

INVESTMENT NOTE

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TURNING A CORNER



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In summary:

- **South Africa largely has the right policies but often falls short with implementation.**
- **Therefore, it is at risk of not capitalising fully on external windfalls.**
- **Nonetheless, there are reasons to feel more optimistic about economic prospects.**

February is a busy month in Cape Town. The summer tourist season might be winding down, but three big annual events shine the spotlight on South African

economic policymaking: the Mining Indaba, the State of The Nation Address (SONA), and the Budget Speech. This year, there is something of a golden thread running through these events (excuse the pun,) as they occur against the backdrop of record global precious metals prices. There is also renewed international interest in metals and minerals that are critical for the electrification of the global economy, a process that is urgent not only to combat climate change but also to enable artificial intelligence (AI).

DIGGING DEEP

Delegates at the Investing in African Mining Indaba, to give it its full name, therefore have reason to feel bullish about the prospects for their industry, which has not been the case for much of the past decade.

However, South Africa remains a difficult country in which to run a mine. It has a long history of mining, which means there is a deep body of knowledge, but there are also memories of racial discrimination, worker exploitation and lax environmental management. This

complicates the current environment, leading to sometimes frosty relations between government, labour and the mining houses. It also contributes to unsettled debates on empowerment and other matters, which is problematic in an industry that craves regulatory certainty given that a mine is a multi-decade investment.

Infrastructure is arguably an even bigger bottleneck for mining than for other sectors. Mines are electricity-intensive and cannot afford power outages when



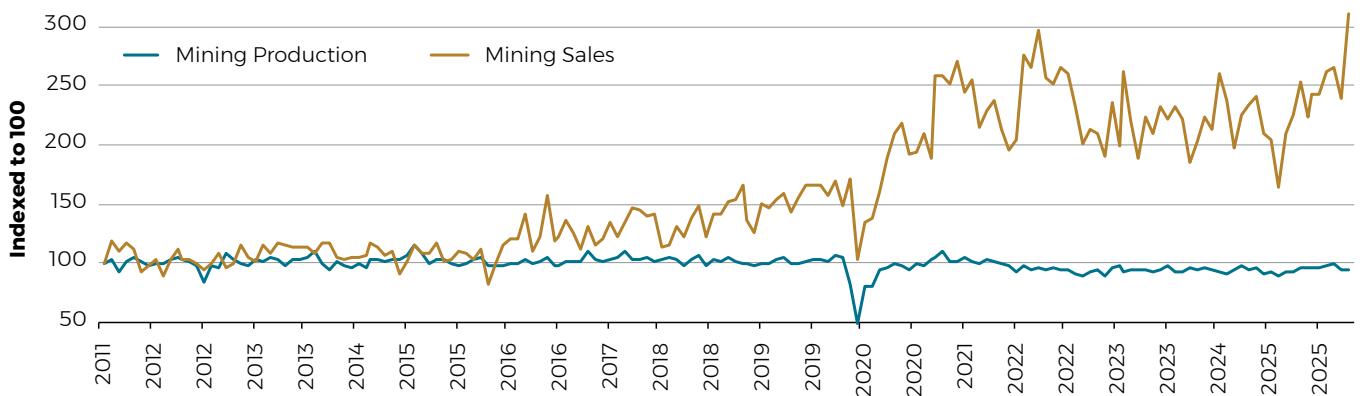
WEALTH

workers are kilometres underground. By far the most economical way of transporting ore is by rail, but both the Saldanha iron ore and Richards Bay coal corridors operate below capacity. Crime is a growing problem for the industry, with cable theft contributing to rail and power disruptions, while illegal miners (“zama zamas”) often violently disturb legitimate activities.

Despite the country’s resource endowment, very little exploration activity is being done. This does not bode well for the development of future mines. Mzila Mthenjane, CEO of the Minerals Council, told the Indaba that exploration

spending was only R781 million in 2024, a fraction of the 2006 peak of R6.2 billion. There are things that can reverse the decline. A functioning cadastre, a fully online system where all mining rights applicable to a particular piece of land can be viewed, is necessary. It will also allow a move away from paper-based processes that will reduce the risk of corruption around the awarding of mining rights. A distinct regulatory and tax regime for junior miners is also necessary, given that exploration work is risky. Similarly, South African investors will have to think differently about how to fund such companies.

CHART 1: SA MINING PRODUCTION AND SALES



Source: Stats SA

Stats SA’s mining data tells a mixed story. The December 2025 production numbers point to a negative final quarter, but longer-term there is no trend. Production levels have not grown over the past 15 years. On the other hand, mining sales have jumped thanks to elevated precious metals prices. This is good for the trade balance, the fiscal balance and domestic financial markets. But for the country to truly benefit from higher prices, volumes should also rise.

There are signs that the mining environment is improving. The government is implementing a new cadastre, though

it is well behind schedule. Electricity supply has improved substantially, but affordability is an obstacle, particularly for smelters. Transnet’s turnaround strategy is also bearing fruit, with volumes rising from a 2022 low of 149 million tonnes to a projected 181 million tonnes for the current financial year. This is still well below the 220 million tonnes it moved in 2015, and the 250 million tonnes target for 2030. As Michelle Philips, CEO of Transnet, noted, that goal can only be achieved with private investment. Last year, 11 private rail operators were granted access to Transnet’s tracks, though it will take time for wheels to hit the steel.

STATE OF CAUTIOUS OPTIMISM

These encouraging developments also featured in President Cyril Ramaphosa’s seventh State of the Nation Address (SONA). Whereas previous versions of SONA were mostly a list of promises of things to be done, this year the president could report on real progress, including the removal from the FATF grey list, the S&P credit ratings upgrade, and the strong performance of local financial markets over the past year. It is also an achievement, partly due to his own leadership, that the governing coalition survives. It has hardly been smooth sailing for the multi-party government of national

unity (GNU), but it will take time for politicians and citizens alike to get used to coalition politics. In the meantime, the country has enjoyed political stability and probably a more energetic cabinet than it has had in years. Therefore, SONA rightfully touched on where things are going right in the country. It is also worth noting that most of the progress is due to better cooperation between government and businesses, and more specifically government opening space for private sector involvement in areas it previously controlled tightly – a very important shift in approach.

TO-DO LIST

Nonetheless, the bulk of the speech focused on a long to-do list of interventions, most of which are important from an economic point of view. There isn't space to cover them all, but water is top of mind given the crisis in Johannesburg and other municipalities. It is a specific problem but also a symptom of broader dysfunction in local government. The president announced a National Water Crisis Committee to urgently address the issue. This copies the successes of similar bodies to tackle the energy and logistics crises by bringing government, the private sector and industry experts together.

A broader restructuring of local government is underway but will be a difficult and time-consuming affair.

The increasing reach and boldness of criminal syndicates is another area that requires not just an intervention by the police, but a restructuring of the broader criminal justice system. Being a "mafia state" is a negative for economic growth. SONA devoted considerable time to this topic too, and rightly so, as the president said that organised crime is "the most immediate threat to our democracy, our society and our economic development."

BUDGET EXPECTATIONS

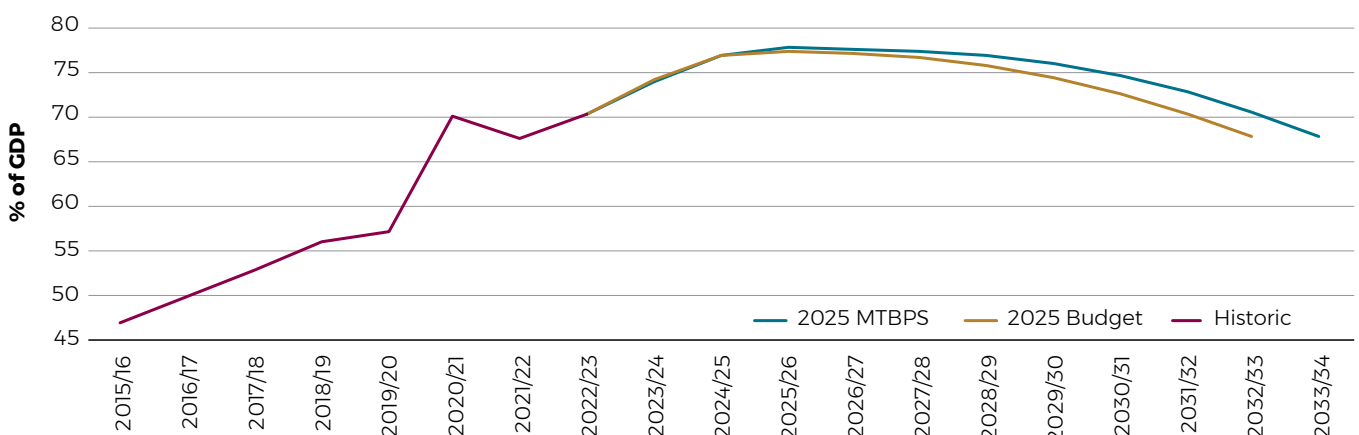
The Budget is where such policy ideals and financial realities meet and often clash. Spending needs are great, but every additional rand for the police, for instance, must come from somewhere. Taxpayers can cough up, but given a narrow tax base, higher tax rates can end up being counterproductive and discourage economic activity. However, SARS has made progress in raising tax collection and recovering tax debt. The money can be reallocated from other departments, and indeed Treasury has introduced a Targeted and Responsible Savings (TARS) initiative, which aims to reduce, merge, or close low-priority and underperforming programs, tighten social grant eligibility and identify ghost workers. This will generate some savings, but not enough to fund all the additional spending demands. Treasury has also been trying to shift the composition of spending away from consumption towards investment (from opex to capex). The third option,

to increase borrowing, should be ruled out given elevated debt levels. The government already spends 21 cents of every rand SARS collects on interest payments.

Treasury has instead focused on stabilising debt levels in a balanced way, since a drastic cut in spending can reduce borrowing requirements but will harm service delivery. Therefore, it is neither practical or politically feasible. As with the other policy reforms noted about, "fiscal consolidation" can only work if there is political legitimacy. The sooner a reform bears fruit, the more legitimacy it has.

Crucially, then, when the finance minister delivers the 2026 Budget Speech next week, he will still face difficult trade-offs but can point to two successes that will build legitimacy for his ongoing fiscal consolidation efforts. Firstly, the debt curve has finally been flattened.

CHART 2: GROSS GOVERNMENT DEBT TO GDP RATIO



Source: National Treasury

The 2025 Medium Term Budget Policy Statement (MTBPS) projected that gross government debt would stabilise at 77.9% of GDP in the 2025/26 financial year. The Budget is likely to confirm that this indeed happened, which would make it the first time since 2009 that the ratio did not increase. It is too soon to declare victory, of course, but on current trends the debt ratio should continue to gradually decline in the years ahead. The mining tax windfall from the precious metals boom will support this decline, though Treasury is likely to be conservative in how it includes this in its projections. After all, no-one really knows where the gold and platinum price is headed. But it does imply that no near-term tax increases are likely.

The main reason debt is stabilising is because the government has run a primary surplus over the past two years, meaning that tax revenues exceed non-interest spending. The MTBPS projects a growing primary surplus rising to 2.5% of GDP by 2028. The Budget is likely to affirm this path, despite it being an election year.

Not everyone agrees that this is feasible. The International Monetary Fund's recent Article IV review of South Africa's economy forecasts a continued rise in the debt ratio on the basis that government will not be able to stick to the primary surplus targets given the massive spending demands.

CHART 3: 10-YEAR GOVERNMENT BOND YIELD



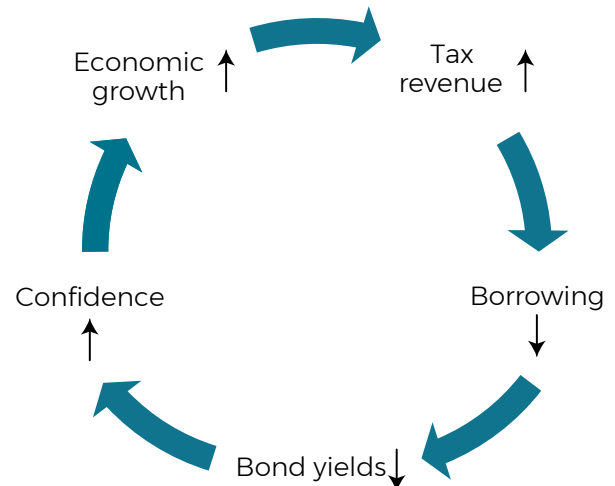
Source: LSEG Datastream

Despite this scepticism, the minister will be able to point to the other big win: the rapid decline in South African bond yields. This is partly in response to the new 3% inflation target and also comes against the backdrop of a global narrowing of spreads, the gap between the yields of riskier emerging market and corporate bonds relative to those of 'safer' developed market government bonds. Nonetheless, the improved fiscal picture alongside a better economic growth outlook is a big driver.

Therefore, achieving faster economic growth remains key to putting government finances on a sound footing over the longer term and turning the vicious cycle into a virtuous cycle of falling borrowing costs and faster growth as shown in chart 4.

Usually, faster economic growth would result in higher bond yields (and lower prices) as investors price in rising inflation. But in South Africa, the more the economy performs, the better the bonds are going to do, as it implies organic tax revenue growth that reduces the need to borrow. South African government bond yields are high because investors demand additional compensation for the risk of lending to an indebted government. However, elevated government bond yields raise borrowing costs for the private sector too, depressing economic growth – a vicious cycle.

CHART 4: FISCAL FEEDBACK LOOP



Source: Author's illustration

This picture is also crucial for credit ratings agencies. While S&P Global upgraded the government's rating, the other two major agencies, Fitch and Moody's, want to see further evidence of fiscal discipline and structural economic improvement despite expressing cautious optimism.

Introducing a so-called fiscal anchor, a legislated rule to bind the government to budget sustainability, could help. Many countries have such anchors, which are often either specific numeric targets or parameters for budget variables, though Treasury prefers a principles-based approach. The Budget Speech is expected to communicate progress towards introducing a fiscal anchor, which could help convince investors and ratings agencies that the progress won't be undone.

In conclusion, South Africa is good at making policies but struggles to implement them. More specifically, it is good at macroeconomic policies – led by Treasury and the Reserve

Bank – but it is often let down by microeconomic or sector-level policies, and massively by local government performance. Macroeconomic stability goes some way towards enabling a growth-friendly environment, but for the economy to truly perform requires that micro-obstacles be removed and sensible sector-specific support supplied. Nonetheless, there is reason to believe that the country is turning the corner. Since fiscal space and state capacity are limited, the private sector is increasingly roped in to drive job creation and economic growth, creating new investment opportunities in the process. Progress is never in a straight line, and there are domestic and international risks to the outlook – as always – but an improved economy and confidence should provide support for local bond and equity valuations over the medium term. It wasn't that long ago that some commentators wrote the country off as a failed state. Now, however, the president correctly closed his speech by noting that it was turning the corner.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	4 510.0	-0.42%	-0.40%	1.81%	15.82%
United States	S&P 500	US\$	6 836.0	-1.38%	-1.48%	-0.15%	11.79%
Europe	MSCI Europe	US\$	2 780.0	0.47%	0.76%	5.18%	25.96%
Britain	FTSE 100	US\$	14 264.0	1.07%	1.94%	6.59%	29.51%
Germany	DAX	US\$	2 514.0	1.05%	1.70%	2.28%	24.76%
Japan	Nikkei 225	US\$	372.9	8.07%	8.22%	16.06%	44.40%
Emerging Markets	MSCI Emerging Markets	US\$	1 555.0	3.25%	1.77%	10.75%	39.71%
Brazil	MSCI Brazil	US\$	1 957.0	1.29%	1.93%	18.89%	47.36%
China	MSCI China	US\$	82.9	-0.22%	-4.11%	0.35%	18.40%
India	MSCI India	US\$	1 024.4	-0.68%	2.44%	-2.90%	6.93%
South Africa	MSCI South Africa	US\$	810.0	1.00%	0.75%	9.02%	72.71%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	120 584.0	0.44%	0.45%	4.10%	37.28%
All Share	All Share (Total Return)	Rand	22 807.0	0.44%	0.44%	4.18%	41.89%
JSE Capped ALSI	Capped ALSI Total Retu	Rand	131 380.2	0.50%	0.54%	4.42%	42.36%
TOP 40/Large Caps	Top 40	Rand	20 976.0	0.47%	0.30%	4.29%	44.90%
Mid Caps	Mid Cap	Rand	34 245.0	0.58%	-2.12%	4.00%	35.94%
Small Companies	Small Cap	Rand	55 226.0	0.22%	1.59%	2.68%	30.30%
Resources	Resource 20	Rand	12 458.3	1.85%	-0.03%	13.13%	125.06%
Industrials	Industrial 25	Rand	29 330.0	-1.75%	-1.72%	-5.50%	8.25%
Financials	Financial 15	Rand	21 215.0	1.37%	3.25%	6.25%	36.84%
Listed Property	SA Listed Property	Rand	3 270.5	0.27%	3.20%	4.22%	38.34%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government S&P Overall (USD Unhedged)		US\$	77.8	1.15%	0.79%	1.42%	4.46%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 415.3	0.88%	1.36%	3.31%	28.62%
Government Bonds	BESA GOVI	Rand	1 389.3	0.89%	1.38%	3.33%	28.19%
Inflation Linked Bonds	BESA CILI	Rand	452.3	1.98%	2.69%	4.04%	20.42%
Cash	STEFI Composite	Rand	644.7	0.13%	0.26%	0.81%	7.40%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	67.8	-0.44%	-1.81%	11.07%	-9.67%
Gold	Gold Spot	US\$	5 044.0	1.51%	3.21%	17.08%	73.21%
Platinum	Platinum Spot	US\$	2 077.0	-1.05%	-2.12%	3.38%	109.38%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	15.95	0.59%	1.23%	3.85%	15.96%
ZAR/Pound	ZAR/GBP	Rand	21.77	0.32%	1.47%	2.43%	6.75%
ZAR/Euro	ZAR/EUR	Rand	18.92	0.19%	1.03%	2.78%	2.25%
Dollar/Euro	USD/EUR	US\$	1.19	-0.84%	-0.42%	-1.34%	-11.76%
Dollar/Pound	USD/GBP	US\$	1.37	-0.33%	0.33%	-1.14%	-7.73%
Dollar/Yen	USD/JPY	US\$	0.01	-2.89%	-1.33%	-2.53%	-0.08%

Source: I-Net, figures as at 13 February 2026

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WEALTH

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