

Market Update

Rates rise as inflation pressures return

September 2026

September brought renewed focus on inflation and interest rates. The US Federal Reserve, the Bank of Japan and the South African Reserve Bank all raised policy rates, while higher energy prices added pressure to household and business costs.

For South African investors, the key themes were a higher repo rate, slightly firmer consumer inflation and weaker private-sector business activity. Internationally, slower Chinese growth, softer US employment data and geopolitical risks continued to influence currencies and investor confidence.

Global economy: Higher rates meet persistent price pressure

Central banks use interest rates to influence borrowing, spending and inflation. During September, several major central banks tightened policy as energy costs and broader price pressures remained a concern. Higher rates can help slow inflation over time, but they also make credit more expensive and can restrain economic growth.

Geopolitical risks remained important. Energy-price and supply-chain pressures linked to conflict in the Middle East can feed into transport, production and, ultimately, consumer prices.

What this means for you:

A period of higher or less predictable interest rates can create short-term market volatility. It also changes the relative appeal of cash, bonds and shares, reinforcing the value of a diversified portfolio.

United States: The Fed raises rates as hiring slows

The US Federal Reserve raised its benchmark interest-rate range by 0.25 percentage points to 3.75%–4%, its first increase since 2023. Annual headline inflation reached 3.4% in August, above

the Fed's 2% long-term target, with higher energy prices contributing to the increase.

The Fed said the economy was still growing at a healthy pace, but indicated that further tightening could be needed. Sixteen of the 18 officials who submitted projections expected at least one more 0.25 percentage-point increase before the end of 2026. The Fed now expected inflation to return to 2% only in 2029.

The labour market was softer. US nonfarm payrolls rose by 29 000 in September, below the 84 000 expected by economists surveyed by Dow Jones, while unemployment increased to 4.2%. Earlier payroll figures were revised lower by a combined 60 000 jobs.

What this means for you:

Higher US rates can support the US dollar and affect global asset prices. Softer job creation also means the Fed must balance inflation control against the risk of slowing growth.

China: Domestic demand remains under pressure

China's growth slowed to 4.3% in the second quarter of 2026 from 5% in the first quarter. July and August data pointed to continued weakness, linked to low consumer confidence, a struggling

housing market, falling price pressure and an imbalance between strong production and softer demand.

Against this backdrop, Presidents Xi Jinping and Donald Trump met in Washington in September. Their discussions covered trade, artificial intelligence and international issues. Both emphasised continued engagement and a more stable relationship, while acknowledging areas of competition and disagreement.

What this means for you:

China is an important destination for global commodities. Changes in Chinese demand can influence commodity prices, emerging-market sentiment and South African assets.

Europe: Energy pushes inflation higher

Eurozone inflation rose sharply to 3.8% in September from 3.2% in August, according to Eurostat's flash estimate. Energy inflation accelerated to 18.8%, while core inflation, which excludes volatile energy, food, alcohol and tobacco prices, edged up to 2.5%. The headline reading was almost double the European Central Bank's 2% target.

What this means for you:

Higher European inflation may keep interest rates elevated and weigh on household spending. It can also affect demand for exports from trading partners, including South Africa.

Japan: A gradual move away from very low rates

The Bank of Japan increased its benchmark rate from 1% to 1.25%, the highest level since 1995. Since ending negative interest rates in 2024, the bank has raised rates six times. Core inflation eased to 1.7% in August but remained close to the bank's 2% target.

Japan continued to face a weak yen, higher living costs and demographic pressures. Its reliance on imported energy also leaves the economy vulnerable to higher energy prices and supply disruptions.

What this means for you:

The gradual end of very cheap Japanese funding may influence global currency and bond markets, although the direct effect on individual long-term plans will vary.

South Africa: Repo rate rises as business activity softens

The South African Reserve Bank raised the repo rate by 0.25 percentage points to 7.25% in a unanimous decision. The repo rate is the rate at which the Reserve Bank lends to commercial banks and is a key influence on borrowing rates across the economy.

Consumer inflation edged up to 4.4% in August from 4.3% in July, remaining near the midpoint of the Reserve Bank's 3%–6% target range. Policymakers expected inflation to move above 5% later in 2026 and in early 2027, mainly because of higher fuel prices, before easing as the fuel-price shock faded.

Private-sector business conditions weakened in September. The S&P Global South Africa Purchasing Managers' Index, or PMI, fell to 49.0 from 50.5 in August. A reading below 50 signals contracting activity. Companies reported weaker demand, supply-chain disruption and the sharpest fall in new orders in two-and-a-half years. Export orders nevertheless increased for a fourth month, employment was broadly stable and business confidence improved to a four-month high.

Higher fuel costs raised business input prices, while congestion at the Port of Durban and Middle East-related disruptions contributed to delivery delays and material shortages.

What this means for you:

The repo-rate increase may raise repayments on variable-rate debt and add pressure to household budgets. Fuel and transport costs may also remain noticeable, although the report expects this particular inflation shock to fade over time.

Markets: Conflicting signals drive volatility

Global markets

The source report did not provide monthly index returns. The main market drivers were the shift towards higher policy rates, rising energy prices, softer US employment data and signs of slower Chinese growth. These forces can pull markets in different directions: higher rates may pressure bonds and growth-sensitive shares, while geopolitical risk and currency movements can create additional volatility.

Domestic markets

No domestic equity, bond or currency returns were included in the source report. Locally, attention centred on the repo-rate increase, the expected fuel-linked rise in inflation and weaker business activity. Export resilience and improved business confidence provided some balance to the softer demand picture.

What this means for you:

Short-term market moves often reflect changing expectations rather than a lasting change in long-term value. An appropriate mix of local and offshore assets can reduce dependence on any single country, currency or asset class.

Key takeaways for investors

- Inflation remained the central concern, with energy costs adding pressure in the US, Europe and South Africa.
- Interest rates rose in the US, Japan and South Africa, increasing borrowing costs while reinforcing central banks' focus on price stability.

- US employment growth slowed, while China's economy lost momentum after a stronger first quarter.
- South African business activity weakened, although exports, stable employment and improved confidence offered some support.
- With monetary policy, growth and geopolitics sending mixed signals, diversification remains especially important.

Why this matters for your financial plan

Economic news can be unsettling when interest rates are rising and growth signals are mixed. However, a financial plan is designed around long-term goals, not a single month's data. Different assets respond differently to inflation, interest rates, currencies and economic growth, which is why diversification remains a core risk-management tool.

Before making changes, consider whether a development alters your goals, time horizon or ability to tolerate risk. Discuss any proposed adjustment with your financial adviser, who can assess it in the context of your full plan rather than in response to short-term headlines.

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