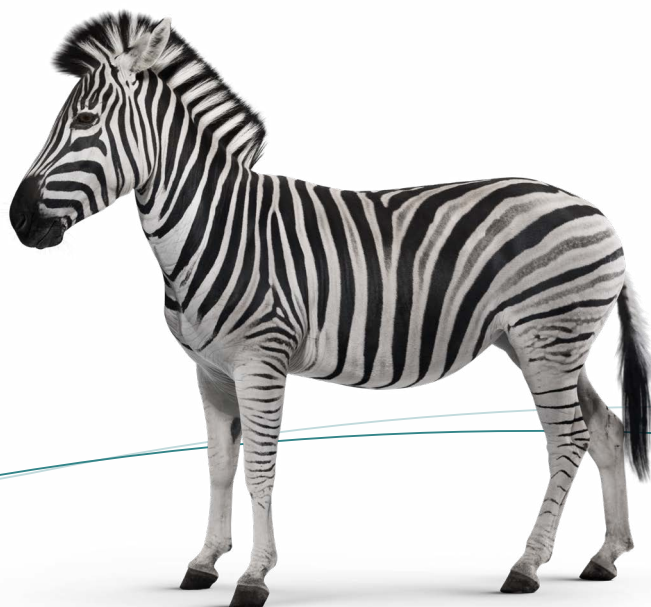


Fixed Income Research & Strategy



4 OCTOBER 2026

Between a rock (oil) and a hard place (rates) and the Euro

- **Global rates remain the key headwind:** Higher DM yields, rates volatility and dollar strength continue to pressure SAGBs and the rand.
- **The euro is under pressure:** Political uncertainty and fiscal concerns fuel sovereign bond market stress, raising the risk of contagion across the euro area.
- **Measured tightening remains the base case:** Central banks are expected to pause in October, although markets continue to price further hikes.
- **Oil poses near-term inflation risks:** Expected fuel-price increases could lift October CPI above 5%, with further pressure possible in November.
- **Domestic fundamentals remain supportive:** Fiscal consolidation and potential rating upside underpin our SA10Y fair-value estimate of 8.6%.
- **Strategy remains selective:** Maintain neutral duration, add intermediate and long dated bonds on weakness and near-term inflation protection in the I2033.

Tertia Jacobs

+27 (011) 286-8659

Tertia.jacobs@investec.com

Idan Blumenthal

+27 (011) 291-6081

Idan.blumenthal@investec.com

Q3 2026 FIC performance

The September 2027 rise in developed market (DM) bond yields spilled over into emerging market (EM) local-currency markets, although EM losses were smaller. EM local-currency bonds returned -0.4% and the ALBI -0.7%, outperforming the Global Aggregate (-2.7%) and US Treasuries (-2.8%).

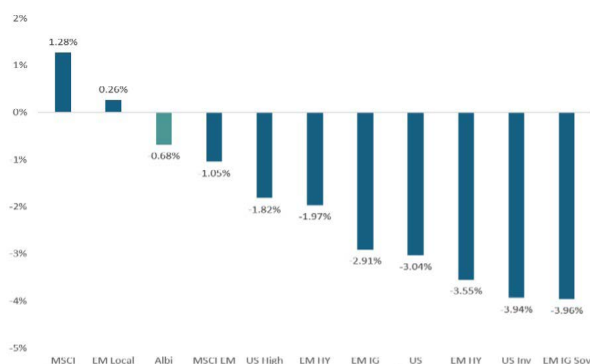
The global bond sell-off and higher MOVE volatility weighed on SAGBs in Q3 26. Cash (STEFI) led with a 1.8% return, followed by inflation-linked bonds (CILI) at 1.5%, supported mainly by inflation accrual and, to a lesser extent, coupon income. The FTSE/JSE All Share returned -0.05%, while the ALBI declined 0.7%, reflecting an approximately parallel 50bp rise in yields. The 12+ year segment underperformed at -1.5%, followed by the 7-12-year segment at -0.7%. The 1-3 and 3-7-year segments returned 1.9% and 0.3%, respectively. The ALBI's losses partly reflected its longer modified duration, relative to EM peers. Within JPMorgan's GBI-EM GD, South Africa's duration of 6.19 years exceeded India's 5.88 and the Dominican Republic's 5.77, but was below Malaysia's 6.72 and China's 6.67. Eastern European markets and Turkey recorded the largest yield increases.

US rate repricing has widened real US-euro area interest-rate differentials, supporting a 3.3% rise in the USD index since early September, to its highest level since May 2025. The EUR also faces pressure from developments in France and Italy, where sovereign spreads over Germany have widened; France's April 2027 election remains a key risk to monitor.

After gains since April 2026, EMFX depreciated 3.8% in September. Previously among the strongest performers amid dollar stability, low FX volatility and attractive carry weakened alongside its peers to R16.65/\$, its weakest level since July 2026. Despite heightened bond-market uncertainty, gold declined to \$4,141/oz, remaining above July's low of \$4,000/oz.

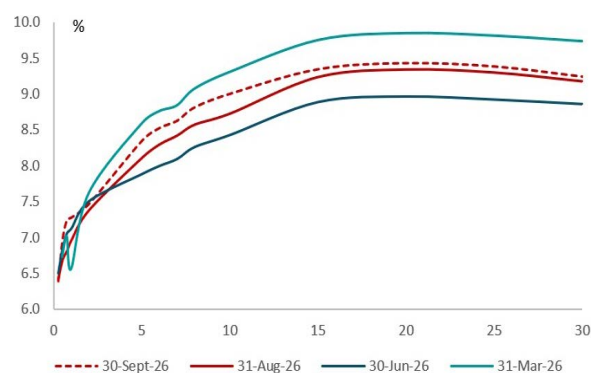
strongest performers amid dollar stability, low FX volatility and attractive carry, weakened alongside its peers to R16.65/\$, its weakest level since July 2026. Despite heightened bond-market uncertainty, gold declined to \$4,141/oz, remaining above July's low of \$4,000/oz.

Fig 1: 3-26 Total return: MSCI DM>EM LC bonds>SA ALBI>MSCI EM...>UST



Source: Bloomberg, ICIB

Fig 2: SAGB yield curve



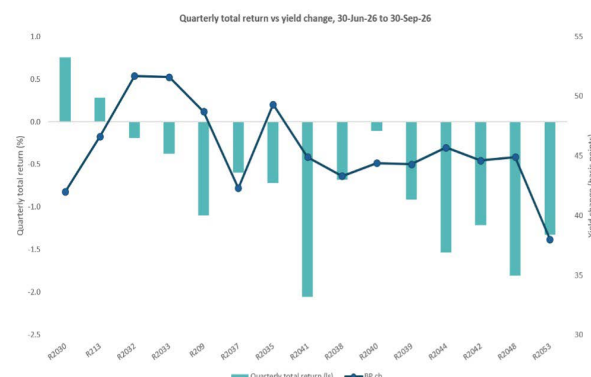
Source: Bloomberg, ICIB

Fig 3: SA FIC return – Quarterly 2026

	Q1-26	Q2-26	Q3-26	YTD
Albi	-3,36%	7,87%	-0,68%	3,54%
1-3Y	0,64%	2,10%	1,92%	4,71%
3-7Y	-2,20%	4,87%	-0,80%	2,81%
7-12Y	-3,82%	8,11%	-1,06%	3,25%
12+Y	-4,09%	10,39%	-1,78%	4,32%
CILI (ILB)	-1,13%	6,48%	1,48%	6,81%
STEFI (Cash)	1,70%	1,67%	1,70%	5,10%

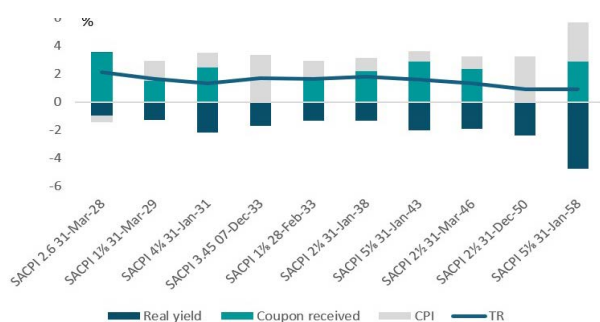
Source: JSE, ICIB

Fig 4: SAGB total return in Q3 – Higher duration bonds underperformed



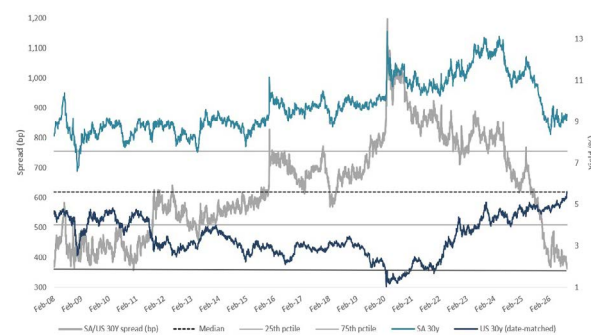
Source: Bloomberg, ICIB

Fig 5: SA government CPI bonds: Total return breakdown (ICIB calculation) with CILI yielding a total return of 1.5% in Q3 27



Source: Bloomberg, ICIB

Fig 6: SA/US 30Y spread with historical percentile bands (bp, ls) and underlying yields (% ,rs) trading at 08/09 levels (with 2020 to 2024 impacted by rising government debt and bond supply)



Source: Bloomberg, ICIB

ALBI modified duration

The ALBI's 2 October 2026 reweighting marginally increased modified duration by 0.01 years, to 6.381 years. The exclusion of the TN27 and R188 at the November reweighting could add a further ~0.16 years.

Fig 7: JSE constituents – 2 October 2026 and monthly changes

CHANGE IN ALBI WEIGHTING – 2 OCTOBER 2026								
Instrument	Coupon (%)	Maturity	YTM (%)	Modified duration	Convexity	Sep-26 weight (Rm)	Oct-26 weight (Rm)	Rm change
1-3 years								
TN27	8,90	14-Nov-27	8,290	1,0357	1,6146	8 565	8 565	–
R188	10,50	21-Dec-27	7,470	1,1290	1,8701	95 905	95 905	–
3-7 years								
R2030	8,00	31-Jan-30	8,110	2,8577	10,1815	305 818	300 518	-5 300
R213	7,00	28-Feb-31	8,290	3,7034	16,7385	218 177	218 177	–
R2032	8,25	31-Mar-32	8,450	4,3603	23,4777	349 557	349 557	–
TNG32	10,11	15-Aug-32	8,790	4,3876	24,5709	6 200	6 200	–
R2033	10,00	31-Mar-33	8,570	4,8041	29,3103	67 855	70 691	2 836
ES33	7,50	15-Sep-33	9,125	5,2363	34,3362	34 542	34 542	–
7-12 years								
R2035	8,88	28-Feb-35	8,670	5,8417	44,3700	369 468	369 468	–
R209	6,25	31-Mar-36	8,825	6,7842	58,4691	104 263	104 263	–
R2037	8,50	31-Jan-37	8,920	6,6505	59,5924	370 245	371 095	850
R2038	10,88	31-Mar-38	9,070	6,8168	64,5394	74 632	77 569	2 937
12+ years								
R2039	9,88	31-Mar-39	9,180	7,2562	73,8042	34 836	37 048	2 212
R2040	9,00	31-Jan-40	9,245	7,5254	81,0382	329 977	332 949	2 972
R214	6,50	28-Feb-41	9,280	8,4381	99,9095	93 382	93 382	–
R2042	10,13	31-Mar-42	9,355	7,9905	94,2542	33 573	35 663	2 090
ES42	8,50	25-Apr-42	9,730	7,8582	94,3497	21 437	21 437	–
R2044	8,75	31-Jan-44	9,375	8,4962	110,0512	330 630	335 099	4 469
R2048	8,75	28-Feb-48	9,325	9,2559	137,0635	465 462	467 330	1 868
R2053	11,63	31-Mar-53	9,185	9,5915	154,7018	116 019	117 555	1 536
Total						3 430 543	3 447 013	16 470
Minor change in modified duration (years)						6,368	6,381	

Source: JSE, ICIB

KEY EVENTS – OCTOBER 2026

INTERNATIONAL

4 Oct	Brazil elections
7 Oct	US FOMC minutes
14 Oct	US CPI
28 Oct	FOMC (on hold, market implied 22%)
29 Oct	ECB (on hold, market implied 14%)
30 Oct	BOJ (on hold, market implied 20%)

SOUTH AFRICA

21 Oct	MTBPS and CPI
? Oct	Restatement of GDP data

Interest rate dynamics, forecasts and strategy

SA interest rates remain driven by oil prices, the sharp rise in DM yields, and higher rates volatility. Elevated inflation continues to shape policy expectations, while yield curves have steepened.

Central banks: measured tightening versus aggressive front-loading

The FOMC, ECB, and BoJ are expected to pause in October after September's hikes. More dovish Fed commentary has moderated expectations of near-term tightening and contributed to the UST curve steepening. Markets have shifted the next expected hike from October to December, following the downward PCE revision, in line with expectations, and weaker September payroll growth of 29k. Unemployment rose to 4.2%, from August's 4.1%.

Higher real yields remain the main driver of rising UST yields, reflecting resilient growth, while contained breakeven inflation rates suggest confidence in the Fed's ability to return inflation to target. Several Fed officials have signalled that further hikes need not be rushed. Nevertheless, SOFR prices approximately 85bp of tightening over twelve months, exceeding the Fed's median projection of 25bp by year-end and another 25bp in 2027, although eight members favour 50bp in 2027. The ECB's response to potential contagion from sharp sovereign bond selloffs in France, Italy, Belgium, and Greece will also be important. Fiscal concerns and carry-trade unwinding by leveraged hedge funds have contributed to volatility. The SARB has, similarly, adopted a measured approach, hiking in May, pausing in July and hiking again in September. ZARONIA pricing moderated towards the end of last week, from nearly 70bp of additional tightening to approximately 55bp.

Higher US real yields should continue to support the dollar. This support could weaken if oil prices fall, equity losses weigh on consumption, or higher yields exert a stronger drag on interest-sensitive sectors.

Oil

Persian Gulf crude exports have recovered to almost 90% of pre-conflict levels but refined-product exports remain constrained. European diesel crack spreads narrowed following the announcement of a 100m-barrel release of oil and diesel reserves. Nevertheless, SA petrol and diesel prices are expected to rise by approximately R3.00/l and R2.00/l, respectively, lifting October CPI inflation above 5.0%. Further fuel-price increases are possible in November if crack spreads remain elevated. Brent continues to trade at a substantial premium to Bloomberg's median forecasts of \$85/bbl in Q4 2027 and \$72/bbl at end-2027. The near-term outlook remains highly uncertain, with renewed escalation a key upside risk.

SA generic 10Y: Valuation and assessing the key drivers

We use UST yields, sovereign CDS spreads, and the residual local-currency yield component to assess valuation pressures and support. The residual captures inflation and currency dynamics alongside other domestic rate, term-premium, and liquidity effects.

SA-US 10Y spread: South Africa's lower inflation target and progress towards debt sustainability have supported compression in the spread. The spread has averaged 459bp since July 2025 and currently

stands at 404bp, approximately 20bp above August's low. Our analysis suggests that sensitivity to US rates has increased recently, coinciding with faster increases in UST yields. Higher US real yields reflect resilient growth, expectations of a higher neutral rate and fiscal concerns ahead of the midterm elections. Given this, we think the SA/US 10Y spread won't compress materially from current levels.

Credit spreads: monitoring spillovers from higher UST yields. EM dollar-bond and sovereign CDS spreads have begun to widen following the FOMC hike, with EM USD (HY and IG) underperforming in Q3 26 (see Fig 1).

Rates have recently become a more prominent driver of bond performance than credit (although this has been an important factor in keeping risk premiums intact and trading orderly), but the scale and speed of UST yield increases are being monitored for potential pressure on sovereign credit spreads. SA's 5Y and 10Y CDS spreads have widened by 29bp and 25bp, respectively, since the end of August. Nevertheless, the 5Y spread remains relatively tight at around its one-year average of 148bp, covering the period of South Africa's bond re-rating. Fiscal consolidation and a possible S&P sovereign upgrade by May 2027 should support credit spreads.

Domestic drivers: We forecast inflation averaging 4.4% in 2026, including 5.4% in Q4, and 4.2% in 2027, easing to 3.4% in Q4. El Niño presents an upside risk from mid-2027. For a twelve-month investment horizon, we assume average inflation of 4.0%, looking through the acceleration in Q4 2026 and Q1 2027.

Dollar strength has driven broad G10 and EM currency weakness, taking USDZAR to approximately R16.68/\$. Wider US real-rate differentials and less favourable terms of trade remain headwinds.

Nevertheless, we do not expect material, sustained rand depreciation, and have raised the lower bound of our trading range from R16.20/\$ to R16.40/\$, retaining the upper bound at R16.98/\$.

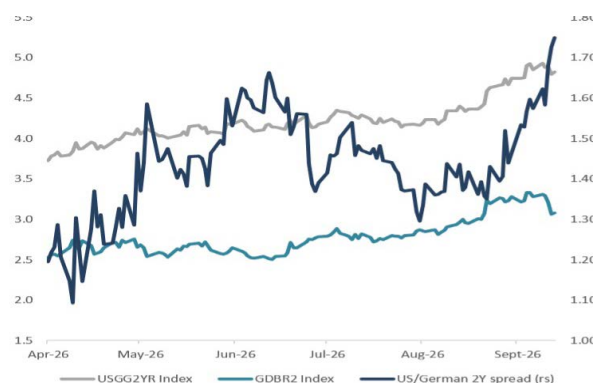
Valuation: From a valuation perspective, the rise in longer-dated US rates has widened term premiums. Upside risk remains, depending on the fiscal position and where R* eventually settles. We have assumed a US10Y yield at 5.20% in our models. For the credit spread, external drivers will dominate but the domestic fiscal story should remain constructive. Those factors underpin our SA10Y fair-value estimate of 8.6%. Elevated rates volatility warrants some discount to fair value, although we see scope for a year-end rally of approximately 25bp.

Fig 8: US SOFR and EZ-OIS curves moderate with EZ declining by more than US



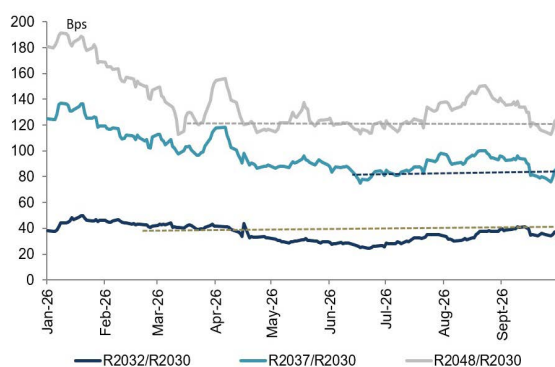
Source: Bloomberg, ICIB

Fig 9: US/German 2Y rate differential has widened supporting the USD index



Source: Bloomberg, ICIB

Fig 10: SAGB curve vs R2030



Source: Bloomberg, ICIB

Fig 11: SA 5Y and 10Y breakeven inflation rates



Source: Bloomberg, ICIB

FIC strategy

Money markets: We favour cash and short-dated instruments for carry while the policy outlook remains uncertain. The probability of a consecutive November hike has declined, but inflation risks argue against positioning for rapid easing. With approximately 55bp of tightening priced into ZARONIA, receiving opportunities depend on the timing and distribution of those hikes. We favour ZARONIA curve steepeners, receiving intermediate maturities against paying longer tenors. A measured SARB tightening cycle could anchor intermediate rates. Renewed acceleration in inflation or more aggressive SARB tightening would challenge the position; 55bps of rate hikes is above our baseline forecast of a further 25bps rate hike, which we attach a probability of 50bps.

Duration: SAGB yields at the top of trading since June. We think that material upside risk is low unless the oil price rises sharply and the USD index appreciates materially from current levels. We are neutral on duration, with a bias to adding selectively on further weakness. Our SA10Y fair-value estimate of 8.6% and scope for a 25bp year-end rally support a constructive medium-term view. However, higher UST real yields, dollar strength, and rate volatility warrant a valuation cushion. Investec CIB does not expect a change in SAGB supply to be announced in the October MTBPS. We favour the 11-to-14-year sectors for additional exposure. The ultra-long end remains more vulnerable to global term-premium increases, while November's index exclusions could mechanically extend ALBI duration by approximately 0.16 years.

Inflation: We favour retaining near-term ILB exposure as protection against the anticipated inflation acceleration in Q4 2026 and Q1 2027; the I2033 is our preference to express the view. Oil prices, rand weakness, and potential second-round effects remain the principal upside risks. We would avoid chasing wider long-dated breakevens. Our 12-month inflation assumption of 4.0% points to moderation beyond the near-term peak; additional ILB exposure should depend on real yields and breakeven valuations.



The information furnished in this report, brochure, document, material, or communication ("the Commentary"), has been prepared by Investec Bank Limited (herein referred to as "Investec"). This communication has not been produced by Investec's Research Department and does not constitute a research recommendation, does not constitute investment, legal, tax or other advice and is not to be relied upon in making an investment or other decision. The intended recipients should consider the information contained herein to be objective and independent of the interests of the Trading and Sales desk concerned. Opinions and any other content including data and market commentary in this document are provided for information purposes only. The information contained herein has been obtained from various sources believed to be reliable and may include facts relating to current events or prevailing market conditions as at the date of this Commentary, which conditions may change without notification to Investec and/or the recipient. Investec and its Affiliates do not purport to provide "advice" as contemplated in the Financial Market Act, 19 of 2012 ("FMA") and/or the Financial Advisory and Intermediary Services Act, 37 of 2002 ("FAIS Act") in relation to the information nor guarantee the accuracy and/or completeness thereof and accepts no liability in relation thereto. This Commentary is distributed to institutional/professional investors in the Republic of South Africa and/or in the United Kingdom and only to eligible counterparties or professional clients as defined by the rules of the Financial Services Authority ("FSA") and is not intended for retail customers and should not be made available to such retail customers. Any opinions, forecasts or estimates herein constitute the personal judgement of the party who compiled the Commentary as at the date of this document. Thus, the Commentary reflects the different assumptions, views and analytical methods of the specific individual/party who prepared the Commentary. As such, there can be no guarantee that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. There is no obligation of any kind on Investec or any of its Affiliates to update this document or any of the information, opinions, forecasts or estimates contained herein. This publication is confidential for the information of the addressee only and may not be reproduced in whole or in part, nor shall it be redistributed or copied circulated, or disclosed to another unintended party, without the prior written consent of an entity within Investec. In the event that you contact any representative of Investec or any party in connection with the receipt of this Commentary, you should be advised that this disclaimer applies to any subsequent oral conversation or correspondence that occurs as a result of this Commentary. Any subsequent business you choose to transact shall be subject to the relevant terms and conditions thereof. You should make your own independent evaluation of the relevance and adequacy of the information contained herein and make such other investigations as you deem necessary, including obtaining independent financial advice, before participating in any transaction in respect of the securities referred to in this document. Neither Investec nor any officer or employee thereof accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents.

Investec Bank Limited is a licensed Financial Services Provider (FSP License Number: 11750 and National Credit Provider License Number: NCRCP 9)