MENTENOVA

ECONOMIC OVERVIEW

QUARTER 2, 2026

Contents

MARKET OVERVIEW

Global financial markets navigated a volatile second quarter as investors balanced heightened geopolitical tensions in the Middle East against resilient global economic fundamentals. The temporary closure of the Strait of Hormuz fuelled concerns around energy security, inflation and global supply chains, prompting a sharp rise in oil prices and renewed expectations that central banks may need to maintain a restrictive monetary policy for longer. However, sentiment improved materially towards the quarter-end following the announcement of a ceasefire between the United States and Iran, which eased fears of a prolonged supply shock and triggered a broad-based recovery across global risk assets. Despite the improvement in market sentiment, performance remained highly differentiated across regions and sectors. Artificial intelligence (AI) continued to dominate investor positioning, with companies exposed to semiconductors, data centres and digital infrastructure outperforming broader equity markets. As a result, the AI investment cycle remained one of the strongest structural themes supporting global asset prices, offsetting many of the cyclical headwinds associated with elevated inflation and geopolitical uncertainty

EQUITIES

Emerging market equities outperformed developed markets in Q2, with the MSCI Emerging Markets Index up 24.1%. South Korea emerged as one of the quarter's strongest performers, with the KOSPI Index gaining 67.9% during the quarter and extending its YTD advance to 102.6%. The rally reflected strong global demand for semiconductors and AI hardware, supported by another robust earnings season from technology companies. Sentiment was further boosted by improving prospects for a US–Iran agreement, which reduced concerns around rising energy costs and supply chain disruptions for Korea's highly import-dependent economy. Taiwan delivered similarly impressive returns, rising by 46.0% as increased capex guidance from major US hyperscalers reinforced expectations of sustained semiconductor demand. Strong tech earnings further supported performance, reaffirming Taiwan's central role within the global AI ecosystem.

Elsewhere in Asia, India's NIFTY 50 underperformed against regional peers, despite robust domestic growth. Investors remained cautious about the large IT services sector amid concerns over generative AI's long-term implications, while higher oil prices increased inflation risks for one of the world's largest energy importers. These concerns were amplified by already elevated valuations, limiting any further upside. Chinese equities recorded more modest gains. While China's limited exposure to the global AI hardware supply chain constrained participation in the broader tech rally, domestic markets benefited from ongoing policy support and improving sentiment. Nevertheless, concerns over higher energy costs and the pace of domestic recovery continued to weigh on performance. South African equities declined by 2.4% over the quarter as persistent uncertainty around oil prices and inflation weighed on confidence. Higher energy costs stoked renewed concerns about the domestic inflation outlook, limiting gains, despite improving global risk sentiment towards the quarter-end.

Developed market equities gained 13.9% during the quarter, as resilient corporate earnings, improving macro confidence, and easing geopolitical tensions supported sentiment. The S&P 500 delivered 15.2%, underpinned by continued strength in large-cap technology and persistent investor enthusiasm around AI. Corporate earnings exceeded expectations across a broad range of sectors, reinforcing confidence that US businesses are continuing to navigate higher rates and geopolitical uncertainty remarkably well. European equities also recovered, with the STOXX Europe 600 up 11.4%, benefiting from improving manufacturing activity, moderating energy prices, and increased optimism surrounding the Middle East ceasefire. While gains were more modest than in US markets, the improving macro backdrop supported a broad recovery across cyclicals. Japanese equities rebounded following March's sharp correction, with the Nikkei 225 rising by 37.4% over the quarter. Improved global risk appetite, combined with easing concerns around energy prices and supply chain disruptions, encouraged investors back into export-oriented sectors, supporting the recovery.

FIXED INCOME

Global bond markets experienced heightened volatility throughout the quarter as investors reassessed the inflation outlook amid elevated energy prices and shifting central bank expectations. The sharp increase in oil prices following the escalation of the conflict in the Middle East renewed concerns that inflation could remain above target for longer, prompting markets to temper expectations of interest-rate cuts and, in some cases, to price in the possibility of further policy tightening.

In the US, the Federal Reserve entered a new era under Chair Kevin Warsh, who maintained a distinctly hawkish stance while leaving policy rates unchanged. His emphasis on restoring price stability and reducing forward guidance reinforced expectations that monetary policy would remain data-dependent and restrictive until inflation convincingly returns to target. Domestically, the South African Reserve Bank raised the repo rate by 25bps, prioritising inflation credibility amid renewed upside risks from higher oil prices and reaffirmed its commitment to maintaining inflation at around the 3% target.

Government bond yields reflected rapidly shifting investor sentiment throughout the quarter. Initial optimism following the announcement of a temporary ceasefire drove yields lower as markets anticipated a broader de-escalation in geopolitical tensions. However, renewed uncertainty surrounding negotiations and the prolonged closure of the Strait of Hormuz later reversed much of this activity, with investors increasingly pricing in stagflation risks. Locally, the FTSE/JSE All-Bond Index delivered 7.9% for the quarter, outperforming the WGBI which delivered 6.6% for the quarter. South Africa's 10-year government bond yield declined modestly from 9.32% in Q1 2026 to 8.34% in Q2 2026, supported by lower oil prices towards quarter-end, although weakness in the rand limited further gains. Similarly, the yield on the US 10-year Treasury remained anchored as it moved from 4.32% in Q1 2026 to 4.37% in Q2 2026, with the decline in energy prices improving the inflation outlook and reducing the need for further monetary tightening.

PROPERTY

Listed-property markets remained sensitive to movements in interest rates and long-term bond yields throughout the quarter. Elevated inflation expectations and higher government bond yields created periods of pressure for real estate investment trusts, particularly early on in the quarter. However, easing oil prices and improving expectations for the future path of monetary policy supported a gradual recovery in the sector as investors regained their confidence that financing conditions may not see further material tightening. Locally, the FTSE/JSE All-Property Index delivered 10.5%, supported by improved sentiment and fundamentals. Globally, the FTSE EPRA Nareit Global REITs TR Index delivered 11.0%, benefiting from rotation into defensives, but remains constrained by higher-for-longer rates and insufficient yield compensation. Regional performance saw US REITs, as measured by the MSCI US REIT Index, up 12.2% and Europe’s STOXX 600 Real Estate Index up 8.3%.

COMMODITIES

Commodity markets were largely shaped by developments in energy markets during the second quarter, with the Bloomberg Commodity Index declining by 8.1%. Brent crude oil surged above $100 per barrel following disruptions to shipping through the Strait of Hormuz, raising concerns over global energy security and inflation. However, prices retraced sharply towards quarter-end, ending the quarter near $73 per barrel as the ceasefire between the US and Iran restored confidence in global supply chains and dampened fears of prolonged shortages. Copper remained among the strongest-performing commodities, up 8.4%, supported by structural demand associated with electrification, renewable energy investment, data centre expansion and the ongoing build-out of AI infrastructure. Persistent supply constraints further reinforced these gains, highlighting the increasingly important role of industrial metals within the global energy transition.

Interestingly, gold failed to exhibit its traditional safe-haven characteristics during the quarter, declining by 14.1%. Rather than benefiting from heightened geopolitical uncertainty, bullion came under pressure as a stronger US dollar, rising real interest rates and expectations of tighter monetary policy reduced investor demand. Some central banks also reportedly reduced gold holdings to support their domestic currencies, while investors rotated towards cash and dollar-denominated assets. Although gold recovered some of its losses following the ceasefire announcement, it remained well below its record highs, illustrating that monetary policy expectations ultimately proved a stronger driver than geopolitical risk.

Figure 1: Market overview

30 June 2026 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)
FTSE/JSE ALSI Total Return	-3.7%	-2.4%	-3.0%	18.4%	17.4%	15.2%	11.6%
S&P 500 Total Return	-1.0%	15.2%	10.2%	22.3%	20.6%	13.4%	15.5%
STOXX 600 Total Return	2.6%	11.4%	10.3%	21.5%	14.5%	10.0%	9.7%
Nikkei 225 Total Return	5.7%	37.4%	40.3%	76.0%	30.6%	21.8%	18.5%
MSCI World Total Return	-0.7%	13.9%	9.9%	21.8%	19.8%	12.0%	13.7%
MSCI ACWI Total Return	-0.8%	15.1%	11.5%	24.2%	20.2%	11.5%	13.3%
MSCI EM Total Return	-1.4%	24.1%	24.0%	44.2%	23.6%	7.7%	10.5%
MSCI World Value Index	-0.3%	9.4%	10.9%	21.6%	17.7%	11.4%	11.1%
MSCI World Growth Index	-1.1%	19.0%	9.0%	21.7%	21.7%	12.2%	16.0%
MSCI World Small Cap Index	1.7%	15.2%	16.9%	30.8%	18.2%	8.0%	11.4%
Shanghai Shenzhen CSI 300 Index	2.3%	12.8%	8.6%	29.6%	12.0%	1.6%	7.1%
Korea Stock Exchange KOSPI Index	0.0%	67.9%	102.6%	179.4%	51.7%	23.1%	18.1%
Taiwan Stock Exchange Weighted Index	3.5%	46.0%	60.3%	112.1%	43.4%	25.0%	22.4%
NSE Nifty 50 Index	1.8%	7.6%	-7.9%	-5.1%	9.0%	10.2%	12.7%
Ibovespa Brasil Sao Paulo Stock Exchange Index	-1.0%	-8.2%	6.8%	23.9%	13.4%	6.3%	12.8%
Bloomberg Magnificent 7 Total Return Index	-8.8%	11.7%	-1.7%	20.7%	31.6%	23.8%	37.1%
STEFI	0.6%	1.7%	3.4%	7.1%	7.9%	6.9%	6.8%
ALBI	1.5%	7.9%	4.2%	21.5%	17.8%	12.4%	10.8%
IGOV	1.4%	6.6%	5.2%	19.8%	11.9%	9.4%	6.3%
WGBI	-0.7%	0.7%	-0.4%	-0.1%	2.5%	-2.7%	-0.5%
Bloomberg US Agg Total Return	0.2%	0.7%	0.6%	3.8%	4.2%	0.1%	1.5%
Bloomberg US Corporate High Yield TR Index	0.3%	2.5%	2.0%	5.9%	8.9%	4.2%	5.8%
FTSE/JSE All Property Index	3.8%	10.5%	4.6%	28.7%	26.9%	17.3%	3.7%
MSCI US REIT Total Return	3.1%	12.2%	17.6%	21.2%	12.4%	5.8%	6.1%
STOXX 600 Real Estate Total Return	2.1%	8.3%	3.7%	-1.2%	10.5%	-3.9%	0.2%
FTSE EPRA Nareit Global REITs TR Index	2.0%	11.0%	12.3%	16.2%	10.6%	3.5%	4.3%
Crude Oil	-20.8%	-38.4%	19.8%	7.9%	-0.9%	-0.6%	3.9%
Aluminium	-15.8%	-11.0%	3.0%	18.8%	12.8%	4.1%	6.5%
Copper	-1.9%	8.4%	7.7%	35.5%	17.2%	7.4%	10.7%
Gold	-11.7%	-14.1%	-7.2%	21.3%	27.8%	17.8%	11.7%
Platinum	-19.1%	-20.5%	-24.7%	14.2%	19.7%	7.6%	4.2%
Nickel	-14.8%	-4.9%	-2.6%	7.0%	-7.6%	-2.4%	5.5%
Palladium	-10.9%	-18.1%	-25.2%	9.5%	-0.5%	-15.3%	7.3%
Iron Ore	-6.5%	-8.5%	-10.1%	5.4%	-4.8%	-15.1%	5.7%
Bloomberg Commodity Index Total Return	-8.5%	-8.1%	14.4%	25.5%	11.7%	9.4%	5.8%
USDZAR	1.0%	-3.3%	-1.0%	-7.5%	-4.6%	2.8%	1.1%
GBPZAR	-0.4%	-3.0%	-2.6%	-10.6%	-3.2%	1.9%	1.0%
EURZAR	-1.0%	-4.4%	-3.7%	-10.3%	-3.1%	2.0%	1.4%
JPYZAR	-1.1%	-5.6%	-4.6%	-18.0%	-8.3%	-4.7%	-3.4%
Dollar Index Spot	2.3%	1.2%	2.9%	4.5%	-0.6%	1.8%	0.5%

Source: Bloomberg

US

The US economy navigated a challenging second quarter with remarkable resilience, overcoming heightened geopolitical tensions, elevated inflation and a historic transition in Federal Reserve leadership. The conflict in the Middle East, which temporarily disrupted shipping through the Strait of Hormuz and pushed oil prices above $100 per barrel, posed a significant inflationary and growth risk. However, resilient consumer demand, robust labour market conditions, strong corporate earnings and sustained investment in AI infrastructure helped offset many of these headwinds. The quarter concluded on a more constructive note following the announcement of a ceasefire between the United States and Iran, allowing the reopening of one of the world's most strategically important energy corridors. Although markets welcomed the easing in geopolitical tensions, investors remain cautious as they assess the durability of the agreement and the pace at which lower energy prices may filter through to global inflation. Against this backdrop, financial markets continued to balance cyclical risks against powerful structural growth drivers, most notably the ongoing AI investment cycle, which remained a key pillar supporting both corporate profitability and broader economic activity.

Growth holds up better than expected despite trade headwinds

The US economy entered the second quarter from a position of underlying strength, with first-quarter real GDP revised higher to an annualised 2.1%, reinforcing the resilience of domestic demand despite an increasingly uncertain global backdrop. Household consumption remained the primary engine of growth, supported by solid income growth and higher tax refunds, while business investment continued to accelerate as firms expanded spending on information-processing equipment, software and AI-related infrastructure. Capital expenditure was particularly robust, reflecting continued corporate confidence in long-term productivity-enhancing technologies despite elevated borrowing costs and geopolitical uncertainty. Government spending also rebounded strongly following the resolution of the previous quarter's temporary government shutdown, providing an additional tailwind to overall economic activity. Trade, however, remained a meaningful drag on growth. A sharp increase in imports, particularly of technology equipment and capital goods, weighed on headline GDP despite reflecting healthy domestic demand rather than economic weakness. Net exports subtracted approximately 1.3 percentage points from first-quarter growth, and forward-looking estimates from the Atlanta Federal Reserve's GDPNow model continue to suggest that external trade may remain a modest headwind in the near term. Nevertheless, ongoing strength in private fixed investment is expected to continue supporting overall economic expansion as businesses maintain elevated levels of capital expenditure.

Figure 2: Contributors to US GDP growth

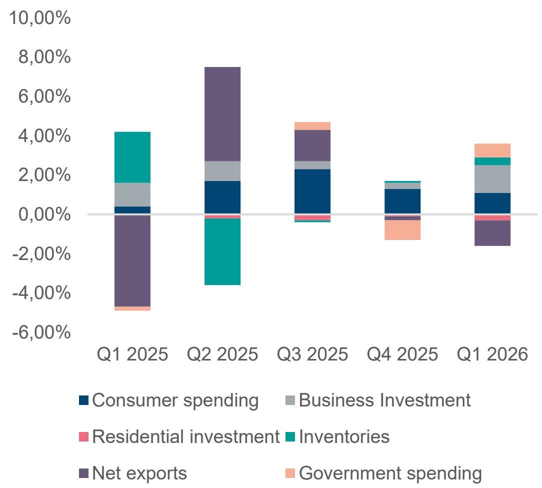
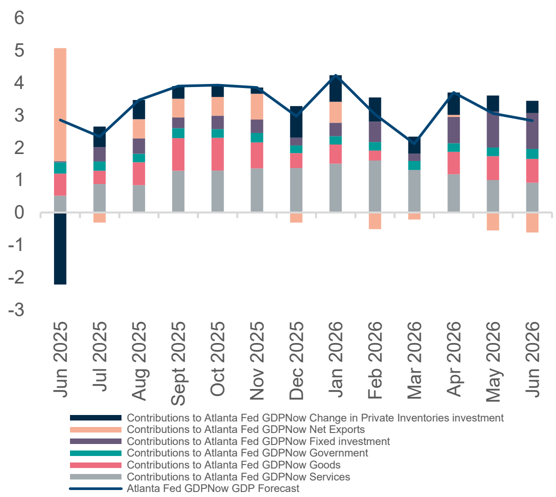


Figure 3: Atlanta Fed GDPNow forecast



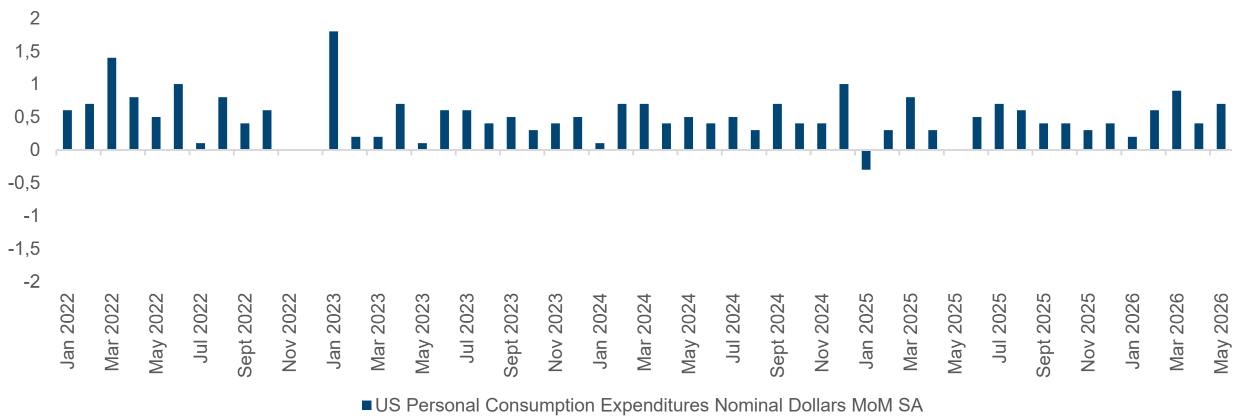
Source: Bloomberg

Inflation accelerates once again as energy prices trigger a temporary shock

Inflation re-emerged as a dominant macroeconomic theme in Q2, driven primarily by the surge in global energy prices following the escalating Middle East conflict. The temporary closure of the Strait of Hormuz disrupted oil markets, lifting crude above $100 per barrel and feeding rapidly into fuel, transport and production costs. Headline CPI accelerated from 3.3% year-on-year in March to 4.2% in May, its highest reading in three years, while headline PCE rose to 4.1%. Producer prices saw an even sharper increase, with PPI climbing to 9.1% as manufacturers absorbed higher fuel and transport costs.

Encouragingly, underlying trends remained comparatively stable. Core CPI edged modestly higher to 2.9%, while core PCE, the Fed's preferred gauge, rose to 3.4%, reflecting price pressures in services like air travel and financial services, and imported goods, rather than broad-based acceleration. Shelter inflation continued its gradual moderation and wage growth showed further signs of easing, suggesting that domestic price pressures remain considerably less severe than headline figures imply. Importantly, markets increasingly viewed the shock as largely energy-driven and potentially temporary. The reopening of the Strait of Hormuz following the ceasefire has improved expectations that oil prices will normalise over the coming six to nine months, reducing inflationary pressures and giving the Fed greater flexibility to remain data-dependent rather than responding aggressively to what is increasingly seen as a supply-driven shock.

Figure 4: US consumer power ahead even as inflation picks up in May

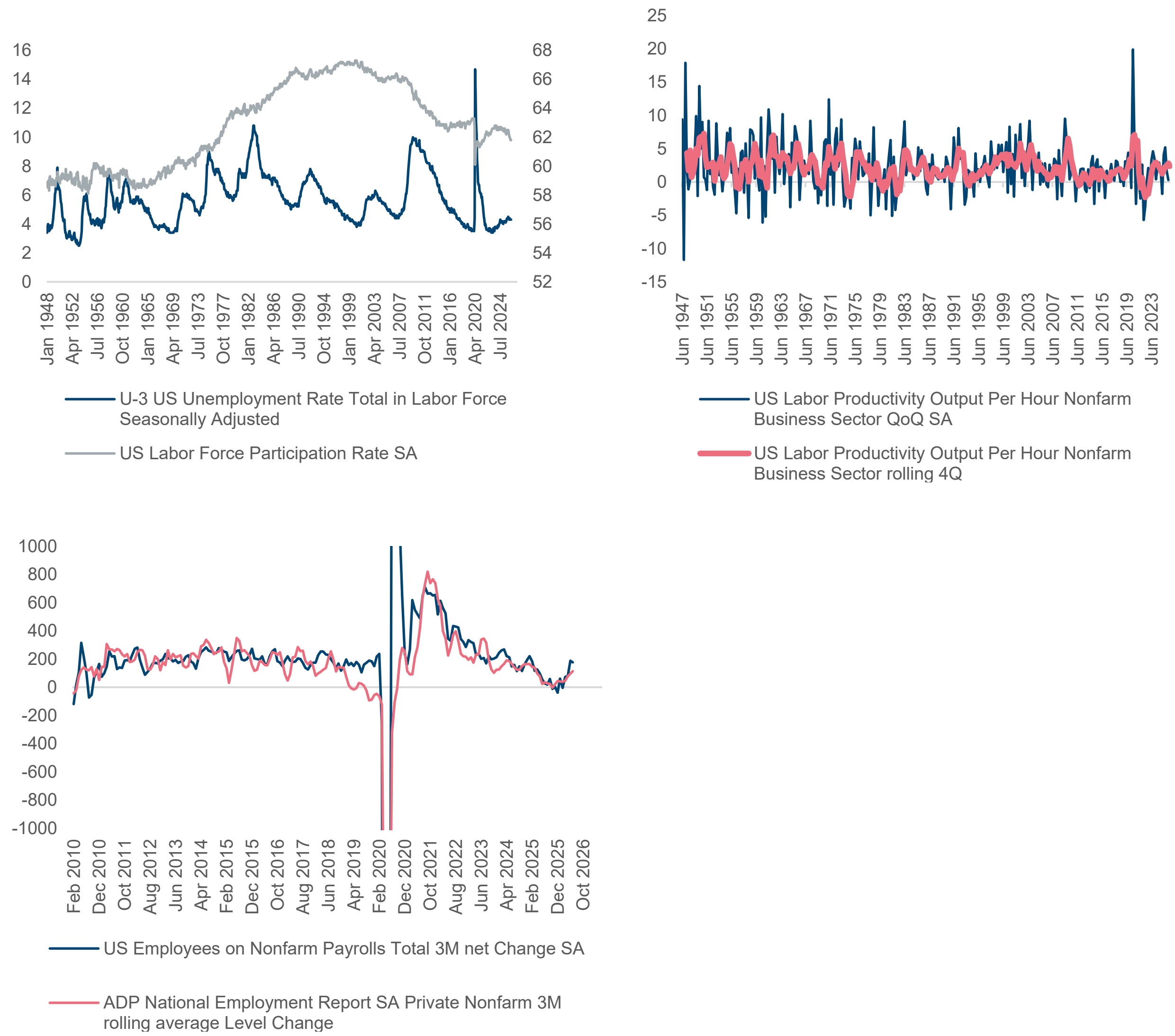


Source: Bloomberg

Labour market remains remarkably resilient despite slower hiring

The US labour market continued to outperform expectations through Q2, remaining one of the economy's strongest pillars. While businesses adopted a more cautious approach to hiring amid macroeconomic uncertainty, they also remained reluctant to reduce headcount, resulting in a ‘low hiring, low firing’ equilibrium that kept employment conditions remarkably stable. The unemployment rate held at 4.3% in May, while job creation consistently exceeded forecasts, with roughly 565,000 jobs added over the quarter. Initial jobless claims continued to trend lower, highlighting employer confidence in the underlying outlook despite ongoing policy and geopolitical uncertainty. Labour productivity moderated slightly to 2.4% from 2.85% in the prior quarter, but this largely reflected the early stages of a significant capital investment cycle rather than any deterioration in efficiency. As businesses continue investing heavily in AI, automation and digital infrastructure, productivity gains are expected to materialise gradually over the medium term as these investments become embedded within operations. Consequently, the labour market remains well positioned to support household incomes, consumer spending and broader growth through the remainder of the year.

Figure 5: US labour market conditions remain solid



Source: Bloomberg

Business activity continues to expand as manufacturing leads the recovery

Private sector activity remained in expansionary territory during Q2, demonstrating the underlying resilience of the US economy despite ongoing supply chain disruptions and elevated input costs. PMI data showed that the Composite PMI improved from 50.3 in March to 51.9 in June, signalling continued, albeit modest, expansion. Manufacturing emerged as the strongest segment, with the Manufacturing PMI climbing from 52.3 to 53.9 as firms responded to robust domestic demand, increased capital expenditure and precautionary inventory-building amid geopolitical concerns. New orders accelerated at their fastest pace since mid-2021, reflecting healthy demand and continued manufacturer confidence despite elevated operating costs. The services sector expanded at a more measured pace. Higher fuel prices and persistent cost-of-living pressures weighed on discretionary consumer spending, softening growth across several consumer-facing industries. Nevertheless, service activity remained in expansion, reinforcing the view that domestic demand continues to provide an important cushion against external shocks. While supply chain disruptions and elevated commodity prices continued to place upward pressure on input costs, businesses demonstrated a notable ability to absorb these challenges through strong pricing power and continued investment. Overall, business surveys suggest that positive economic momentum remains intact, even as firms navigate a more complex operating environment.

Consumer confidence reflects diverging views on the economic outlook

Measures of consumer sentiment painted a more nuanced picture during the second quarter, highlighting the disconnect between households' assessment of current economic conditions and their expectations for the future. The University of Michigan Consumer Sentiment Index declined from 53.3 in March to 48.9 in June, reflecting persistent concerns surrounding inflation, rising living costs and household purchasing power. High food and energy prices remained the dominant concern among consumers, with elevated fuel costs continuing to weigh heavily on household budgets despite some moderation towards the end of the quarter. Conversely, the Conference Board's Consumer Confidence Index continued its gradual recovery, rising from 92.2 in March to 93.1 by quarter-end. Improvements in both current conditions and future expectations suggest that consumers remain confident about the labour market and their employment prospects, even as inflation continues to erode purchasing power. The divergence between these two surveys underscores the complexity of the current economic environment. While consumers remain frustrated by elevated prices, continued employment growth and rising incomes have prevented a more pronounced deterioration in household confidence, supporting the resilience observed in consumer spending throughout the quarter.

Figure 6: US labour market consumer confidence

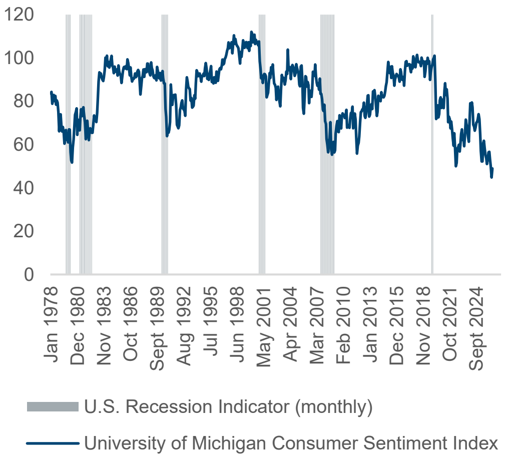
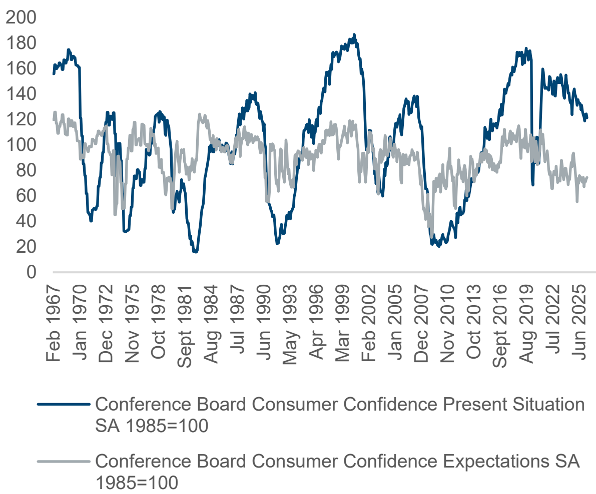


Figure 7: US Conference Board survey



Source: Bloomberg

Artificial intelligence investment continues to reshape the US growth story

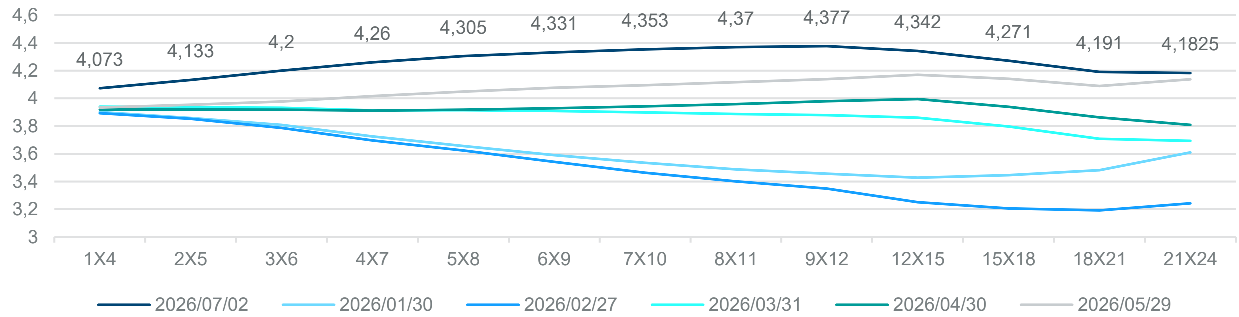
AI spending accelerated through Q2 as corporations ramped up data centres, cloud infrastructure, semiconductors, networking and enterprise software. The cycle has broadened beyond hyperscales into industrials, power, construction and automation, lifting earnings and diversifying growth. Despite overinvestment concerns, earnings justify the outlay: management views spending as a down payment on productivity and margins. More broadly, AI is shifting from a tech-centric theme to an economy-wide driver of jobs, industrial production and profitability. As integration deepens, efficiency gains should lift trend growth and help offset ageing workforce headwinds. AI is becoming one of the US economy's most consequential long-term tailwinds.

Federal Reserve enters a new era under Kevin Warsh

Q2 marked one of the most significant developments in US monetary policy in more than a decade as Kevin Warsh officially succeeded Jerome Powell as Chair of the Federal Reserve. The leadership transition occurred at a particularly delicate time, with policymakers confronting elevated inflation, geopolitical uncertainty and an economy that continues to display surprising resilience. At his inaugural policy meeting, Chair Warsh and the Federal Open Market Committee elected to leave interest rates unchanged, emphasising a cautious, data-dependent approach while assessing the evolving inflation outlook. However, the meeting also signalled a meaningful shift in the Federal Reserve's communication strategy. Breaking with long-standing convention, Warsh declined to include his own interest rate projection in the Federal Reserve's Summary of Economic Projections 'dot plot', reinforcing his previously stated view that policymakers have historically provided markets with excessive forward guidance. Instead, the new Chair has placed greater emphasis on flexibility, transparency around incoming data and preserving optionality in future policy decisions. While acknowledging that recent inflationary pressures have been amplified by geopolitical developments, Warsh has consistently reiterated the Federal Reserve's unwavering commitment to restoring inflation to its 2% target. At the same time, he has avoided signalling a predetermined path for interest rates, preferring instead to allow economic data to dictate future policy decisions.

Financial markets have responded by reassessing the expected trajectory of monetary policy. Expectations for interest-rate cuts during 2026 have diminished considerably as resilient economic activity and persistent inflation have encouraged investors to anticipate a more prolonged period of restrictive monetary policy. Should energy prices moderate as expected, following the reopening of the Strait of Hormuz, the Federal Reserve may gain additional flexibility to remain on hold while monitoring the broader disinflation process. Markets, however, continue to price in one 25bps rate hike for 2026. Nevertheless, policymakers remain acutely aware that inflation risks have not yet been fully extinguished, leaving monetary policy firmly dependent on incoming economic data.

Figure 8: US FRA



Source: Bloomberg

EUROZONE

CPI (JUN 2026)	ECB DEPOSIT RATE	GDP (Q1 2026, QOQ)	UNEMPLOYMENT (MAY)
2.8%	2.25%	−0.2%	6.2%
Down from 3.2% peak ↓	First hike since 2023 ↑	Confirmed contraction ↓	Near historic lows, stable

GDP growth contracts as the energy shock bites, confirmed at −0.2%, with uneven country performance

The Eurozone entered Q2 2026 with more negative momentum as Q1 2026 GDP contracted by 0.2% quarter-on-quarter, reversing the 0.2% growth recorded in Q4 2025, with year-on-year GDP growing at 0.3%, down sharply from the 1.2% seen in the previous quarter. The second quarter felt the first-round impact of the Middle East war and energy shocks as activity and prices were simultaneously hit. The drag was broad-based rather than concentrated in one channel: household consumption and government spending each added only 0.1 percentage point to growth, while gross fixed capital formation and inventories both shaved off 0.1% from growth, combined with net trade, which was identified as the largest single drag, declining 0.3%, as exports fell 0.2% quarter-on-quarter while imports rose 0.5%. Additionally, the impact of the geopolitical conflict and energy shocks can be seen in the Eurozone's Manufacturing PMI, which declined from 51.6 in March 2026 to 51.4 in June 2026. The Composite PMI initially entered contraction in April at 48.8 but currently sits at the neutral level of 50, while the Services PMI remained in contraction during Q2 2026, declining from 50.2 in March to 49.4 in June.

Figure 9: Eurozone's year-on-year growth has significantly declined while its QoQ performance indicates contraction

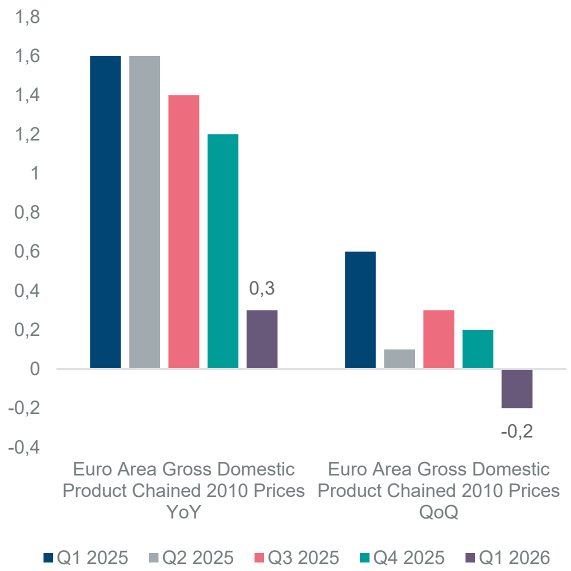
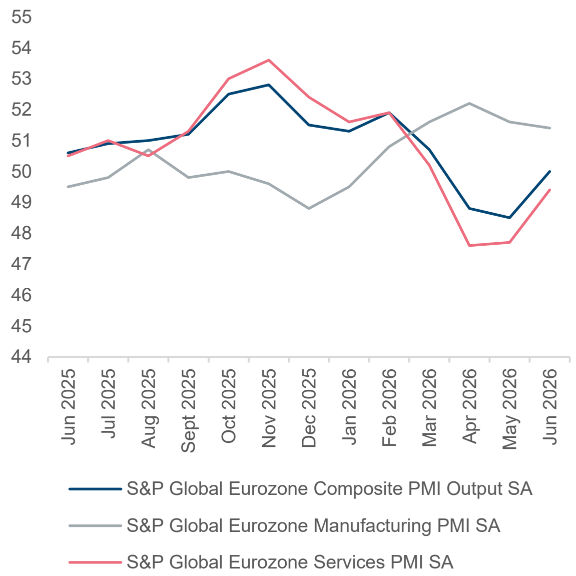


Figure 10: Eurozone PMIs have all declined below the levels seen in March 2026

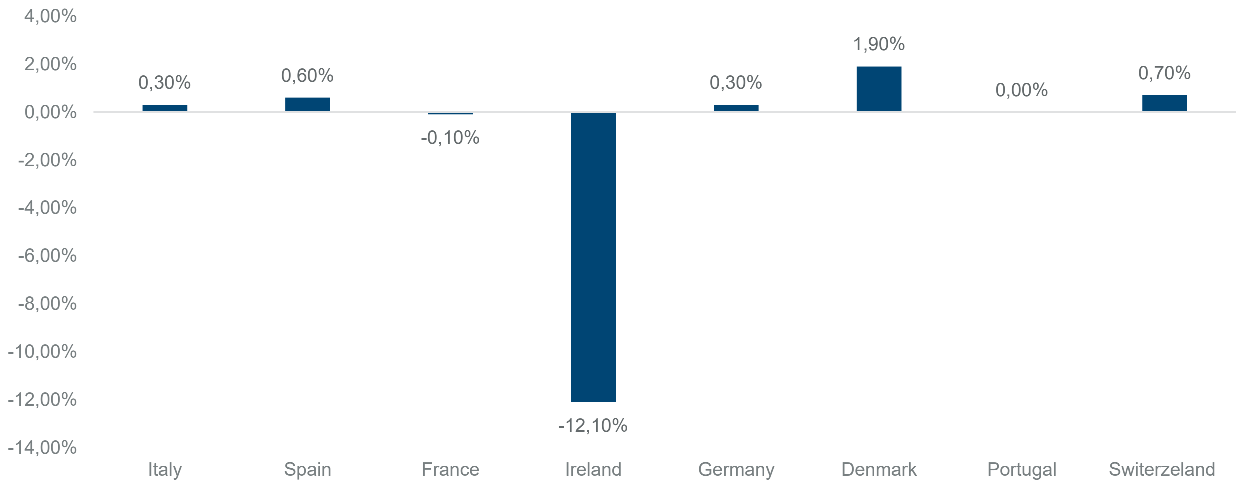


Source: Bloomberg

The country-level picture remained deeply uneven. Denmark led growth at 1.9% quarter-on-quarter, with Estonia and Malta both at 1.1%. Spain continued to outperform the core at 0.6%, while Germany and Italy each posted modest expansions of 0.3%. France stagnated at −0.1%, alongside declines in Lithuania (−0.3%)

and Sweden (−0.2%). Ireland's headline −12.1% contraction is a statistical outlier driven by the volatility of its multinational-dominated capital formation accounts rather than a genuine domestic slowdown and is typically excluded from read-throughs on underlying Eurozone momentum. Employment held up better than output: the Eurozone added 0.1% more jobs quarter-on-quarter and 0.5% year-on-year, taking employment to 176.3 million people, with hours worked down slightly (−0.2% QoQ), consistent with firms preferring to trim hours over headcount as activity softened.

Figure 11: Individual countries within the Eurozone contribute mixed GDP growth to the bloc



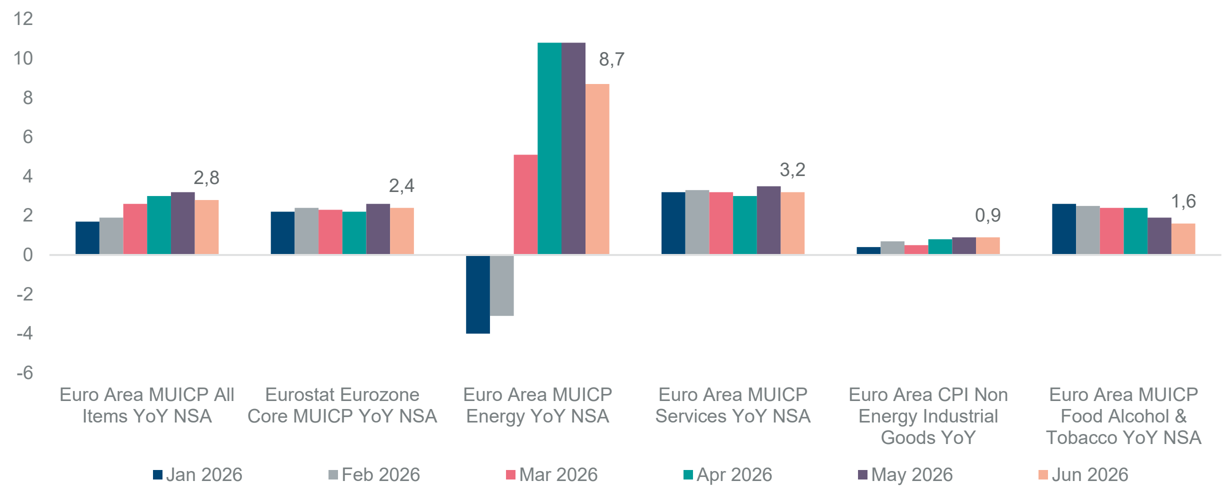
Source: Eurostat

Eurozone inflation peaks at 3.2% in May, while June's CPI YoY is broadly lower at 2.8%

Having closed the first quarter at 2.6%, CPI YoY accelerated sharply to 3.0% in April and 3.2% in May, its highest level since September 2023 and well above the ECB's 2% target. The surges in inflation during April and May were driven overwhelmingly by energy: energy inflation reached 10.8% year-on-year across both months, its steepest rise since February 2023, as the Strait of Hormuz disruption constrained the global oil supply. Core inflation, excluding energy and food, climbed alongside it, reaching 2.6% in May from 2.2% in April, while services inflation accelerated in May to 3.5% from 3.0% in April. Country dispersion widened materially through May: Spain (3.6%), the Netherlands (3.4%) and Italy (3.3%) all ran hot, while Germany eased to 2.7%.

Eurostat's June flash estimate and the subsequent June data release changed the picture decisively. Eurozone inflation fell to 2.8%, down by 0.4 percentage points and the largest single-month decline since the shock began, with every major component easing in tandem. Energy inflation dropped to 8.7% from 10.8%, services eased to 3.2% from 3.5%, food, alcohol and tobacco slowed to 1.6% from 1.9%, and core inflation (excluding energy and food) fell to 2.4% from 2.6%. Crucially, this is not a Germany-specific story: the decline is visible across the full basket and consistent with the 17 June ceasefire beginning to feed through into energy markets. May's year-on-year CPI of 3.2% now stands confirmed as the quarter's – and likely the cycle's – peak as inflation begins to slow down.

Figure 12: Eurozone's various inflation indices surged following the Middle East tensions but have since cooled after the announcement of the US–Iran peace deal

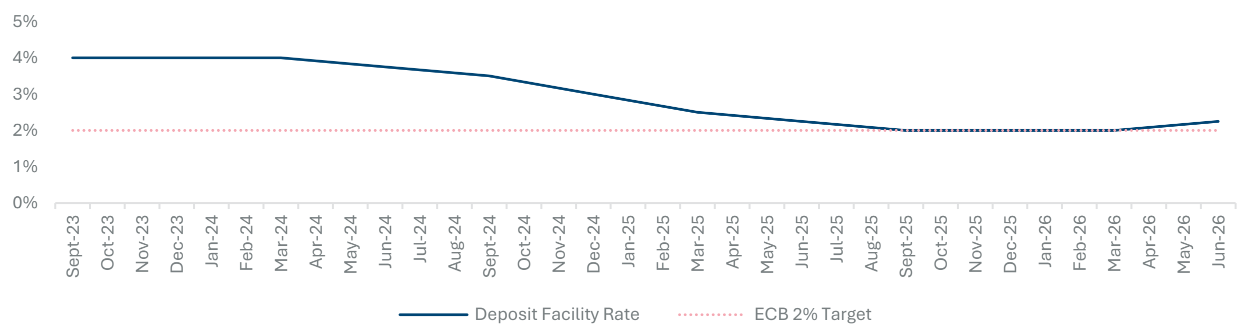


Source: Bloomberg

The ECB ends its pause with its first rate hike since 2023 as the policy trade-off sharpens

The ECB entered Q2 having completed its easing cycle, with the deposit facility rate settled at 2.0% following a series of cuts through 2024 and 2025. At its 30 April meeting, the Governing Council kept rates unchanged for a third consecutive time, warning explicitly that upside risks to inflation and downside risks to growth had both intensified. The meeting statement represented a decidedly hawkish shift in tone relative to March, and minutes released in June confirmed that the April decision had been a genuinely close call; several Governing Council members indicated that they would have supported a hike had one been formally proposed at that meeting. The meeting on 11 June delivered the move. The ECB raised all three key interest rates by 25 basis points, its first increase since 2023, lifting the deposit facility to 2.25%, the main refinancing rate to 2.40%, and the marginal lending facility to 2.65%, effective 17 June 2026. Updated Eurosystem staff projections revised headline inflation to an average of 3.0% in 2026 and 2.3% in 2027, with the ECB projecting a peak of 3.4% in Q3 and Q4 2026 before a gradual return to 2.0% in 2028. GDP growth was simultaneously revised downward to 0.8% for 2026 and 1.2% for 2027. President Lagarde was unambiguous at the press conference: with inflation at 3.2% in May and projected to remain above target through most of 2027, the rate increase was described as a clear monetary policy call, robust across all scenarios.

Figure 13: ECB deposit facility rate, easing cycle and June 2026 hike (%)

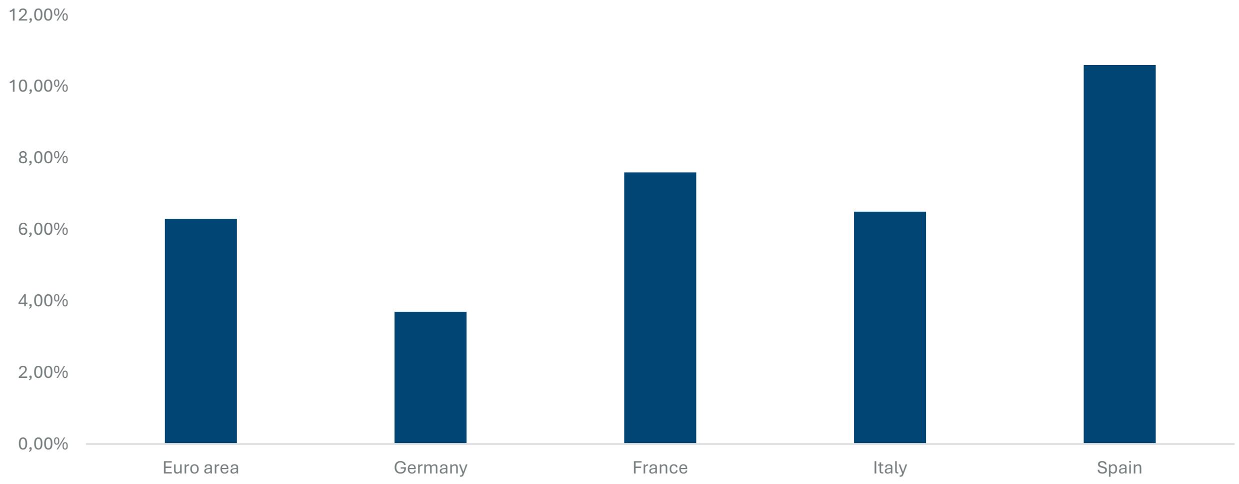


Source: Eurostat

Unemployment holds near historic lows and is revised downward through the quarter

The labour market remained a source of stability. The Eurozone's seasonally adjusted unemployment rate stood at 6.2% in May 2026, stable compared to April and down from 6.3% a year earlier, with April's own reading revised downward from an initially reported 6.3% to 6.2% in Eurostat's most recent release. Eurostat estimates that 10.99 million people were unemployed in the Eurozone in May, which was 55,000 fewer than in April and 158,000 fewer than a year earlier. Youth unemployment held at 14.7%, unchanged for the month. Country dispersion remains wide but broadly stable: Germany continues to run near full employment, with unemployment at 3.8%, while France (8.2%), Spain (10.3%) and Finland (10.6%) sit at the higher end. Notably, Greece's unemployment rate fell sharply to 8.1% in May from 9.1% in April, the most significant single country move in the release, continuing a multi-year structural improvement. Combined with Q1's employment growth of 0.5% year-on-year, the picture is one of a labour market that has so far absorbed the energy shock without meaningful stress, even as GDP itself contracted.

Figure 14: Eurozone unemployment rates across major economies (May 2026)



Source: Eurostat

Outlook

The Eurozone ended the second quarter in a more stable position than it appeared just a few weeks earlier. Although the conflict in the Middle East temporarily pushed up energy prices and inflation, the ceasefire reached in mid-June helped ease these pressures before they became more entrenched. Looking ahead, inflation is expected to remain above the ECB's target for the remainder of 2026 before gradually returning closer to 2% over the next two years. Economic growth is also expected to remain modest as higher energy costs and uncertainty continue to weigh on business and consumer activity. The key focus for the third quarter will be whether inflation continues to moderate and whether the ECB considers that further interest-rate increases are necessary or pauses to assess the impact of recent developments. Overall, while risks remain, the worst of the energy-related shock appears to have passed, leaving the Eurozone on a path towards gradually improving inflation and a more stable economic environment.

UNITED KINGDOM

The UK's economic growth leads the OECD to upgrade its 2026 growth forecast, but geopolitical tensions and inflationary pressure result in the UK's 2027 growth projection declining

The UK economy remained in expansionary territory during the first quarter of 2026, with GDP increasing by 0.6% on a quarterly basis, exceeding the 0.1% quarter-on-quarter growth experienced in the last two quarters of 2025. This economic growth was largely driven by the services sector, which contributed a 0.8% quarterly growth to GDP, combined with the 0.2% quarter-on-quarter growth seen in the construction and production sectors. The services sector was boosted by strong performance in retail and wholesale trade, advertising and computer programming, while manufacturing, together with the growth in the supply of electricity, gas, steam and air conditioning, led to the production sector's growth. Private housing repair and maintenance drove gains in the construction sector.

Despite this growth, given the UK's dependence on imported oil, the Middle East conflict and oil shocks resulted in the OECD initially reducing the UK's 2026 growth forecast to 0.7%. However, the subsequent peace agreement between the US and Iran, together with the 0.6% Q1 2026 growth, prompted the OECD to upgrade its current estimate to 0.9%, although its 2027 forecasted GDP growth has declined from 1.3% to 1.1% due to geopolitical tensions and global uncertainty.

Similar to the economic growth pattern, oil shocks and the Middle East war influenced the UK's inflation as it reached 3.3% in March before declining to 2.8% in April and remained unchanged at this 13-month low in May, below the Bank of England's forecast of a 3.3% rise. Even though total services inflation rose by 3.7% in May, the decline in food and beverage inflation, from 3.0% in April to 2.2% in May, helped to maintain inflation at 2.8% for a second month. The BoE expects inflation to rise above 3.2% for this year due to the inflationary impact of the war and oil supply shocks.

Figure 15: UK's GDP grew 0.6% in Q1 2026, above the 0.1% growth from the previous two quarters

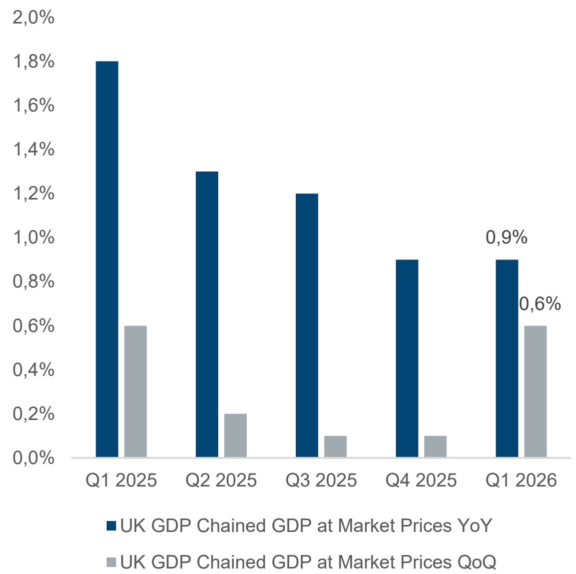
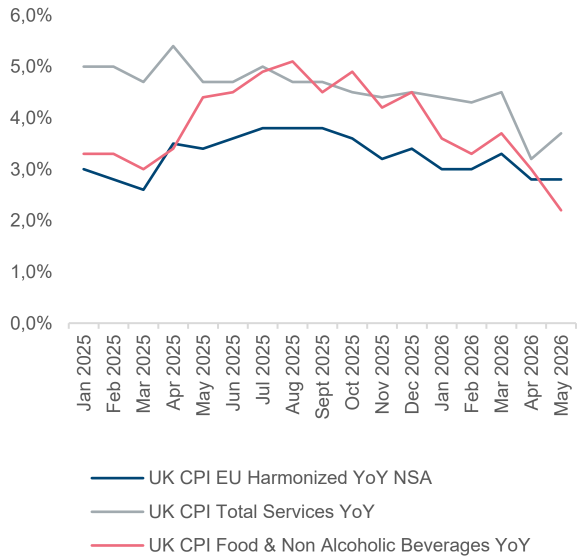


Figure 16: Inflation reached 3.3% in March before settling at 2.8% in April and May



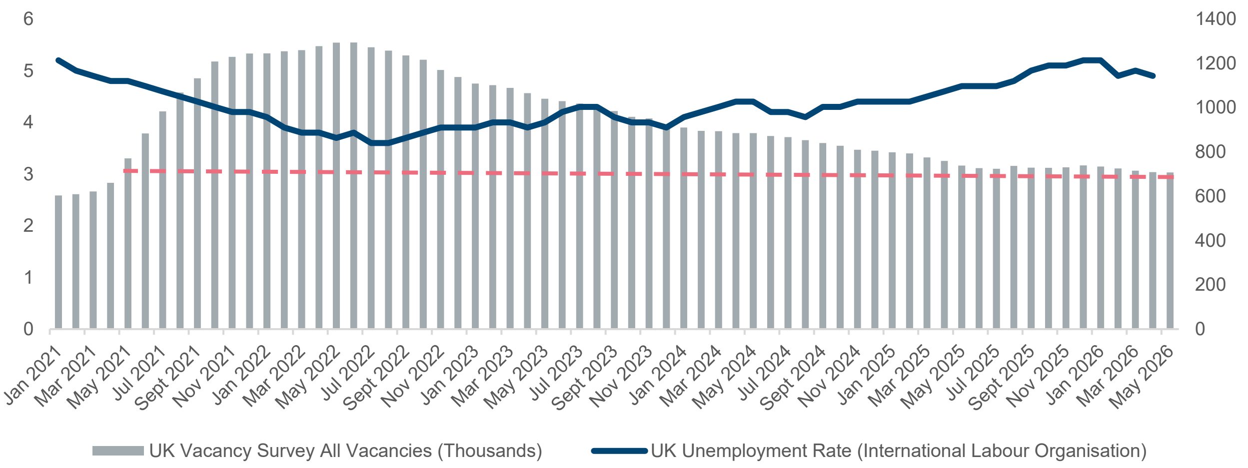
Source: Bloomberg

The Bank of England maintains interest rates as it monitors inflation, progress in the US–Iran peace deal and its soft labour market

In contrast to expectations of the BoE hiking rates due to inflation being above the 2% target, the central bank kept its interest rates unchanged at 3.75% during its June meeting. The Governor of the central bank, Andrew Bailey, indicated that holding rates steady was the appropriate decision, as they would assess the ripple effects of the war on inflation in the upcoming months while also assessing progress on the US–Iran peace agreement that would reopen the Strait of Hormuz. He further stated that even though oil prices may have declined following the peace deal announcement, which would reduce further inflationary pressure, it was too soon to consider rate cuts as households have not yet been fully exposed to the impact of the war due to the UK's energy price caps that limit the price of electricity and gas charged by suppliers to households.

Additional factors impacting the UK's economy include its softening labour market and political instability. The labour market sent mixed signals, as the unemployment rate declined to 4.9% from February 2026 to April 2026, showing some resilience during the Middle East conflict. Meanwhile, job vacancies contracted in the three months to May by 19,000 to 707,000, its lowest level since 2021. This implies that businesses remain cautious in the face of the global uncertainty and are reluctant to hire staff. Additionally, even though the average wage increase was steady at 3.4% from February to April, boosted by the 5.1% growth in public sector wages, the private sector wage growth declined from 3.1% to 2.9%, reaching lows last seen in 2020. Governor Bailey also referenced the strong wage growth in the public sector as an inflationary concern, further supporting the hold on interest rates. The BoE's focus is on the private sector, which continues to see employment and wage growth decrease as anticipated rising inflation will put further pressure on these households. Meanwhile, youth unemployment remained at a decade high of 16.2% for the three months to April, leading to a weaker labour market.

Figure 17: Despite unemployment declining to 4.9%, job vacancies have reached 5-year lows as businesses become reluctant to hire

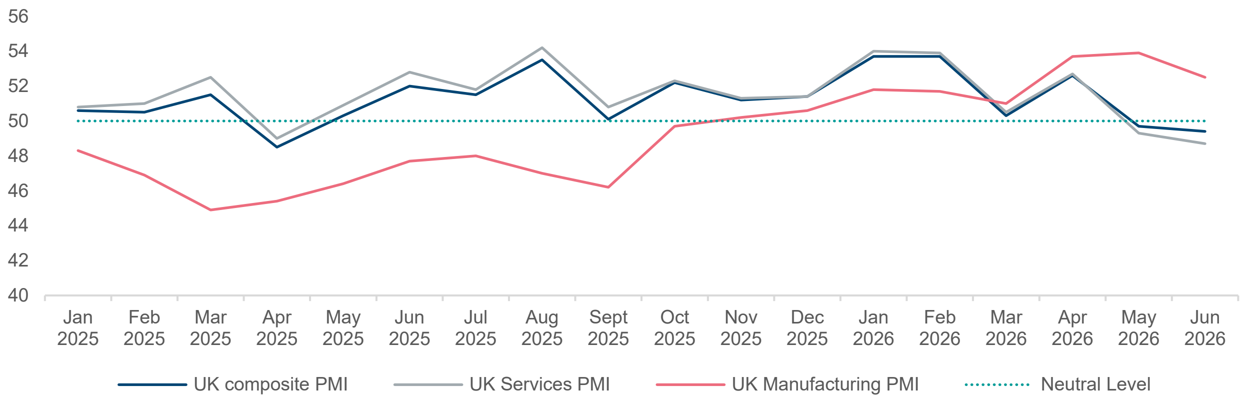


Source: Bloomberg

Political instability and declining business sentiment further negatively impact the UK's economy

Furthermore, political instability is negatively impacting an already constrained UK economy, as its prime minister, Sir Keir Starmer, announced his resignation, leading to a seventh prime minister within a 10-year period. This raises concerns among foreign investors as they assess the UK's political environment, the inflationary impact of high energy costs and a weak labour market. The challenges within the UK economy are amplified by falling business sentiment, as the UK Composite PMI, Services PMI and Manufacturing PMI all declined in June, with the Composite PMI and Services PMI shifting into contraction after falling below the neutral level of 50. The UK Composite PMI was at 49.4 in June, with the Services PMI at 48.7, while the Manufacturing PMI was at 52.5, declining from 52.6, 52.7 and 53.7, respectively, at the start of the second quarter in April.

Figure 18: The Middle East tensions, oil shocks and political instability dampen business sentiment with the UK's Composite and Services PMIs shifting into contraction



Source: Bloomberg

As the UK continues to assess the secondary impact of the geopolitical tensions on inflation and monitor progress in the US–Iran peace agreement, the BoE has indicated that holding interest rates steady is currently the most suitable decision. The soft labour market and low economic growth further support the rate decision, while investors are likely to remain cautious over increased volatility surrounding political instability, which impacts their risk premiums and investments within the region.

JAPAN

Japan continued to outperform expectations in Q2, extending one of its longest post-war expansion runs. Despite elevated energy prices from the Middle East conflict and ongoing Bank of Japan policy normalisation, the economy remained resilient, supported by robust business investment, improving wage dynamics and sustained export demand linked to the global AI cycle. While higher oil prices and a weak yen weighed on household purchasing power, resilient labour markets and government support cushioned the consumer impact. Forward-looking indicators, including the Cabinet Office Leading Index, continued to point towards expansion, reinforcing confidence that Japan's recovery remains intact despite an uncertain global backdrop.

Economic growth remains resilient as business investment offsets softer household demand

Japan's economy maintained positive momentum in Q1 2026, with real GDP expanding by 0.5% QoQ and 0.4% YoY, highlighting domestic resilience despite external headwinds. Growth continued to be underpinned by strong business investment and external demand, particularly as global AI infrastructure expansion supported exports of semiconductors, advanced manufacturing equipment and precision electronics. Corporate profitability remained healthy, encouraging firms to continue investing despite rising financing costs and geopolitical uncertainty. Household consumption, however, remained the principal area of weakness. The yen's prolonged depreciation eroded purchasing power by raising imported goods and energy costs, leaving consumers more selective. Nevertheless, private consumption remained broadly resilient, supported by continued wage growth and improving labour market conditions, suggesting domestic demand will continue to contribute meaningfully to activity.

Labour market tightness continues to support wage growth

Japan's labour market remained exceptionally tight throughout the quarter, providing one of the strongest foundations for the domestic recovery. The BoJ's March Tankan Survey highlighted the tightest labour market in over three decades, reinforcing expectations that businesses will continue raising wages while accelerating investment in labour-saving technologies to address persistent worker shortages. The unemployment rate remained low at 2.5% in May, while the job-to-applicant ratio eased slightly to 1.17, indicating that vacancies continue to comfortably exceed available labour. More importantly, real wages continued their gradual recovery, increasing by 1.9% YoY, extending a sustained period of positive wage growth which is becoming increasingly important for policymakers seeking durable inflation driven by domestic demand rather than imported pressures. Improving wage growth, together with targeted government subsidies aimed at reducing living costs, also supported consumer spending. Retail sales increased by 1.9% in May, driven by stronger vehicle, pharmaceutical and cosmetics sales. Nevertheless, spending patterns suggest that households remain price-conscious, shifting towards lower-cost alternatives amid ongoing cost-of-living pressures.

Figure 19: Japan's average monthly real cash earnings YoY

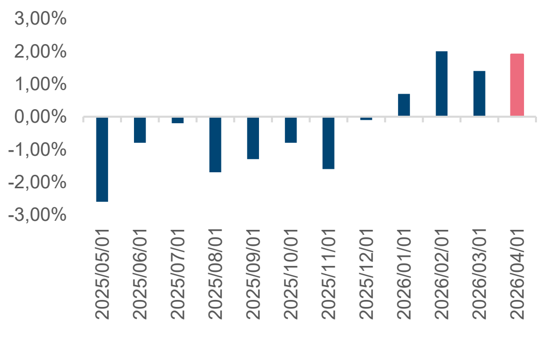
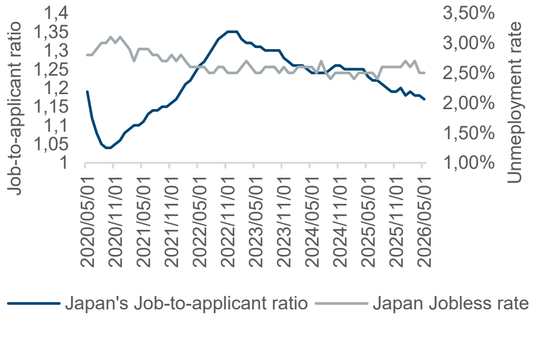


Figure 20: Japan's labour market remains tight



Source: Bloomberg

Business confidence remains positive despite rising cost pressures

Business confidence remained broadly resilient in Q2, though rising input costs and supply chain disruptions tempered optimism. The BoJ's June Tankan Survey, which is the country's most comprehensive measure of business sentiment, improved modestly by one point to 11, reflecting continued confidence among large manufacturers despite a challenging environment. However, firms continued to report pressure on profit margins as higher commodity prices filtered through supply chains. Producer price inflation accelerated to 6.3% YoY in May, driven by rising petroleum, coal, electricity, gas and chemical prices. These higher input costs have increasingly tested corporate pricing power, particularly among manufacturers exposed to imported energy and raw materials. Despite these pressures, Japanese corporates continue to benefit from healthy balance sheets and sustained investment demand, allowing many firms to maintain capex plans despite elevated operating costs.

Figure 21: Japan's business sentiment improves

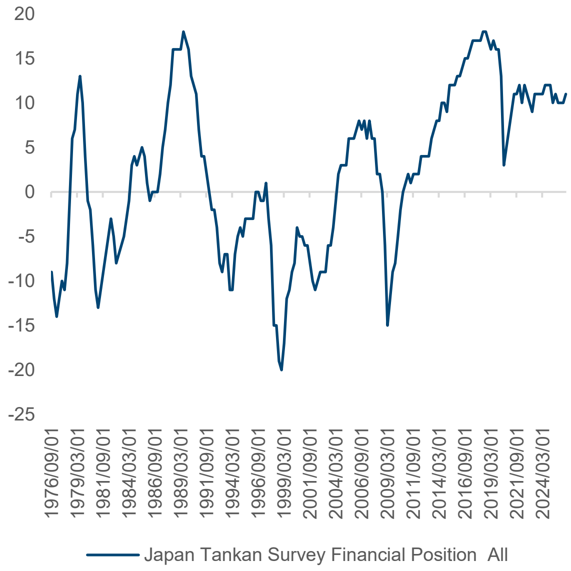
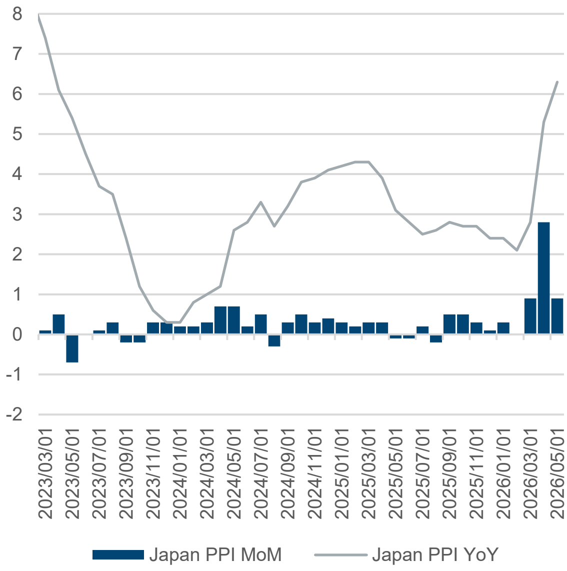


Figure 22: Inflationary pressures persist on higher energy-related costs



Source: Bloomberg

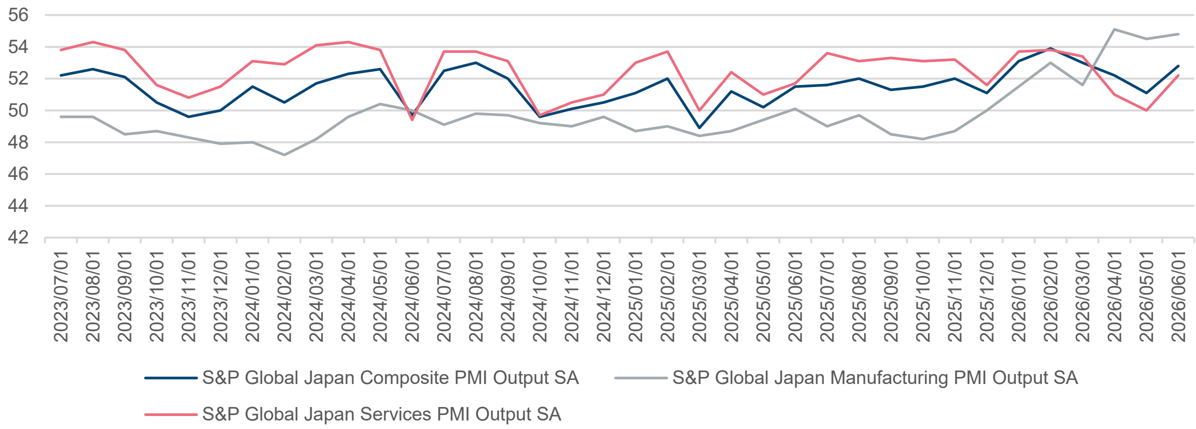
BoJ continues policy normalisation as inflation remains above target

Q2 marked another significant step in the BoJ's gradual exit from decades of ultra-accommodative policy. Underlying inflation has averaged close to 3% over recent years, well above the Bank's longstanding 2% target. The BoJ raised its benchmark rate to 1%, reflecting growing confidence that inflation is becoming more sustainably anchored. Alongside the rate increase, the Bank announced it would halt further reductions in government bond purchases from fiscal 2027, maintaining purchases of approximately ¥2 trillion per month. While this decision aims to preserve orderly market functioning, it has prompted debate regarding the pace of balance sheet normalisation. Former BoJ Executive Director Kenzo Yamamoto warned that maintaining substantial bond purchases for an extended period risks leaving financial conditions excessively accommodative and could expose the central bank to future political pressure to expand asset purchases further. Such an outcome, he argued, may ultimately require more aggressive rate increases to offset continued liquidity abundance. Overall, the BoJ continues to engage in a careful balancing act, normalising policy sufficiently to contain inflation while avoiding unnecessary disruption to Japan's still-fragile recovery.

Manufacturing benefits from AI demand and stockpiling while services continue to recover

Japan's manufacturing sector remained one of the strongest contributors to economic activity throughout the quarter, demonstrating impressive resilience despite elevated energy prices and geopolitical uncertainty. Industrial production increased by approximately 0.98% between March and May, highlighting manufacturers' ability to navigate supply chain disruptions. Business surveys painted a similarly constructive picture. The Composite PMI remained comfortably in expansionary territory despite easing modestly from March, reflecting slower services growth while manufacturing accelerated further. The Manufacturing PMI improved to 54.8, supported by strong export demand and precautionary inventory building as firms sought to mitigate potential supply disruptions. Services activity also improved following a temporary May slowdown, with new orders expanding at their fastest pace in four months. Although some of the strength reflected customer stockpiling ahead of expected price increases, the data nevertheless suggests that underlying domestic demand remains resilient.

Figure 23: Japan's Purchasing Manufacturing Survey



Source: Bloomberg

External headwinds continue to challenge Japan's export-oriented economy

As one of the world's most export-dependent developed economies, Japan remains particularly sensitive to global trade dynamics and energy prices. The Middle East conflict has increased transportation and production costs while weakening demand across parts of Asia, contributing to a moderation in export growth. Exports increased by 4.6% YoY in May, while import growth slowed to 1.7%, reflecting softer domestic demand and weaker regional trade flows. Higher oil prices have also placed additional pressure on Japan's trade balance and household purchasing power, particularly given the country's heavy reliance on imported energy. Consequently, consumer confidence remained subdued, improving only marginally from 32.0 in April to 33.5 in June, highlighting continued household caution.

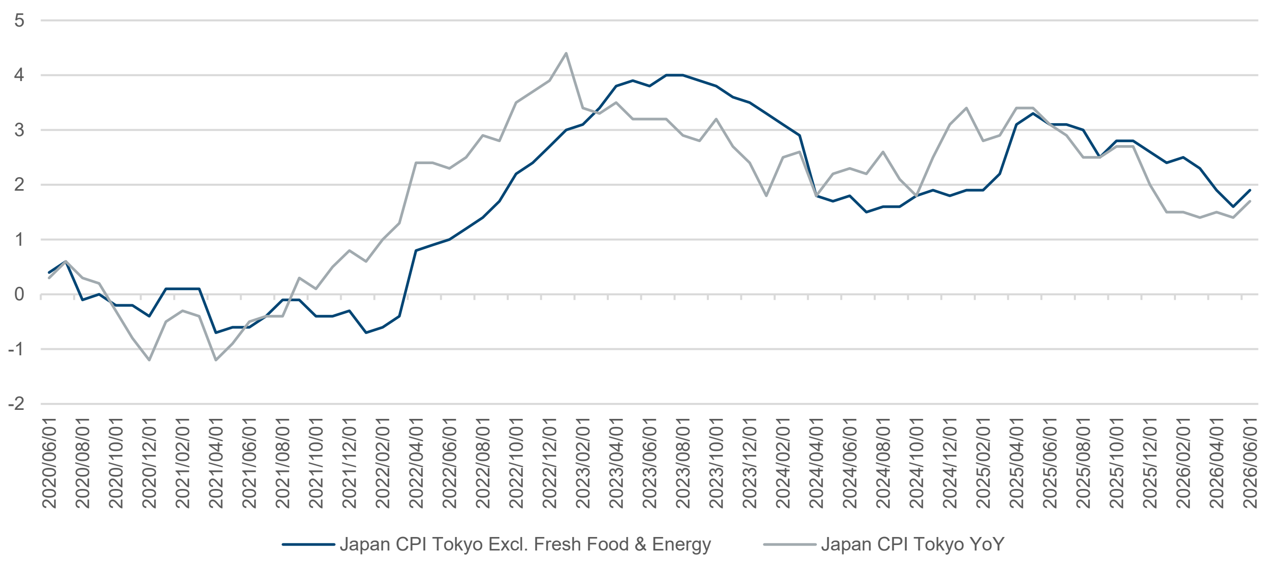
Fiscal policy provides an important buffer against global headwinds

Fiscal policy remained a significant source of support throughout the quarter following Prime Minister Sanae Takaichi's decisive election victory earlier this year. The government's ¥14 trillion fiscal stimulus package combines increased public investment, tax relief and strategic spending aimed at strengthening Japan's long-term competitiveness. A key component is increased investment in AI, advanced manufacturing and national security infrastructure, reinforcing Japan's ambitions to remain at the forefront of technological innovation. Temporary suspension of the food sales tax, together with continued fuel subsidies, has also helped alleviate cost-of-living pressures, partially offsetting the inflationary impact of higher global energy prices. While these measures should continue to support domestic demand, policymakers remain aware that a prolonged escalation in geopolitical tensions would likely offset part of the fiscal stimulus through higher import costs and weaker global trade.

Inflation moderates, but yen weakness keeps price pressures elevated

Inflation developments became more encouraging in Q2 as underlying pressures showed tentative signs of easing. Tokyo's core inflation measure, which excludes both fresh food and energy, slowed from 2.3% in March to 1.9% in June, its slowest pace in four years. The moderation largely reflects the government's fuel subsidy programme, which helped reduce energy costs despite continued volatility in global oil markets. Headline inflation nevertheless remained elevated, supported by persistent food price inflation and continued yen weakness, which ended the quarter trading around ¥162.55 per USD. The weaker currency continues to increase imported goods costs, limiting the pace at which inflation can return sustainably to the BoJ's target. Looking ahead, policymakers are expected to carefully balance further monetary normalisation against the risk that continued currency weakness and imported inflation will place renewed pressure on households and business confidence.

Figure 24: Japan's inflation moderates



Source: Bloomberg

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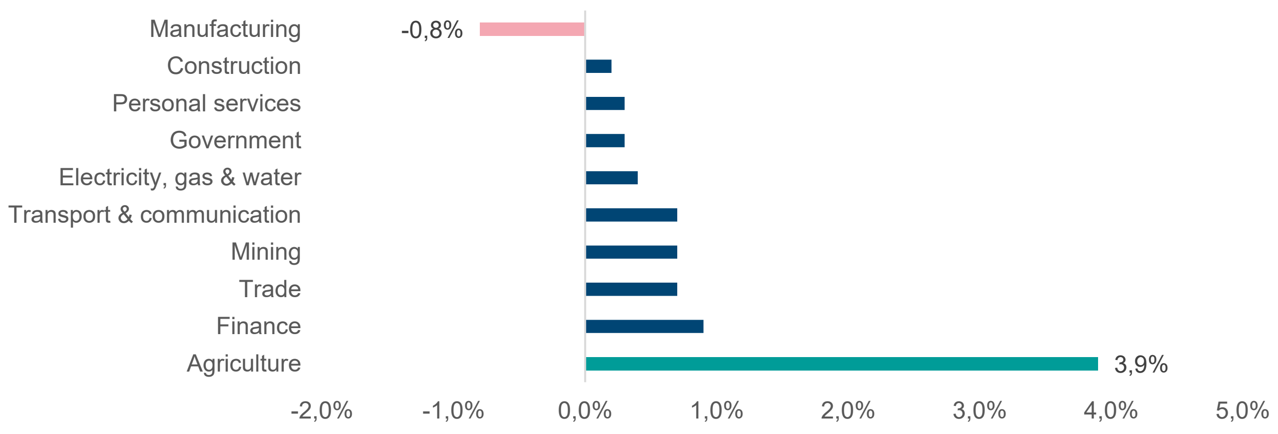
SA

GDP Growth (Q1)	CPI (May 2026)	Repo Rate	Brent Crude
0.5%	**4.5%**	**7.0%**	**~$73.5**
6th consecutive quarter	Multi-month high ↑	First hike since 2023 ↑	Easing ↓

SA sees six consecutive quarters of expansion despite a more challenging external backdrop

South Africa's recovery extended into a sixth consecutive quarter in Q1 2026, with GDP expanding by 0.5% quarter-on-quarter, marginally ahead of the 0.3% consensus forecast and up from 0.4% in Q4 2025. On an annual basis, output grew by 1.9% in Q1, a material acceleration from 0.8% in Q4. The supply side was broad-based: nine of the 10 industries registered growth, led by finance, real estate and business services (+0.9%), agriculture (+3.9%), trade (+0.7%) and transport (+0.7%). Manufacturing remained the outlier, contracting by 0.8%, thereby continuing its role as the economy’s structural drag. The demand-side composition, however, carried a more cautious message. Fixed investment fell by 1.1%, a deterioration that matters for the durability of the recovery, given South Africa's acknowledged infrastructure deficit. Household consumption was barely positive at +0.1%, and labour market conditions tightened in Q1, with the official unemployment rate rising to 32.7%, the highest in three quarters as the labour force shed an estimated 345,000 jobs. The GDP figures pre-date the April fuel and electricity tariff shocks, meaning Q2 GDP, due in September 2026, will capture their full impact on consumption and output.

Figure 25: Nine industries grew in the first quarter

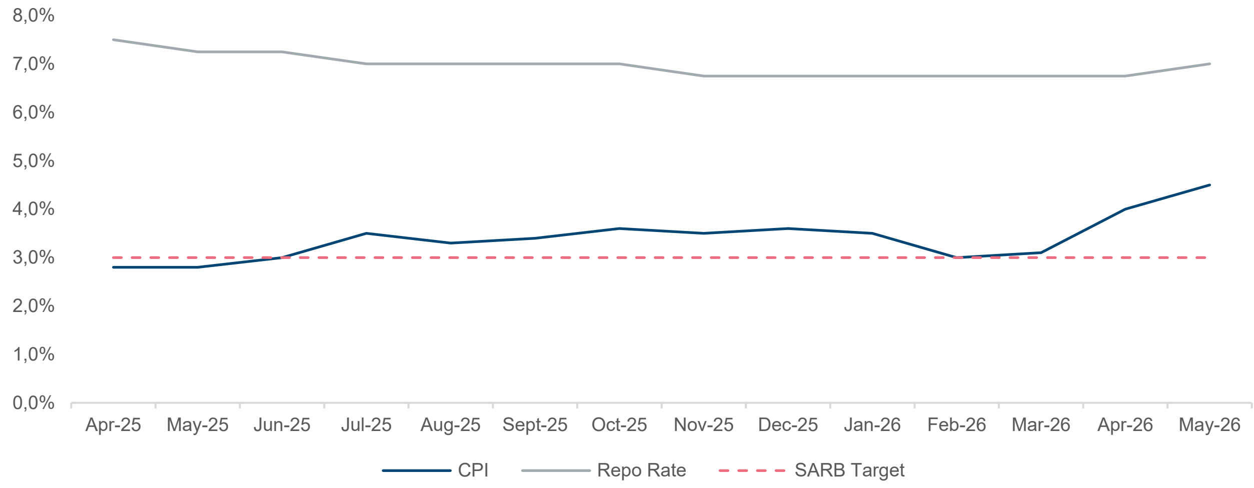


Source: StatsSA

The disinflation story faces its sternest test, as CPI spikes from 3.1% to 4.5% in eight weeks

Consumer price inflation entered Q2 at 3.1% in March, barely a rounding error away from the SARB's new 3% target. Within eight weeks, it had reached 4.5%. The transmission mechanism was stark: fuel and diesel prices rose sharply on 1 April as oil prices rose above $100/barrel, driven by the Middle East conflict and Strait of Hormuz closure, which fed into pump prices, compounded by an 8.76% Eskom electricity tariff hike effective the same day. April CPI surged to 4.0% (released 20 May), the highest print since August 2024 and a 0.9% jump in a single month. Speaking at Rhodes University on 4 May, Governor Kganyago described the fuel price pass-through as ‘the biggest jump in fuel price inflation in the history of inflation targeting’. May CPI increased further to 4.5% (released 17 June), suggesting that inflation remained under upward pressure following the earlier oil price shock. National Treasury responded with partial relief: a temporary general fuel levy reduction took effect in April and was extended through June, with the diesel levy cut to effectively zero by May. The estimated cost of the temporary fuel levy relief from April to June 2026 is R17.2 billion in foregone tax revenue. Bureau for Economic Research data showed professional groups' current-year inflation expectations surging from 3.6% to 4.4% in Q2, a direct measure of how the shock dented the confidence built through 2025's record-low inflation environment.

Figure 26: Monthly CPI vs SARB repo rate (% year-on-year)



Source: Bloomberg

The SARB raises rates for the first time since 2023, a reluctant but necessary move

The May MPC meeting delivered the quarter's most consequential domestic policy decision. On 28 May, the Monetary Policy Committee voted 4–2 to raise the repo rate by 25bps to 7.00%, the first hike since 2023 and a reversal of the 150bps easing cycle completed in late 2025. The SARB sharply revised its 2026 inflation forecast upward to 4.4% (from 3.7%) and cut its 2026 growth forecast to 1.2% (from 1.4%). Three explicit risk scenarios were published alongside the statement, all pointing to higher inflation and lower growth if the conflict persisted, including a severe scenario with inflation approaching 5% and two additional hikes implied. By June, however, the context had begun to shift. Brent crude retreated towards $73/barrel by month-end as the Iran peace process advanced, with the official US–Iran agreement released on 17 June. The next MPC meeting is scheduled for 23 July 2026. Market consensus has broadly converged on a hold at 7.00%, conditional on Brent crude remaining contained and the peace process proving durable. Major central banks provided an aligned backdrop: the US Federal Reserve held rates on 17 June, the Bank of England held on 18 June, and Sweden and Australia similarly stood pat, suggesting the global environment for a second SA hike remains cautious rather than urgent.

PMI returns to expansion amid cost pressures

The Absa Manufacturing PMI provided one of Q2's more encouraging activity narratives. After six consecutive months of contraction through late 2025 and early 2026, the index broke into expansion in April at 52.6, the strongest reading since September 2024, driven by manufacturers pulling orders forward ahead of anticipated price increases. The May reading moderated to 50.8, remaining in expansion for a second consecutive month, though with important caveats: production slipped back into contraction (the business activity index falling to 43.5), new sales orders eased, and input costs remained elevated on a weaker rand and higher oil prices. Absa noted that pre-emptive demand had created a temporary boost in April that was not sustained, warning that the recent weakness in orders could persist.

Figure 27: South Africa PMI Absa SA

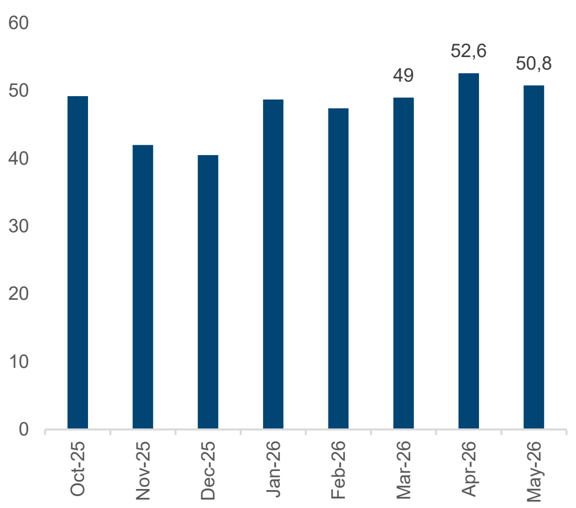
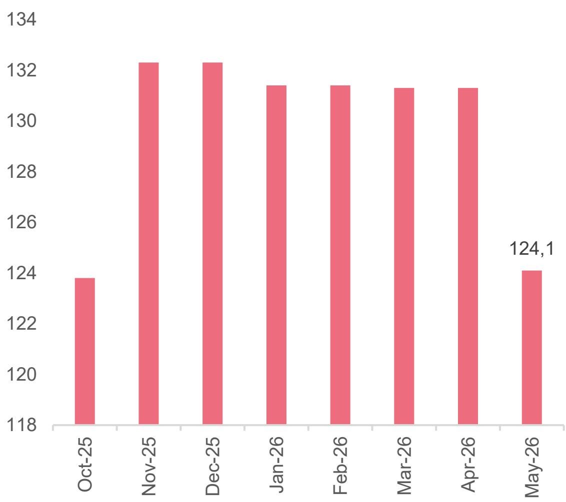


Figure 28: SACCI South Africa Business Confidence



Source: Bloomberg

The SACCI Business Confidence Index improved from around 124 in October 2025 to above 132 towards the end of 2025, indicating stronger business sentiment. However, confidence had weakened by May 2026, with the index returning to around 124, suggesting that businesses had become more cautious amid a more challenging domestic and global economic environment.

Three credit rating actions occurred in six weeks, a structural counterpoint to the cyclical turbulence

Amid the geopolitical turbulence of Q2, a cluster of sovereign credit rating actions offered a material structural counterpoint. Moody's revised South Africa's outlook to positive on 22 May, S&P Global reaffirmed its ratings on 1 June and Fitch upgraded South Africa to 'BB' with a stable outlook on 5 June. Three separate rating actions clustering in a single six-week window are an unusually concentrated signal of improved creditworthiness. Each agency cited a common set of drivers: fiscal consolidation progress, national debt beginning to stabilise (the February 2026 Budget projected the first stabilisation and decline in 17 years), removal from the FATF grey list in October 2025, improved electricity supply, and logistics reform momentum under Operation Vulindlela II. These structural tailwinds pre-date the geopolitical shock and were explicitly acknowledged by the rating agencies as durable beyond the current cyclical disruption. For investment purposes, the implications are meaningful: improved sovereign ratings lower South Africa's risk premium, reduce government borrowing costs and support the rand, all of which serve as partial offsets to the inflationary headwinds from the Middle East conflict.

Outlook

The second quarter marked a shift in South Africa's macroeconomic environment. While the economy remained resilient, supported by stronger-than-expected GDP growth and improving business activity, the external backdrop deteriorated as higher oil prices revived inflationary pressures. Looking ahead, inflation is expected to remain the key driver of monetary policy. Although price pressures showed signs of stabilising towards the end of the quarter, elevated producer prices, inflation expectations and geopolitical uncertainty suggest that risks remain tilted to the upside. At the same time, higher borrowing costs may weigh on domestic demand, although continued fiscal discipline and structural reforms should provide some support to growth.

Overall, the outlook remains cautiously balanced. The path of inflation, global energy prices and geopolitical developments will be key determinants of South Africa's economic and monetary policy outlook during the second half of 2026.

EMERGING MARKETS

Emerging markets are rattled by the Middle East tensions, but the AI boom continues to be a driving force for Asian emerging markets

Even though emerging markets were rattled by the unexpected Middle East tensions that began during the first quarter, the persistent demand for semiconductors and the AI evolution continue to be a driving force for Asian emerging markets. South Korea, being one of the major beneficiaries of the AI boom, witnessed 70.9% year-on-year growth in its exports during June 2026, while its imports grew by 30.1%, resulting in a $36 billion trade surplus. In addition, South Korea's imports from and exports to China have significantly increased on an annual basis during 2026, with growth of 17.7% in imports and 47.1% in exports seen in January 2026, rising to year-on-year growth of 42.9% in imports and 92.1% growth in exports during June 2026.

Figure 29: Demand for semiconductors and the AI evolution have resulted in growth of exports, imports, and a high trade surplus

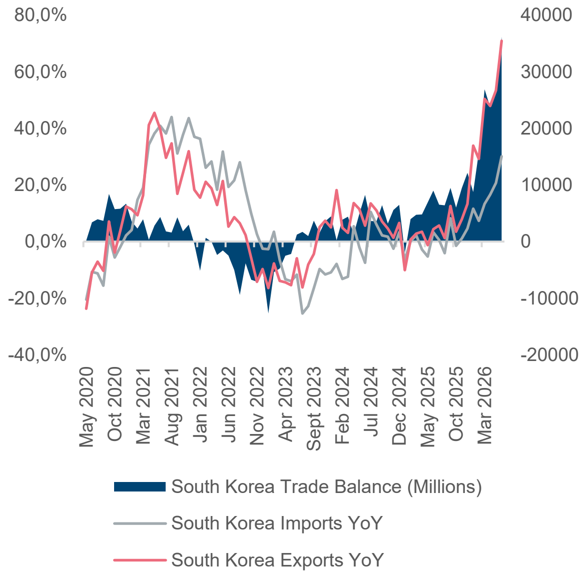
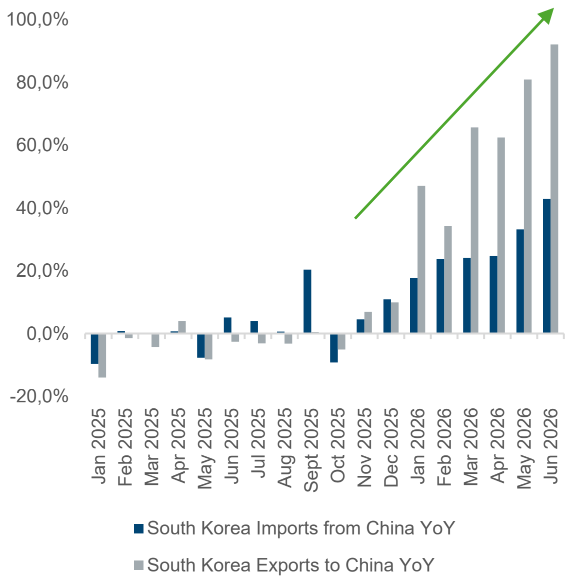


Figure 30: South Korea's imports from and exports to China have seen significant growth in 2026



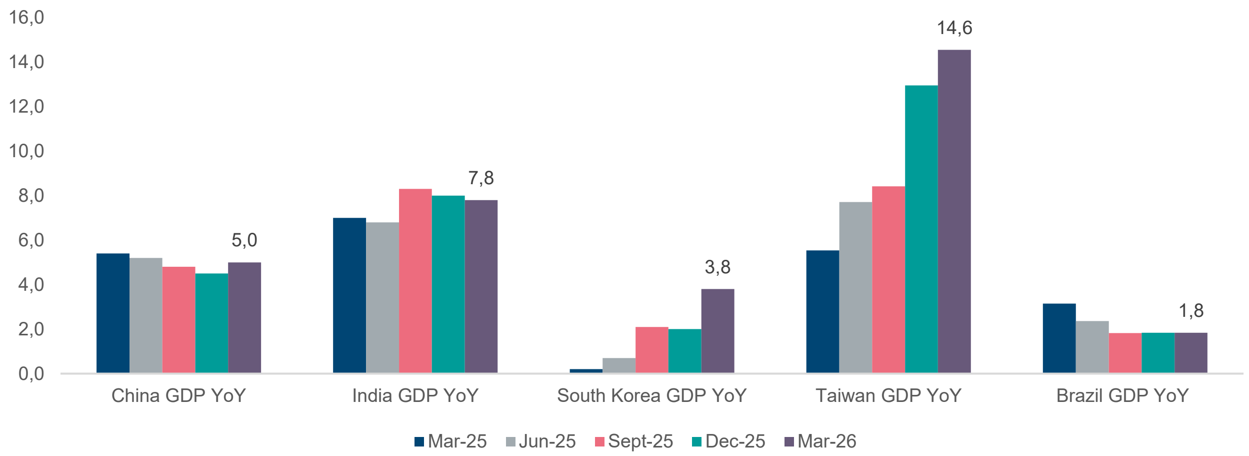
Source: Bloomberg

Despite the geopolitical conflicts and global uncertainty, South Korea's GDP grew by 1.7% in Q1 2026, its fastest quarterly growth since 2020. The economy was boosted by global semiconductor demand, business investments in AI, oil and computer-related product shipments, combined with the government's additional budget spending aimed at offsetting growing price pressures from the Middle East war. However, the impact of the war was still seen in the country's rising inflation, reaching 3.1% in May from the 2.2% seen in March, leading to expectations that the Bank of Korea may raise its interest rate in the second half of the year. According to Governor Shin Hyun Song, rising oil prices resulting in inflationary pressure, heightened resilience in the economy and a weak currency would support a rate-hike decision, with the current seven-day repurchase rate held at 2.5%. The hawkish stance is further supported by expectations that the continuation of the AI boom and global demand for chips would result in strong exports into 2027, with the BoK also lifting its GDP growth forecast from 2.0% to 2.6% for 2026, due to rising profits from technology-related companies, increasing consumption and risks to financial stability.

Taiwan's economy grows at its fastest quarterly rate since 1987, emphasising its dominant role in the semiconductor supply chain

Playing a significant role in the semiconductor supply chain, Taiwan also continues to gain from the global demand and enthusiasm surrounding AI, as its first quarter GDP experienced its fastest quarterly growth since 1987, reaching a 14.6% year-on-year expansion. This expansion was largely driven by robust demand for semiconductors, AI-related investments, strong exports and favourable tariff negotiations with the US, which saw reciprocal tariffs fall to 15% as additional exemptions on semiconductors also boosted the economy. Taiwan's May exports rose by 51.7% on an annual basis while its imports increased by 54.9% compared to a year ago. Even though inflation had risen to 2.2% in May, exceeding the 2% alert threshold, due to rising oil prices and Taiwan's vulnerability to imported energy and oil, the continuous demand and investments in AI-related products combined with strong export momentum led to Taiwan's Directorate-General of Budget, Accounting and Statistics forecasting 9.64% growth in GDP while the National Development Council Minister expects GDP to exceed 10% in 2026. However, investors are cautioned by the fact that Taiwan's economy and stock market are highly dependent on a single, tech-related company, Taiwan Semiconductor Manufacturing Company (TSMC). The latter has a weight of approximately 45% in the TAIEX Index and is the centre of its economic expansion, and is also vulnerable to global oil shocks, which can influence its economic growth in the future.

Figure 31: Taiwan's significant role in the AI supply chain led to 14.6% year-on-year growth in Q1 2026



Source: Bloomberg

The US–Iran war dampens sentiment and increases inflationary pressure in India, but the subsequent US–Iran peace deal could see India continue as one of the world's fastest-growing economies

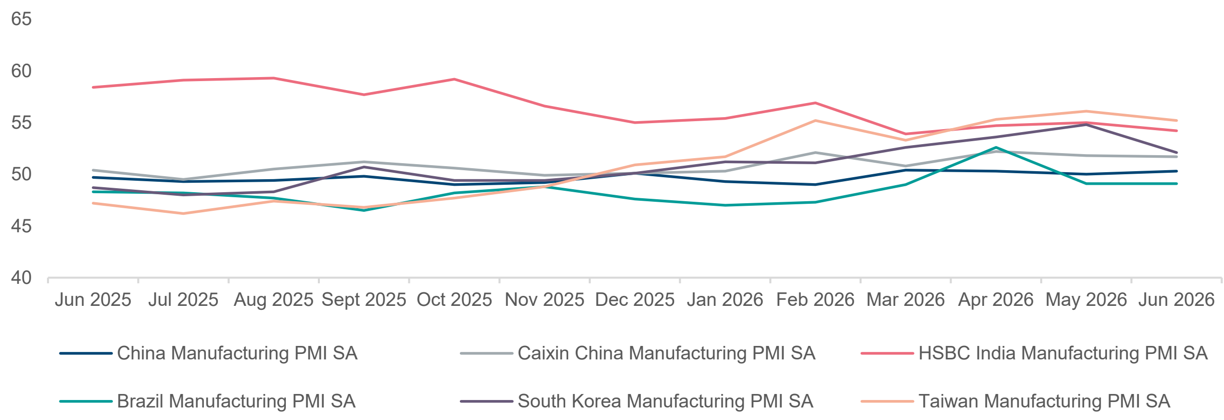
In addition to the two markets mentioned above, other emerging market peers, namely India and China, have witnessed GDP growth in Q1 2026, with India expanding by 7.8% and China growing by 5.0%, year-on-year. However, as an energy importer, India has been negatively impacted by the Middle East war and the closure of the Strait of Hormuz as it imports approximately 90% of its crude oil requirements. Furthermore, global uncertainty and growing concerns about the inflationary impact of the war have dampened investor sentiment and led to broad-based foreign outflows as investors have assessed the impact of the geopolitical conflict on India's inflation, current account deficit, corporate margins and ultimately economic growth. The inflationary impact of the war is seen in India's inflation having risen from 3.4% in March to 3.93% in May 2026.

Following a subsequent de-escalation of the war and a US–Iran peace agreement, investor sentiment has improved, with India expected to remain one of the world's fastest-growing economies, with foreign inflows beginning to increase and investors buying $5.2 billion of India's index-eligible debt in June. The shift in sentiment is also seen in India's Manufacturing PMI which initially declined from 56.9 in February to 53.9 in March before increasing to 54.7 and 55 in April and May, respectively. Even though the World Bank has forecasted India's GDP to grow by 6.6% in 2026–2027 while the Reserve Bank of India projects 6.9% growth on the basis of strong macroeconomic fundamentals, declining geopolitical tensions, adequate foreign reserve buffers and prudent fiscal management, the World Bank expects inflation to rise to 4.9% due to rising food prices, elevated energy costs and increased industrial input costs. Furthermore, India's unemployment rate increased to 5.5% in May, its highest level since June 2025, possibly due to seasonal moderation, while India's June Manufacturing PMI decreased to 54.2 following the softer labour market data, slower new orders and weaker international sales. Therefore, despite the anticipated economic growth, the Indian market is still vulnerable to global uncertainty.

China's economy remains in expansion during Q2 2026, but weak consumer demand, consumption and property sector issues impact AI-related growth factors, resulting in a two-speed economy

In contrast to its emerging market peers, China's strategic transition towards renewable energy reduced the impact of oil shocks and the Middle East tensions on its economy, as inflation increased slightly from 1% in March to 1.2% in April and remained at this level in May. Additionally, China's Manufacturing PMI has remained in expansion since March 2026, initially declining from 50.4 in March to the neutral level of 50 in May before increasing to 50.3 in June 2026, boosted by global demand for AI-related products, pro-growth policy support, improving domestic demand and resilient new export orders. Even though China's economy has proven its resilience as the second-largest economy, with financial institutions such as Goldman Sachs estimating its GDP growth to exceed the 4.5% consensus, investors should remain cautious of China's two-speed economy. China's economy may be seeing some improvement from its technology-related manufacturing sector which is being driven by the global AI boom and government subsidies, but consumer demand and consumption remain weak, combined with the deterioration in its property sector.

Figure 32: India's Manufacturing PMI initially declined in March 2026 in the wake of the US–Iran war but has since increased from the March level, while China's Manufacturing PMI entered expansion in March 2026 and remained in expansionary territory during Q2 2026



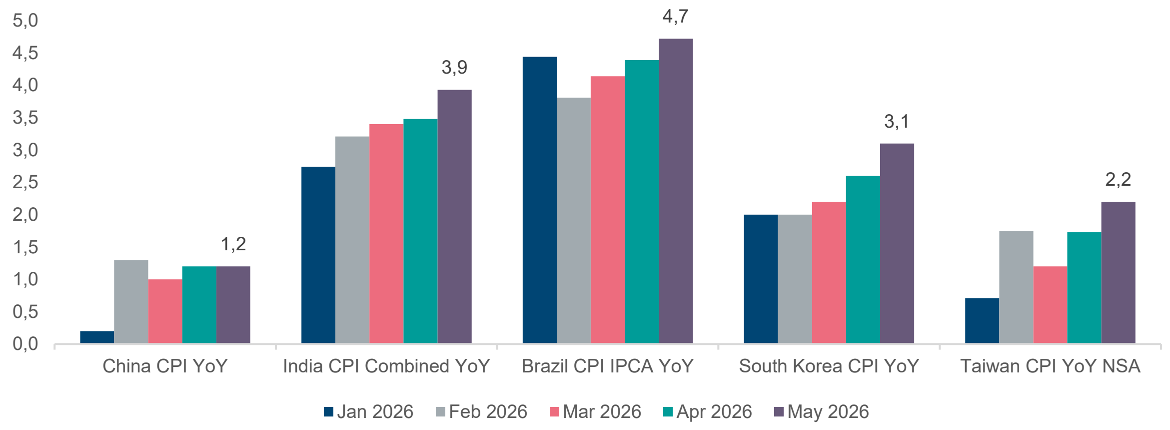
Source: Bloomberg

Despite inflation in Brazil rising above the upper end of its central bank tolerance band, its monetary policy committee decides to cut its Selic rate twice in the second quarter to 14.25% as they continue to monitor the inflationary impacts of the war

Similar to the Asian emerging markets, Brazil's Q1 GDP grew by 1.1%, the fastest quarterly growth since the first quarter of 2024, while rising 1.8% year-on year, boosted by domestic household consumption, agricultural output and fixed-capital investments. However, similar to peers, the impact of the geopolitical conflict is also reflected in Brazil's inflation, which rose from 4.14% in March to 4.72% in May 2026, with projections of 4.9–5.3% for 2026, above the upper end of its tolerance band, as measured by the central bank target of 3% +/- 1.5%. Despite worsening inflation, Brazil's monetary policy committee cut its Selic rate twice in the second quarter, a 25bps cut at the end of April and another 25bps on 17 June, taking its Selic rate to 14.25% as part of a calibration strategy.

Global volatility and uncertainty surrounding the peace agreement between the US and Iran have prevented Brazil's central bank from providing further interest-rate path guidance as they assess the material impacts of the war, volatility in oil prices and inflationary pressures against their resilient labour market, continued consumer spending and economic growth. Brazil's economy is expected to remain volatile due to the upcoming presidential election in October, as current President Lula da Silva aims for re-election by providing additional economic stimulus, which negatively impacts inflation. Furthermore, investors should be cautious of Brazil's gross debt-to-GDP, which the IMF's metric has indicated is currently at 94.3%. This is above the 77.2% average projected for developing and emerging economies in 2026, raising concerns about its fiscal management. Additional external factors such as an El Niño weather cycle are likely to put pressure on supply-side prices and impact Brazil's commodity exports, which will ultimately influence its inflation and economic growth.

Figure 33: Inflationary pressure from the oil shocks and Middle East tensions can be seen across emerging markets, with Brazil's inflation rising above its upper tolerance band of 3% (+/-1.5%)



Source: Bloomberg

In conclusion, following the Middle East tensions and oil shocks, inflationary pressures can be seen across emerging markets. However, the subsequent de-escalation and progress in the US–Iran peace deal have boosted global risk sentiment, which will benefit emerging countries, but investors should monitor the developments and successful implementation of the peace agreement. Furthermore, despite resilience within some emerging markets, investors still need to consider inflationary pressures and previously elevated oil price impacts, which are still filtering into the economy, as many central banks have opted to maintain their interest rates, such as South Korea and Taiwan, as they reassess inflation and economic growth forecasts.

APPENDIX

Financial market performance as 30 June 2026 (in ZAR)

	1 mth	3 mths	YTD	1 yr	3 yr (p.a.)	5 yr (p.a.)	7 yr (p.a.)	10 yr (p.a.)
Local Equity Indices								
FTSE/JSE All-Share Index (ALSI)	-3.7%	-2.4%	-3.0%	18.4%	17.4%	15.2%	13.7%	11.6%
FTSE/JSE Resources 20 Index	-16.4%	-19.7%	-13.9%	43.1%	22.6%	15.5%	16.7%	17.9%
FTSE/JSE Industrials Index	2.2%	4.8%	-4.0%	-1.6%	10.1%	10.9%	11.0%	8.2%
FTSE/JSE Financials Index	2.6%	8.0%	7.8%	28.5%	24.4%	20.2%	11.6%	10.0%
FTSE/JSE Capped All Share Index	-3.7%	-2.4%	-2.8%	19.4%	17.8%	14.7%	12.4%	9.4%
FTSE/JSE All-Share Top 40 Index	-4.5%	-3.2%	-3.9%	18.6%	16.9%	15.3%	14.0%	12.0%
FTSE/JSE Mid Cap Index	-2.1%	-4.8%	-5.9%	12.0%	16.4%	12.0%	9.9%	7.5%
FTSE/JSE Small Cap Index	2.3%	6.2%	3.8%	23.8%	23.3%	19.9%	17.9%	11.2%
FTSE/JSE Listed Property Index (SAPY)	3.7%	10.0%	4.6%	29.7%	26.6%	17.5%	7.7%	4.6%
FTSE/JSE Capped Listed Property Index	3.8%	10.4%	4.7%	28.9%	27.0%	17.3%	6.8%	2.7%
FTSE/JSE SA All Property Index	3.8%	10.5%	4.6%	28.7%	26.9%	17.3%	7.6%	3.7%
Local Interest-Bearing Indices								
FTSE/JSE All-Bond Index (ALBI)	1.5%	7.9%	4.2%	21.5%	17.8%	12.4%	11.1%	10.8%
FTSE/JSE All-Bond Index 1 - 3 years	0.6%	2.1%	2.7%	7.8%	9.6%	8.1%	8.0%	8.3%
FTSE/JSE All-Bond Index 3 - 7 years	1.0%	4.9%	2.6%	12.8%	13.9%	10.4%	10.3%	10.2%
FTSE/JSE All-Bond Index 7 - 12 years	1.6%	8.1%	4.0%	22.3%	19.2%	13.3%	12.1%	11.6%
FTSE/JSE All-Bond Index +12 years	1.8%	10.4%	5.9%	31.2%	21.9%	14.4%	12.3%	11.5%
Inflation Linked Government Bonds (IGOV)	1.4%	6.6%	5.2%	19.8%	11.9%	9.4%	8.3%	6.3%
Short-Term Fixed Interest Composite Index (SteFi)	0.6%	1.7%	3.4%	7.1%	7.9%	6.9%	6.5%	6.8%
Inflation Index								
Consumer Price Index (1 month lagged)	0.7%	2.4%	3.0%	4.5%	4.2%	5.1%	4.6%	4.7%
International Indices								
MSCI World Index	0.5%	9.8%	8.8%	12.7%	14.4%	15.1%	16.7%	15.0%
MSCI Emerging Market Index	-0.2%	19.7%	22.7%	33.4%	18.1%	10.6%	12.7%	11.7%
MSCI All Country World Index	0.4%	11.0%	10.3%	14.9%	14.9%	14.6%	16.3%	14.6%
FTSE World Government Bond Index (WGBI)	0.4%	-2.9%	-1.4%	-7.6%	-2.1%	0.0%	1.0%	0.6%
S&P Global Property	1.5%	4.0%	7.0%	4.1%	5.9%	5.4%	5.9%	5.5%
USA S&P 500	0.2%	11.1%	9.1%	13.2%	15.2%	16.5%	18.6%	16.8%
UK FTSE 100	0.5%	0.6%	4.9%	10.5%	12.1%	14.5%	12.0%	10.1%
Euro STOXX 50	3.5%	9.9%	6.9%	9.5%	12.1%	14.2%	14.0%	12.4%
Japan Nikkei 225	4.7%	29.4%	33.9%	44.4%	19.9%	16.0%	16.4%	14.5%
Currency Movement								
Rand/Dollar (R16.4= 1 Dollar)	1.2%	-3.6%	-1.0%	-7.5%	-4.5%	2.7%	2.2%	1.1%
Rand/Euro (R18.72= 1 Euro)	-1.1%	-4.6%	-3.7%	-10.2%	-3.0%	2.0%	2.2%	1.4%
JPY/Rand (9.92 Japanese Yen= 1 SA Rand)	1.0%	6.1%	4.8%	21.9%	8.9%	5.0%	3.8%	3.5%
Rand/Pound (R21.73= 1 Pound)	-0.5%	-3.3%	-2.5%	-10.6%	-3.1%	1.9%	2.8%	1.1%

Source: Bloomberg

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