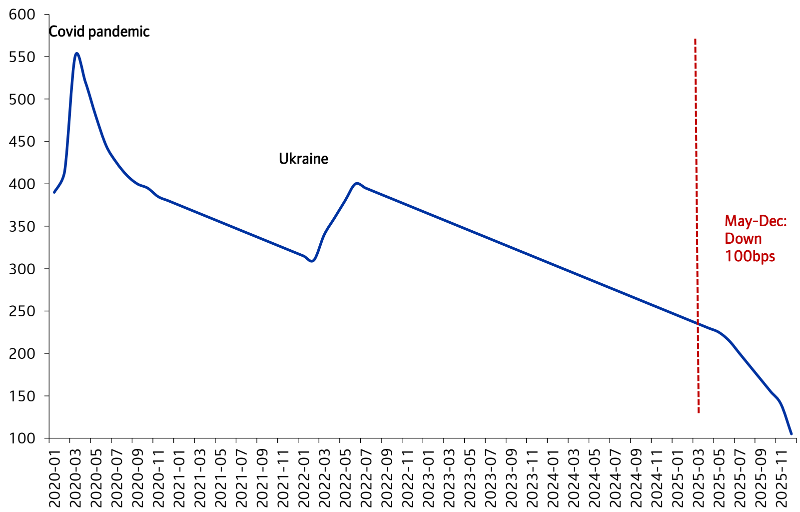
Source: World Bank, IMF and SBR

Bond traders are already positioning for the rate

Bond traders are already positioning for the rate. Since May, the yield gap between seven-year EM sovereigns and Treasuries has collapsed by 120 bps, compressing to its tightest since 2013 and implying that investors now regard 4% inflation as near-permanent. That may prove overly confident.

EM currencies have rallied 6% on a trade-weighted basis, but the bulk of the move came while the dollar was on the back foot. Conversely, any DXY rebound would erase much of that gain and, by raising imported prices, nudge headline CPI 30-40 bps higher. Meanwhile, local pension funds—burnt by the 2022 tantrum—have lengthened duration aggressively, leaving them vulnerable to any move in 10-year yields that would wipe out the carry they have spent 18 months clipping. In short, the market has priced a Goldilocks encore; however, a bear is waiting in the wings with a script rewrite.

Figure 2: Yield Gap – EM vs Treasuries



Source: IMF, JP Morgan, MacroMicro & SBR

Chile and Peru sit at one tail of the distribution. Mining wages are roaring, yet both have squeezed headline inflation below 3% and now carry a positive real ex-ante rate near 300 bps. China sits at the other tail. Core CPI is stuck at 0.8%, and a 2.6% 10-year bond may signal “cut” but, instead, the PBoC has left its one-year LPR on ice since August, worried that thinner bank margins would prove problematic. Beijing’s timidity matters because Chinese factory-gate prices still set the Asian export price grid. A sudden fiscal bazooka—say, a four-trillion-renminbi central government-bond programme—would lift metals demand overnight and push import-price inflation straight back into Johannesburg and Kolkata.

The bigger worry is what happens once the cyclical slack is gone. Supply chains are being rewired around friends, not prices; AI data centres are gorging on electricity; wind, sun and grids are gulping record tonnes of copper, lithium and rare earths; and climate shocks are turning food prices into a call option on the weather. Markets still trade as if immaculate disinflation were a birth-right, but the structural floor under inflation is plausibly creeping higher.

The structural floor under inflation is plausibly creeping higher

We expect one last gentle round of cuts in 2026, yet the effortless part of the EM rate rally is over. From here, carry pays only if you can hop off the moment the floor turns out to be a trapdoor.

We expect one last gentle round of cuts in 2026, yet the effortless part of the EM rate rally is over

Economic gravity shifting – a tectonic shift in the geography of global capitalism

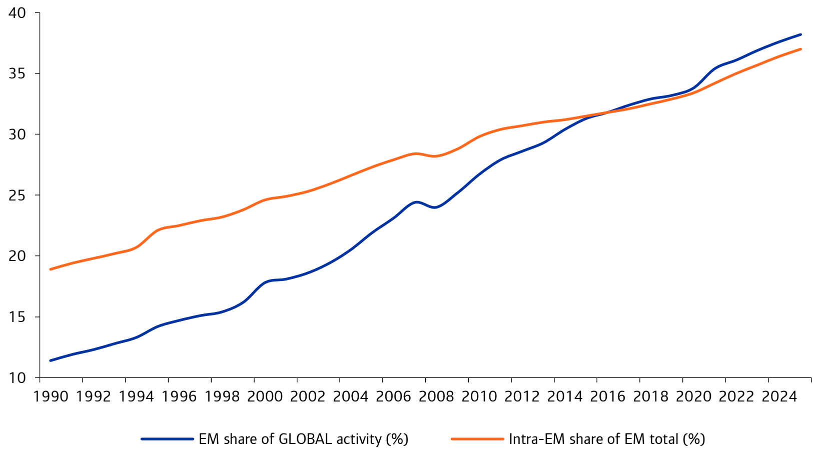
As for growth, each year we cling to growth forecasts the way sailors and surfers do to the weather forecasts. Conventional wisdom says the faster-expanding economies—think Kenya, Ivory Coast, Vietnam—swell their tax bases, widen corporate cash flows, and stretch valuation multiples long before the first brick of a new plant is laid. Even a 0.5-percentage-point upside surprise can flip a current-account deficit into surplus and trigger an abrupt repricing of the currency and every asset pinned to it. Countries that outgrow their interest bill can paper over banking busts, commodity slumps or populist splurges without inviting a market revolt. And, the growth gap dictates the flow of cross-border capital: when EM is outpacing the developed bloc by 200-250 bps, global funds tend to rebalance to attain benchmarks.

Faster growth means the world’s economic centre of gravity is drifting south-east and has done so since 1990, exemplified in the shift in trade, FDI, portfolio flows, M&A, FX turnover, and even diplomatic air-miles.

A snapshot of the EM share of global activity—which tracks how much of the world’s cross-border commerce, capital and lobbying is now generated or received by the twenty largest emerging economies—makes the point in one breath. From barely one dollar in ten in 1990, the EM share has tripled to almost four dollars in every ten by 2025. Crucially, nearly two-fifths of those dollars no longer detour through London, New York or Frankfurt; they simply circulate within the South, moving from São Paulo to Shanghai, from Lagos to Mumbai, without ever touching the old advanced-economy hubs.

The EM share simply circulates within the South

Figure 3: Economic gravity has shifted South



Source: IMF (DOT, CDIS, CPIS), UN (Services), BIS (FX), Refinitiv (M&A), AidData TUFF & SBR

A critical engine has been China. When it joined the WTO in 2001, it accounted for just 4% of world merchandise exports. Today, the share is approaching one-fifth. Because China is simultaneously the largest buyer of raw materials and the largest seller of capital goods, every upstream and downstream partner in the South has gained scale. Since Covid, Beijing has paired industrial modernisation—upgrading steel, chemicals and machinery while fast-tracking quantum chips and hydrogen—with a deliberate pivot to the Global South.

A trade surplus with other emerging markets that has tripled since 2022

The result is a trade surplus with other emerging markets that has tripled since 2022, powered by electric vehicles, batteries, solar kits and 5G gear rather than plastic toys. Aggressive pricing, domestic deflation, a cheaper yuan and fat export rebates let Chinese suppliers amortise R&D over 1.4bn price-sensitive home consumers before the first container leaves port, shifting pricing power to balance-sheets built for scale and leaving rival exporters the unenviable choice of collaboration or capitulation.

Africa, like much of the EM world, sits at the epicentre of this tectonic shift.

Africa, like much of the EM world, sits at the epicentre of this tectonic shift. Chinese exports to the continent surged 25% in 2025, to a record USD216bn, while imports flat-lined, blowing Africa's bilateral trade deficit with China out to USD100bn. The move is calculated, not opportunistic: Beijing is wiring itself into the African continent through ports, rails and digital backbones, then topping up the sell-in with concessional finance and summit diplomacy that advertises China as a reliable, development-first partner, in contrast to a "chaotic" West. Africa gains cheap industrial kits and solar-powered kitsets; it risks locking in dependency and smothering its own factory revival. Europe, meanwhile, watches its traditional market share bleed southward. South-South trade is becoming the centre of gravity, and Africa is fast turning into the primary absorber for China's productivity-upgrade surplus—a role that will shape the continent's growth model for the rest of the decade.

The 'post-American' era is no longer a seminar topic; after-shocks are already rattling the political economy of the emerging world. Washington's sudden aid freezes, threats to suspend AGOA, and the hasty military pull-outs from Niger and Chad have quietly buried the assumption that the United States is the automatic guarantor of either security or market access. Into that vacuum has stepped a scrum of eager suitors.

The accelerating arms race for AI supremacy—pitting Washington's export controls against Beijing's state-led sprint—and the parallel, China-powered rollout of renewables, are converging on African geology. Beijing already controls 80% of the world's solar-panel supply chain, 60% of wind-turbine output, and two-thirds of global lithium-ion battery capacity; its state giants are now planting gigafactories for electrolysers, EVs and grid-scale storage across Asia, Latin America and Africa itself.

To keep these lines humming, China is signing decade-long offtake contracts for copper, cobalt, nickel, graphite and rare earths that lie beneath African soil, turning once-cyclical resource pits into strategic inputs for a multi-decade, policy-anchored build-out. Washington and Brussels are responding in kind: the IRA and the EU Green Deal each dangle roughly half-a-trillion dollars in tax credits, grants and cheap loans, but only if every panel, turbine or battery contains critical minerals sourced outside China. The clause effectively forces miners, refiners and OEMs to write long-term purchase agreements with African producers and to fund onshore processing plants that lift local value capture and bargaining power.

For African policymakers, the windfall is double-edged

For African policymakers, the windfall is double-edged: negotiate robust local-processing and beneficiation clauses today, and both prices and fiscal revenues can ratchet higher for decades; fail, and the continent simply swaps one narrow choke-point—European smelters—for another—Chinese offtake, with the added twist that AI supply chains are even more concentrated than the old ones. The immediate danger is that a short-term price spike tempts finance ministries to lock in anaemic royalty rates just as leverage peaks. Yet the exit doors are already being prised open: royalty floors that languished at 3% for a generation are being rewritten into new project agreements that carry credible walk-away options.

The takeaway is a world economy that is multipolar in practice. Advanced-economy firms still dominate the technological frontier, but their growth ceilings will increasingly be traced by demand curves drawn in Beijing, Mumbai, Rio and Lagos, rather than in Brussels or Detroit. Global macro-volatility will be driven as often by EM business cycles, EM policy rates and China's sectoral swings as by the Fed. Exchange-rate configurations are already sliding into a China-centric gravity model: more than 40% of EM bilateral rates now co-move more tightly with the renminbi than with the dollar, even when officially floating.

The murky link between GDP growth and shareholder returns

Unfortunately, GDP growth and growth differentials are a lousy proxy for shareholder returns. Since 2003 the emerging universe has outpaced the G7 by roughly 250 bps a year, yet the MSCI EM index—the only pool of stock you can actually buy—has compounded at 260 bps less than the S&P 500 once translated back into dollars. The economies got richer; the listed companies got relatively poorer.

Why the wedge?

First, the benchmarks now are different animals. The S&P 500 is an asset-light platform index: roughly a third in software, cloud and chip designers that earn 25% returns on invested capital and scale with almost no extra capital. Add another 15% in pharma and health-care platforms protected by patents and network effects. MSCI EM, by contrast, is a balance-sheet index: 22% state-dominated banks that recycle deposits into government paper, 15% cyclical miners and oil majors that live or die by spot prices, and 11% telecom utilities that expand by issuing more equity. These sectors grow with GDP but do not compound capital; their aggregate ROIC is lower and a drag on earnings per share—the only metric equity prices ultimately care about.

Second, the index is a currency trap. Over two-thirds of the EM free-float is denominated in money that has depreciated in real terms against the dollar since 2003. Yes, the past six months have seen a burst of strength—led by the high-yield commodity trio of the Brazilian real, South African rand and the Russian rouble. Korea's won and India's rupee have nudged up 2-6 % on tech inflows, yet the lira, rand and Chilean peso are still underwater. The dollar's 5% slide is primarily a cyclical reprice of Fed easing bets, not a structural break in EM's carry-to-vol equation. Meanwhile, the S&P earns 30% of its revenue outside the US, an embedded hedge EM does not possess, leaving dollar-based investors with a bumpier, lower-compounding ride.

Leaving dollar-based investors with a bumpier, lower-compounding ride

Third, EM indices bleed, not breed, capital. Net equity issuance—rights issues, follow-ons and the periodic SOE re-float—has averaged 1.8% of market cap a year since 2003. Even China's much-trumpeted buy-back wave is dwarfed by fresh A- and H-share supply plus jumbo convertibles from the likes of SMIC and CATL, adding roughly 2% of market cap annually. South Africa's JSE tells the same story: ZAR42bn of gross issuance in 2024 versus ZAR7bn of announced buy-backs, a net dilution of about 1%. Meanwhile, the S&P has shrunk its share count by 0.9 % a year through buy-backs. The gap is enough to erase most GDP-growth premium.

EM indices bleed, not breed, capital

Fourth, global liquidity has a favourite child. When balance sheets expand, investors bid up the scarcest growth assets—US tech giants whose runway is measured in decades. When liquidity tightens, they dump the perceived riskier EM complex. The habit creates an asymmetry: EM gets shorter, sharper bull markets and longer, grinding bear markets. Compounded over twenty years, the skew delivers a lower geometric mean, even when the arithmetic average looks respectable; the rallies never last long enough to offset the slow, bruising retreats.

For EM to turn GDP outperformance into dollar outperformance, three plates must shift together: boards must treat equity as capital, not patronage—spin-offs like Samsung's foundry and Brazil's Novo-Mercado 2.0 could cut the cost of equity 200 bps; the dollar must keep falling—another 5% drop lifts commodities, eases USD debt service and repeats 2017's 1,100 bps alpha; and minority rights must become enforceable—India's new class-action regime or Turkey's audit-or-delist rule would compress governance risk premia and could trigger MSCI re-weightings that unleash passive flows bigger than any macro bid.

For EM to turn GDP outperformance into dollar outperformance, three plates must shift together

None of these changes requires heroic GDP growth or a commodity super-cycle. They simply demand that the cash generated by faster-growing economies is no longer siphoned off by dilution, currency debasement or insider expropriation. If even two of the three plates shift, the compounding gap disappears and EM can beat the S&P 500 by 300-400 basis points in 2026. If all three move together, the outperformance could be closer to 800 basis points—the kind of year that reminds investors why they bother with the complexity in the first place.

Plotting the potential path over time

While markets have spent the winter obsessing over a US hard-landing or a Chinese property seizure, the clearer and nearer danger is political, not macro. Washington still trumpets record capex and an AI construction boom yet quietly soft-pedals export controls and drafts tariff-roll-back language; both parties now treat a limited détente with Beijing as pragmatic rather than concessionary. But the détente is on a timer. Review clauses in the 2025 truce expire between July and September, just as Congress returns with anti-dumping petitions against Vietnamese solar, Mexican steel and Indonesian nickel. A 10% blanket levy on the USD450bn of non-Chinese EM exports to the US would subtract 60 bps from aggregate EM GDP within two quarters, precisely when domestic fiscal support is expiring and manufacturers face a demand pothole with no cushion.

The clearer and nearer danger is political, not macro.

The template is 2018: tariffs landed in July, ASEAN export orders collapsed from 52 to 46 in eight weeks, Korean chip shipments went negative and the EM equity index fell 17% in dollars, twice the S&P decline. Today, however, local-currency debt is 60% of the benchmark (versus 40% five years ago), so the shock will transmit through FX, not dollar balance sheets. A 5% fall in the rand, ringgit, won and peso would add 30 bps to headline inflation, forcing central banks to split the difference—likely cutting policy rates 50 bps while letting currencies drift, eroding the carry advantage that has underpinned foreign inflows.

EM equities behave like short-dated call options on trade headlines

Against this backdrop, EM equities behave like short-dated call options on trade headlines; local-currency high-carry bonds act like put options on policy inertia. Real carry-over-inflation ranges from China's slender 180 bps on 10-yr CGBs to India's 500 bps, Brazil's 600 bps and South Africa's 710 bps; Nigeria's eye-catching 18% nominal yield deflates to barely 350 bps once 15% inflation is netted out. Rotating part of the portfolio out of 18 times forward-earnings Korea or Mexico tech names and into those bonds picks up roughly 500 bps over the EM dividend yield; China itself offers positive real carry in a currency that rarely gaps. The buffer pays an investor to sit tight while geopolitical headlines whipsaw stocks.

Beyond the tariff timer, a set of macro-financial tripwires threatens the brittle equilibrium we expect for 2026: a second US inflation run driven by tight labour markets and AI-related power demand; a USD1.5tn commercial-real-estate rollover cliff that could spill refinancing stress into regional banks; China's property end-game, with developers still burning CNY300bn a year; an EM sovereign refinancing wall that requires low-income countries to redeem USD120bn in Eurobond principal during 2026-28 at coupons 200 bps above 2021 levels; and a fourth straight La Niña year that could push European and Asian electricity prices back towards 2022 peaks. Any one of these could shave half a percentage point from global growth without a shot being fired.

Our 2026 base case assumes DXY drifts to 96, two Fed cuts plant the funds corridor at 3.75-4.00% by mid-year, the yuan firms a notch, and commodities glide downhill—Brent and iron ore both down high single digits, and lead, nickel and zinc basically flat, with copper and gold rising.

That backdrop keeps real yields above 250 bps in India, South Africa and Indonesia, leaves exporters' budgets balanced, and trims 0.1 ppt from EM CPI via cheaper energy. Tariff-truce extensions and a still-easing Fed should open a four-to-six-month window in which local-currency bonds deliver an 8% base-case return and equities a mid-teens dollar gain—provided positioning starts now. The channel is mechanical: a weaker dollar instantly re-rates copper, oil and soybeans, fattening fiscal headroom for Chile, Colombia and Indonesia, while collapsing the correlation between EM FX and UST yields turns a 10-year IDR bond from 100 bps of hedged pick-up, into 250 bps. Equities win on both higher commodity earnings and a lighter translation headwind. Importantly, though, history shows that tempo beats direction: in four of the past six dollar-down years two-thirds of the rally arrived inside the first four months.

We are neither long nor short the basket, content to let the embedded exposure in resource equities and sovereign coupons do the heavy lifting

We therefore run a balanced bar-bell: the bulk of risk in local-currency sovereign bonds to harvest carry, a meaningful sleeve of hard-currency paper for ballast, and a lighter, liquid allocation to growth-sensitive equities such as semiconductors, green-metals producers and well-capitalised banks. Commodities are held at neutral weight; we are neither long nor short the basket, content to let the embedded exposure in resource equities and sovereign coupons do the heavy lifting. However, if the sign-posts flip, the edifice unwinds within weeks, which would trigger a shift to a defensive, cash-heavy playbook: trim local-currency duration, rotate proceeds into short-dated high-grade paper, and either hedge equity exposure or redeploy into lower-beta developed-market names.

Table 2: Signposts along the way			
	Base-case signpost	**"What if we are wrong" threshold**	**Implication if threshold hit**
DXY (USD index)	96 by Dec-26 (gradual slide)	105 any 2-week close	Dollar strength re-ignites carry stress; cut EM local-currency duration; hedge 75 % of FX risk.
Fed funds target	2 cuts to 3.75–4.00 % by Jul-26	No cuts)	Real US yield above 2%; EM equity EPS cut; rotate from growth to dividend-yield EM names; favour hard-currency over LC debt.
CNY/USD	Sub 7.00	Above 7.50 vs USD	China capital-flight scare; underweight.
Copper (LME 3-m)	USD5.50–6.00 /lb average	USD4.50 /lb OR USD7.50 /lb	< USD4.50: remove Zambia/Chile equity bets; > USD7.50: add junior copper producers, ZAR, CLP, PEN.
Brent crude	USD70–75 /bbl	USD55 /bbl OR USD95 /bbl	< USD55: cut Nigeria, Colombia, GCC hard-currency credit; > USD95: add oil exporters, trim airlines/logistics.
MSCI EM EPS revision breadth	More than 5%; upgrades	Less than 5% & net downgrades	Broad earnings downgrade cut EM equity beta; raise cash.
US tariff	Q3-26 truce extended	10% blanket levy enacted on non-China EM before Oct-26	Trim Mexico, Vietnam, Indonesia equity; long USD vs MXN, IDR, VND.

Source: SBR

Conclusion

As 2026 begins, the usual sermon on EM's "structural bright spots" is not helpful. Recall, the same structural forces have been present for over a decade, while the related equity indices have quietly lagged the S&P.

Instead, the macro scaffold is there to show which parts of the edifice are load-bearing, and which merely decorative.

Debt, demographics and the dollar are the three girders

Debt, demographics and the dollar are the three girders that decide whether faster GDP growth ever reaches the balance sheet of the listed universe. If any one of them should snap, earnings are crushed, whatever the long-term promise of a young population or a commodity endowment.

Conversely, should all three hold, the compounding machine can start, even without a heroic rebound in China or a new commodity super-cycle.

Jeremy Stevens#

This material is "non-independent research". Non-independent research is a "marketing communication" as defined in the UK FCA Handbook. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Standing tall: Africa's steadiness in a precarious world

Africa enters 2026 in a noticeably more stable economic position than in recent years, although the recovery remains uneven and exposed to both external and domestic risks. The global environment is no longer as hostile as it was during the peak of monetary tightening, with global growth expected to remain above 3%, supported by looser fiscal policy, selective interest rate cuts, and investment linked to technological change. Yet, this improvement comes with important caveats. Trade tensions remain unresolved, long-term interest rates in major economies have proven sticky, and concerns about fiscal dominance, particularly in the United States, have weakened confidence in traditional safe assets. For African economies, these global dynamics have created both opportunity and constraint, shaping capital flows, commodity prices, and policy space.

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Within this context, growth across Sub-Saharan Africa is expected to remain resilient, hovering in the mid-4% range in 2025 and 2026. This performance should be underpinned by easing inflation across many countries, greater currency stability, and a gradual return of investment activity. However, the pace of improvement is modest rather than transformative. High debt-servicing costs continue to weigh on public finances, revenue mobilization remains structurally weak, and many governments are operating with limited fiscal buffers. While macroeconomic stabilisation has progressed in several large economies, it has not yet translated into widespread improvements in household living standards.

Nigeria illustrates this cautious progress. Macroeconomic conditions have begun to stabilise following major policy adjustments, with inflation gradually moderating and foreign exchange dynamics improving. The expansion of domestic refining capacity represents a meaningful structural shift, reducing reliance on fuel imports and easing pressure on the external balance. Growth is expected to strengthen further in 2026, supported by both oil and non-oil activity. Nevertheless, the outlook remains vulnerable to oil price fluctuations, persistent electricity shortages, and political incentives to loosen fiscal policy as the next election cycle approaches. Angola's recovery is slower but increasingly broad-based. Oil revenue remains central to fiscal and external stability, yet production gains are limited by maturing fields. Encouragingly, disinflation and exchange rate stability are creating space for monetary easing, while large transport and logistics projects signal an effort to diversify the economy over the medium-term. Kenya stands out for stronger momentum, driven by infrastructure investment, recovering private sector credit, and a more stable macro framework. At the same time, weather risks, social pressures and the proximity of the 2027 elections pose clear constraints on fiscal consolidation and reform pace.

Ghana's rebound has been anchored by strong performance in gold and cocoa, improved policy credibility, and steps towards restoring debt sustainability. Growth remains robust into 2026, but the impending expiry of IMF support raises the importance of maintaining fiscal discipline and reform momentum. Egypt's recovery has gained traction through large foreign investment inflows, rising tourism receipts and stronger remittances, which have helped stabilise external financing conditions. Even so, substantial domestic refinancing needs are keeping financing risks elevated, reinforcing the authorities' focus on preserving currency stability and tight real interest rate conditions.

Several frontier markets reflect a similar blend of recovery and vulnerability. Zambia has benefited from favourable weather, firm copper prices and post-default confidence, supporting solid growth expectations. Yet, electricity constraints and election-related spending pressures remain key risks. Uganda continues to perform strongly, with agriculture and foreign investment supporting near-term activity, while the anticipated start of oil production from late 2026 or early 2027 represents a potential structural turning point. Mozambique's recovery is more fragile, constrained by foreign exchange shortages, high debt and lingering security concerns, with medium-term prospects relying heavily on the eventual upscaling of LNG investment.

A defining feature across the region is the growing disconnect between macroeconomic growth and social outcomes

A defining feature across the region is the growing disconnect between macroeconomic growth and social outcomes. Growth has often been led by capital-intensive sectors such as oil, mining and large infrastructure, which boost GDP and exports but generate limited employment. At the same time, the effects of earlier inflation shocks have not fully unwound, real wage growth remains weak, and fiscal adjustment under IMF-supported programmes has imposed visible short-term costs. These dynamics have contributed to persistent social tension and periodic unrest, particularly among younger populations.

Political dynamics play a critical role in shaping the 2026 outlook

Political dynamics therefore play a critical role in shaping the 2026 outlook. Zambia's general election later in the year is expected to occur within a relatively stable institutional framework, with a high probability of policy continuity and ongoing engagement with international partners. Ethiopia's election presents greater uncertainty, taking place against a backdrop of security challenges and constrained political space, even as macroeconomic reforms remain anchored by an active IMF programme. Beyond these cases, the approach of future election cycles in several large economies raises the risk that difficult reforms could be delayed or softened, especially where fiscal adjustment intersects with social pressures.

Overall, Africa's outlook at the start of 2026 is best described as cautiously constructive. Macroeconomic stability is improving, policy credibility is gradually being rebuilt, and external conditions are less punitive than in recent years. Yet, structural constraints, social fragilities and political calendars will continue to determine whether the recovery deepens into sustained and inclusive growth or remains vulnerable to renewed shocks.

AGOA renewal could reduce trade uncertainty and downside risks to SSA growth

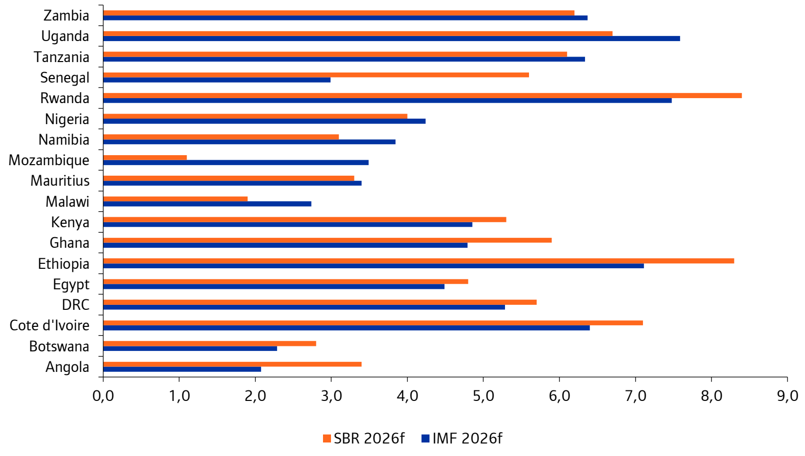
Sub-Saharan Africa (SSA) growth is expected to remain resilient but diverse across economies in 2026. According to the IMF's January 2026 World Economic Outlook, SSA GDP growth is projected at around 4.4% y/y for 2025, then accelerating modestly to around 4.6% y/y in 2026. This slight uptick reflects improving macroeconomic conditions in several large economies, including easing inflation pressures, greater exchange rate stability, and a gradual recovery in investment. This improvement is notable given the challenging global backdrop – and reflects stronger domestic fundamentals in key economies.

Structural constraints remain binding, and global risks to the growth outlook remain elevated

However, structural constraints remain binding, including limited fiscal space, elevated debt servicing burdens, weak revenue mobilization, and ongoing global trade uncertainty, all of which continue to cap upside potential for SSA growth.

Notably, global risks to the growth outlook remain elevated. Potential shifts in US Federal Reserve policy could reverse portfolio flows to frontier and emerging markets, while heightened geopolitical tensions, particularly in the Middle East, could impact oil prices and global financial conditions. Persistent trade frictions and weaker external demand could also weigh on export performance.

Figure 1: IMF vs SBR GDP growth forecasts



Source: IMF; Standard Bank Research

The African Growth and Opportunity Act (AGOA) has been a cornerstone of US SSA trade relations since 2000, granting eligible African countries duty-free access to the US market for thousands of products across textiles, agricultural exports, and manufactured goods. This preferential access has supported job creation, export diversification, foreign direct investment, and structural integration into global value chains for beneficiary economies such as Kenya, Lesotho, Ethiopia, and others.

AGOA's prior 10-y renewal lapsed on 30 September 2025, creating immediate uncertainty for exporters facing the re-imposition of Most Favoured Nation (MFN) tariffs of roughly 10-15%, compared with previously negligible duties under AGOA. Without renewal, industries such as textiles, horticulture, and processed foods across multiple African economies risked loss of competitiveness, reduced export volumes, and job cuts, particularly where apparel and agricultural exports are significant.

However, positively, in January 2026, the US House of Representatives overwhelmingly passed the AGOA Extension Act, which seeks to extend AGOA through 31 December 2028. The Bill would also allow retroactive duty-free treatment for qualifying goods exported to the US between the September 2025 expiry and the date the law is enacted, mitigating short-term losses from the lapse.

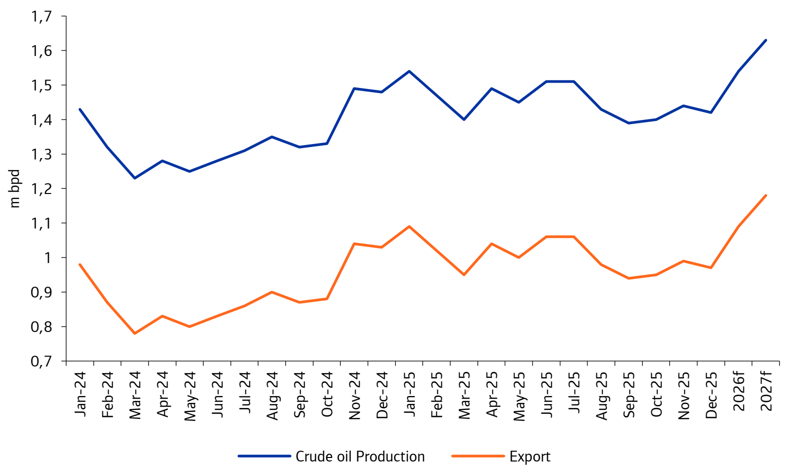
The legislation now moves to the US Senate for approval, and once passed there, it will require the signature of the President to become law. Admittedly, Senate action is the critical next step, with debates expected on eligibility criteria, special rules of origin (particularly apparel and third-country fabric provisions), and broader US trade strategy towards Africa.

Nigeria's macroeconomic environment has shown clearer signs of stabilization, with inflation moderating and the NGN strengthening against the USD. These developments have helped anchor inflation expectations, improve investor sentiment, and support a gradual recovery in economic confidence. We expect GDP growth in Nigeria to rise further to 4.0% y/y in 2026, from an expected 3.8% y/y in 2025, supported by both oil and non-oil sectors.

Oil production and export revenues remain central to Nigeria's growth outlook. While crude output has been volatile due to logistical challenges, pipeline disruptions, and OPEC+ production quotas, efforts to stabilize production through improved security and upstream investment are expected to support output into 2026. Crude oil production excluding condensates rose to an average of 1.45 mbpd in 2025, from

1.34 mbpd in 2024. We expect production to increase to 1.54 mbpd in 2026 and 1.63 mbpd in 2027.

Figure 2: Nigeria crude oil export and production (excluding condensates)



Source: Central Bank of Nigeria; Standard Bank Research

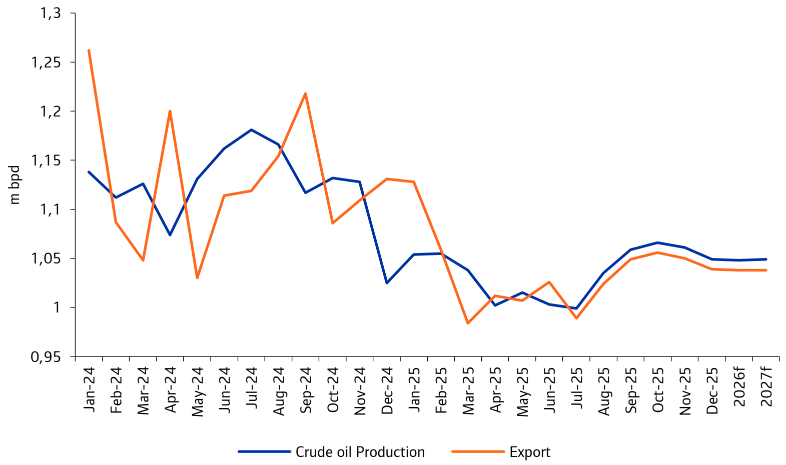
The Dangote Refinery represents a structural positive for growth. By materially expanding domestic refining capacity, the refinery reduces fuel import dependence, improves the trade balance, and alleviates pressure on foreign exchange demand. Beyond direct output gains, the refinery generates significant multiplier effects across petrochemicals, transport, logistics, manufacturing, and services, supporting employment and non-oil GDP growth through strong backward and forward linkages.

However, key downside risks for growth in Nigeria include persistent power supply constraints, renewed security disruptions in the Niger Delta, fiscal slippage ahead of the 2027 elections, and volatility in global oil prices.

Similarly, Angola's economy also remains heavily dependent on the hydrocarbon sector, with oil revenue underpinning fiscal and external balances. We see growth at 3.4% y/y in 2026, from 2.2% y/y in 2025.

Oil output underperformed in 2025, continuing a multi-year pattern of gradual decline driven by natural depletion in mature fields, delayed investment decisions, and maintenance challenges. While Angola remains one of Sub-Saharan Africa's largest oil exporters, production has struggled to consistently exceed recent levels, limiting the sector's direct contribution to growth despite supportive oil prices. Oil production is expected to average 1.04 mbpd in 2025, down from 1.12 mbpd in 2024.

Figure 3: Angola crude export and production



Source: Agência Nacional de Petróleo Gás e Biocombustíveis; Ministério das Finanças; Standard Bank Research

Looking ahead, the near-term outlook for oil production is broadly contingent on the execution of new offshore projects and enhanced recovery initiatives. The authorities have stepped up efforts to attract upstream investment through licensing rounds and fiscal incentives, but the payoff is likely to be gradual. As such, the oil sector is expected to remain a stabilizing, rather than accelerating, force for growth in 2026, anchoring fiscal revenue and external balances rather than driving a strong growth expansion. We see oil production increasing marginally, to 1.05 mbpd in 2026.

Beyond oil, macroeconomic conditions are becoming more supportive of domestic demand

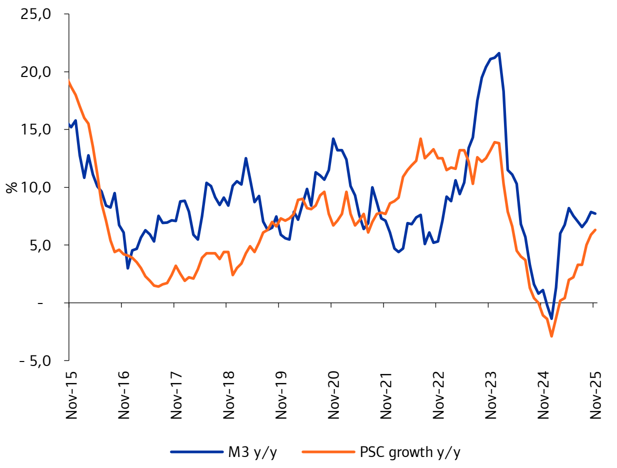
However, beyond oil, macroeconomic conditions are becoming more supportive of domestic demand. Inflation, which had been elevated in recent years due to currency depreciation and food price pressures, is expected to continue easing into 2026 as exchange rate stability likely persists and monetary policy remains relatively tight. Such a disinflation trend should begin to provide tailwinds to private consumption, supporting real household income and easing pressure on purchasing power.

Moreover, Angola secured funding from the US International Finance Development Corporation (DFC) and the South African DBSA for an upgrade of the Lobito corridor. Further, the government launched in 2025 an international public tender for a 30-y concession of the Namibe corridor, where a private operator will manage the 855km Moçâmedes - Menongue railway in southern Angola, linking the port of Namibe with Angola's mineral and agriculture-rich interior.

Downside risks for Angola's growth outlook include lower oil prices, which would reduce net exports, slower-than-expected upstream investment, and fiscal pressures should oil revenues disappoint. Crucially, upside potential for growth would require a more decisive turnaround in oil output and faster progress in non-oil sector development, particularly for key job creating sectors such as agriculture, manufacturing, and services.

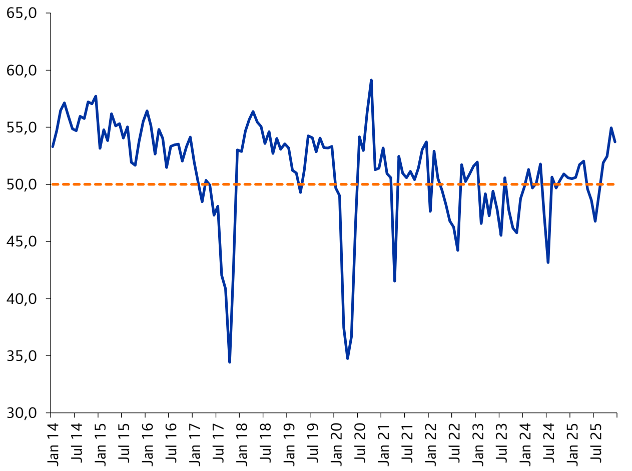
Kenya's growth outlook over 2026 is increasingly constructive, with growth expected to rise to 5.3% y/y, from an expected 5.1% y/y in 2025 and 4.7% y/y in 2024, underpinned by improving macroeconomic stability, a recovery in private sector credit, and a renewed pipeline of public and private investment.

Figure 4: Kenya private sector credit and M3



Source: Central Bank of Kenya

Figure 5: Kenya PMI index



Source: Bloomberg

The fuel levy securitization, which enabled the government to clear significant arrears owed to road contractors, has played a pivotal role in stabilizing the construction sector and improving cash flows across the broader economy. This should bode well to reduce non-performing loans in construction and allied sectors – and should continue to support a moderate recovery in private sector credit growth, which recovered to 6.3% y/y in November 2025, from 2.2% y/y in June 2025, an average contraction 1.3% y/y in Q1:25.

High-frequency indicators reinforce this improving trend. The Stanbic Bank Kenya PMI readings point to a sustained expansion in private sector activity, with output, new orders, and employment improving at their fastest pace since 2022. The breadth of the recovery spanning services, construction, and manufacturing, implies that growth momentum is becoming more entrenched, rather than narrowly driven.

Growth in Kenya will also likely be supported by ongoing and planned infrastructure investments, notably construction related to the AFCON 2027 preparations, including the Talanta Stadium, upgrading the Rironi-Naivasha-Mau Summit corridor, the extension of the Standard Gauge Railway (SGR) to Naivasha, Kisumu and Malaba and the expansion of the Jomo Kenyatta International Airport (JKIA). These projects are expected to provide near to medium-term stimulus through construction activity, while delivering medium-term productivity gains in transport, tourism, and services.

Table 1: Kenya infrastructure projects

	KES in billion	USD in million
Completion of Talanta Stadium	44.7	346.5
Completion of the Bomas International Convention Complex (BICC)	31.5	244.2
Jomo Kenyatta International Airport (JKIA) modernization	264	2 046.5
Standard Gauge Railway (Naivasha - Malaba)	648	5 023.3
Dualing of Rironi- Mau Summit Road	172	1 330.0

Source: Standard Bank Research

Macroeconomic conditions have also improved meaningfully in Kenya. Inflation remains subdued, supported by stable food prices and a relatively firm KES. This stability underpins household consumption, lowers input cost uncertainty for firms, and supports capital formation. Importantly, we expect that this macro stability will persist through much of 2026, providing a supportive backdrop for growth.

However, despite the favourable outlook, weather represents a key downside risk. Kenya has benefited from nearly two consecutive years of exceptionally strong rainfall, which has boosted agricultural output, supported rural income, and helped contain food inflation. However, this raises the risk of mean-reversion in 2026, particularly if rainfall normalizes or falls short.

This risk is material given the large weight of agriculture in Kenya's GDP, its importance for employment, and its role in anchoring food prices and inflation expectations. Early indications of a delayed short rains season in late 2025 warrant close monitoring, as weaker agricultural performance in 2026 could weigh on growth.

Another downside risk stems from social tensions, particularly youth-led protests that have occurred intermittently over the past two years. High youth unemployment, cost-of-living pressures, and perceptions of unequal economic opportunity remain sensitive issues – and could flare up as the 2027 election cycle approaches.

That said, the growth impact of this risk may be partly mitigated by policy incentives. Historically, respective Kenyan governments have tended to adopt more growth-supportive fiscal stances ahead of elections. In this context, the authorities are likely to keep taxes unchanged or selectively lower them, rather than pursue aggressive consolidation. Such an approach would help cushion household income, support consumption, and reduce the risk of sustained unrest, even if it slows the pace of fiscal adjustment.

Uganda's economy posted robust growth in FY2024/25, at 6.3% y/y, driven by strong agriculture, rising household consumption, and foreign direct investment. Coffee exports surged, supporting foreign exchange stability and rural incomes, underscoring the economy's resilience. We see GDP growth rising to 6.7% y/y in FY2025/26 and 7.1% y/y in FY2026/27.

The imminent start of oil production, which is expected from late 2026 into early 2027, represents a structural growth opportunity. Upstream development in the Tilenga and Kingfisher fields and the East African Crude Oil Pipeline (EACOP) are central, while planned ancillary infrastructure, including the Hoima refinery and feeder transport networks, will create jobs, investment spillovers, and improve net exports. Oil production is expected to lift GDP growth above 7.0% y/y over the medium term.

However, notable downside risks remain to Uganda's growth outlook if there are delays in oil production or associated infrastructure completion. Also, weather variability remains key, which could affect coffee production, while global risk deterioration could negatively influence portfolio inflows and place pressure on the UGX.

Mozambique's growth outlook is improving gradually after a period of weakness, with GDP growth expected to recover to 1.1% y/y in 2026, following a likely slowdown in 2025 to 0.7% y/y which was driven by delayed LNG investments and domestic disruptions. Near-term activity is being supported by a recovery in services and easing inflation pressures, although tight financial conditions, ongoing FX liquidity shortages and limited fiscal space continue to constrain domestic demand and private sector activity.

Importantly, the medium-term outlook is anchored by the revival of Mozambique's LNG sector, following TotalEnergies' decision to lift force majeure on the USD20bn LNG project in Cabo Delgado. While first LNG production is now expected from 2029 onwards, the restart of construction represents a significant boost to investment, employment, and future foreign exchange inflows. Offshore and floating LNG projects, including Eni's Coral South project, continue to provide near-term export revenue, offering some support to external balances ahead of the onshore ramp-up.

Once operational, LNG exports are expected to materially boost net exports, strengthen the current account, and raise fiscal revenues, with spillovers into construction, logistics, and services. The resumption of LNG investment also signals renewed investor confidence, improving Mozambique's medium-term growth trajectory.

However, risks remain elevated. These include potential project execution delays, lingering security concerns in Cabo Delgado, and high public debt that constrains fiscal flexibility. The cost escalation arising from the prolonged force majeure period, including higher financing costs, contractor remobilization expenses, and renegotiated project terms, could weigh on project economics and delay further construction ramp-up. In addition, persistent FX liquidity shortages could continue to disrupt imports of intermediate goods, limit private sector expansion, and dampen non-extractive growth. Weather-related shocks, such as droughts and cyclones, pose further risks to agricultural output and macroeconomic stability.

Agriculture accounting for near 25% of GDP and employing over 70% of the work force, remains heavily exposed to climate shocks, which have potential to constrain agricultural output and depress household income.

Further, Mozambique experienced one of the most severe floods in years, in January 2026, which has created a humanitarian situation, destroyed crops and infrastructure, and will likely see further foreign exchange liquidity pressure in the short term, and pressurise the fiscus, all implying strong headwinds to the ongoing slow growth recovery.

Zambia's growth outlook for 2026 remains constructive, following a stronger performance in 2025 driven by improving weather conditions and a rebound in agricultural output after earlier drought-related disruptions. Better rainfall supported rural income, food supply, and inflation dynamics, while easing pressure on household consumption. We see GDP growth rising to 6.2% y/y in 2026, from an expected 5.1% y/y in 2025.

The mining sector, particularly copper, remains the central growth anchor. Elevated copper prices and improved investor sentiment have supported increased capital expenditure, mine expansion, and higher production at existing operations. With global demand for copper underpinned by the energy transition, investment and output are expected to remain relatively strong into 2026, supporting net exports, fiscal revenue, and foreign exchange inflows.

Growth prospects may also be influenced by fiscal dynamics ahead of the 2026 elections. While political incentives could support higher government spending, fiscal policy remains constrained by debt restructuring commitments and IMF programme targets. As a result, any pre-election fiscal expansion is likely to be measured, limiting the scale of demand-side stimulus relative to past cycles.

However, electricity supply disruptions, driven by hydropower dependence and climate variability, continue to weigh on mining, manufacturing, and the services sub-sectors. But positively, power availability has improved relative to earlier shortages. Yet, intermittent load-shedding remains a drag on productivity and private investment.

Ghana's growth outlook for 2026 remains favourable, building on strong momentum in 2025, when growth exceeded earlier IMF expectations. We see GDP growth rising to 5.9-6.1% y/y in 2026, from an expected 5.6-5.8% y/y in 2025. Expansion in 2025 was driven by robust performance in the gold mining sector and a rebound in cocoa production, supported by improved weather and sector reforms.

The mining sector remains the primary growth anchor. Continued investment in large-scale gold operations, alongside improved governance following the establishment of the Goldbod, should sustain output. Ongoing formalisation of small-scale mining should curb illegal mining, reduce environmental damage, and help restore agricultural land previously degraded. This will likely support cocoa productivity and broader agrarian growth.

Growth will likely further be supported by ongoing infrastructure investment, including the Accra–Tema Motorway expansion, upgrades to the Tema Port and logistics corridor, road rehabilitation under the Eastern and Western Corridor projects, and continued investment in energy infrastructure. These projects will help ease transport bottlenecks, support trade, and improve supply-chain efficiency, supporting medium-term productivity gains.

Macroeconomic stability has also improved markedly. Disinflation, fiscal consolidation, and debt restructuring have strengthened policy credibility and should support private consumption and investment in 2026.

However, a sharp decline in gold prices could weaken export receipts, fiscal revenue, and mining investment, placing renewed pressure on the balance of payments. Cocoa output remains exposed to weather shocks and disease risks, while tighter global financial conditions could trigger capital outflows and exchange rate pressures, thereby slowing growth momentum, which has been robust.

Jibran Qureishi[#]

[#] This material is "non-independent research". Non-independent research is a "marketing communication" as defined in the UK FCA Handbook. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

South Africa politics 2026

Introduction

As 2026 begins, SA appears to have the wind at its back

As 2026 begins, SA appears to have the wind at its back. Though last year was politically and geopolitically noisy, it ended positively for SA, with a 'turning point' narrative gaining traction through various political, economic and institutional developments.

Looking ahead, the central question for the year is whether this progress can be sustained, converting fragile momentum into more lasting change. Or whether, as in key prior moments during President Ramaphosa's tenure thus far, a potentially catalytic opportunity will be squandered, further deepening SA's economic malaise.

We hold a broadly positive view for the year

SA is better equipped now than it was during the two prior Ramaphosa-era bouts of market optimism to sustain momentum in the year ahead

For various reasons, we believe that SA is better equipped now than it was during the two prior Ramaphosa-era bouts of market optimism (2018's 'Ramaphoria' and 2024's GNU boost, both of which were short-lived) to sustain momentum in the year ahead.

Our view in this regard is based on various factors.

We assign a 65% probability on the GNU holding together this year

- **GNU durability.** We assign a 65% probability on the GNU holding together, in its current form, throughout the year ahead. We base our view principally on the incentives that still exist for key GNU parties and party leaders to sustain their current partnership. Notably, GNU parties are still polling relatively well (Figure 1). Further, SA's building 'turning point' narrative, emphasised by ongoing economic recovery and fiscal consolidation, bolsters the GNU and aids its durability.

We do not expect US-SA diplomatic discord to be as pronounced a source of concern for investors in 2026 as it was in 2025

- **Less investor anxiety over US-SA strains.** We do not expect US-SA diplomatic discord to be as pronounced a source of concern for investors in 2026 as it was in 2025. Amongst other factors, our view is based on the normalisation (by investors) of a high degree of US-SA diplomatic stress (relative to early-2025); the shifting in President Trump's geopolitical priorities (given the 'Donroe Doctrine' and the approaching US mid-term elections); and the reality that many of the prominent levers that the US had to place greater diplomatic pressure on SA (higher tariffs, the withdrawal of PEPFAR funding, the withdrawal of climate funding, the expulsion of SA's Ambassador, the introduction of anti-SA bills in Congress, and other factors) have already been pulled.

Operation Vulindlela retains strong political support from the GNU. And there are ongoing efforts to sustain and deepen government-business cooperation in key areas of reform

- **Ongoing and robust political support for the structural reform agenda.** Operation Vulindlela retains strong political support from the GNU. And there are ongoing efforts to sustain and deepen government-business cooperation in key areas of reform.

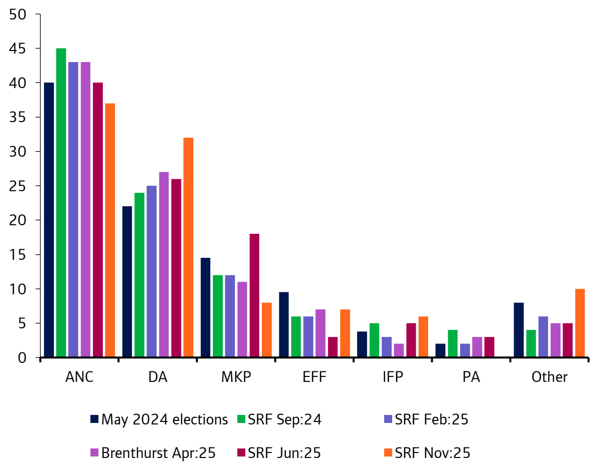
- **Some progress in crime and local government.** These remain two of the areas in which President Ramaphosa has, in our view, been most deficient in providing executive reform steer since 2018. Nonetheless, there is a chance for some (albeit modest) progress this year, driven by the outcomes of the Madlanga and Parliamentary inquiries into police corruption and criminality, and the looming Local Government Elections (LGEs), which is spurring some reform action across key metros.

- **A relative benign labour relations outlook.** There are no major collective bargaining negotiations due in 2026 which could derail current economic and SOE reform momentum, in our view. Further to this, organised labour has become a far less pronounced source of policy and political risk over the past decade, as evidenced by the reduction in the average workdays lost to strike action during this time, relative to the 2009 – 2015 period (Figure 2).

- **Contained risk of wider social unrest.** Despite various socio-political and economic faultlines, SA is not, in our view, likely to succumb to systemic unrest in the foreseeable future.

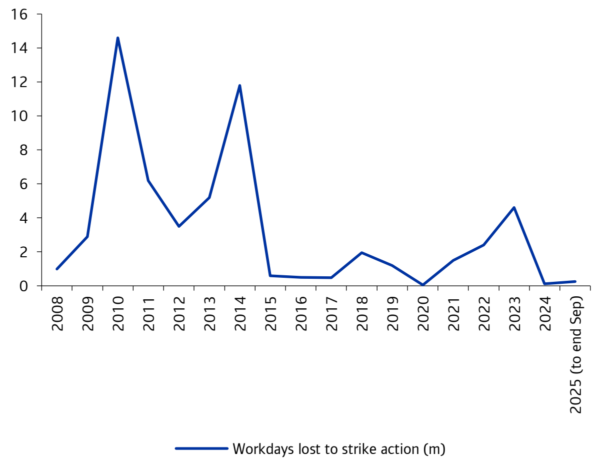
- **DA maturation.** As we outlined in our assessment of the state of the party last year, the DA is well-poised to elevate its share of the vote in the upcoming LGEs and in the 2029 national and provincial elections. This could offer a centrist buffer in the context of the ANC's ongoing decline (as we discussed in this assessment of the ANC last year), which, together with the potential passing of the Coalitions Bill this year, could enhance local government stability in the 2027-2032 period.

Figure 1: GNU parties are polling relatively well



Sources: IEC; SRF; Brenthurst Foundation; Standard Bank Research

Figure 2: An ongoing moderation in labour unease



Sources: Andrew Levy Publications; Standard Bank Research

Key risks to the outlook

There are, as ever, considerable risks to the outlook this year.

Though we expect the GNU to hold, it is unlikely to strengthen into a more coordinated and cohesive coalition this year

- **GNU immaturity, and the potential strains that will be elicited by the LGE campaign**. Though we expect the GNU to hold, it is unlikely to strengthen into a more coordinated and cohesive coalition this year. As such, we expect periodic bouts of GNU unease over unresolved issues, including foreign policy misalignments, the lack of a proper dispute resolution mechanism, and the pressures emanating from the reality that GNU parties will campaign vigorously against each other in the build-up to the LGEs.

The Trump Administration's ongoing attempts to upend the post-WW2 global order underline what Foreign Policy describes as the current 'Age of Chaos'

- **Profound geopolitical uncertainty**. The Trump Administration's ongoing attempts to upend the post-WW2 global order underline what Foreign Policy describes as the current 'Age of Chaos'. There is, also, the potential for a deeper unhinge in US-SA relations, particularly in the context of the SA government's lack of coordination in managing prominent flashpoints.

- **Ongoing police and local government dysfunctionality.** Concerns over crime and corruption are exacerbated by the tightening grip of organised criminal syndicates, as is being detailed in the Madlanga Commission. Rising service delivery protest action, which touched pre-COVID highs in 2025, is increasingly driven by water shortages, which in turn speak to municipal decay in prominent and populous economic nodes.

- **Ongoing concerns over the rule of law**. This given a persistently misfiring NPA, and weakness across the criminal justice system more broadly. It remains deeply disconcerting, for instance, that the SAPS murder detection rate currently sits at around 12% (implying that 88% of murders are unresolved). And that SA ranks 7th in the GI-TOC Criminality Index, reflecting the deepening organised crime crisis that is affecting the country.

Further out, investors remain deeply concerned about the ANC's succession battle

- **Threats of politically orchestrated violence in provinces such as KZN and Gauteng.** Though this is not our base case view, efforts by the MKP to unsettle the KZN provincial government, as well as wider risks of unrest related to public ire over water supply failures and a lack of progress in the fight against crime. Such tensions could be exploited by political elites in the context of the upcoming LGEs, too.

- **ANC and DA succession.** Further out, investors remain deeply concerned about the ANC's succession battle, with an emphasis on the risks associated with Deputy President Paul Mashatile's potential ascent to the party leadership at that time. For its part, and as reflected by the damaging public spat between DA leader John Steenhuisen and former Federal Finance Chairperson Dion George, the DA could squander the opportunities it faces in the current moment, shrinking under party factionalism and the election of a staid set of leaders in April this year.

The potential materialisation of these risks could open greater space for populist anti-Constitutionalist parties (led by the MKP and the Patriotic Alliance, and to some extent the EFF) to extend their gains in the next LGEs, and 2029 elections, complicating coalition options and clouding the policy and institutional outlook.

- To this broad point, GNU strains could also deepen should NUMSA and FAWU rejoin COSATU, bolstering the call for the ANC to coalesce nationally with "progressive" parties such as the EFF and MKP. Government's lethargic approach towards land reform continues to expose the country to these vulnerabilities, too.

- Should the GNU split apart, we now assign an equal weight (15%) to the 'GNU lite' scenario (in which the ANC forms a smaller coalition, inviting parties such as Action SA and BOSA into the GNU) as we do to a scenario in which the EFF replaces the DA in the GNU (Figure 3).

Figure 3: GNU scenarios

- **Scenario 1: GNU holds, despite ANC/DA tensions (65% probability)**
  - This remains the most likely option given the various incentives in place for the ANC, DA, IFP, PA and their leaders
  - However, ANC and DA are tactically tolerating each other, rather than building a genuine partnership
- **Scenario 2: 'GNU lite' – DA leaves and ANC forms small party GNU (15% probability)**
  - Action SA, BOSA and the NCC could be invited to join the GNU, DA (and possibly the FF+) leave
  - GNU would then hold 203 seats. PA becomes the kingmaker
  - DA could support this 'GNU lite' selectively in Parliament (**confidence and supply**)
- **Scenario 3: EFF finds a way in (15% probability)**
  - This would be premised on the DA and FF+ exiting the GNU and the EFF replacing them
  - There would be no DA 'confidence and supply' option in this scenario
- **Scenario 4: ANC enters a coalition with the MKP (5% probability)**
  - At least until President Ramaphosa is replaced as ANC president, this scenario is, in our view, entirely unlikely

Source: Standard Bank Research

What could shift the needle more positively in 2026?

A positive outcome in the DA and ANC leadership contests in 2026 and 2027 would also considerably bolster the outlook, in various ways

Our view is that current momentum will be sustained, and the most prominent risks broadly contained in 2026. Beyond this, there are various areas in which progress could be deepened, and SA's political and institutional path fortified, in the year(s) ahead.

These include (but are not limited to):

- The establishment of a formal coalition agreement which binds the GNU and serves as a template for future governments.
- Deep and meaningful SAPS and security reform (as we have long argued to be necessary).
- A considerable improvement in government policy and policy coordination, with an emphasis on improvements at departments such as DIRCO, DTIC, and the DMR).
- An inclusive and strategic reflection of SA's positioning in the new geopolitical era, which then informs deep and necessary reforms at DIRCO and across SA's foreign representation.
- A practical and progressive resolution to debilitating political and public disputes over ANC/government policies on BEE, NHI, and land expropriation without compensation.
- More material progress by the state in delivering accountability in high-profile corruption cases.

- A positive outcome in the DA and ANC leadership contests in 2026 and 2027 would also considerably bolster the outlook, in various ways.

Key events, key appointments, key pieces of legislation

There are a variety of key events, appointments, and legislative processes that will focus political attention over the course of the year.

- **Key events.** (1) The Budget (February); (2) the DA's elective congress (April); (3) the ongoing Madlanga and Parliamentary inquiries (both of which are due to conclude in March, though extensions could be granted); (4) the Local Government Elections (which must be held between November this year and the end of January 2027); and (5) various ANC regional and provincial elective conferences (including for the party's Gauteng, Eastern Cape and Limpopo leadership), all of which will have a meaningful impact on the ANC succession battle. From a geopolitical perspective, there are various prominent events that are worth noting from an SA perspective, including the US mid-term elections (November) and the G20 Leaders' Summit in Miami in December. US Ambassador Leo Brent Bozell III is also due to arrive in SA next month (February), in time to attend the Mining Indaba in Cape Town.

- **Key pieces of legislation and court processes.** Focus will rest on important pieces of legislation which the president needs to assent to (such as the Public Service Amendment Bill, which could offer vital support, in time, to the "professionalisation" of the public sector), or which will feature prominently in Parliament (the Coalitions Bill; the Public Service Commission Bill; and the Public Procurement Amendment Bill). Beyond this, attention will fall on legal challenges against the NHI Act (on 26 February, the Constitutional Court will hear an application by the Minister of Health to consolidate the cases brought by six stakeholders challenging the constitutionality of the NHI Act into one application); as well as the DA's court challenges against the Expropriation Act and the Employment Equity Amendment Act. Separately, the Constitutional Court will also likely rule at some point this year on the EFF's application for a review of Parliament's decision to reject an Independent Panel Report which found that there was potentially a *prima facie* case against President Ramaphosa in the Phala Phala matter. As we outline in this report, we are also monitoring various prominent corruption trials and investigations, though we expect delays in these matters to continue to be pervasive.

- **Key appointments.** In the governance space, NDPP Shamila Batohi will step down later this month, and will be replaced by former SIU head Andy Mothibi (we are cautiously optimistic about this appointment). Separately, SARS Commissioner Edward Kieswetter's term comes to an end in April, necessitating his replacement (this, in our view, is an enormously important decision given the centrality of the SARS turnaround in SA's post-Zuma rebuilding effort). There are also critical vacancies that need to be filled across the senior structures of the SAPS, including at the helm of SAPS Crime Intelligence. KZN Police Commissioner Nhlanhla Mkhwanazi's term ends in March this year, too. President Ramaphosa may choose to redesign his Cabinet this year, too, though the timing of such announcements is virtually impossible to predict.

In sum

By harnessing current tailwinds and averting some of the more prominent political and geopolitical risks which scuppered momentum in 2025, we believe that SA could see sustained progress in key areas over the course of this year.

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Should this be the case, perceptions of political risk in SA could lessen, offering greater support to investment, while allowing Operation Vulindlela to make additional headway in embedding key structural reforms, thus shielding them from potential political interference by future coalition governments.

However, for a more lasting improvement to the outlook, greater attention must be paid to areas of pronounced and ongoing failure or distress. Meaningful progress in these areas, which we have outlined above, offers the potential to structurally fortify the political outlook, diminishing the binary aspect of key medium-term events, including the LGEs, the ANC's 2027 national conference, and the 2029 national and provincial elections.

Conversely, a failure to address these deeper cleavages will leave SA consistently exposed to the risks that we outline in this report, as well as those emanating from what Canadian Prime Minister Mark Carney so lucidly expressed in his WEF Davos speech this week as a "rupture, not a transition" in the world order.

Simon Freemantle[*]

[*] Independent analyst certifications and important disclosures are in the disclosure appendix. For other important disclosures, please refer to the disclosure & disclaimer at the end of this document.

South Africa macroeconomics 2026

Promising improvement

Large swings in global economic forecasts

The global economy last year endured extreme uncertainty due to geopolitical and trade frictions. This impelled large swings in global economic forecasts. The economic weakness that was feared initially failed to show up, with the initial lowering of global growth forecasts ultimately reversed. Still, the prevailing global uncertainty likely weighed on longer-term investment decisions, which for South Africans were exacerbated by a sharp worsening in SA's relationship with the US. Uncertainty in SA was also exacerbated by elevated domestic concerns, underpinned by the unprecedented struggle to pass a Budget, which increased anxiety about the likely durability of the Government of National Unity (GNU) and, in turn, the current policy framework and the reform process that is underway.

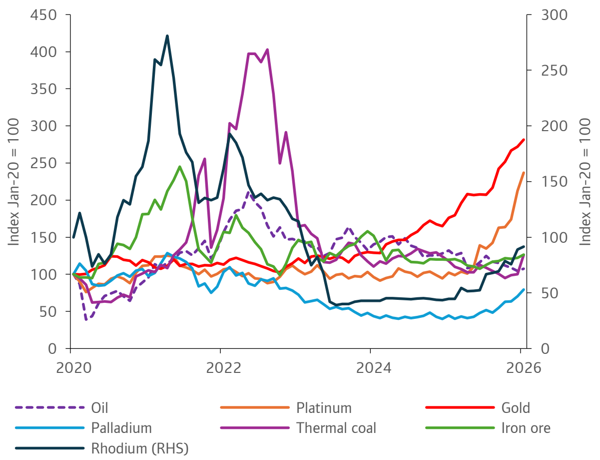
The terms of trade may prove a defining determinant of SA's economic performance in 2026

For SA, the fragile and uncertain global growth backdrop, however, was counteracted by an estimated double-digit spike in SA's terms of trade (prices of exports relative to prices of imports). Indeed, we estimate that SA was one of the emerging markets that benefited the most from spikes in (select) commodity prices. The terms of trade may prove a defining determinant of SA's economic performance in 2026.

Figure 1: SA terms of trade spiking

Source: Bloomberg

Figure 2: Select commodity prices have surged

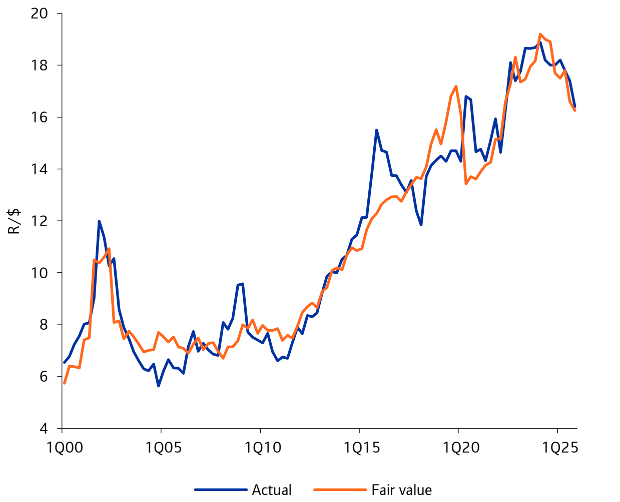


Source: Bloomberg

Our preferred valuation metrics imply that the rand is fairly valued for the prevailing fundamentals

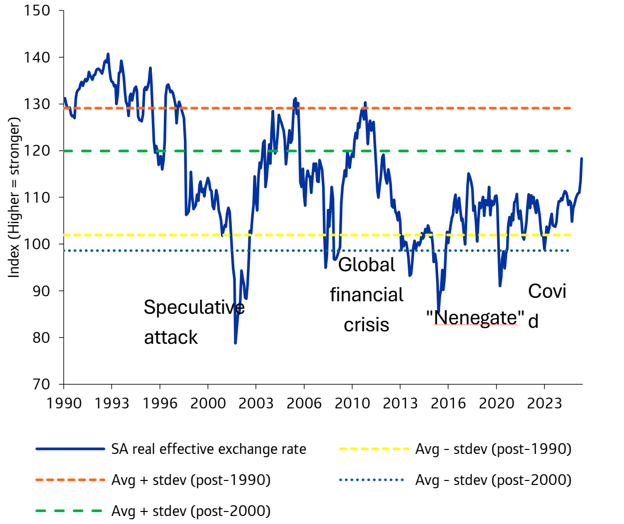
Sharply higher export commodity prices will boost SA exports, economic growth and tax revenue, and is, in our view, the major reason for the rand exchange rate's sharp appreciation over the past year, from nearly R20/$ at the weakest, to stronger than R16/$ early this year. Our preferred valuation metrics imply that the rand is fairly valued for the prevailing fundamentals.

Figure 3: Rand exchange rate seems reasonably valued for the prevailing fundamentals



Source: Bloomberg, Standard Bank Research

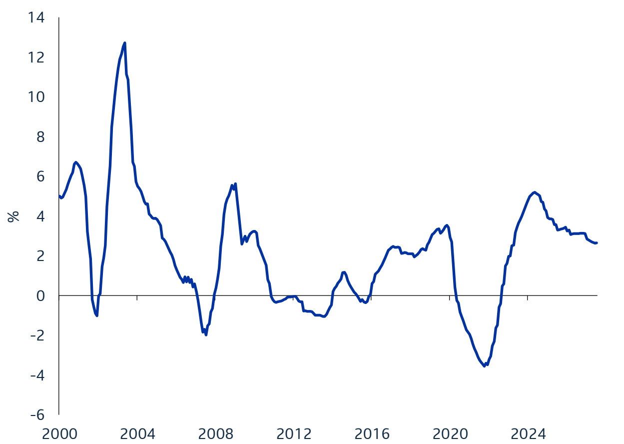
Figure 4: The inflation-adjusted trade-weighted rand is a standard deviation stronger than its long-term average, adversely affecting competitiveness of some firms



Source: SARB, Bloomberg, Standard Bank Research

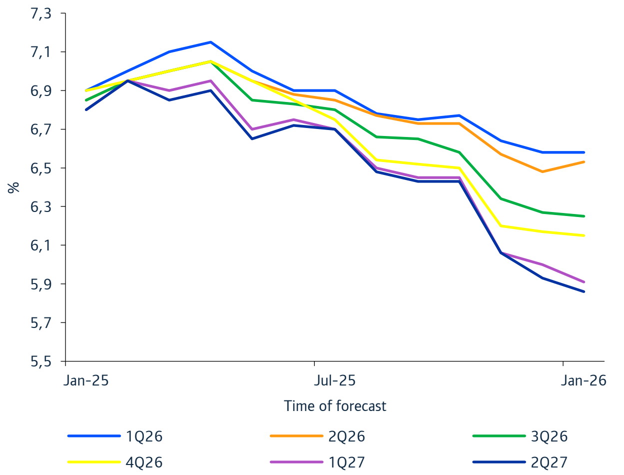
A stronger rand should prove disinflationary, thereby assisting the SARB's pursuit of its new (lower) 3% inflation target (with a one percentage point tolerance to either side). Even before the recent rand strength, however, inflation was quite benign, with SA's inflation forecasts repeatedly lowered. We attribute this partly to benign global inflation. Indeed, emerging market inflation generally declined over the past year, and their aggregate inflation forecasts were revised lower. High domestic real interest rates likely also played a role in curbing domestic inflation.

Figure 5: SA's real policy rate is still quite high



Source: SARB, Stats SA, Standard Bank Research

Figure 6: SA's inflation forecasts have been lowered repeatedly



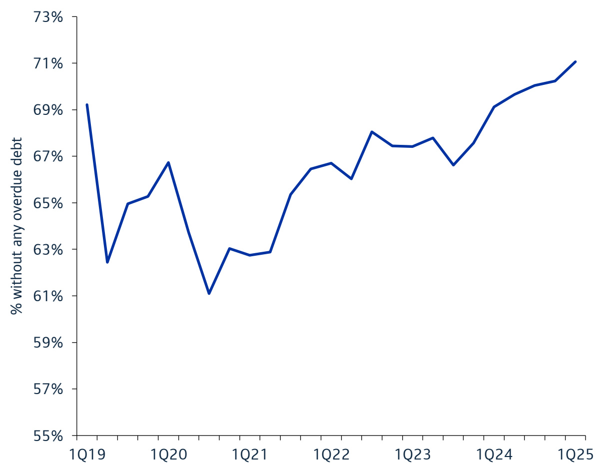
Source: Bloomberg, Standard Bank Research

A favourable inflation outlook

With the inflation forecasts drifting towards the SARB's new lower inflation target in the medium term, there is scope for the bank to reduce the extent to which monetary policy is restrictive. This is also supported by lower and relatively subdued inflation expectations, which should assist in anchoring wage and general price-setting lower. Favourable weather conditions that underpin a benign food inflation outlook, as well as contained oil prices, are also supportive of the favourable inflation outlook. However, the ever-pragmatic central bank may remain cautious about the sustainability of lower inflation, and the persistent inflation forecast risks. The SARB may therefore cut interest rates only gradually. We expect at least a further 0.75% reduction (cumulatively) in the policy rate.

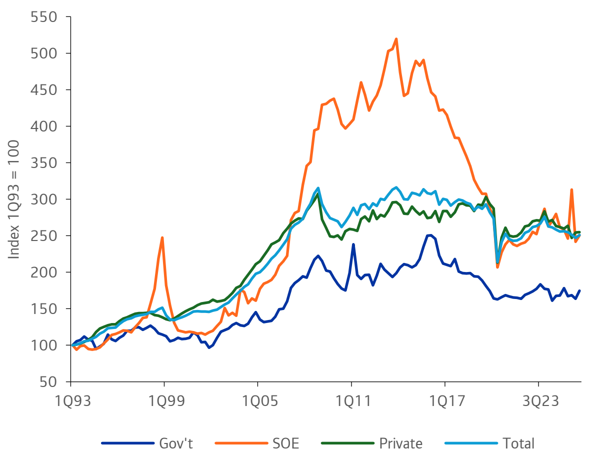
Lower interest rates create a key tailwind to consumers this year, especially as the 2025 impetus from strong growth in government's wage bill should not recur. Further, consumers should benefit from the positive wealth effect of a stronger JSE. Data from one of the credit bureaus show that a growing portion of credit-active consumers do not have any overdue debt, which we interpret as an indication that, generally, consumers are in a reasonable financial position. Following protracted weakness in households' credit growth, they are generally not overly indebted. This is not uniform, though, with lower-income households typically being in a worse financial position (as reflected in a higher proportion of this group having overdue debt).

Figure 7: Growing portion of consumers don't have any overdue debt



Source: Eighty20, XDS, Standard Bank Research

Figure 8: Fixed investment has been weak



Source: Stats SA, Standard Bank Research

We expect slightly lower growth in real household consumption expenditure (HCE) this year than last year. However, our analysis implies that, when the typical lag with which interest rates impact on the economy is taken into account, the rate cuts in this cycle should have a peak impact by the middle of this year. Furthermore, consumers will be supported by the positive wealth effect of the surge in the equity market last year. This, however, should disproportionately benefit the higher income groups that are likely to channel a portion of this windfall into savings.

The rate cuts in this cycle should have a peak impact by the middle of this year

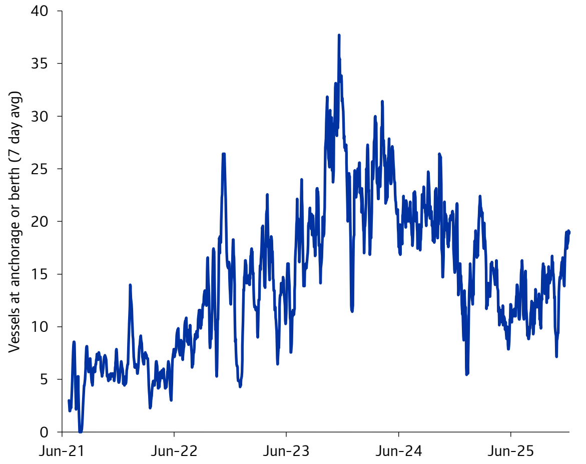
Whether SA's favourable terms of trade adjustment can be sustained, or is unwound, will therefore likely guide many aspects of SA's economic outlook in 2026. However, the momentum with structural reforms, particularly reforms implemented by Treasury and the Presidency's joint Operation Vulindlela reform programme, as well as a suite of policy interventions to accelerate infrastructure spending, will determine whether SA experiences merely a cyclical growth upswing or, ultimately, a more enduring improvement in trend growth.

Merely a cyclical growth upswing or, ultimately, a more enduring improvement in trend growth

Figure 9: Rail freight volumes should continue to improve gradually in the near term; gains from structural reforms may prove protracted

Source: Stats SA, Standard Bank Research

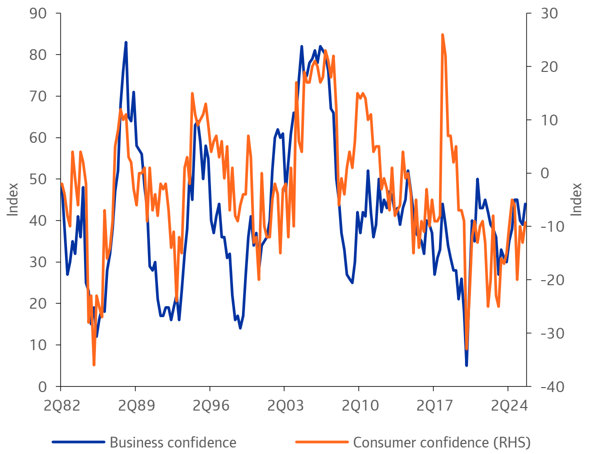
Figure 10: Port delays have improved significantly



Source: SAAF, Standard Bank Research

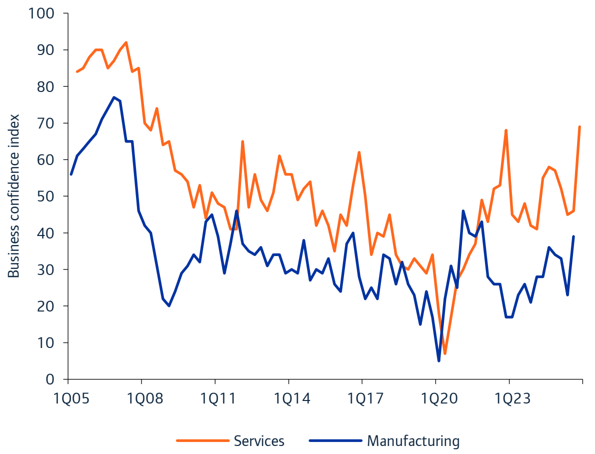
These reforms have already underpinned the improvement in electricity supply, with virtually no loadshedding over the past year. Port delays (as measured in the number of vessels at anchorage or berth) are only around a third of the late-2023 trend. Operation Vulindlela, the joint policy implementation unit of the Presidency and National Treasury, has also implemented other growth-supportive reforms ranging from visa reforms to support tourism and making it easier to import skills, to implementing an online and transparent mining licence application system, to auctioning spectrum. Furthermore, we are cautiously optimistic about government's aim of accelerating infrastructure spending, with a notable ramp-up underway in the infrastructure projects approved by the Budget Facility for Infrastructure (BFI) with financial and project support.

Figure 11: Business and consumer confidence have improved



Source: RMB, BER, FNB

Figure 12: Business confidence varies significantly among different sectors

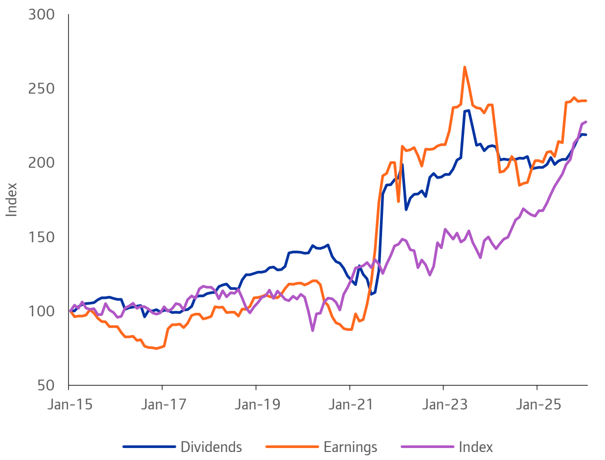


Source: BER, RMB

In response to the policy reforms, improved economic outlook, stronger confidence and recovering profits, fixed investment green shoots have emerged. This includes higher machinery imports, and strong corporate credit growth, which bodes well for the long-awaited recovery in fixed investment. Business sentiment has improved, with the RMB/BER Business Confidence Index rising to slightly above its long-term average in the fourth quarter of 2025. The sentiment improvement is supported by visible improvements resulting from the aforementioned reforms (such as no loadshedding and a marked improvement in rail and port operations).

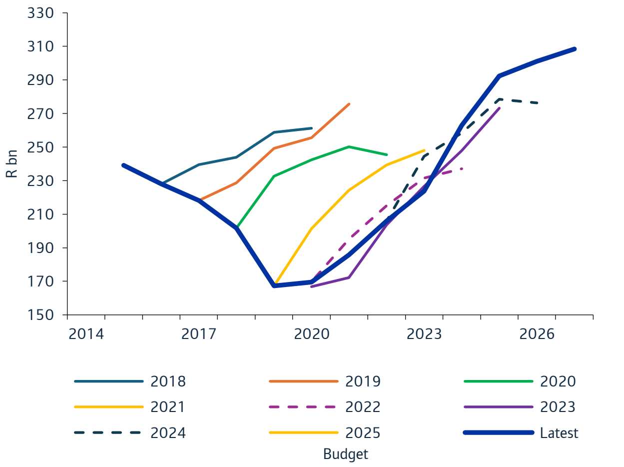
Fixed investment green shoots have emerged

Figure 13: Company earnings and share prices have resurged



Source: IRESS, Standard Bank Research

Figure 14: Public sector infrastructure spending has improved (with less underspending, and some growth underway)

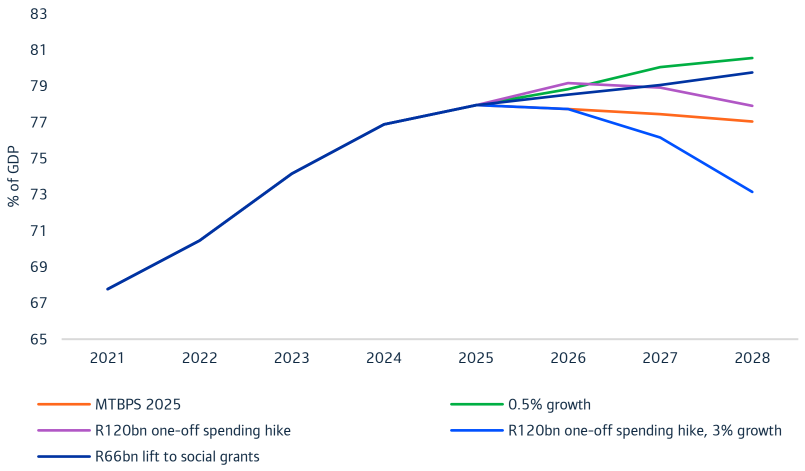


Source: Treasury, Standard Bank Research

Furthermore, sentiment would've been boosted by SA's relatively swift delisting from the Financial Action Tas Force's (FATF) grey list, a sovereign credit rating upgrade by S&P, and clearer indications of government's commitment to restoring SA's fiscal sustainability. We remain constructive about the fiscal prognosis – government has demonstrated its commitment to restoring SA's fiscal sustainability. This should receive additional support from the aforementioned spike in (select) commodity prices, which will likely underpin a meaningful revenue overrun (relative to Treasury's latest forecasts). A fiscal anchor may be introduced to ensure fiscal discipline in future administrations as well.

Constructive about the fiscal prognosis

Figure 15: Government debt scenarios[1] – we expect debt-GDP to stabilise

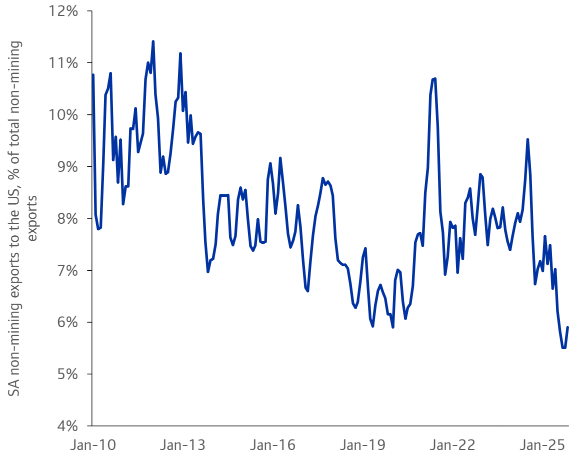


Source: Standard Bank Research, Treasury

Improved sentiment bodes well for private sector fixed investment recovering, which should also benefit from a recovery in company profits. This is very uneven across sectors, though, with strong growth recently in mining and agricultural profits, reasonable growth in many of the services sectors, and persistent weakness in the manufacturing sector. This sector has long been under pressure and characterised by a lack of expansion. It now bears the brunt of the US import tariff hikes; it confronts a stronger exchange rate (without the counteracting benefit of higher commodity prices enjoyed by many mining industries); and, for many industries, the persistent rise in electricity tariffs (they have increased tenfold over the last two decades) is materially reducing competitiveness. For many sectors, poor municipal service delivery has become a binding constraint.

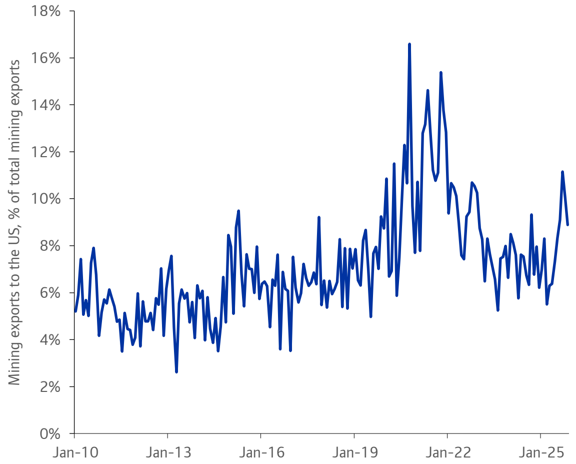
[1] *In this chart, four alternative scenarios are compared with Treasury's latest projections (labelled MTBPS 2025). The first scenario (labelled 0.5% growth) shows the impact if economic growth remains at 0.5% (ceteris paribus). The second scenario shows only the impact of a cumulative R120bn of fiscal injections for SOEs and/or municipalities (Treasury is adamant that it will not provide bailouts for provincial or local government, for illustrative purposes, it is arguably useful to nevertheless consider the impact of indirect, if not direct, fiscal costs from municipal failures). The next scenario demonstrates the impact of R120bn of extra fiscal injections if growth exceeds expectations at a trend of 3%. The final scenario demonstrates the impact of a R66bn per year increase in social grant spending.*

Figure 16: SA's non-mining exports to the US are weaker



Source: SARS, Standard Bank Research

Figure 17: SA's mining exports to the US have increased, underpinning an increase in SA's total exports to the US



Source: SARS, Standard Bank Research

Reforms will determine whether SA's growth trend improves sustainably

The crux is that home-grown reforms have already improved SA's economic prognosis; ultimately, reforms will determine whether SA's growth trend improves sustainably. But, for now, SA is benefiting from a strong global terms-of-trade tailwind, that could provide significant cyclical support. That is, if it endures as we expect, and provided that none of the domestic and global risks, notably a flare-up in geopolitical or trade tensions, or in domestic political and policy uncertainty, materialise.

More detailed forecasts are available on our research portal:
https://ws15.standardbank.co.za/ResearchPortal

Elna Moolman#

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