Prosperity

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Economic and Market Overview
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PODCAST

MARKETS & MEANING



Each month, Sean Ashton, Head of Investments, steps back from the headlines to focus on the forces shaping markets and what they mean for long-term investors.

October 2026 | Growth Meets Higher Rates: What Markets Are Pricing Now
Sean explores the changing relationship between economic growth, higher interest rates and equity markets.

The discussion looks at why US Treasury yields have moved above 5%, whether rising yields represent a genuine threat to equities and what the changing rate environment means for the role of bonds in a balanced portfolio.

Sean then turns to the next phase of the AI investment cycle. With the focus shifting from chips and data centres towards AI agents that can act on behalf of consumers, he explores how products such as Meta's new Muse could begin to disrupt businesses built around consumer inertia and friction. The bigger question is not simply how much AI can do, but what happens when consumers no longer have to do the work themselves.

LISTEN NOW

September was characterised by renewed geopolitical tensions, higher oil prices and a shift towards tighter monetary policy. Despite these pressures, the global economy remained resilient, while markets came under pressure. Below, we summarise the key economic developments, market movements and updates from selected local portfolio holdings.

ECONOMIC UPDATE

The global economy continues to demonstrate remarkable resilience despite elevated energy prices, US tariffs and ongoing geopolitical tensions. This reflects the more adaptable nature of the world economy today, while the ongoing AI-related capital expenditure boom has provided a powerful boost to demand. The fact that recent shocks have not been accompanied by a severe tightening in financial conditions has also helped.

The picture is far from rosy, however. With no end in sight to the Iran War, crude oil prices have pushed above US$100 per barrel again. Refined product prices, especially diesel, have increased even faster than crude prices. This is likely to weigh on household purchasing power and corporate profit margins in the near term.

This will also push headline inflation higher across most major economies. There is limited evidence that these increases have translated into broad-based inflationary pressures. However, this comes at a time when core inflation has remained sticky in the US for several years.

The US Federal Reserve therefore decided to raise its policy rate. At the start of the year, financial markets expected further interest rate cuts. Instead, we now have a global tightening cycle, with the world's most important central bank also participating. This is unlikely to resemble the aggressive hiking cycle of 2022, however, as much of the post-pandemic normalisation is already behind us. Moreover, since the current inflation pressures largely stem from supply-side disruptions rather than strong demand, interest rates are a less effective tool for addressing them.

Sovereign bond yields have risen across developed economies as markets price in rate hikes. Longer-dated yields have also been pushed higher by growing concerns around fiscal sustainability and the large amounts of capital being raised to fund AI investment.

At the start of the year, stronger growth and rate cuts were also expected in SA. Three quarters of the way through the year, this optimistic outlook has not materialised. However, the situation is far from catastrophic.

The local economy faces near-term headwinds from higher fuel prices, and growth expectations for 2026 have been revised lower. Although precious metals prices have pulled back in response to rising global yields, they remain at historically elevated levels, providing near-term support to the local economy. The medium-term outlook remains constructive as structural reforms start to bear fruit.

The SA Reserve Bank hiked rates at its September Monetary Policy Committee meeting. Inflation risks remain tilted to the upside, particularly given rising fuel prices and the uncertain impact of El Niño on food inflation. Nevertheless, with its policy rate now at 7.25%, the Bank can continue to proceed cautiously. As elsewhere, this is likely to be a modest hiking cycle, as inflationary pressures are largely supply-side driven, with elevated petrol and diesel prices likely to contribute to weaker demand.

MARKET UPDATE

Global equity markets weakened in September, with the MSCI World Index declining 1.3%. In the US, the Dow Jones fell 4.3% and the S&P 500 declined 0.5%, while the Nasdaq gained 1.9%. The UK's FTSE 100 fell 2%.

Asian markets were mixed. China's manufacturing PMI improved to 50.1 from 49.8 in August, indicating a return to expansionary territory. Despite this, the Shanghai Composite declined 3.6% and Hong Kong's Hang Seng fell 3.7%. Japan's Nikkei gained 0.7%.

SA equities underperformed global markets, with the FTSE/JSE All Share Index falling 6.7%. Resources were particularly weak, with the Resi-10 declining 11%, while the Indi-25 fell 5.9% and the Fini-15 declined 4.4%. The rand weakened 1.8% against the US dollar to R16.42. Brent crude rose 14.4% to US$103.50 a barrel as geopolitical tensions intensified. Gold declined 6.3% and platinum fell 4.5%.

LOCAL HOLDINGS

Bidcorp

Bidcorp delivered a solid 2026 result, with revenue increasing 2.8% and 5% on a constant-currency basis. Trading profit increased 6.5%, with the margin improving to 5.7%, while headline earnings per share (HEPS) rose 5.4% to R27.01. The total dividend for the year increased 6.9% to R12.40.

Europe was the strongest-performing region, while the UK continued to improve and Africa delivered strong growth. Greater China and Australia and New Zealand remained under pressure. Bidcorp also repurchased 2.6 million shares during the year, equivalent to 0.8% of shares in issue.

Looking ahead, food inflation linked to the Middle East conflict could put some pressure on margins, making continued cost discipline important. At around 14.8 times forward earnings, below its historical average, we believe the valuation remains attractive for a high-quality long-term compounder.

Shoprite

Shoprite delivered another strong FY26 result, with sales increasing 7.2% and diluted headline earnings per share (HEPS) rising 12.2% to R15.27, ahead of expectations. Checkers and Hypermarkets grew sales by 10%, while Shoprite and Usave increased 4.3%.

Sixty60 remained a key growth driver, with sales increasing 34.5% to R25.5bn and accounting for 11.1% of Supermarkets RSA sales. Gross margin improved by 20 basis points to 24.5%, while the final dividend increased 14.1% to 566 cents per share.

Management expects selling price inflation to remain subdued, with growth driven by continued market share gains and 211 new stores planned for the year. Shoprite remains well positioned to gain market share in a constrained consumer environment, supported by its scale, strong brands and growing digital ecosystem. At around 18x forward earnings, slightly below its long-term average, we believe the valuation remains attractive.

BHP

BHP delivered a strong 2026 result, with revenue increasing 15% to US$58.8 billion and earnings before interest, tax, depreciation and amortisation (EBITDA) rising 27% to US$32.9 billion, representing a 59% margin. Underlying earnings per share (EPS) increased 30% to 260 US cents, while net operating cash flow rose 17% to US$21.8 billion. The total dividend for the year was 172 US cents per share.

Copper was the standout, contributing 54% of group EBITDA, while iron ore remained a major cash generator. The US$4.3 billion Antamina silver stream deal strengthened the balance sheet while allowing BHP to retain its full exposure to copper production.

Looking ahead, copper production is expected to remain around 2 million tonnes, with a pathway to more than 305 million tonnes of annual iron ore production by FY28 while reducing costs. We remain positive on BHP's long-term outlook, with growing copper exposure, low-cost iron ore production and disciplined capital allocation providing a strong platform for sustainable earnings and cash flow growth.

Impala Platinum

Impala Platinum delivered a significantly stronger 2026 result, with revenue increasing 58% to R135.1 billion and EBITDA more than quadrupling to R43.6 billion. The group ended the year with adjusted net cash of R22 billion. Refined production increased 5% to 3.56 million ounces, while Impala Rustenburg delivered record production.

Capital expenditure remained disciplined at R7.2 billion, while total dividends for the year reached 1,855 cents per share, equivalent to approximately 82% of adjusted free cash flow.

Looking ahead, refined production is expected to be 3.30-3.50 million ounces in FY27, reflecting the planned Zimplats furnace rebuild and recent safety disruptions at Rustenburg. At around 4 times forward enterprise value to EBITDA (EV/EBITDA), in line with its long-term average, we continue to see value in Implats given the prospect of a tighter PGM market and its strong balance sheet.

OUTsurance

OUTsurance delivered a strong result, with normalised earnings increasing 18.5% to R5.6 billion. Growth was supported by higher premiums and lower claims in South Africa, partly offset by natural peril losses in Australia. Gross written premiums (GWP) increased 15.7% to R40.8 billion, excluding exited operations.

Youi continued to perform well, with GWP increasing 18.5% and net earned premiums (NEP) rising 24.7%. OUTsurance

Ireland reported a R468 million loss but remains on track for monthly breakeven by April 2029. The group also increased its full-year dividend by 22.7% to 291.5 cents per share.

Management remains positive on organic growth, supported by market share gains, expansion of the broker channel and continued efficiency improvements through technology and AI-driven automation. With around 65% of group premiums already generated outside South Africa and Australia and Ireland expected to grow faster than the domestic business, we see an attractive long-term growth opportunity.

Sun International

Sun International delivered a solid first-half result, with total income excluding Table Bay increasing 7.4% to R6.6 billion. EBITDA rose to R1.76 billion, representing a 26.6% margin, while the interim dividend increased 7.6% to 185 cents per share.

Digital gaming remained a key growth driver, with SunBet income increasing 35.5% to R1.18 billion. Land-based casinos grew 1.5% to R3.42 billion, with market share reaching 49%, while hospitality income increased 7.7% to R1.2 billion.

Second-half trading through August remained ahead of the group's full-year guidance of 6% - 8% growth. Management is targeting revenue growth of 6%-8% a year and an EBITDA margin of around 29% by 2030, supported by continued investment in SunBet, Sun City and other flagship assets. At around 8 times forward earnings and offering a high-single-digit dividend yield, we continue to see an attractive investment case with scope for further margin expansion.

Sanlam

Sanlam delivered a mixed interim result, with core earnings increasing 1%, or 7% excluding period-specific impacts. Adjusted return on equity (ROE) remained strong at 18.4%. New business volumes increased 22% to R224 billion, while net client cash flow rose 42% to R78 billion.

Life Insurance and Investment Management were the strongest-performing businesses, while General Insurance remained more challenging. The group's multi-year portfolio repositioning is now complete, with greater exposure to higher-growth markets such as India.

Management remains confident in the medium-term outlook, although 2026 earnings growth is expected to remain below its medium-term target due to investment in growth initiatives, weaker investment returns and elevated weather-related claims. Beyond 2026, earnings growth is expected to strengthen as investment spending moderates and these initiatives mature. Sanlam's diversified exposure across South Africa, Pan-Africa and India provides a solid platform for further growth.

FirstRand

FirstRand delivered a stronger-than-expected 2026 result, with group headline earnings declining 5%, largely reflecting a provision related to the UK business. Excluding Aldermore, continuing earnings increased 13% to R44.5 billion, while return on equity was 24.9%. The full-year dividend increased 16% to R5.39 per share.

RMB was the strongest performer, with normalised earnings increasing 15%, while FNB generated a return on equity of 40.5%. WesBank's normalised earnings declined 4% due to higher credit impairments.

FirstRand plans to exit Aldermore during FY27 and refocus on South Africa and the broader African market. Management expects lending growth to accelerate, with continuing earnings growth in the high-single to low-double digits and return on equity at the upper end of its 21%-26% target range. The exit from the UK business should allow management to focus on its strongest markets and businesses.

Remgro

Remgro delivered a strong 2026 result, with headline earnings per share increasing 42.2% to R20.03. Mediclinic and Rainbow were particularly strong, while Heineken and CIVH returned to profitability. RCL Foods was the main drag, with earnings declining 33%. The final dividend increased 70% to R4.22 per share, alongside a special dividend of R5.50.

Intrinsic net asset value (INAV) increased 4.6% to R165.2 billion, supported by strong performances from Discovery, Rainbow, Air Products and Siqalo Foods. Cash increased by around R12 billion following the sale of FirstRand shares and distributions from CIVH and Maziv.

The return to profitability across several key investments, combined with continued portfolio optimisation, has materially improved Remgro's liquidity and flexibility around capital allocation. Further share buybacks, special dividends or new investments remain options. At a 32% discount to net asset value, we believe there is still scope for value to be unlocked across the portfolio.

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