Global Investment Research | Equity

# Rediscovering the South African equity market

## A market analysis of the South African equity market

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# Overview

South Africa has set a rigorous agenda of reforms and opportunities, as it puts “solidarity, equality and sustainability” at the centre of its G20 Presidency in 2025. With a focus on improving the lives of South Africans and growing the economy, the coalition government of Cyril Ramaphosa has ambitious plans to harness its mineral wealth, transition to renewable energy and revamp its financial structure. Improving economic prospects should be highly supportive of financial markets, providing a strong platform for renewed investor interests.

- **South Africa’s GNI per capita has increased, placing the country closer to the global average.** Despite economic setbacks during the Great Recession and Covid-19, South Africa is poised to almost double its growth in 2025 and 2026, according to the IMF.
- **Financial reforms, lower rates and inflation are expected to boost consumption:** With inflation contained, the South African Reserve Bank (SARB) has been able to ease policy rates in line with the global trend, and together with important financial reforms, such as the two-pot retirement system, could foster an environment of stronger consumer spending.
- **Political and economic drive to develop and modernise the infrastructure**: The economy boasts one of Africa’s most industrialised, technologically advanced, and diversified, but electricity disruptions and shortages have historically held back growth. However, there is renewed impetus to improve legacy infrastructure, and look for new opportunities in renewable energy solutions.
- **More focus on natural resources:** South Africa is well positioned to benefit from new technologies and its vast mineral wealth as nations look to integrate AI across their economies and diversify their supply chains from China.
- **Equity sector leadership is changing:** South African mining performance has returned into favour, with total returns turning sharply positive and displacing previous sector leaderships from Financials and Consumer Discretionary. Technology has become one of the larger industries in the South African equity market, having grown rapidly from zero to about 15% in just a few years.
- **Income and valuation in focus:** Dividend yields remain a key selling point for South African equities, making the market interesting for income-focused investors. Moreover, the South African equity market

has become sharply derated, with valuations today well below their 10-year average.

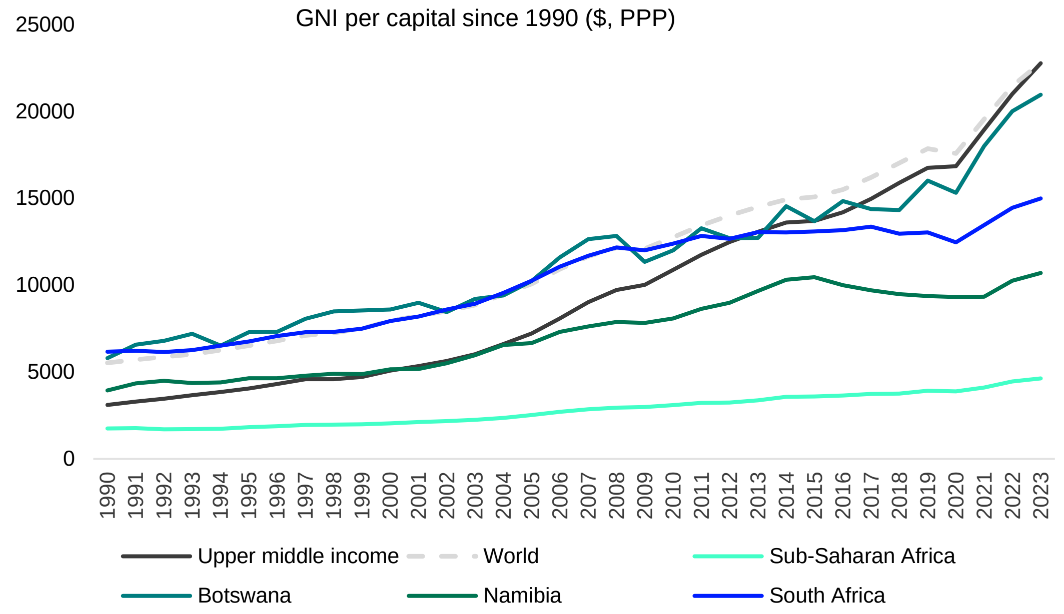
- **Climate and protectionist policies are risks:** The RSA economy will not be insulated from trade tariffs, which could disrupt global supply chains and raise costs worldwide. Moreover, the country is exposed to climate change, and while the nation is also looking to strengthen disaster resilience and to scale up post-disaster reconstruction, a repeat of severe droughts/heatwaves would dent economic growth projections.

# Contents

# South Africans are wealthier since the mid-1990s

South Africa has made considerable economic strides since its transition to democracy in the mid-1990s. It is classified as an upper middle-income economy by the World Bank and counted among the richest countries in Africa today. Its gross national income (GNI) per capita has increased materially since 1990, with the country's GNI per capita close to US$15,000 on a purchasing power parity term, currently at par with Indonesia, and moving closer to the World's average of US$ 23,000 (Chart 1).

**Chart 1: South Africa's GNI per capita has increased, especially since 2020, placing the country closer to the global average**

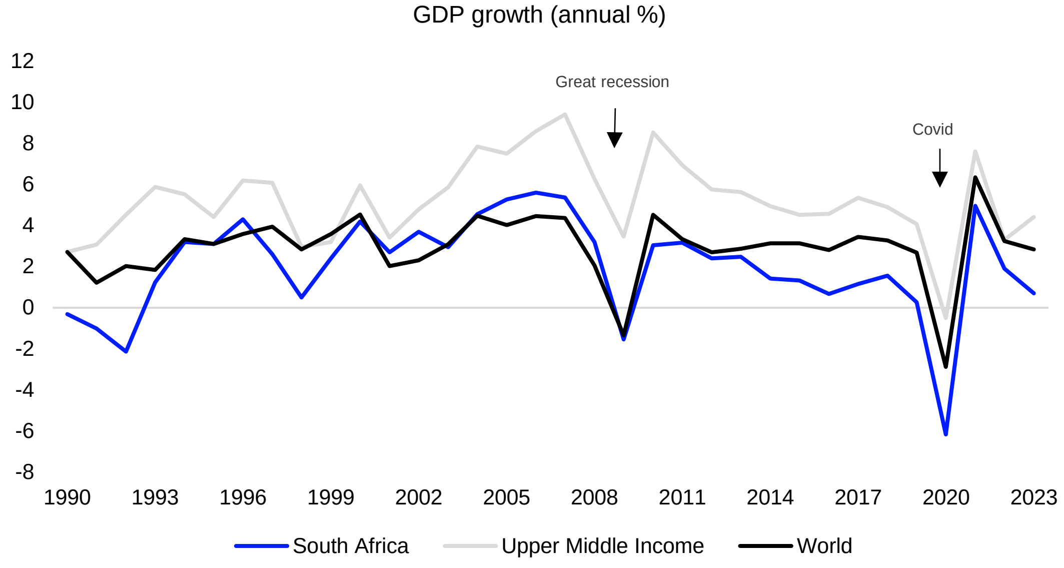



Source: The World Bank, gross national income (GNI) per capita, PPP (current international $), 2023.

# However, the road to growth has been bumpy

The aftermath of the Great Recession (2007-2009) was a particularly challenging period as the strong economic recovery seen since the mid-1990s unwound (Chart 2). The sharp decline in global trade reduced demand for key exports like gold, platinum and coal. Weaker activity in the large services segment of the economy also hurt growth. High unemployment levels, which rose from about 20% to 30% between the Great Recession and Covid-19, has remained over 30%, even if easing a little. Droughts have compounded the problem, affected agricultural production and contributed to an economic contraction in Q3 2024.

**Chart 2: Economic recovery has been uneven, with setbacks during the Great Recession & Covid-19**




Source: The World Bank.

# Reasons for optimism – AI, clean energy and financial reforms

But despite weak growth, South Africa's economic prospects are improving, with stronger projections in 2025, and beyond, compared to pre-Covid levels. As Table 1 shows, the IMF predicts the country to have grown by 0.8% in 2024, which is in line with the tepid, but improved post-Covid growth seen in more mature economies, like the EU, rather than the higher emerging and developing market estimates. However, from 2025, the IMF projects real growth to double to at least 1.6% y/y, as its rich pool of critical minerals, precious and other minerals position the country to benefit significantly from the global transition to clean energy and global expansion of artificial intelligence (AI). Also encouragingly, developments in infrastructure and regulatory efficiencies should also accelerate growth.

Finally, recent pension reforms should underpin greater consumer spending. The South African government has introduced the "two-pot retirement system" in 2024 to allow retirement fund members to access a portion of their savings by enabling them to make partial withdrawals from the age of 55 years.

**Table 1: The RSA economy stands to benefit from the transition to clean energy, AI demand and increased consumption**

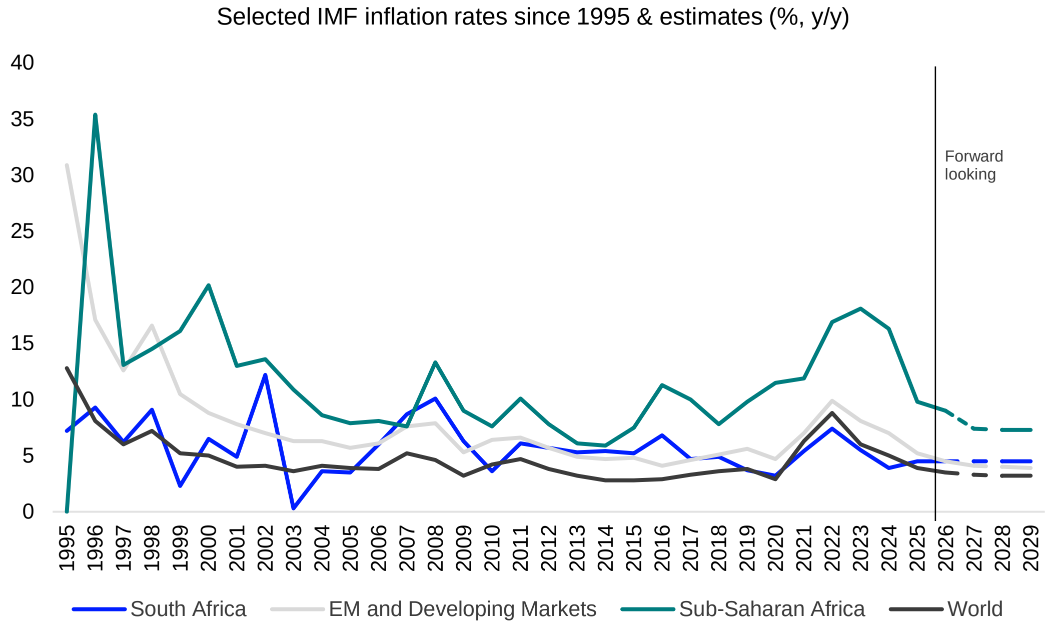
| IMF | Estimates | Projections | |
|---|---|---|---|
| Real GDP Growth (Y/Y, %) | 2024 | 2025 | 2026 |
| **World** | **3.2** | **3.3** | **3.3** |
| US | 2.8 | 2.7 | 2.1 |
| EU | 0.8 | 1.0 | 1.4 |
| **EM and Developing Markets** | **4.2** | **4.2** | **4.3** |
| Brazil | 3.7 | 2.3 | 2.2 |
| Mexico | 1.8 | 1.4 | 2.0 |
| China | 4.8 | 4.6 | 4.5 |
| **Sub-Saharan Africa** | **3.8** | **4.2** | **4.2** |
| **South Africa** | **0.8** | **1.5** | **1.6** |

Source: IMF, January 2025.

# Reasons for optimism – lower inflation and interest rates

Inflation in South Africa has declined sharply since the mid-1990s and is more stable today. As Chart 3 shows, inflation was much more volatile in the early phase of the country's democratic transition, with CPI fluctuating from lows of 0.3% to highs of 12.2%. However, since 2010, inflation has closely tracked the global levels. The latest CPI data of 3.0% y/y in November was in line with the US, and significantly below the South African Reserve Bank's preferred midpoint target of 4.5%. This was mainly due to food inflation reaching 15-year lows and lower fuel costs. Moreover, IMF forecasts inflation to be contained to the "middle of the central bank's current 3%-6% target range" in the next few years.

**Chart 3: South African inflation is more stable today versus the 1990-2010 period**

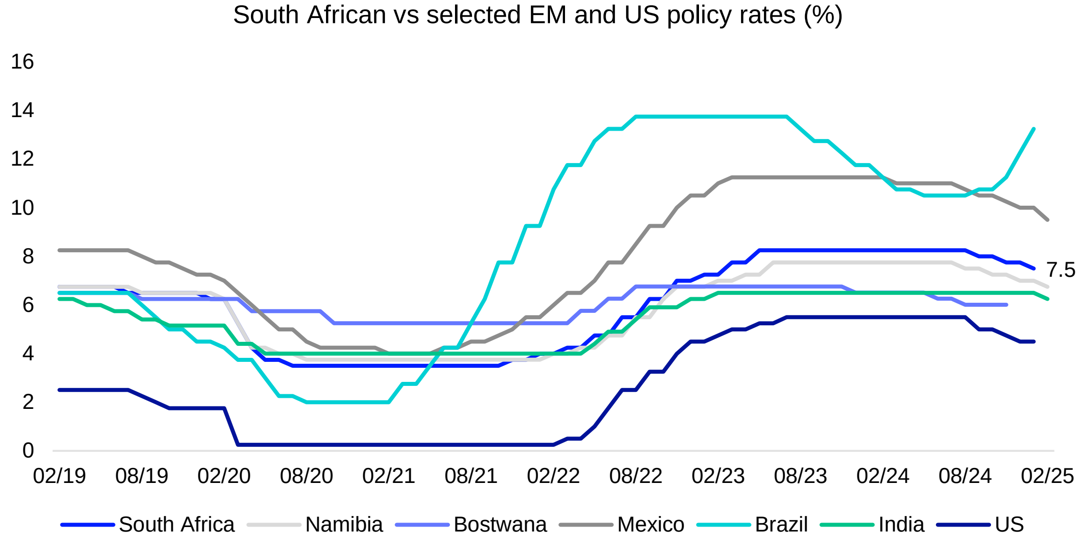



Source: IMF.

With inflation contained, the South African Reserve Bank (SARB) has been able to ease policy rates in line with the global trend, providing much needed relief to consumers. As Chart 4 shows, interest rates have declined well below those of Mexico and Brazil (with the latter bucking the trend and tightening), after the SARB cut rates by 75bp since September 2024 to 7.5% in January 2025. The central bank is expected to continue easing monetary policy with falling inflation in 2025, contrasting the US Fed, which has paused cutting rates, given concerns over rising inflation.

South Africa is not the only country easing monetary policy in the region, as most African central banks have either reduced, or left rates unchanged. Namibia's central bank has also cut its interest rates, with the latest move of 25bp to 6.75% in January to support its domestic economy and maintain the peg between the Namibia dollar and the South African rand.

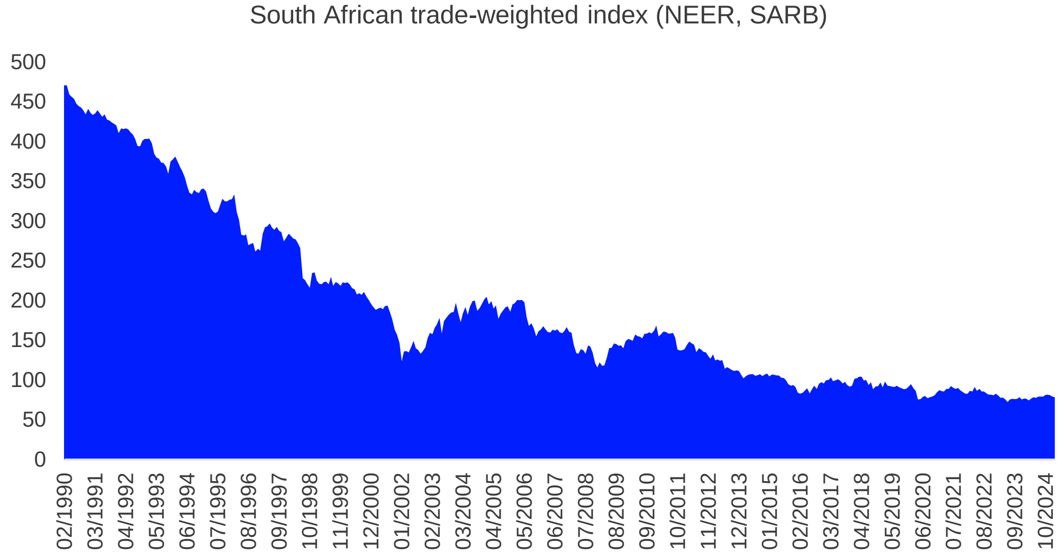
**Chart 4: Lower policy rates bode well for South African consumers**




Source: Regional central banks, LSEG.

The depreciation of the South African rand (ZAR) against its main trading partners has reflected the weakness in the domestic economy, lower interest rates and political uncertainty. The weighted average of the rand, against a basket of currencies from its most important trading partners, has fallen sharply since 1990 as Chart 5 shows. However, the worst seems to be behind, with the South African rand remaining more stable, despite setbacks in February over budget delays.

**Chart 5: ZAR has started 2025 on a stronger note**

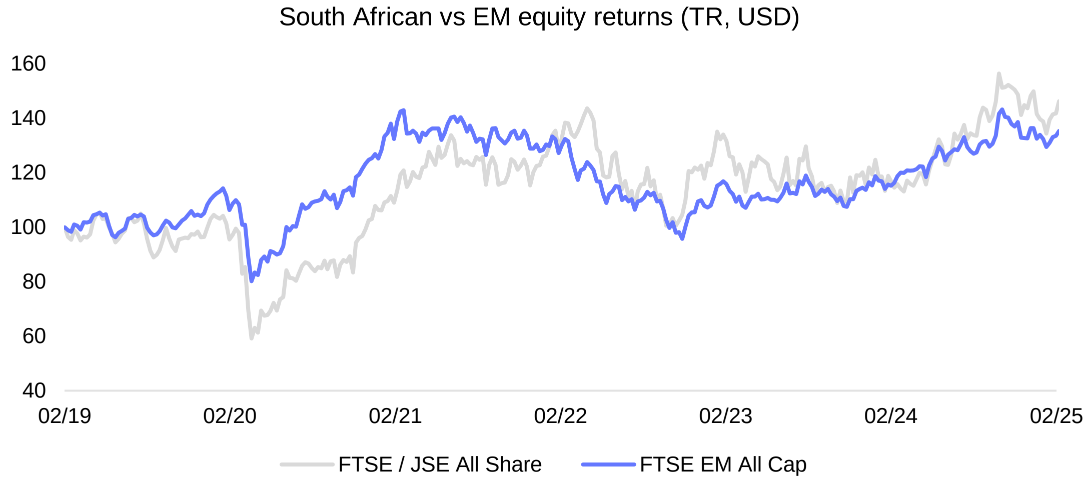



Source: LSEG, South African Reserve Bank: based on a basket of: EUR (29.3%), CNY (20.5%), USD (13.7%), JPY (6.0%) and GBP (5.8%) as at 2010.

# Punching above its weight

Turning to equity markets, South Africa's equity market performance has been strong since 2019, especially since 2022. Cumulative returns show the FTSE / JSE All Share index has gained over 45%, compared to 35% for the FTSE Emerging All Cap index, both in US dollar terms (Chart 5).

**Chart 5: South African equity market has outperformed Emerging market peers**



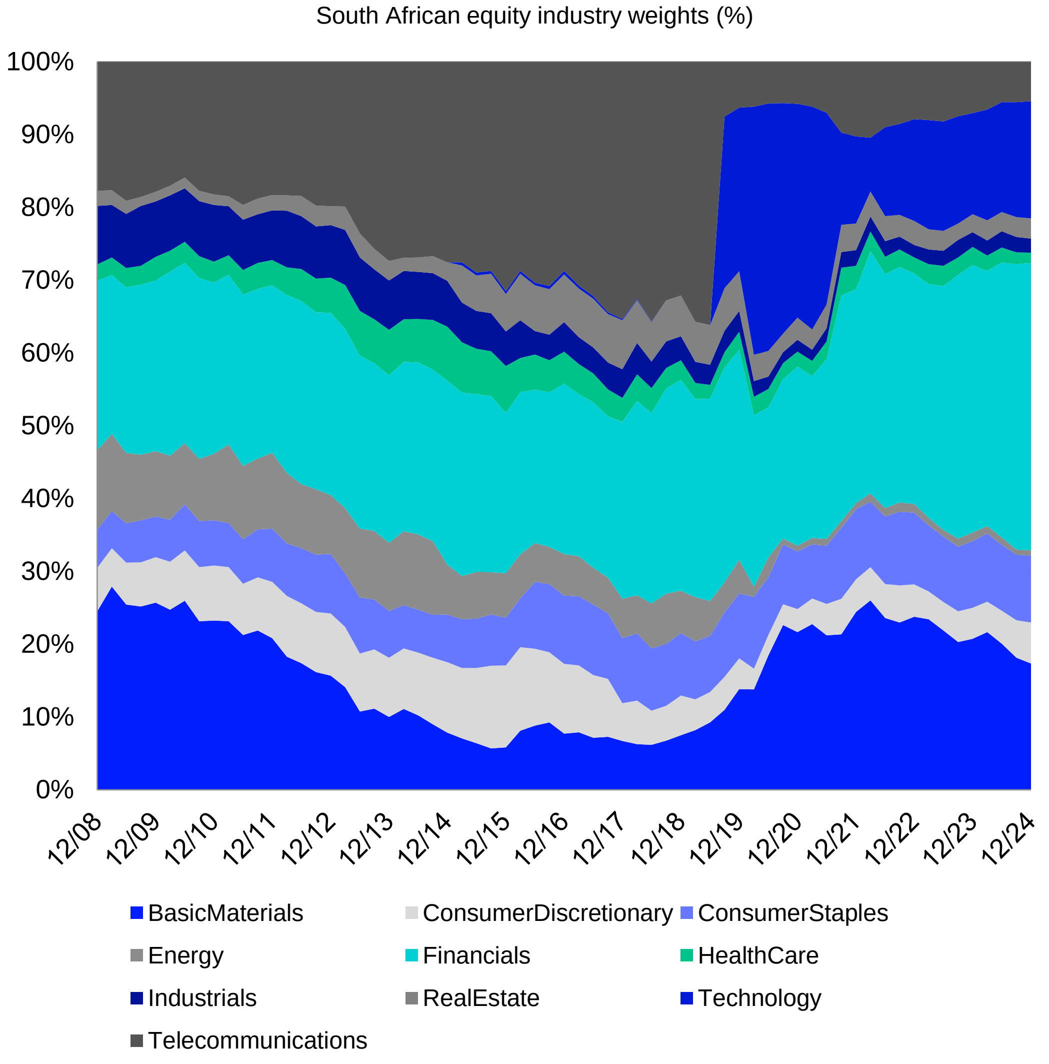

Source: FTSE Russell, LSEG, FTSE All-World Index Series as of February 1, 2025, total returns in US dollar terms. Past performance is no guarantee to future results.

# Evolution of South African industries

The RSA economy is among the most industrialised, technologically advanced, and diversified in Africa. It has a well-developed financial sector, which has grown to represent nearly 40% of the South African equity market from about half the size in 2008. Outside Financials, the rest of the universe composition has evolved and become more balanced. The Basic Materials sector today, while still sizeable, represents a more modest 17% compared to its weight of over 30% of the market historically. Technology has a similar size of about 15%, having increased significantly since 2019 from a zero weighting in 2008. Consumer Stables, Discretionary and Telecommunications combine to about 20% of the market, though the share of telecoms has decreased at the expense of the consumer sectors (Chart 6).

Important sectors like Health Care, have remained very small however, representing only about 1% of the universe, while Energy, which accounted for some 13% of the market in 2008, has declined to less than 1%. With a history of significant electricity disruptions affecting the country's economy, South Africa's energy sector is expected to see major changes in 2025, driven by evolving regulations, technological advancements and the urgent need to address long-standing energy challenges. As a result, the country will need to embrace the complex task of balancing legacy infrastructure, decommissioning coal units, increasing energy demand, while looking for opportunities in renewable energy solutions such as solar power and battery energy storage systems[1].

**Chart 6: Technology makes up some 15% of the market – a huge boost since 2019**



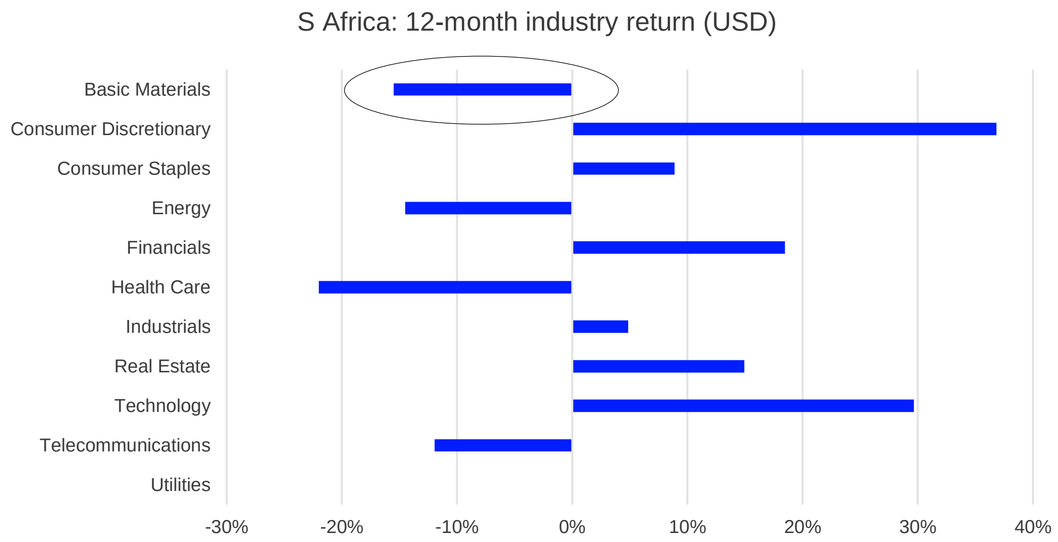

Source: FTSE Russell, LSEG as at December 31, 2024.

[1] Energy Security | SONA 2025.

# Technology and Financials have displaced Basic Materials

Analysis of the industry returns of South African equities shows a strong performance coming from Discretionary, Financials and Technology over the last twelve months, and less from the primary sector of Basic Materials, which has underperformed over the same period (Chart 7).

**Chart 7: Tertiary sectors have led South African industry performance in 2024**



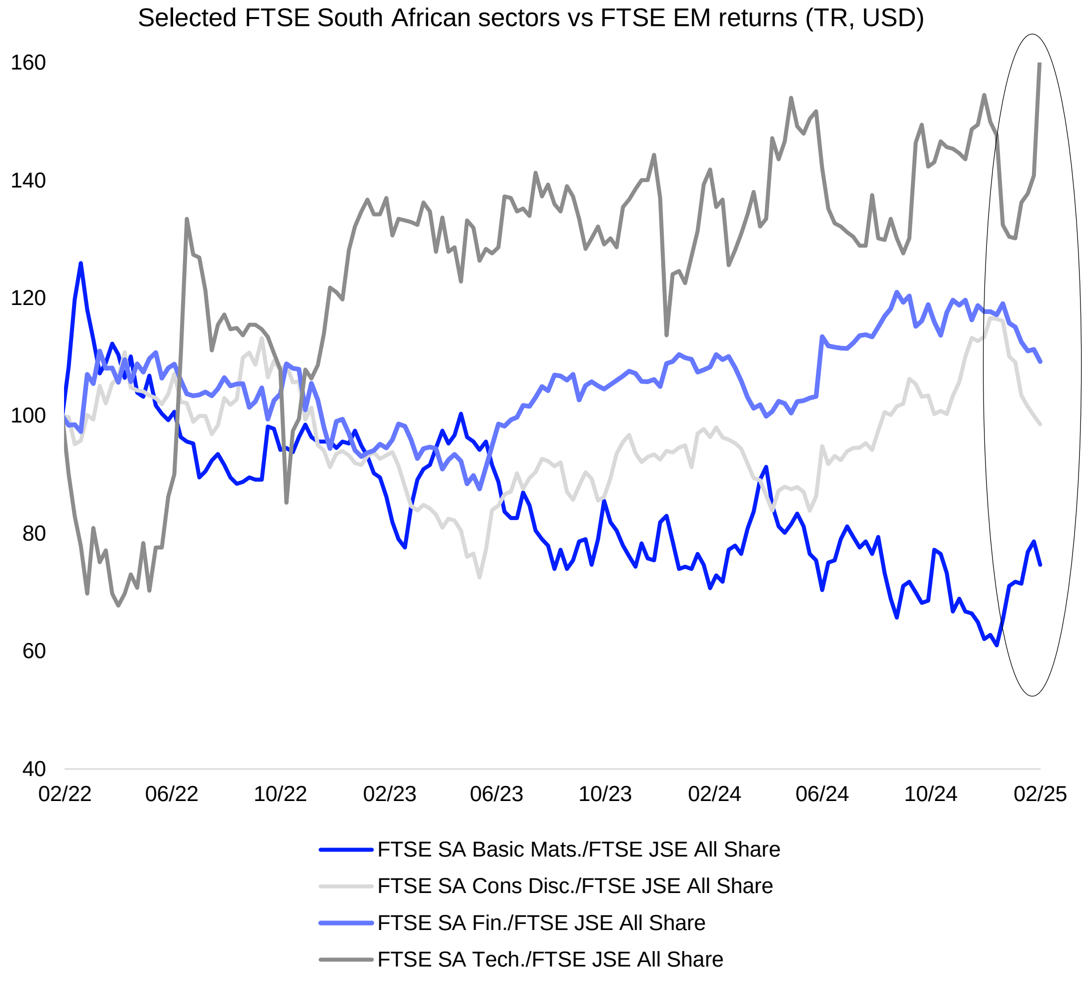

Source: FTSE Russell, LSEG, as at December 31, 2024. Total returns in USD terms. Past performance is no guarantee to future results. For professional investors.

# But sector leadership is changing

However, the picture appears to be changing this year. The performance of South African miners has returned into favour, as returns for Basic Materials turn positive, displacing the previous leadership from Financials and Consumer Discretionary.

South Africa is benefitting from an upsurge in demand for precious metals and mining, including platinum and gold, as the world expands and integrate AI more broadly into the economy, and supply chains look to secure and diversify their supplies of critical minerals from China.

**Chart 8: Increased demand for precious metals boosts South Africa's Basic Materials sector**



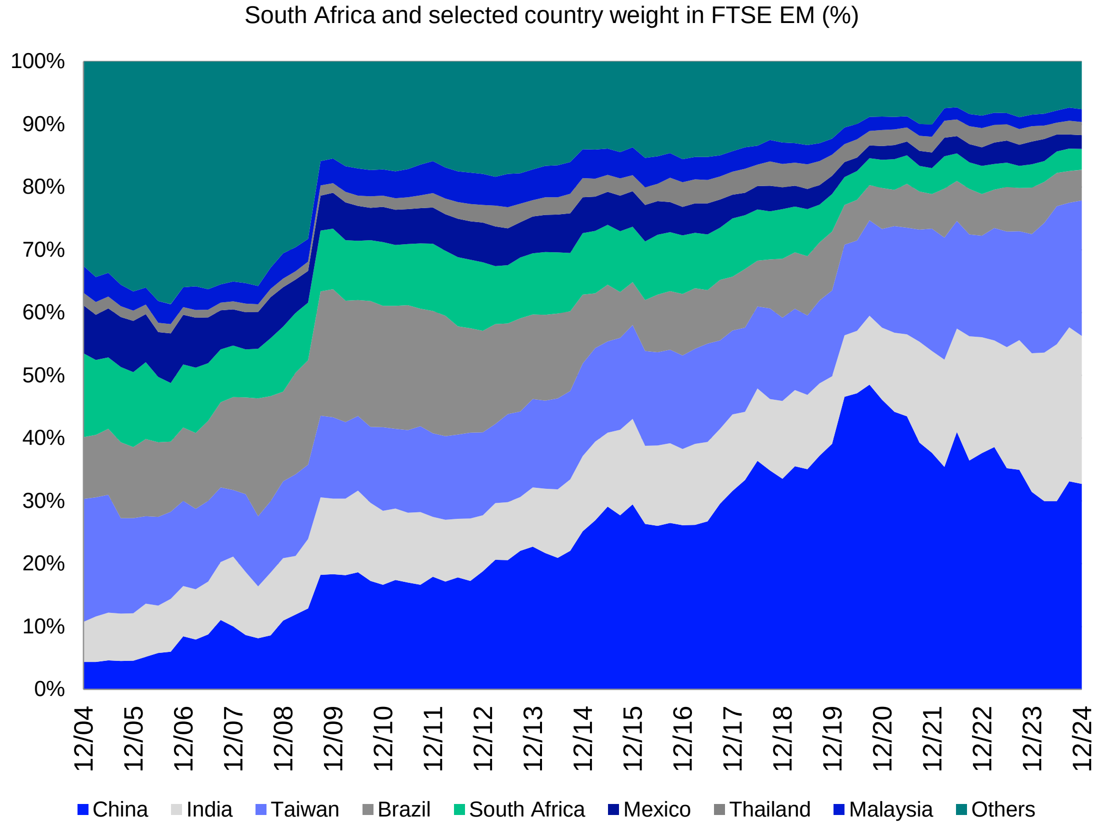

Source: FTSE Russell, LSEG, as at January 18, 2025. Total returns in USD terms. Past performance is no guarantee to future results. For professional investors.

# Impact of the rise of China and India on the EM equity market

Changes in industry leadership is also a phenomenon that can be observed at the country level. South African equity market representation in the FTSE Emerging has decreased significantly since 2004, reflecting the ascension of China and India into the emerging universe. As a result, from a weighting of some 11-13% in 2004 (and as high as about 30% before China's inclusion into FTSE EM in 2000), South Africa's position in the emerging universe has declined to around 3% today. By contrast, Chinese and Indian equity markets have growth to take up 31% and 22% of the EM universe respectively.

Similarly to South Africa, Brazil has seen its equity market position decline to around 4% in the last twenty years. However, with the expansion of artificial intelligence, strong demand for critical minerals and economic reforms, South African equity market (and Brazil) has the potential to increase its market share again.

**Chart 9: South Africa is well positioned to benefit from AI expansion**




Source: FTSE Russell, LSEG, FTSE All-World Index Series as of December 31, 2024.

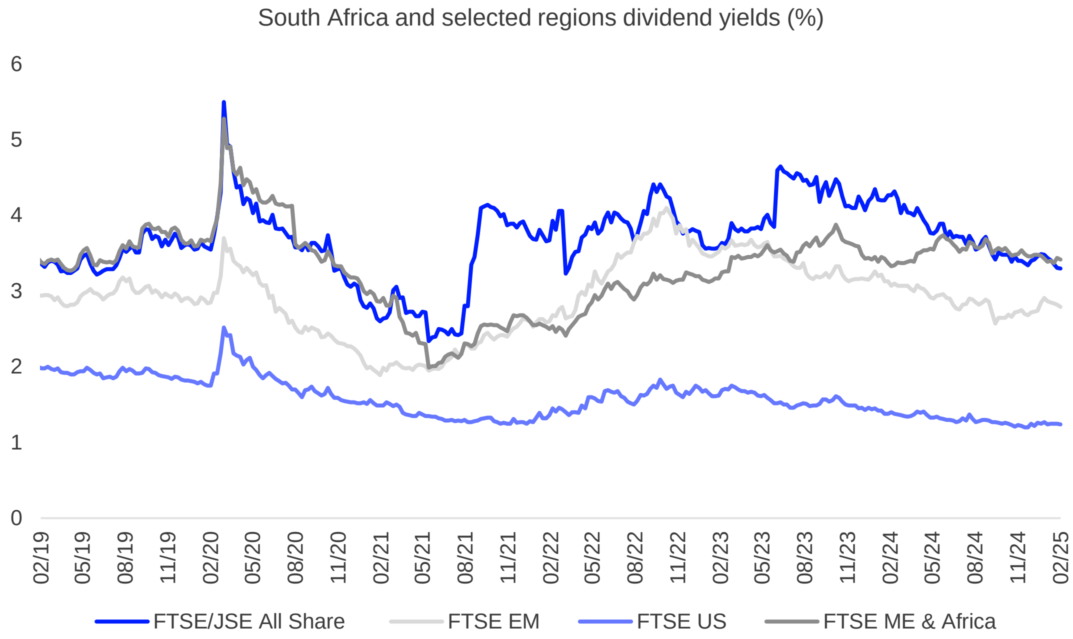
# South Africa has a history for high dividend yields

However, despite losing market share in the emerging universe, the South African equity market remains a destination for income-focused equity investors. South African equities boast a substantial portion of companies offering yields of 3% or higher, compared to sub-3% yields in the emerging markets and the US. The importance of quality companies paying a higher dividend should not be underestimated, given the need for income in retirement from a growing ageing population. According to South African government statistics, the proportion of South Africans aged 60 and older has been steadily increasing from 7.0% in 1996 to 9.8% in 2022. Therefore, the higher dividend yields for South African equities and its wider region (FTSE Middle East and Africa) remain a key selling point (Chart 9).

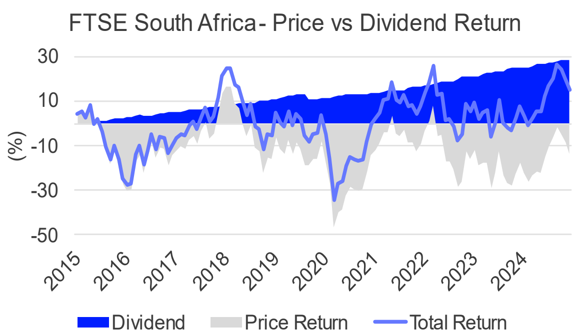
The South African equity market culture of dividend yield is also highlighted in the historical total returns. As Chart 9 (b) highlights, dividend yields in South African equities have contributed to most of its market performance in the last decade, compared to emerging equities, whose performance has been much less income dependent. Investors seeking stable returns may find the country’s strong dividend culture an attractive feature, especially given equity valuations are well below historical averages.

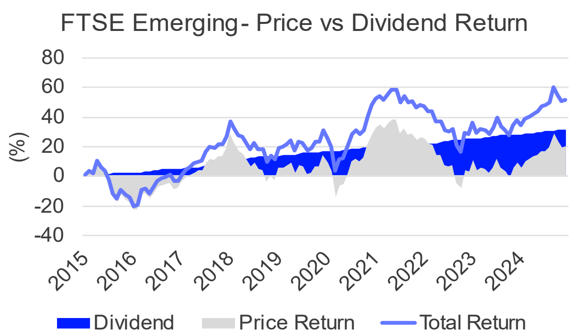
**Chart 9: Dividend yield is an important feature of South African equities**

**(a)**




**(b)**

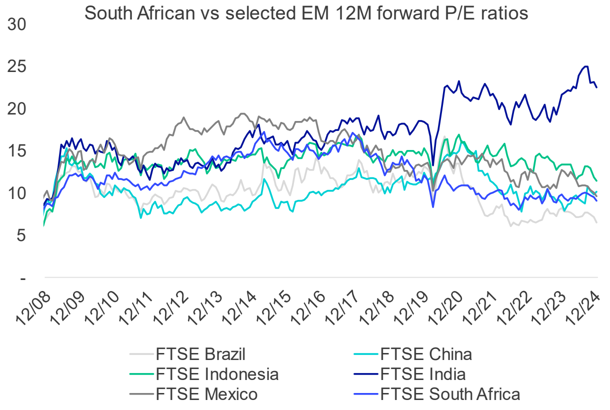


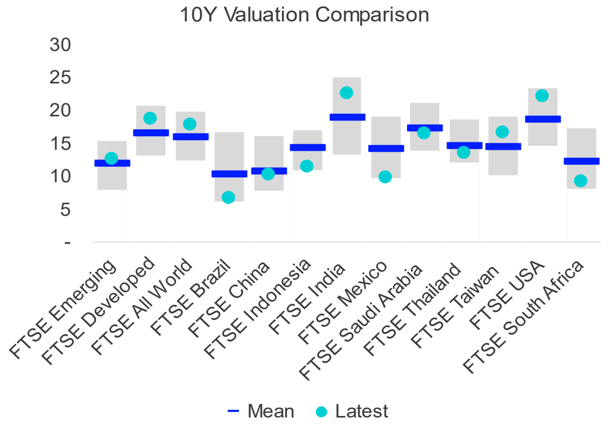




Source: FTSE Russell, LSEG, as at February 2025 (Chart 9a) and December 31, 2024 (Charts 9b). Total returns in USD terms. Past performance is no guarantee to future results. For professional investors.

Valuation really matters. The South African equity market is among the least expensive within the emerging universe. Prior to 2017, South Africa's price-to-earnings ratio ranged between 15-17 times, but since, the market has de-rated sharply, with its 12-month forward P/E ratio standing alongside Brazil and Mexico below10x. As a result, given its economic prospects, the South African equity market presents some interesting opportunities, with a valuation well below its 10-year average compared to the emerging market average, whose higher valuation is in-line with the 10-year average (Chart 10).

**Chart 10: South African equities have de-rated sharply since 2017, but since stabilised**

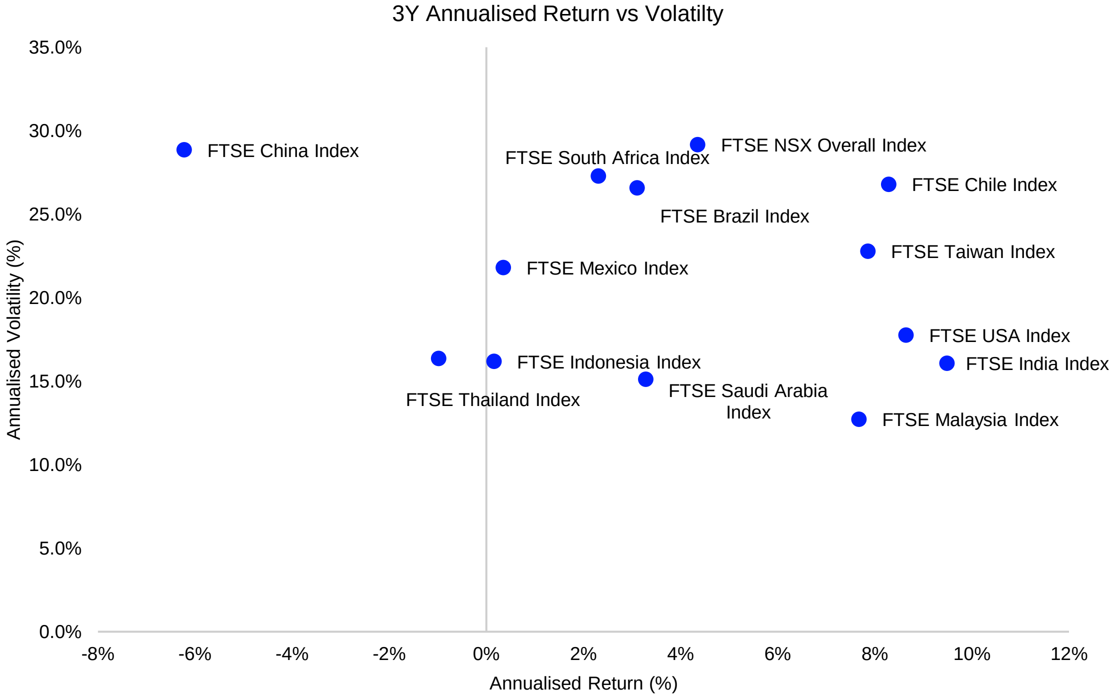



Source: FTSE Russell, LSEG, FTSE All-World Index Series as of December 31, 2024. Past performance is no guarantee to future results.

However, the risk profile of the South African equity market has room for improvement. According to Chart 1, the 3-year risk-return profile for the South African equity market shows a high level of volatility for a relatively modest level of annualised returns. Relative to its peers in the emerging universe, South African equities tend to be more volatile and have a risk-return profile in line with Brazilian equities. Only Chinese equities have exhibited a worst risk-return measure, while Indian equities have registered the highest annualised returns for the lowest level of risk (Chart 11).

**Chart 11: South African equity risk and return profile has room to improve**




Source: FTSE Russell, LSEG, FTSE All-World Index Series as of December 31, 2024. Past performance is no guarantee to future results.

# Conclusion

The South African equity market is well positioned to be rediscovered. The economy is set to improve as consumption recovers due to lower rates, inflation, and the potential impact from the recently enacted two-pot retirement system. The combined effects could be significant, as households extend their spending from essential to non-essential sectors, fostering growth across the whole economy.

Weaker economic activity post the Great Recession has left the South African equity market significantly derated, but prospects for stronger growth could provide interesting opportunities for investors. The average valuation of the South Africa equity market has fallen well below its 10-year mean, making it compelling relative to other equity markets, even if there is room for improvement from a risk and return perspective. Moreover, with its vast mineral wealth and growing technology sector, South Africa is likely to gain from the potential productivity growth resulting from the AI adoption and expansion worldwide. In addition, the market continues to be an important source of income, given the retirement needs of an ageing global population.

While the South African economic prospects appear much more optimistic, they are risks to consider: The US proposed trade tariffs could disrupt global supply chains and raise costs worldwide, particularly if retaliatory measures are enacted. In addition, new legislation over land reform could drive population out of the country, creating skill shortages, while economic forecast could be affected by disruptions from climate change.

Still South Africa appears resolute in its endeavour to use its G20 presidency as a platform to drive a progressive agenda, which puts African development and South Africa at its centre.

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