Debt Capital Markets 2026 Outlook

January 2026

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01 South Africa

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Key ZAR Fixed Income Market Insights

1 *ZARONIA Transition*

JIBAR is set to be discontinued on 31 December 2026, with the SARB and the Market Practitioners Group making solid progress toward market readiness. A key milestone was the fixing of the JIBAR–ZARONIA credit adjustment spread (CAS) on 3 December 2025, providing clarity on the economic treatment of legacy contracts with robust fallback language.

From March 2026, new JIBAR-linked issuance is expected to cease across most instruments. Around R6.5bn of ZARONIA-linked notes are currently outstanding, primarily floating-rate notes, and legacy contracts are expected to transition smoothly via fallback provisions.

Investor readiness is increasingly clear. At the most recent Absa auction, the 3-year ZARONIA-linked note attracted more than double the demand of its JIBAR equivalent. Over time, the move to ZARONIA should materially improve market transparency and robustness, addressing JIBAR's reliance on indicative quotes that were often a poor reflection of underlying market conditions. That said, we expect most issuers to continue referencing JIBAR until the March deadline, which remains our core recommendation.

2 *FLAC Implementation*

FLAC implementation will commence on 1 January 2026 following earlier delays, with a six-year phase-in period and a 60% compliance threshold by December 2028. SARB estimates suggest South African SIFIs will need to issue between R288bn and R360bn of FLAC instruments over this period.

FLAC is designed to enhance loss-absorbing capacity and enable bank recapitalisation in resolution without taxpayer support, aligning South Africa with global standards such as TLAC. Over time, FLAC is expected to replace senior unsecured issuance, introducing some uncertainty around pricing dynamics.

Positioned between senior unsecured debt and regulatory capital, FLAC spreads should price between these layers, with an added premium reflecting liquidity considerations and the complexity of a new instrument. Importantly, FLAC will be priced off ZARONIA, reinforcing the benchmark transition. We expect initial pricing to be wide, followed by gradual compression, consistent with the pattern observed when Tier 2 and AT1 instruments were first introduced. We do not expect FLAC pricing to have an immediate impact on corporate spreads.

Key features include:

- Minimum maturity of 24 months
- Issuance at holding company level
- Ranking above regulatory capital but below senior unsecured debt
- Exposure to statutory bail-in risk in resolution

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1. *Absa Research, Bloomberg, JSE Issunce data*

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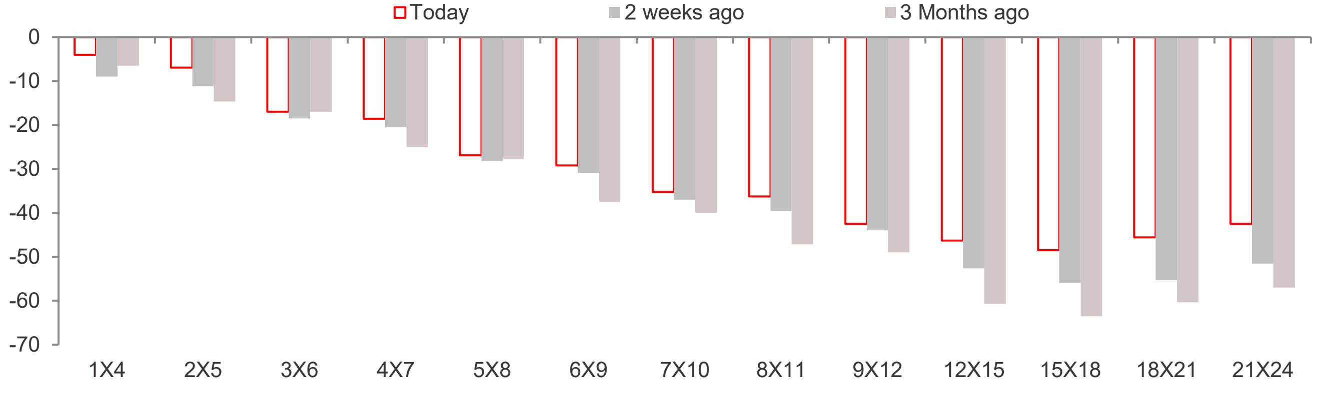
3 *Rates Outlook*

Since the start of the easing cycle in September 2024, the SARB has cut the repo rate by a cumulative 150bps, taking the policy rate to 6.75%. These cuts have been supported by moderating inflation and balanced growth risks.

In the prior year, the SARB introduced a new inflation target of 3%, with a tolerance band of ±1 percentage point, replacing the previous 3%–6% range. The shift aims to anchor inflation expectations more firmly and bring South Africa closer to international best practice. Treasury has argued that structurally higher inflation relative to trading partners undermines competitiveness and contributes to rand weakness, justifying a lower target to reduce the inflation risk premium demanded by investors.

The FRA market is currently pricing in two additional rate cuts over the year, supported by expectations of further disinflation, a firmer rand, and lower fuel prices.

FRAs currently discounting the MPC lower rates



4 *Corporate Demand Dynamics*

Despite strong underlying liquidity, the average bid-to-cover ratio in non-financial corporate auctions declined from 3.0x in 2024 to 2.4x in 2025, with the average number of investors falling from 17 to 13. Tighter spreads appear to have reduced the relative appeal of credit, even as institutional demand remains healthy.

Banks continue to anchor demand, supported by NSFR benefits when holding HQLA-qualifying bonds rather than loans. However, bank participation as a share of non-financial corporate auctions declined from 28.7% in 2024 to 25.5% in 2025. This likely reflects uncertainty around the HQLA eligibility of REIT paper and Treasury company issuance, with guidance from the Prudential Authority expected shortly.

Despite this modest softening in liquidity, auctions remain the most effective mechanism for price discovery and optimal pricing outcomes.

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1. *Sources: Absa Research, Bloomberg, JSE Issaunce data*

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5 *Corporate Supply*

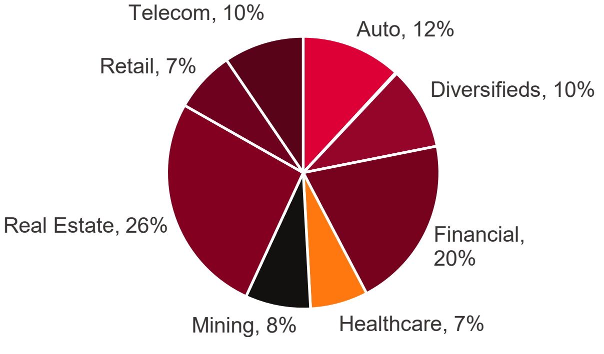
Despite relatively low maturities of R35bn in 2025 (five years on from the Covid-era market shutdown), debt capital markets recorded net positive corporate issuance, with total issuance reaching R54bn. This was supported by continued spread compression, despite a brief slowdown in April amid heightened market uncertainty.

Looking ahead, R42bn of corporate notes mature in the current year. Some issuers may choose to front-run the full adoption of ZARONIA from March as the market adjusts to the new benchmark. With pricing conditions favourable, refinancing maturing term loans via the bond market remains attractive.

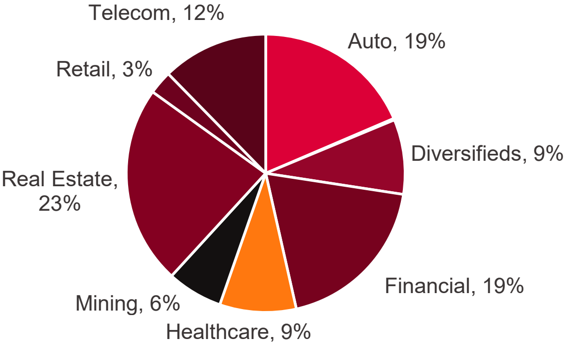
By sector, Real Estate issuers raised R12.5bn in 2025 against R6.9bn of maturities, broadly in line with historical trends. With R9.5bn of listed maturities in 2026, we expect continued net positive issuance, although activity is constrained for some issuers by internal LTV limits. Equity market conditions have improved, with share prices recovering toward NAV, which may also support capital raising. Auto issuance remains below historical levels, with R7bn issued against R5.6bn of maturities. Mercedes-Benz elected not to refinance R2.5bn of maturities during the year, while auto issuers continued to price through bank NCDs.

SOE maturities increased sharply to R46bn, double the prior year. Around 82% relates to Eskom, which faces R37bn of maturities, largely government-guaranteed notes issued in 2007. We expect Eskom to repay these maturities, and issuance timed around these redemptions could provide additional liquidity support to the market.

Issuances per Corporate Sector 2025



Maturities per Corporate Sector 2026



6 *Improving Demand for Public Sector Credit*

Tight corporate spreads have pushed investors toward alternative asset classes, including securitisations and public sector credit. While demand remains more constrained than for corporates, conditions improved noticeably in 2025. Public sector issuance reached R20bn, exceeding 2024 levels, with well-supported auctions from DBSA, IDC and Transnet.

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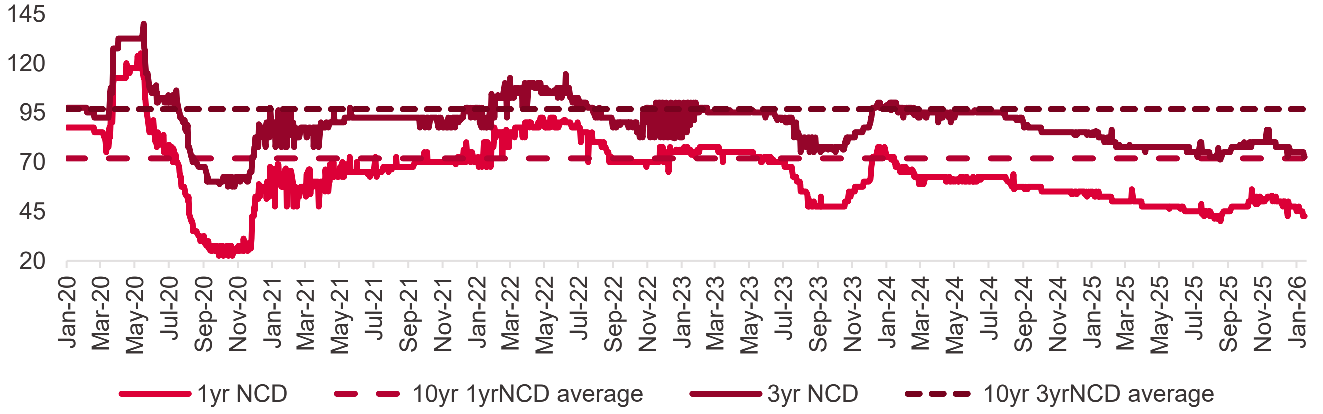
7 *Bank NCDs*

Bank NCD spreads compressed sharply through 2025, reaching a trough in August before widening modestly later in the year. Spreads have since retraced lower. One-year NCDs remain particularly important, given their strong correlation with corporate spreads and the limited investable universe for money market funds.

Three-year NCDs have become a key reference point for corporate issuers, with auto names pricing marginally through the curve despite strong bank participation. While banks have shown a willingness to fund corporates below their own cost of funds, further compression is difficult to justify given the limited pickup over Level 1 HQLA. Any widening in NCD spreads would therefore place upward pressure on tightly priced auto issuers, narrowing the spread differential between top-tier and other corporates and eroding relative value.

NCDs have remained stable heading into 2026. With bond and loan redemptions set to rise materially (R41bn corporate and R46bn public sector in 2026 versus R32bn and R21.5bn respectively in 2025), we see limited scope for NCDs to retrace meaningfully lower.

3yr & 5yr NCD levels



8 *Spread Outlook*

Non-financial corporate auction activity in 2025 sends an important signal. The rand amount allocated via auctions fell by nearly 25% year-on-year, reflecting a meaningful reduction in auction-based issuance. This is a concern, as auctions are central to price discovery and the development of reliable credit curves—benefits often absent in private placements.

That said, reduced auction volumes also reflected lower funding needs across sectors and strong cash balances for many issuers. In the absence of further tightening in NCD spreads, we see limited scope for additional spread compression for issuers that accessed the market in Q4 2025. However, issuers that have not issued since H1 2025 or earlier should still benefit from meaningful spread compression relative to their last pricing points.

1. *Sources: Absa Research, Bloomberg, JSE Issaunce data*

Securitisation

The South African Debt Capital Market ended 2025 on a strong note, with total listed securitisation issuances of approximately remaining steady at cR14bn, where most securitisation issuers were refinancing existing debt levels.

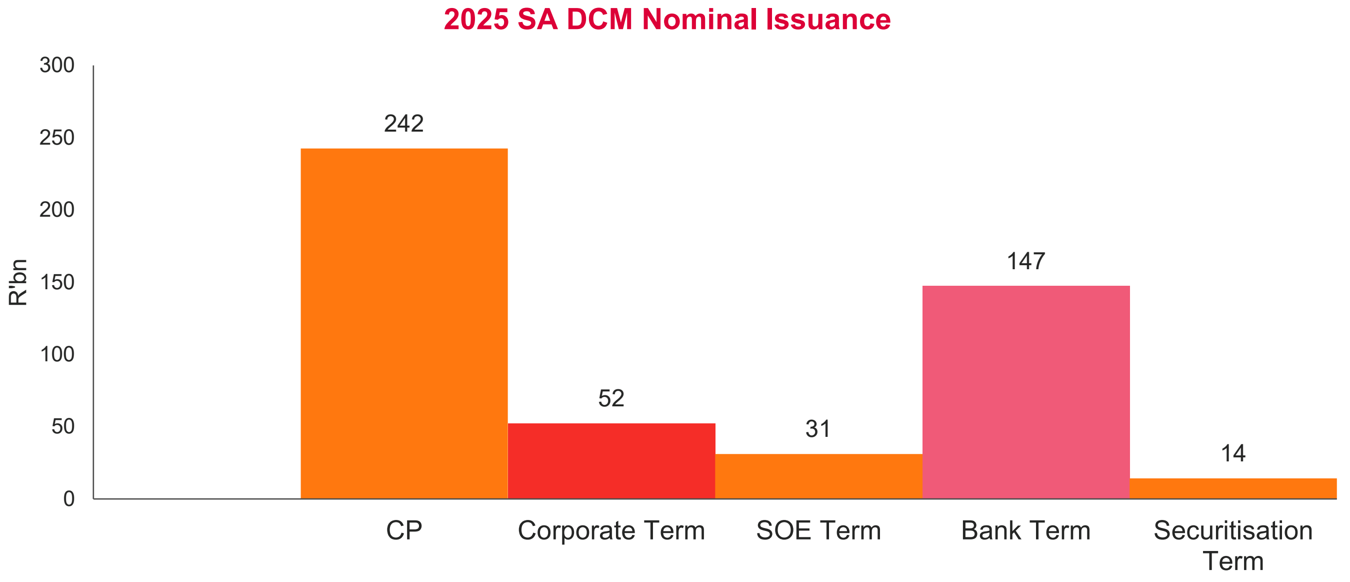
The local interest rate environment for the year ahead has factored in further rate cuts in order to facilitate the shifting of the inflation target to 3%. This will in turn positively impact the underlying securitised assets as lower interest rates tend to support consumer credit demand with an increased ability repay loans.

As market disruption continues in the financial services sector, to tap into the unbanked/underbanked market (e.g. retailers expanding their financial services footprint), this will also result in potential exploration of assets that can be securitised (such as consumer/trade receivables and SME loans).

Broader debt capital market activity does tend to affect the securitisation market as the fixed income investor community remains limited, however the existing investors still gain significant value in the securitisation market as an alternative asset class to traditional bonds as a means of diversification.

The markets is actively preparing for the JIBAR transition to Zaronia. Jibar is currently the primary reference rate for securitisation instruments, with the "No New JIBAR" milestone planned for March 2026. The Securitisation Market Practitioners Group has been developing a legislative and practical approach to the transition. Securitisation programmes in the South African market have historically used JIBAR as the primary reference rate and its discontinuation presents various challenges for market participants. This change is expected to affect pricing and legal documentation of each existing securitisation structure.

The year ahead will be a pivotal one for the local securitisation market, marked by structural reform; with evolving issuer and investor participation.



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