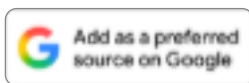


FEATURES PREMIUM

Hot Stocks 2026: Can South Africa Inc fire up?

Less adventure, more caution: Why the FM is betting on a few recovery plays this year

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Less adventure, more caution: Why the FM is betting on a few recovery plays this year (Shaun Uthum)

It would not be unwarranted, for this year's Hot Stocks edition, to look back in anger at 2025. It's not that the markets were a particular pain point ... far from it. But the overriding question is: how did most investors get it so wrong?

In short, last year investment professionals were wary of a growing bubble in US tech stocks, and fairly optimistic that the gradual overcoming of infrastructural challenges and firmer economic turf locally would prove a boon for South Africa Inc stocks.

South Africa Inc stocks fared well, in pockets, but lagged by a very large margin behind the gains notched up in gold and platinum stocks. Gold and platinum hardly got a mention in our Hot Stocks cover story of 2025.

John Biccard, a portfolio manager at Ninety One charged with value equity strategy, says: "If investors went back exactly a year ago and said that bond yields will fall 150 basis points, the rand will strengthen 12%, precious metals will go up between 60% to 120%, oil will go down and South Africa will run a trade surplus and the fiscal deficit will shrink, what do you think South Africa Inc stocks would do? Probably go up 40%."

Biccard continues: "But all that has happened is commodity shares have soared, while South Africa Inc stocks have done OK ... banks are up, retailers are down." While there is no official South Africa Inc index, Biccard's own model suggests those shares went up between 5%-10% on average during 2025 — which, he points out, lags a long way behind the bond market. "South Africa Inc valuations have not moved, which goes against the laws of finance. If bonds returned 30%, South Africa Inc stocks should have gone up by 50%."

There is an argument that GDP growth has disappointed, which would put a dampener on South Africa Inc sentiment. But Biccard insists that history will show that if there is a marked improvement in terms of trade, growth has always followed six to 12 months later. "It's no good waiting for GDP growth to pick up, you have to buy now."

Another issue hampering South Africa Inc stocks in 2025 was fund manager FOMO. Biccard says gold and platinum counters now make up 25% of the JSE.

"Most fund managers were underweight gold and platinum ... and they hate to be underweight. They had to buy gold and platinum stocks to close up, and to make space for these stocks, they needed to sell something — mostly South Africa Inc stocks."

Anchor Capital noted, in hindsight, that investors were way too overoptimistic about the South Africa Inc renaissance. “Online gaming has been widely blamed for sucking the oxygen out of the consumer recovery theme. At the same time, there was little evidence of any GNU-inspired reforms feeding through into improved business confidence in other parts of the market dependent on the domestic economy.”

In its year-end note Anchor reckoned that 2025’s performance had been almost entirely driven by gold and platinum group metals (PGM) miners (“which have enjoyed an eye-watering rally on the back of rising metal prices”) and telecommunications companies (“thanks for the most part to their operations in the rest of Africa, which are finally managing to translate strong demand into reported earnings growth”).

The group added that Naspers/Prosus also rode the renewed investor interest in Chinese technology stocks via the key investment in Tencent.

Bastian Teichgreeber, chief investment officer at Prescient Investment Management, says valuations in several of the winning sectors are now above long-term averages, particularly in basic materials and technology.

Nick Kunze, macro portfolio manager at Sanlam Private Wealth, says that if investors learnt anything from 2025, it is that the global economy, along with the companies operating in it and the markets that reflect them, has proved far more resilient than many expected.

“Tariffs? Not an issue. Geopolitical alliances? We’ll worry about that later. Yet despite an impressive list of challenges, and despite markets briefly falling off a cliff after Donald Trump’s tariff announcement in April, equities have largely pushed higher, bonds have remained relatively well behaved and private assets have conspicuously failed to blow up.”

So, on to the scoreboards. As usual, taking our cue from the US markets: over the year the Nasdaq moved up another 21%, with the S&P 500 lifting almost 17%. Interestingly, the MSCI all country world ex-USA surged 29.2%.

But these did not match the JSE’s stellar 37% gain in its all share index (Alsi) over 2025, buoyed almost exclusively by the sustained bull run in gold stocks and the sharp recovery in PGM counters.

Anchor stressed that the Alsi performance has “papered over what was, in fact, a minefield of highly divergent outcomes for South African investors”.

Still, for the astute stockpicker, Sibanye-Stillwater — which combines PGMs, gold and more “new age” commodities — returned more than 300%. It seems churlish to remind readers that Sibanye was trading as low as R14 in late February last year. By contrast, Jubilee Metals — which sold its South African chrome and PGM operations to concentrate on its copper mining endeavours — was up only a smidgen. In fact, on the complete flip side of the stockpicker narrative, Copper 360 had a tarnished year with its share price down close to 70%.

The JSE’s big dual-listed “international” stocks, which had in previous years buoyed the overall bourse’s returns, were steady rather than spectacular in 2025. Naspers/Prosus were the best of the bunch with a gain of more than 50%.

Rupert-controlled investment company Reinet increased about 30% after selling off two of its biggest investments, while luxury brands conglomerate Richemont (also controlled by the Ruperts) and cigarette giant British American Tobacco were both up by roughly a quarter. Beer maker AB InBev — which acquired SABMiller in 2016 — showed a frothy 17% gain.

Sasol, arguably the share that most South Africans own, managed a solid mid-teens shift.

Those “passive investors” who bought the popular Satrix Resi 10 ETF at the start of 2025 would have more than doubled their money.

The FM’s Hot Stocks — or rather lukewarm — portfolio for 2025 lagged markedly. The 18-strong portfolio is inflexible in having equal weighting across the JSE’s main sectors — and that’s not an excuse, just a fact. The portfolio delivered an underwhelming 11.5% ... 13.2% if dividends are worked back into the equation.

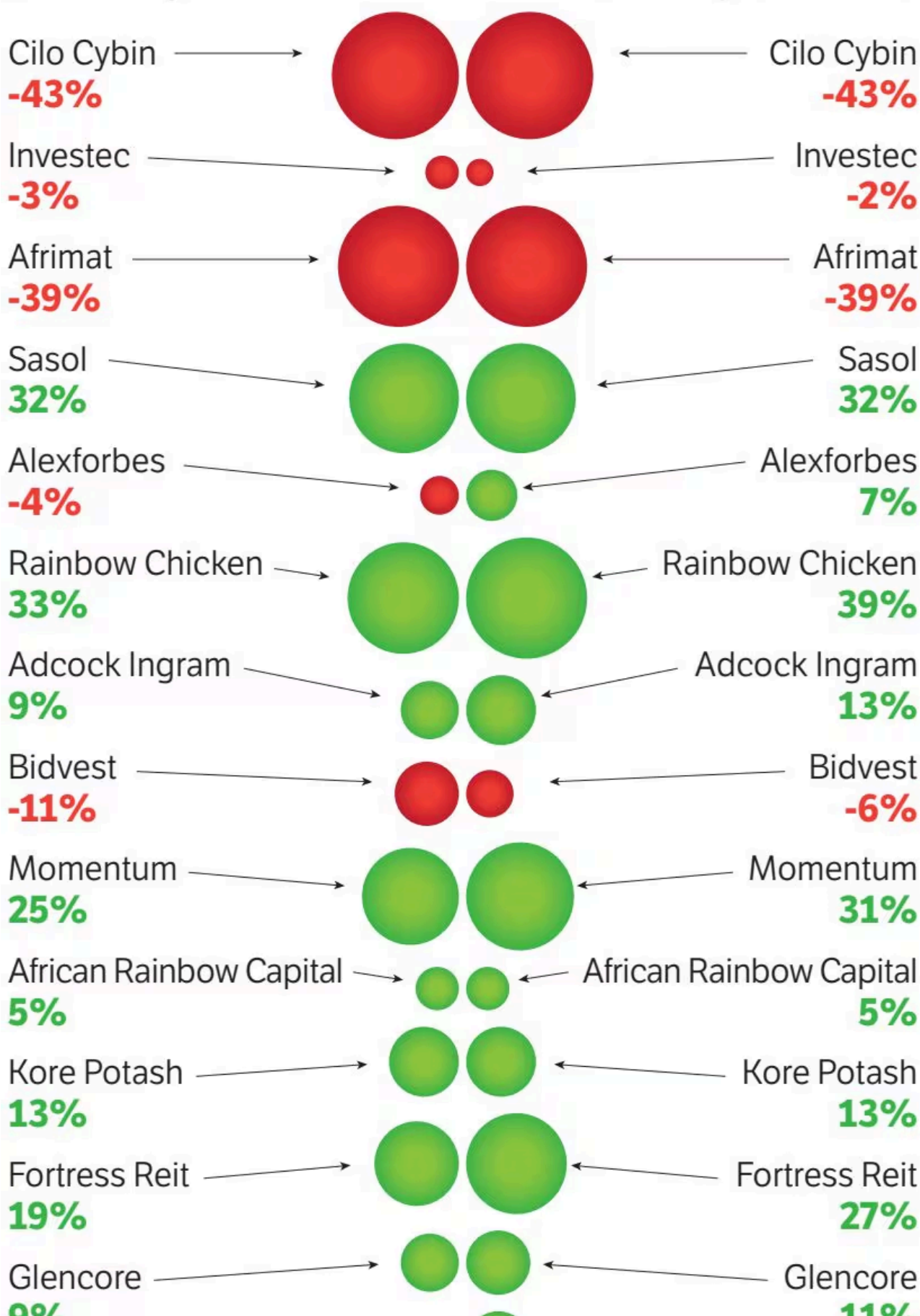
The FM’s portfolio was hammered by two unfortunate picks — Cilo Cybin and Afrimat — which both took a nasty beating. Our commodity pick, Glencore, had no exposure to platinum or gold, and was unluckily timed as the much-anticipated corporate action (with Rio Tinto) came after the close of the investing period.

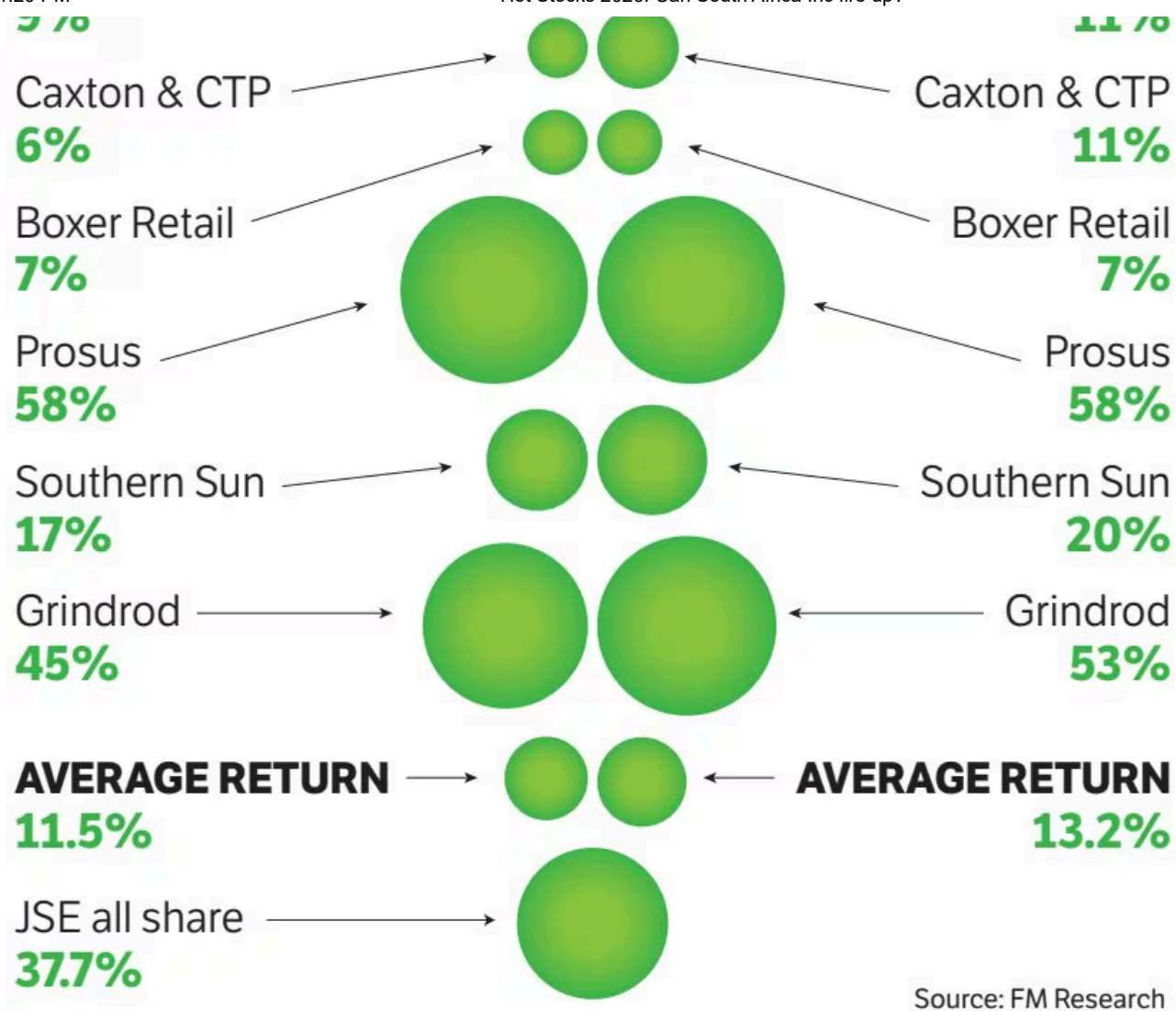
REPORT CARD

How the FM's 2025 picks performed

Excluding dividends

Including dividends





How the FM's 2025 picks performed (Vuyo Singiswa)

Our star performers were insurer Momentum, logistics giant Grindrod and tech heavyweight Prosus. The FM managed to score from two buyouts in the form of African Rainbow Capital Investments and Adcock Ingram, though the former was a miserly offer when matched against the underlying value of the investment portfolio.

Only one of the FM's commentators got it spot on for 2025: Afrifocus Securities senior analyst and investment veteran Des Mayers, who has been in the markets for about 60 years. Mayers punted Gold Fields, DRDGold and Pan African Resources, and threw poultry stocks Astral Foods and Rainbow Chicken into the mix. Any readers who followed this old hand's picks would have been rewarded with a 144% annual gain.

Mayers suspects there's more life in the gold market, even though much of the elevated bullion price is already priced in for the gold miners. He warns, though, that the intervening period could test investors' nerves.

“There was a great bull market in gold in the 1970s. But gold slumped to \$40 when [then US president Richard] Nixon closed the gold window. By 1974 the gold price was at \$195, but in the next 20 months it drifted back down to \$104. Gold shares in that pullback fell something like 70% ... By January 20 1980 gold had soared to \$850, and gold shares went through the roof.”

Mayers says circumstances today are not the same, but any pullbacks might be worrying. “I have taken some gold profits off the table.”

Outside of the mining stocks, Botswana-based retailer Choppies provided an unlikely 10-bagger in 2025. The share started the year at 77c and finished at 797c, before making a hasty retreat to under 500c in the first few weeks of 2026.

Two other nonmining gainers were also aligned to the retail sector, which in broad terms endured an unremarkable 2025. Weaver Fintech, which owns the Homechoice direct selling retail business, more than doubled its share price, and tiny furniture retailer Nictus was up by a similar margin.

Telecoms counters — specifically the big three in MTN, Vodacom and Telkom — rang up some strong gains. The listing of Cell C out of Blu Label arguably went much better than anticipated.

Private university business Stadio, small real estate counter Delta and financial services hub Finbond all registered annual gains over 90%.

Banks mostly had a decent run, with Capitec and Standard Bank (both up around a third) leading the pack. Absa and FirstRand managed gains of over 20%, while Nedbank was pretty much flat.

The JSE’s handful of asset managers, which have endured a few lean years, left the banks in their wake. Sygnia powered ahead by more than 45%, while PSG Financial Services, Ninety One and Coronation all pushed markedly higher. Momentum and the JSE Ltd were the other standouts in the financial services sector.

The food sector had its moments too. Tiger Brands and Premier (which intends acquiring RFG Holdings) were both up around 30%, with AVI lagging with a mid-single-digit gain for the year. Even small food producers like Libstar and Sea Harvest got some late-year buy-in from investors for their respective restructuring plans.

On the losing side, US-based renewable energy group Montauk was smashed down by more than 60%, while mining and aggregates group Afrimat — for so long a market darling because of management's excellent capital allocation skills — was whacked down more than 40% after the large debt-funded acquisition of the Lafarge cement business.

Pharmaceutical giant Aspen still finished the year around 30% down, despite a last-gasp rally after the group unloaded international assets at a seemingly attractive price. Building supplies businesses Cashbuild and Italtile crumbled by around 35% each.

Looking ahead to 2026, it is a little worrying — noting the bullish trading patterns in the first fortnight of the year — that the bulk of our regular market correspondents, including the FM investment writers, are again tilting hard at South Africa Inc stocks.

It's early days, but there have been some optimistic flickers across construction companies, building supplies firms and industrial stocks.

South Africa-focused investment counters such as Remgro and Hosken Consolidated Investments (HCI), which are diversified across numerous sectors but heavily discounted by the market, also finished 2025 with a mini-rally and can hopefully sustain this momentum into the new year.

Looking ahead, Teichgreeber believes valuations and fundamentals seem relatively more attractive in South Africa-focused sectors such as property, financials and banks, where expectations remain restrained.

“By contrast, sectors where optimism is already fully priced in leave little margin for error. In environments like this, cutting through the noise is not optional. A systematic, evidence-based approach helps distinguish between genuine opportunity and late-cycle enthusiasm — and that distinction is likely to matter more, not less, in the year ahead.”

Teichgreeber suggests a more challenging year ahead. “Equity risk is skewed to the downside, globally and locally. A key concern is the US labour market, where cracks are emerging ... Historically, labour market deterioration tends to be nonlinear: it looks stable until it suddenly isn't. Markets, however, are pricing in very little of this risk, reflected in unusually low implied equity volatility. That disconnect matters.”

Anchor Capital notes that while many of the supports for domestically focused companies remain in place — declining interest rates (albeit more

slowly and tentatively than many would like), a stronger rand and a modest rebound in economic growth — current valuations across this cohort of companies suggest the 2025 experience means investors are waiting for evidence in results this time. “This presents some compelling company-specific opportunities. On the flip side, it is questionable whether the runaway winners of this year can repeat that feat in 2026.”

For the year ahead, Anchor has picked two domestically focused consumer businesses in Premier and KAL Group, as well as recently listed fintech business Optasia, platinum play Valterra and a “wild card” in Blu Label.

Looking offshore, Lyle Sankar, CEO of PSG Asset Management, believes investors will need their wits about them to survive the “everything AI” rally or bubble.

He points out that though AI exuberance has continued to drive stock markets, late October marked something of a sentiment shift as investors started questioning the circular nature of various deals and became concerned about a move away from funding AI capex from free cash flow to using debt financing instead.

Sankar adds that OpenAI has done deals totalling nearly \$1.5-trillion with various suppliers of processing power, but only generated an estimated \$12bn of revenue for the year and recorded a quarterly loss of \$12bn.

“The AI boom has captured the public imagination, but while it seems clear that the technology has transformative potential, it is far less clear who will be the winners from this.”

Kunze also weighs in warily on AI. “If there is a reason for caution, the obvious one is the AI trade. Bumper technology revenues alongside massive spending on AI infrastructure mean valuations are already frothy. AI has also supported broader economic activity: the World Trade Organisation estimates that semiconductors, servers and telecommunications equipment accounted for nearly half of global trade expansion in the first half of the year.”

On the high conviction side, Kunze thinks copper is shaping up as the strategic trade for 2026, sitting at the intersection of electrification, AI and the energy transition. “Demand is no longer just about construction cycles or Chinese stimulus; it is being structurally boosted by the build-out of electricity grids required for the green transition and the power-hungry rise of AI data centres.”

Peter Takaendesa, chief investment officer of Mergence Investment Managers, maintains the local equity market has room to deliver double-digit total returns again in 2026, “albeit not as stellar as close to 40% in rands and almost 60% in dollars”.

Takaendesa says falling interest rates and strong export commodity prices vs relatively weak energy prices remain broadly supportive to earnings growth and the valuation multiple of the JSE.

But he cautions that there are major risks. “The key ones are an inflation shock forcing central banks to reverse interest rate cuts, major escalation in geopolitical tensions between the largest global economies and a collapse in AI infrastructure investment. These might look very remote to the South African economy and financial markets, but as the saying goes: ‘If the US catches a cold...’”

Takaendesa suggests a great outcome would be a “steady as she goes” in the US policy-macro mix accompanied by an orderly depreciation of the dollar. “Such an outcome would remain supportive to emerging markets, including South Africa.”

On a three-year view, Takaendesa believes that Naspers/Prosus remain solid assets, growing at three times China’s GDP with AI-driven efficiencies optionality in the longer term. He adds that the cash burn in the non-Tencent e-commerce assets is now at an inflection point, share buybacks remain accretive and the valuation remains attractive against its US peers.

He also believes AB InBev is a relatively cheap and defensive consumer staple that is likely to deliver a double-digit dollar earnings compound annual growth rate over the next few years, driven by volume recovery, operating leverage from cost optimisation and balance sheet deleveraging.

Takaendesa further pencils in AngloGold (a hedge on global fiat currencies debasement and geopolitical risks), Optasia (a high-growth vehicle), Absa (the year when operational improvements will play out) and Bidvest (the earnings mix is shifting towards higher-quality and more recurring international services businesses).

Mark du Toit, portfolio manager at OysterCatcher Investments, is picking FirstRand (well placed to benefit from the expected higher GDP growth) and Pepkor (which will continue to do well in a growing local economy).

Small-cap expert Anthony Clark, of SmallTalkDaily, lists AdvTech, Afrimat, Sabvest Capital, Rainbow Chicken, Premier, Copper 360, Argent, Reunert and Motus as his 2026 picks.

Biccard is backing African Rainbow Minerals, Bidvest, Woolworths and AECL, as well as private hospital groups Netcare and Life Healthcare.

Charles Boles, founder of Titanium Capital, is still firmly in the South Africa Inc camp and has taken a shine to AVI, Bidvest, the JSE Ltd, Motus, HCI, Remgro, Hudaco, Invicta and African Media Entertainment. His only non-South Africa Inc stock is AB InBev.

The last word must go to Mayers, after his stellar 2025 picks. The market veteran again punted for poultry stocks, but supplemented these with KAP Industrial, Sea Harvest and Pick n Pay, as well as long-shot bets on Gemfields and Sasol.

The FM Hot Stocks portfolio has shied away from adventurous picks, though there are a few recovery plays that will hopefully mesh during the year.