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FIXED INCOME
QUARTERLY COMMENTARY
by Melanie Stockigt | June 2026

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South Africa's credit story is *turning*

A long-awaited shift in tone from the rating agencies sets a credible - although measured - path back towards investment grade.

After more than 15 years of one-way traffic in South Africa's sovereign credit rating, all three major rating agencies have changed course. S&P upgraded South Africa from BB- to BB last November – the first upgrade from any major agency in over 16 years. Moody's followed in May (affirming its Ba2 rating but moving the outlook to positive for the first time since 2007) and in June, Fitch raised South Africa a notch to BB; its first upgrade in almost 21 years. Let that all sink in for a moment.

At a time when the global sovereign credit trend has increasingly turned negative on rising debt burdens, South Africa now stands out, for the right reasons. We're still some way from investment grade, but for the first time in a long time the direction of travel from all three agencies has shifted from down to up. This raises some obvious questions. What are the agencies responding to, and what does this mean for investors who own South African assets?

What's driving the upgrades?

Agencies are recognising that South Africa's underlying fundamentals are improving, and this is largely centered on three important developments.

First, sustained reform delivery. Operation Vulindlela continues to chip away at longstanding constraints in electricity, logistics and infrastructure, and the reforms are starting to show tangible results.

Second, fiscal health is stabilising after years of deterioration. Primary surpluses are widening (government now earns more than it spends, excluding interest) and debt as a share of GDP is stabilising. Stronger revenue collection and disciplined spending have improved debt dynamics even as infrastructure investment accelerates. While higher oil prices and geopolitical risk have recently slowed the pace of improvement, they haven't changed the direction of travel and the debate has shifted from whether fiscal risk has stabilised to *how quickly* the debt ratio improves.

Third, reform at state-owned enterprises is paying off. Operational improvements at Eskom have reduced our government's contingent liabilities (stronger balance sheets mean a lower probability of further bailouts) while more reliable rail, port and electricity supply is unblocking key economic growth arteries. Bringing the private sector in as part of the solution has a multiplier effect, as it draws in private investment and skills, helps close infrastructure gaps, and lifts business confidence, thereby creating the right conditions for future economic growth.

Political stability has been key to allow these reforms to develop. The Government of National Unity (GNU) formed after the May 2024 election delivered greater policy continuity than many expected and presidential backing has been vital for reform momentum.

None of this is new information. What has changed, however, is that South Africa is building a credible track record and demonstrating the ability to execute, and rating agencies are recognising this.

Why ratings matter for investors

Sovereign ratings are investor shorthand for a country's creditworthiness, on a scale from AAA down to D, with a critical line at BBB. Above it, you're 'investment grade'. Below it, you're 'speculative grade' or 'junk'. These ratings feed directly into what government pays to borrow, the cost of capital for SA corporates issuing debt at home and abroad, and foreign allocators' willingness to hold South African assets. We saw this in reverse between 2017 and 2020, when downgrades into speculative grade pushed our bond yields well above emerging market (EM) peers and added a persistent risk premium to the rand.

The direction of travel matters just as much as the level. Even a single notch improvement, well before investment grade is regained, can shift sentiment materially. Active investors position for where a rating is heading, not just where it currently sits, and this has been SA's story since the GNU elections of mid-2024. We've seen our government bond yields fall, spreads on Eurobonds (South African bonds issued in foreign currencies) tighten considerably, and the rand clawing back some of its lost ground against major currencies. A full return to investment grade would matter even more, since global EM bond indices weight countries partly by rating, and passive inflows tend to reward an upgrade or changes to outlook. Beyond market pricing, a country climbing the credit pecking order also finds it easier to attract foreign direct investment and joint ventures – much needed capital that supports growth and job creation initiatives.

What happens from here?

We see scope for further upgrades in 2027, provided reform momentum survives upcoming electoral cycles and debt stabilisation continues. One detail is worth flagging: S&P kept a positive outlook on its upgraded BB rating in November, rather than the stable outlook agencies typically assign after an upward rerating. This signals a reasonable chance of a further upgrade within the typical 12-to-18-month review horizon, not just a one-off move. With Moody's outlook now also positive, it is more likely than not that at least one, possibly two, agencies lift South Africa to BB+ (just one rung below the coveted investment grade).

Further rating upgrades can only be earned through consistent delivery of reforms, and the risks in SA are real. The agencies expect GNU reform momentum to survive the upcoming local government elections, but a coalition breakdown or a reshuffle that signals a shift on fiscal consolidation or SOE reform would quickly reverse their constructive stance. So too would a meaningful deterioration in growth or fiscal sustainability. Fiscal updates, election cycles and the pace of structural reform across logistics and electricity remain key markers to watch. Ultimately, if structural reforms don't show up in stronger growth, then higher ratings levels will remain equally elusive.

How we're positioned

We've been constructive on South Africa's structural reform story and what it means for fixed-income markets for some time, and we've been pleased with the performance that has generated. While the journey back to a stronger sovereign credit rating is unlikely to be a straight line, we believe the direction of travel remains encouraging.

Across our fixed-income portfolios, we continually assess what this means for government bonds, inflation-linked bonds, floating-rate notes and corporate credit, while also considering the impact of the SARB's evolving inflation framework and interest rate cycle.

When domestic bond markets priced in a great deal of good news towards the end of last year, we became more selective. More recently, periods of volatility - such as those triggered by tensions in the Middle East - created opportunities to add exposure to fixed-rate bonds at more attractive valuations.

As always, our focus remains on patiently allocating capital where we believe the balance between risk and reward is most compelling for the objectives of the fund.

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