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WHERE WE SEE OPPORTUNITY IN THE SECOND HALF OF 2026

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Staying selective in a shifting market

The first half of 2026 confirmed that this is not a standard late-cycle environment. Growth is slowing unevenly, inflation risk is elevated following the Middle East energy shock, and fiscal space is more constrained than in prior cycles. Governments are left with less room to spend or provide tax relief without adding to debt. Central banks are broadly cautious rather than dovish, and market resilience has masked growing dispersion beneath the surface. Against this backdrop, the second half of 2026 calls for selectivity. Within equities by sector and region, within fixed income by curve position and credit quality and for a South African investor within a genuinely improving but still fragile domestic story.

Global Equities

Broad market resilience through the first half of the year should not be mistaken for broad market strength. Concentration in a narrow set of mega-cap technology and Artificial Intelligence (AI) names has been well rewarded, but the second half of the year calls for digging deeper at the sector and country level rather than riding the index. The engine of equity returns has fundamentally shifted. Share prices can no longer rely on investors paying more for the same earnings. From here, returns need to come from companies actually growing their profits.

Pricing power, the reshoring/relocation of supply chains, and policy support are the key drivers for the second half. In the US, the view is neutral overall but constructive on an equal-weighted basis. Earnings breadth should widen beyond the largest technology names, even as elevated valuations and crowding leave the index vulnerable to a correction if inflation forces a policy shift. Europe is seen as slightly positive, supported by German fiscal stimulus and a capex-led re-rating in defence, grids and industrial automation. However, the region remains exposed in the near-term if the energy shock proves more persistent. Japan remains constructive on corporate reform, double-digit earnings growth and still-attractive relative valuations.

AI remains a genuine structural earnings driver, but the trade is broadening from the handful of frontier chip and cloud winners into midstream infrastructure (data centres, power, networking) and, over time, into downstream adopters across industry and services. A single-region, single-vertical AI allocation unnecessarily concentrates technological, valuation, and geopolitical risk; diversifying across the value chain and across US, Asian, and European exposure is the more resilient way to maintain AI exposure in a portfolio through the second half of the year.

Within Emerging Markets (EM) equities, technology remains the principal earnings engine in Asia, while Latin America is attractively positioned as a net commodity exporter with sound macro fundamentals. Within EMEA, South Africa stands out as one of the more constructive EM equity calls for the latter part of the year, on the back of resilient corporate earnings, fiscal discipline and credible policy reform. The broad risk across EM equities is a more volatile geopolitical backdrop feeding through into currency and risk-premium swings.

Global Fixed Income and currencies

2026 is not a repeat of the 2022 inflation shock, but it is no longer a "normal" inflation backdrop either. US CPI is expected to stay above 3% through year-end, and the historical relationship between bonds and equities has been less reliable during past periods of above-3% inflation. Government bonds have not consistently behaved as a diversifying hedge in this regime. That argues for flexibility over a purely duration-based approach to fixed income for the remainder of 2026.

US duration is held broadly neutral. Robust labour data and above-target inflation argue against adding duration risk, though value is seen in the middle of the curve, with a bias toward eventual curve steepening. European duration looks better in value, particularly at the short end, with one further precautionary European Central Bank (ECB) hike expected in the second half of the year. A cutting cycle could resume by the third quarter of 2027 as inflation converges. This is making two- to three-year core and peripheral bonds attractive. UK gilts still screen as cheap given elevated yields and firmer fiscal discipline, while Japanese duration is one to watch for an entry point as valuations turn appealing (even though loose fiscal policy remains a headwind).

Emerging-market bonds issued in dollars still offer decent income, though we're cautious. Local-currency EM debt is viewed more positively given higher yields and carry. On currencies, EM foreign exchange (FX) trading holds a broadly constructive six-month outlook on attractive real yields and the prospect of a softer US dollar. A hawkish surprise from the Federal Reserve remains the key risk to that call. The dollar itself is expected to weaken over the medium term as US fiscal dominance concerns build along with worries that US government debt levels are starting to drive monetary policy (even if strong near-term US growth delays that move).

South Africa

South Africa screens as one of the more constructive emerging-market stories. Sitting apart from the more fragile picture in oil-importing EM economies (such as India), it offers a different risk profile from Latin American commodity exporters.

Macro backdrop

Unlike India and many emerging Asian economies, South Africa is not a major net oil importer. This means it is less directly exposed to the energy price shock stemming from disruptions in the Strait of Hormuz, helping to cushion the economy from one of the key headwinds facing many emerging markets in the second half of 2026.

As a commodity and mining-linked economy, South Africa is also a natural beneficiary of the broader case for gold and selective base metals. Central bank gold buying, tight mine supply and rising global debt are all cited as medium-term supports for gold prices, while structural demand from AI, defence and infrastructure buildouts is expected to keep select base metals in modest undersupply.

Together, these trends support South Africa's export earnings and terms of trade, even as higher oil prices continue to pose a cost risk.

Equities

South African equities are explicitly flagged as one of the more positive EMEA equity calls for the second half of the year, underpinned by robust corporate earnings, fiscal discipline and the credibility of recent policy reform. This is a narrower, more idiosyncratic call than the broad "EM equity" stance, which remains only selectively positive and is driven mainly by technology exposure in Asia. The principal risk flagged for South Africa is exposure to a more volatile geopolitical backdrop, which could unsettle risk appetite and currency stability regardless of the domestic fundamental picture.

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Fixed Income and the rand

Local-currency emerging market bonds remain attractive due to their compelling yields, while favourable real yields and a weaker US dollar support emerging market currencies. If broader emerging market sentiment remains stable, both trends should continue to support rand-denominated bonds and the rand. The main swing factors are the same ones that matter globally: a hawkish surprise from the Federal Reserve, a re-escalation of Middle East tensions that reprices oil and risk sentiment together, or a domestic policy setback that undermines the reform credibility currently supporting the equity call.