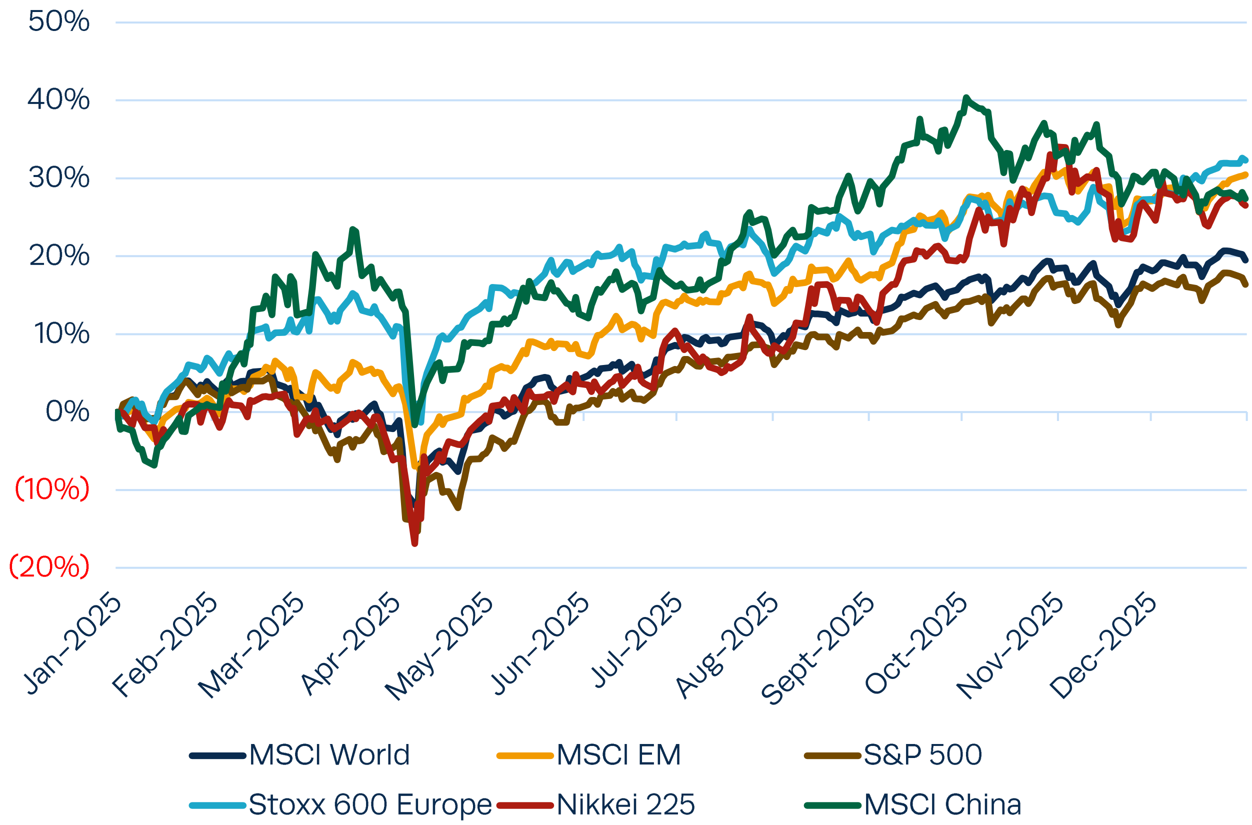
Global financial markets closed 2025 on a constructive note, having successfully navigated one of the most complex macro environments of the post-pandemic era. The first half of the year was dominated by geopolitical tension and trade-related uncertainty, particularly following the United States' decision to raise tariffs to levels last seen in the 1930s. These concerns culminated in sharp market volatility around so-called "Liberation Day", with developed equity markets briefly approaching a 17% drawdown .

At the time, investors feared a resurgence of inflation akin to that experienced in 2022. In reality, inflation pressures proved more contained, affording central banks sufficient flexibility to continue with a gradual normalisation of policy rates. As the year progressed, sentiment improved markedly. From June onwards, markets staged a broad-based rally, supported by the combined effects of global fiscal support and easier monetary conditions .

In a notable departure from recent history, 2025 was the first year since the COVID period in which all major asset classes delivered positive returns. Emerging market equities were the standout performers, returning approximately 35% in US dollar terms. A weaker US dollar, looser monetary policy trajectories, and a strong rally in precious metals provided powerful tailwinds .

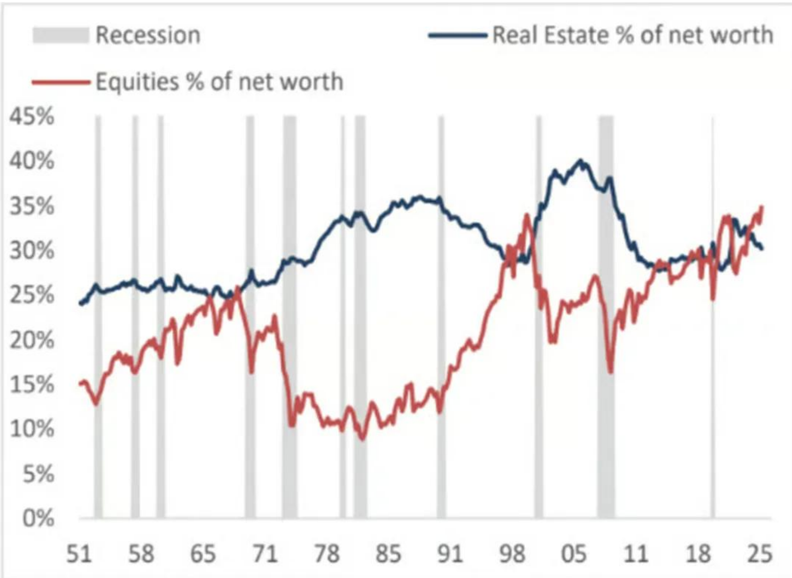
US equities, by contrast, lagged global peers. While artificial intelligence remained the dominant thematic driver of returns, leadership within the sector was increasingly narrow. Only two of the "Magnificent Seven" managed to outperform the S&P 500, and weakness in consumer-facing sectors further weighed on index-level returns. As a result, the S&P 500 finished the year as the weakest-performing major equity market for the first time in two decades.



Global Outlook

Looking ahead, the US economy enters 2026 with strong momentum. Fiscal stimulus is expected to support consumption as tax rebates linked to the administration's "One Big Beautiful Bill" begin to flow through to households. This will complement a powerful wealth effect, driven by equity market gains.

Notably, household wealth held in financial assets has now eclipsed real estate for the first time, amplifying the sensitivity of consumption to market performance .



Source: Wells Fargo Securities, LLC, Bloomberg

While most developed market central banks appear to be on pause, bond markets are pricing in two Federal Reserve rate cuts over the coming year. Political pressure on the Fed has contributed to these expectations, though it is important to recognise that the benefits of stimulus are unevenly distributed, with spending increasingly concentrated among middle- and higher-income households.

From a growth perspective, recent data have been striking. US GDP expanded at an annualised 4.3% in the third quarter, with technology capital expenditure – particularly AI-related investment – making a larger contribution than consumer spending despite its smaller share of the economy . The Atlanta Fed's GDPNow estimate for the fourth quarter has surged above 5%, reflecting not only continued AI investment but also an improving trade balance following new trade agreements and tariff structures .

Assuming labour market resilience, the US could experience its strongest period of sustained growth since the 2021 reopening phase. In such an environment, we expect equity market leadership to broaden beyond the narrow AI cohort into sectors that have lagged over the past two years.

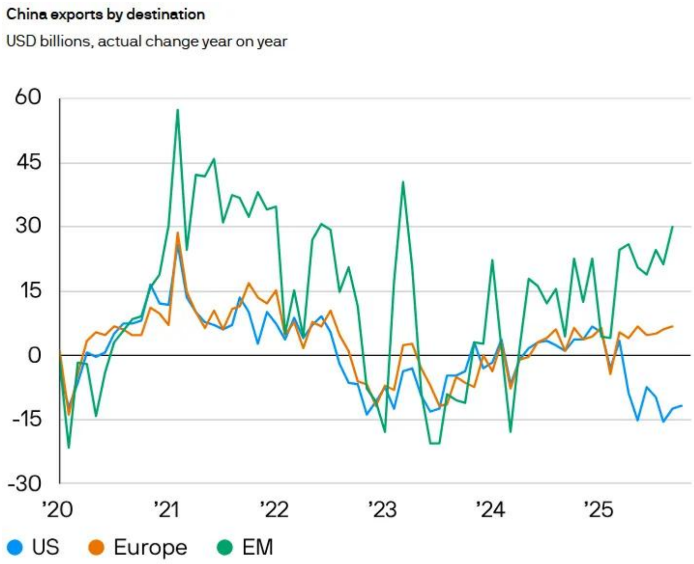
Europe's growth outlook is improving, albeit from a lower base. Germany's fiscal stimulus initiatives in 2025 are expected to begin feeding through into real economic activity during 2026. Spending plans are broad-based, with defence and infrastructure at the forefront, reflecting both geopolitical realities and long-term investment needs .

Across the broader European Union, commitments to raise defence expenditure towards 3.5% of GDP by 2035 signal a meaningful shift in fiscal philosophy. The announcement of the Security Action for Europe programme is particularly important, as it provides a framework to support countries with limited fiscal capacity .

While the European Central Bank appears comfortable with current policy settings, we believe that a sustained uplift in fiscal spending could prove a more powerful catalyst for growth than monetary easing alone. Europe's relative reluctance to deploy fiscal stimulus over the past 15 years goes a long way towards explaining its persistent growth shortfall versus the US. Encouragingly, that stance now appears to be changing.

China remains the most uncertain element in the global outlook. Despite a combination of monetary easing and targeted fiscal support, confidence among households and corporates has remained subdued since the pandemic. Regulatory interventions linked to the "common prosperity" agenda have also dampened private sector risk appetite .

That said, recent developments suggest China may be approaching an inflection point. The emergence of AI champion DeepSeek has reignited optimism around China's capacity for innovation, triggering a recovery in Chinese growth equities. This, together with tentative stabilisation in residential property prices, has the potential to lift consumer sentiment more broadly .



Source: China Customs, LSEG Datastream, National Bureau of Statistics of China, J.P. Morgan Asset Management. Data as of 31 October 2025.

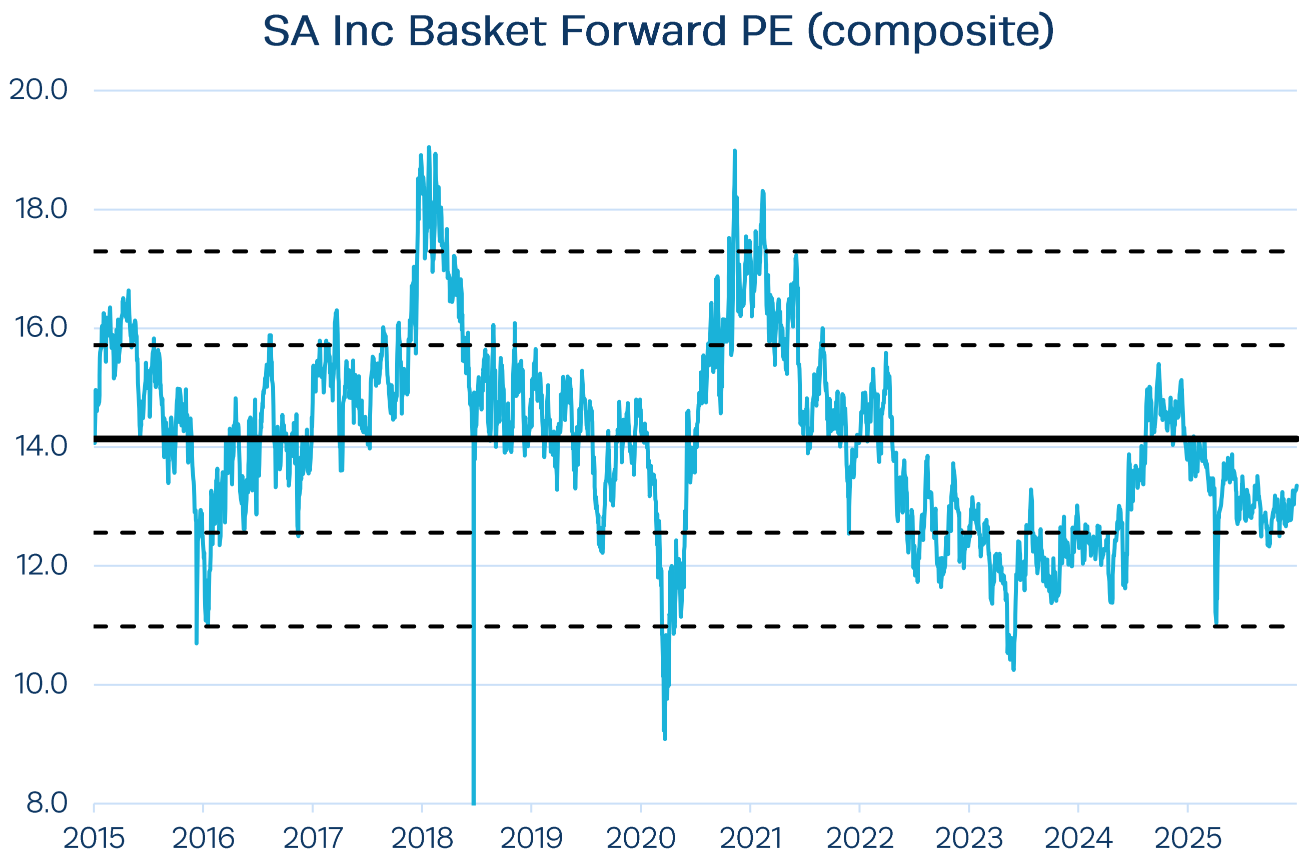
Importantly, Chinese trade volumes have proven more resilient than headlines suggest, with exports increasingly redirected to alternative markets or routed indirectly to US consumers. While structural challenges remain, the balance of risks appears to be improving as we move into 2026.

South Africa Review

South African equities delivered another exceptional year, with the JSE All Share Index rising 34%, driven largely by an 88% surge in the Resources sector . Despite this strong performance, we remain constructive on the outlook for local equities. Although valuations have rerated, this has been disproportionate in certain sectors, and we think the potential for further multiple expansion in the "SA Inc" basket remains – particularly if growth expectations continue to improve.

The bond market has priced in two additional SARB rate cuts, a backdrop that has historically supported equity valuations. Consensus GDP forecasts have been revised higher, with expectations of 1.7% growth in 2026 and 2.0% in 2027, levels that have previously coincided with improved investor confidence .

It is important to note that expected improvement in trend growth can only be achieved once private sector fixed investment is on stronger footing. After the disappointing contraction in 2025, green shoots have begun to emerge. We have three-quarters of GDP data available for 2025, and economic growth looks set to more than double from 2024. This was supported by an improving trade balance, with little to show from private sector fixed investment.



The SA investment environment is always materially impacted by local and global sentiment towards the country, and for a change, sentiment has turned decisively more positive. Towards the end of 2025, several encouraging developments emerged, including improved performance at key state-owned enterprises, a sovereign rating upgrade from S&P Global, and South Africa's removal from the FATF grey list .

The rand's recovery has been aided by a softer US dollar, and while the dollar remains strong relative to fundamentals, we expect any weakness to emerge later in 2026 as US rate cuts extend beyond current market expectations. Domestic fundamentals are also improving, supported by lower oil import costs, rising gold and platinum prices, and accelerating infrastructure investment. Taken together, these factors should support growth, employment, and ultimately stronger-than-expected tax revenues, creating scope for positive fiscal surprises .

Conclusion

As we enter 2026, the global investment landscape appears increasingly supportive. Growth is broadening geographically, fiscal policy is playing a more active role, and monetary conditions remain accommodative.

While risks persist, particularly around geopolitics and policy execution, the balance of probabilities suggests a constructive environment for risk assets.