

Economic Review

February 2026

US economic growth softened more than expected in the fourth quarter, although both consumer and business spending showed resilience. In China, consumer inflation posted its strongest rise in more than three years in February, supported by extended holiday-related spending and a slowdown in factory-gate deflation. In addition, Beijing lowered its GDP growth target at its February economic planning meeting, acknowledging persistent deflationary pressures and heightened geopolitical uncertainty. Tensions in the Middle East during February pushed global oil and natural gas prices sharply higher. In the UK, unemployment climbed to its highest level since 2020 during the fourth quarter of 2025, reflecting broad-based labour-market weakness. South Africa's national budget was positively received, helping to lift the bond market. South Africa's consumer inflation also eased slightly in January 2026 compared with December 2025, adding to signs of gradual price moderation.

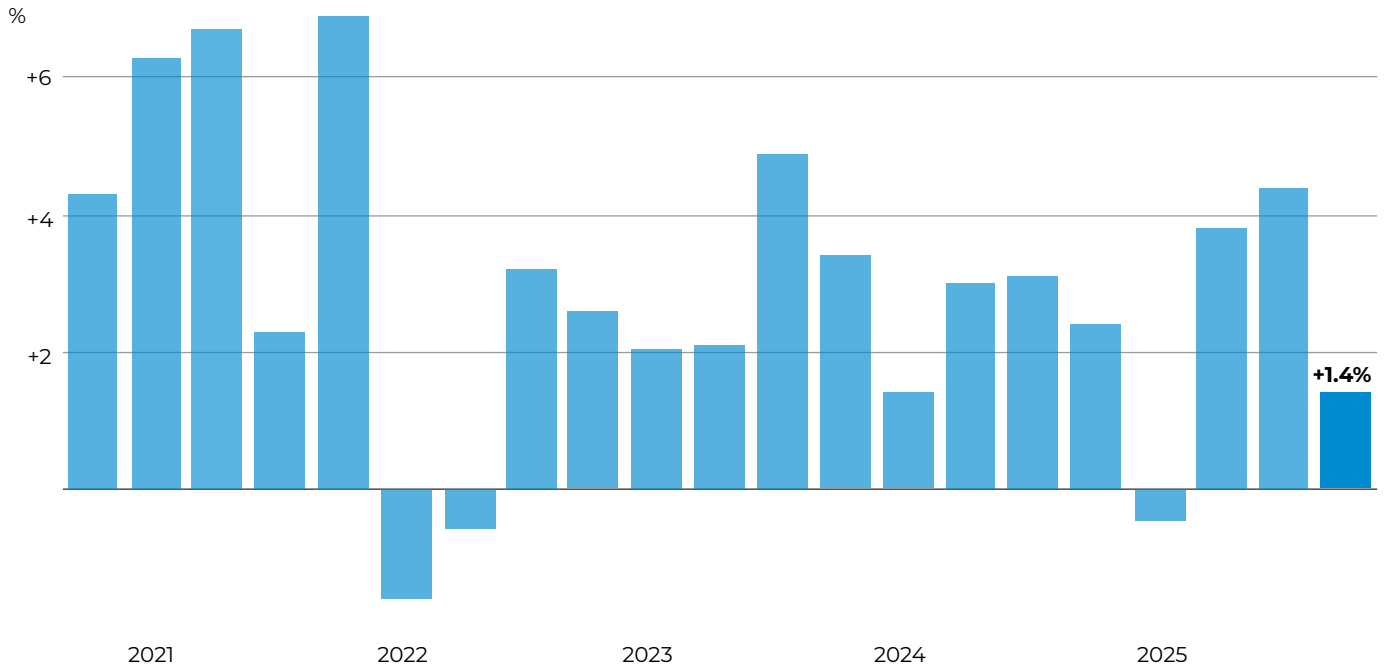
Government shutdown dents US economic growth in fourth quarter

US economic growth slowed more than anticipated in the fourth quarter, largely due to the sharpest drop in government spending since 1972 – a decline tied to last year's federal shutdown. Even so, consistent consumer and business spending highlighted the economy's underlying strength. According to the Commerce Department's Bureau of Economic Analysis, GDP

rose at an annualised rate of 1.4% in the fourth quarter, well below the 3.0% growth expected by Reuters-surveyed economists. This follows a 4.4% expansion in the third quarter. Overall, the economy grew 2.2% in 2025 – its slowest performance in five years – after a 2.8% growth in 2024. It is expected that most of the negative impact from the 43-day shutdown will be recovered in the first quarter.

US gross domestic product

Percent change from previous quarter



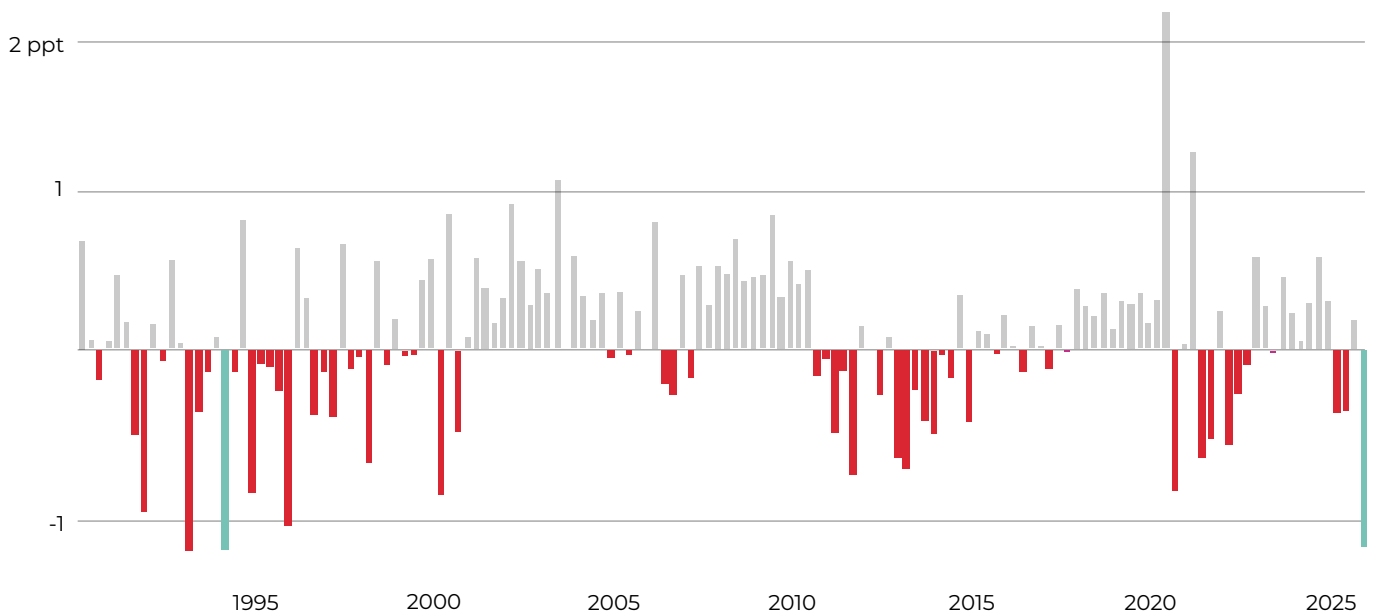
Source: Bureau of Economic Analysis

President Trump is unlikely to see the US Federal Reserve (US Fed) cut interest rates in the near future – given that new data shows inflation picked up in December, although slowing in January. Import tariffs imposed by his administration are pushing prices higher. According to the Chief US Economist at Oxford Economics, the underlying strength of the US economy remains intact. He noted that with the economy and labour market steadying and inflation still elevated, they expect the US Fed to

keep rates on hold for an extended period. Federal government spending reduced GDP growth by 1.15 percentage points, the biggest drag since early 1994. The nonpartisan Congressional Budget Office had projected that the shutdown would lower fourth-quarter GDP by 1.5 percentage points and expected most of the lost output to be regained later. However, it estimated that between US\$7 billion and US\$14 billion in economic activity would not be recovered.

US government shutdown dents the economy

The record-long federal government shutdown shaved 1.15 percentage points from fourth quarter gross domestic product growth, the most since 1994.



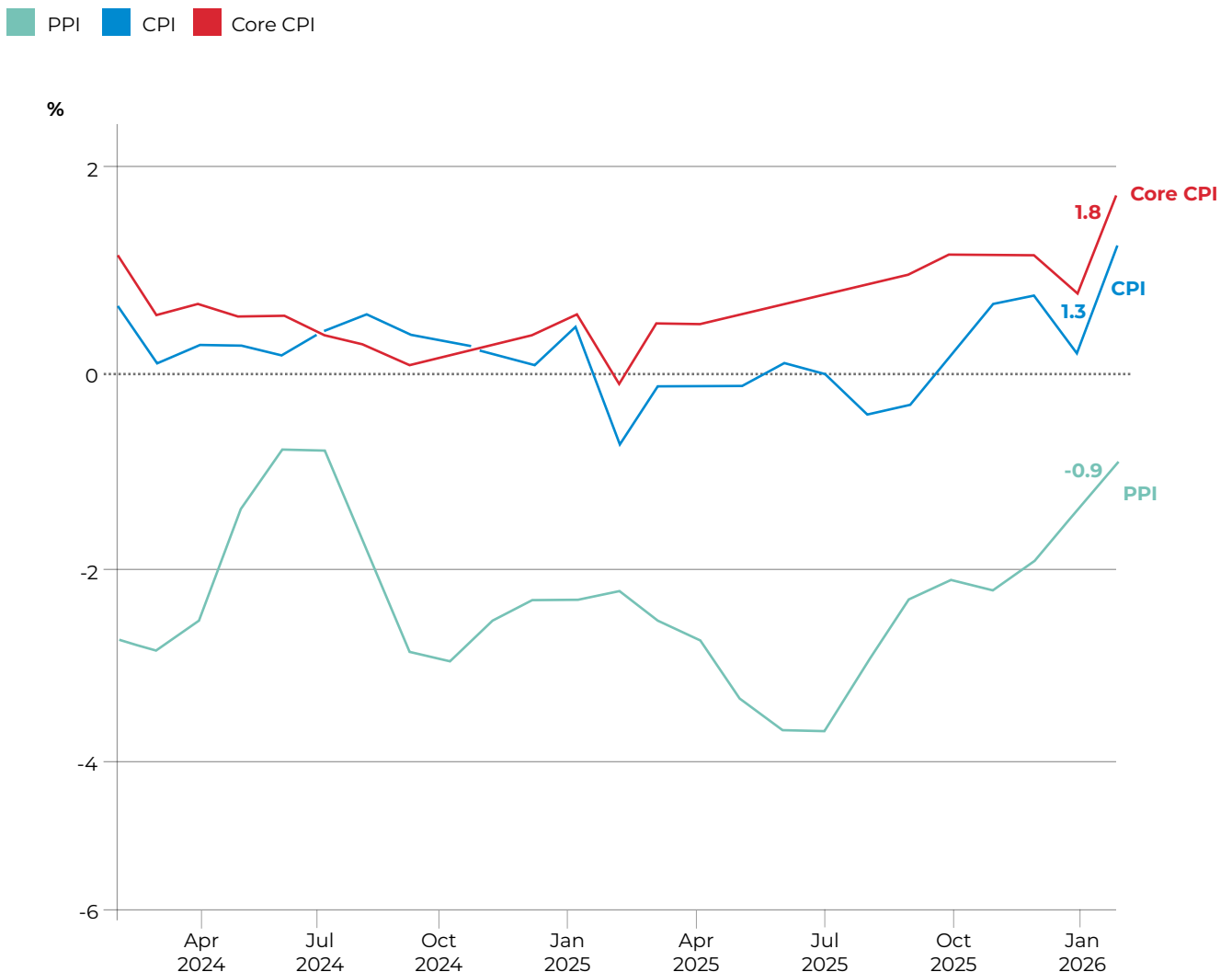
Source: Bureau of Economic Analysis

Federal spending fell by 1.2% in 2025 – the sharpest yearly decline in three years – as the Trump administration continued its push to reduce the size of government. Even so, the economy remained resilient in the final quarter, supported by solid consumer activity and ongoing business investment in artificial intelligence. Consumer spending, which makes up more than two-thirds of overall economic output, increased at a 2.4% annual rate, slowed somewhat by reduced vehicle purchases after electric-vehicle tax credits expired. That followed a robust 3.5% increase in the third quarter. Economists note that consumer spending has been driven mainly by higher-income households and has coincided with weaker savings as inflation strains purchasing power. They also expect consumer activity to get a lift this year from larger tax refunds tied to the White House's tax cuts.

China's CPI hits three-year high

China's National Bureau of Statistics reported that consumer prices rose 1.3% year-on-year (y/y) in February compared with a year earlier – well above the 0.8% increase economists forecasted in a Reuters survey. This marked the biggest annual gain in more than three years, supported by strong holiday-related spending and a slowdown in deflation at the factory level. The February rise, which followed a 0.2% increase in January, was the strongest upswing since January 2023, based on LSEG figures. Producer prices were still lower than a year ago, falling 0.9%, but the decline was less than the 1.2% fall analysts expected. It also represented the mildest deflation in over a year, helped by rising metal and commodity costs that began to stabilise factory-gate prices. Month-on-month (m/m), overall prices climbed 1% – double the forecasted 0.5% gain. Core CPI, which excludes food and energy, rose 1.8% from a year earlier, matching the highest pace seen since March 2019.

China CPI, Core CPI and PPI, year-on-year



Source: National Bureau of Statistics, LSEG

Official statistics showed that China's service-sector prices increased 1.1% in February from a year earlier, adding 0.54 percentage points to the overall CPI. The rise was fuelled by strong holiday demand for travel, pet-related services, car repairs, cinema outings, and dining. This year's Lunar New Year break – from 15 to 23 February 2026 – was the longest on record, compared with the eight-day holiday between late January and early February in 2025.

At its top annual economic planning meeting, China maintained its 2026 CPI goal at “around 2%,” a target first introduced in 2025 and the lowest in more than twenty years. Policymakers set it at a modest level as they aimed to lift domestic

consumption and ease intense price competition across industries. In 2025, headline consumer prices were essentially unchanged, while core inflation rose only 0.7%, reflecting subdued consumer sentiment. Beijing also reduced its GDP growth target for this year to a range of 4.5%–5%, marking the least ambitious goal since the early 1990s, amid ongoing deflationary pressures and rising geopolitical risks. To support household spending, authorities set aside 250 billion yuan (US\$36.2 billion) in the fiscal budget for consumer trade-in subsidies – down from 300 billion yuan in 2025 – and created a 100 billion yuan government fund aimed at encouraging private investment and boosting consumption.

For your interest:

1. Middle East escalation affects global shipping and oil prices

- Current events in the Middle East have disrupted global trade flows. Oil and natural gas prices have surged, following the US and Israeli strikes on Iran on 28 February. Roughly one-fifth of the world's crude and a comparable share of liquefied natural gas typically move through the Strait of Hormuz, a critical passage along Iran's southern coast. At the time of writing in February, about 150 vessels – including tankers carrying oil and gas – were anchored in the strait.
- Analysts highlight that the immediate effects are affecting energy-importing regions in Europe and Asia the most. They caution that an extended shutdown of the route could push inflation higher and reintroduce global supply-chain instability.

(Source: World Economic Forum, February 2026)

2. US trade deficit swells as imports surge

- The US trade deficit widened sharply in December as imports surged, and the overall goods gap for 2025 reached a record high despite President Trump's tariffs on foreign manufactured products. The monthly deficit rose 32.6% to US\$70.3 billion – the largest in five months.
- According to the Commerce Department, this marked the second consecutive month of deterioration in the trade balance, indicating that trade likely provided little to no lift to fourth-quarter GDP. However, much of the rise in imports came from capital goods, which should help fuel business investment and support expectations for solid economic growth.

(Source: Reuters, February 2026)

3. UK reaches its highest unemployment rate since 2020

- UK unemployment reached 1.9 million, or 5.2%, in the three months to December – the highest level since late 2020 and 330 000 more than a year earlier.
- Unemployment has risen across all age groups but has affected younger people the most: 739 000 individuals aged 16–24 were unemployed – representing a 16% unemployment rate. That number is almost 100 000 more than a year ago and represents the highest unemployment rate for this cohort since 2015. By comparison, the unemployment rate for those aged 25 and over is currently 3.6%.

(Source: UK House of Commons Library, February 2026)

4. A well-received South African Budget Speech

- The February 2026 Budget Speech largely maintains the status quo – a stark contrast to the more positive 2025 Medium-Term Budget Policy Statement (MTBPS), which supported the 3.0% inflation target, committed to fiscal consolidation, adjusted expenditure in line with lower inflation, and reported stronger-than-anticipated revenue.
- Ultimately, the debt-to-GDP ratio was revised upward to 78.8% from 77.8%, reflecting weaker expected nominal GDP growth and roughly R60 billion in pre-funding. While bond yields initially rose on the headline numbers, the SENS announcement of a R450 million reduction in weekly SAGB issuance – in addition to the R750 million cut outlined in the 2025 MTBPS – sparked a rally in government bonds, with yields improving by 15–20 basis points across the curve.

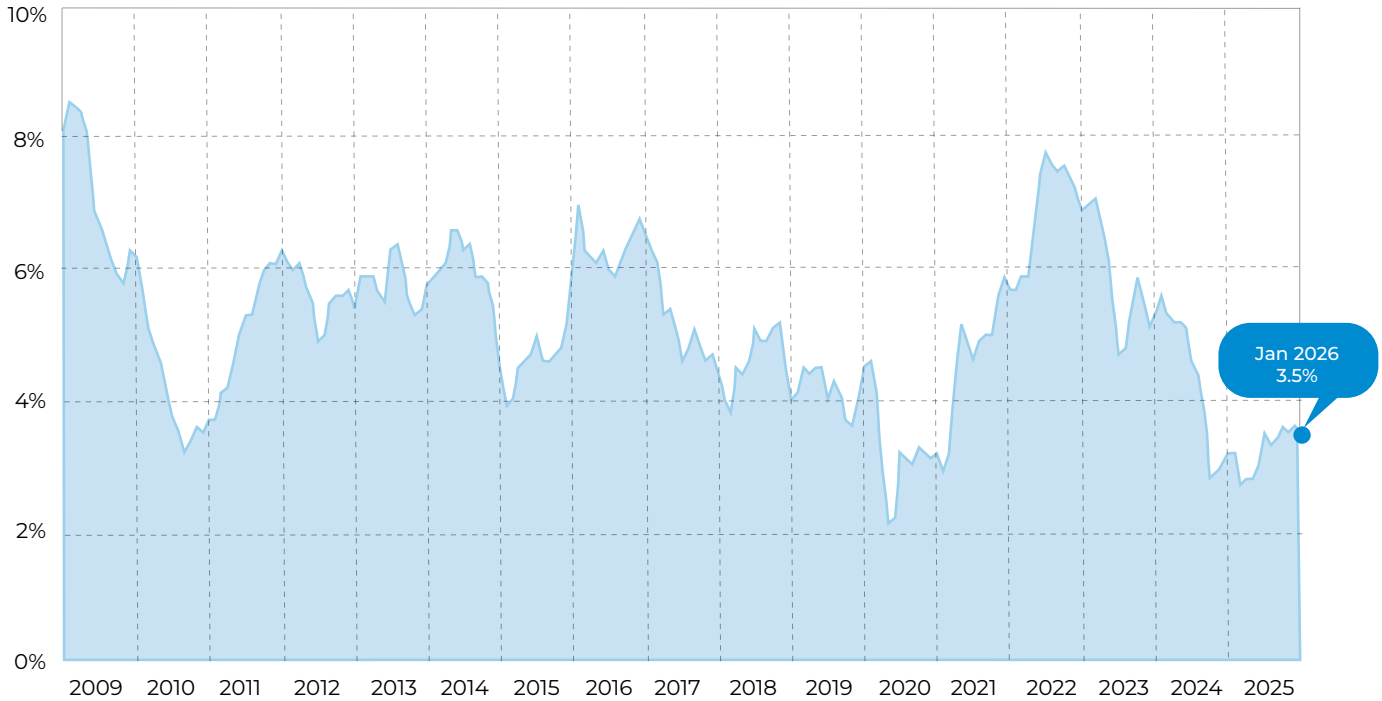
(Source: Investec, February 2026)

South African CPI declines in January 2026

South Africa's CPI dipped slightly to 3.5% y/y in January 2026, down from 3.6% y/y in December 2025. At its January meeting, the South African Reserve Bank (SARB)'s Monetary Policy Committee (MPC) kept interest rates unchanged, though two of the six members supported a rate cut. January's CPI

figure came in just above Bloomberg's consensus forecast of 3.4%. Core inflation – which excludes the more volatile food and energy categories – edged up to 3.4% y/y in January 2026 from 3.3% y/y in the previous month.

South African annual consumer price inflation was 3.5% in January 2026, down from 3.6% in December 2025



Source: StatsSA

The slight persistence in underlying inflation likely contributed to the split vote within the MPC, as the SARB weighs whether price pressures are sufficiently balanced and firmly moving toward the new 3% target. Breaking down the components, goods inflation slowed to 2.7% y/y from 3.0%, while services inflation held steady at 4.2% in January. Some upward risks to inflation remain. Oil prices have continued to climb, with crude nearly

5% higher in January than in December 2025, and limited signs of easing through February. Offsetting this, however, is a stronger rand, which appreciated against South Africa's major trading partners since January, helping to temper imported inflation.

MACRO OVERVIEW

Global overview

Global equity markets delivered an eleventh consecutive monthly gain in February, with the MSCI World Index ending at 0.73% month-on-month (m/m) in dollars, despite a drawdown in US stocks. The lagging performance of US growth stocks was evident within the Magnificent Seven group of mega-cap tech companies, as investors grew wary of the massive AI-related capital expenditures – amounting to hundreds of billions of dollars – that these firms are projecting. Emerging market (EM) equities extended their lead over their developed market (DM) peers with the MSCI EM Index ending positively at 5.51% m/m in dollars. The EM outperformance was driven by commodity-producing countries. The FTSE 100's January gains continued into February, ending the month up 6.47% m/m from 3.08% m/m in pound sterling terms. The S&P 500 ended the month negatively at -0.76% m/m from January's 1.44% m/m gains, both in US dollars. Global bond gains continued into February at 1.12% m/m from January's 0.94% m/m gains in dollars. Global property posted large gains for the month at 7.01% m/m from January's 3.88% m/m in dollars. The Euro Stoxx 50 Index gained 3.34% m/m in February from 2.79% m/m in January in euros. The Dow Jones Index gained 0.31% m/m in February from January's 1.80% m/m gains in US dollars. The Nikkei was the biggest gainer for the month at 10.42% m/m from January's 5.93% m/m gains in yen terms.

Local overview

South African equities led performance in February, with the FTSE/JSE All Share Index ending positively at 7.01% m/m in rand terms. Year-to-date gains of 10.99% placed the JSE among the top-performing major markets globally, trailing only Japan and Brazil's stock markets. Precious metal shares were once again a key driver of returns for the month, contributing significantly to February's JSE index gains amid strong commodity price increases. Gains in the Resources sector continued in February at 13.32% m/m from January's 12.49% m/m gains. Both Property and Financials continued their gains in February, at 6.29% m/m and 7.32% m/m respectively, in rand terms. The Industrials sector was positive in February at 6.56% m/m from January's negative figure of -0.58% m/m. Cash was positive for the month, at 0.51% m/m from January's 0.57% m/m in rand terms and 1.27% in February in dollar terms from 3.91% in January in dollar terms. As in January, the local bond market's gains continued in February for short-, medium-, and long-term bonds. The FTSE/JSE All Bond Index ended the month positively at 1.74% m/m in rand terms. Bonds of 1-3 years were positive at 0.59% m/m, along with bonds of 3-7 years at 0.80% m/m. Bonds of 7-12 years were positive at 1.23% m/m, and bonds of 12 years and above gained 2.79% m/m. In February, the rand strengthened by 0.75% m/m against the US dollar, by 1.52% m/m against the euro, and by 2.84% m/m against the British pound.

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