

## ECONOMIC COMMENTARY

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### MARKETS AT A CROSSROADS: WHY 2026 WILL REWARD DISCIPLINE, NOT DRAMA

Every new year arrives with forecasts, bravado, and bold promises. Yet, this year does not seem like a year for noise. It seems like a year for judgement.

Markets enter 2026 shaped less by crisis and more by transition. The era defined by emergency policy, shock inflation, and aggressive tightening is giving way to something subtler: A recalibration of growth, capital costs, and expectations. For investors, this is not a moment for panic or euphoria, but for clarity.

The first theme shaping 2026 is interest rates: Not where they are, but how they will normalise from here. The tightening cycle that dominated the past few years has already turned. Both the Federal Reserve and the South African Reserve Bank have begun easing policy, acknowledging that inflation has moderated meaningfully from its peaks. The debate is no longer about whether cuts will happen, but about how far rates can fall without reigniting price pressures or destabilising currency and capital flows. The most likely outcome remains a gradual, data-dependent path: Supportive of asset prices, but unlikely to deliver the kind of liquidity surge seen after previous crises. Markets will reward patience and positioning, not rate-cut speculation.

Secondly, global growth is fragmenting rather than collapsing. The United States continues to surprise on the upside, supported by productivity gains, fiscal investment, and corporate adaptability. Europe remains uneven, but for different reasons than in recent years. Energy prices, particularly in Germany, have come down sharply, easing inflationary pressure and restoring some industrial competitiveness. The more persistent constraints now lie in demographics, productivity, and fiscal flexibility. China, meanwhile, is no longer a reliable engine of global acceleration, but a stabilising force navigating structural rebalancing. For investors, this fragmentation reinforces a key reality: Returns will be driven less by global beta and more by regional and sectoral selection.

Closer to home, South Africa enters the year with measured optimism and familiar limits. Improved energy availability, incremental reform, and pragmatic fiscal signals matter, not because they guarantee high growth, but because they restore a degree of policy credibility. Markets respond less to promises than to follow-through. For investors, this means focusing on resilience: Businesses and assets that can compound value even when domestic growth remains constrained.

A third defining theme is the repricing of risk, quality, and execution, particularly in the age of artificial intelligence (AI). The era of 'growth at any price' has given way to a far more demanding environment. Capital is increasingly selective about how technology translates into earnings. AI is no longer rewarded simply as a concept; it must practically improve productivity, margins, or competitive positioning. Balance sheets matter again. Cash flow matters. Governance matters. This is especially important as global equity indices sit near all-time highs, driven by a narrow concentration of mega-cap leaders. The opportunity set is not disappearing; it is becoming more unforgiving of weak fundamentals and vague narratives.

Technology remains a powerful long-term force, but the next phase belongs to companies that integrate innovation into real economic outcomes, not those that merely promise disruption. Investors should expect dispersion to increase: Winners will separate themselves decisively from the rest.

#### What should investors expect from the year ahead?

Not runaway returns, but solid, risk-adjusted outcomes. Not smooth progress, but periodic volatility that creates opportunity. Not a single winning asset class, but the steady compounding of diversified, well-constructed portfolios.

For investors, more broadly, the priorities remain consistent: Protect purchasing power, grow real wealth over time, and retain flexibility. This requires global exposure, disciplined asset allocation, and the humility to accept that markets will surprise us (as they always do).

The greatest risk in 2026 is not volatility, but complacency. The greatest advantage is being prepared.

In a world adjusting to lower (but not cheap) capital, uneven growth, and higher expectations of quality, this will be a year that rewards discipline far more than drama.

