

Outlook 2026: Calibrating Growth, Policy and Market Expectations

By Swan Capital Solutions

Executive Summary

The global economy enters 2026 navigating a fragile balance between policy easing, fiscal constraints, and technological transformation. In the United States, President Trump's unpredictable policy mix has fueled market volatility but also sustained corporate earnings and investment momentum, particularly in sectors tied to the artificial-intelligence (AI) buildout. The Federal Reserve's ('Fed') measured rate-cutting cycle is expected to extend into 2026, anchoring an environment of declining yields and selective risk-taking.

For investors, 2026 is shaping up as a year of calibration—between optimism on AI-driven productivity and realism about fiscal sustainability. In Mauritius, fiscal consolidation, moderate inflation, and attractive valuations in local equities create a cautiously constructive setting, albeit tempered by limited foreign participation and execution risks on reforms.

Global Equities: Navigating a Changing Landscape

The global equity market absorbed multiple shocks in 2025—from geopolitical tension in the Middle East to erratic trade policies under the Trump administration. Yet, beneath the volatility, corporate fundamentals remained resilient. Tariff pauses and selective trade deals brought partial clarity, while large-scale investment in AI infrastructure has become a new engine of capital expenditure and productivity.

Under our base-case scenario, the AI buildout will continue to drive capital investment, and we expect not more than a 1% Fed rate cut by end of 2026 that the market has currently priced in. This degree of policy-easing would typically be associated with a more severe weakening in the labor market and a drop in inflation. Besides, based on the Federal Reserve's latest Summary of economic projections, we do not expect a sharp deterioration in US economic activity, especially considering corporate tax cuts from "One Big Beautiful Bill Act" and deregulation acting as tailwinds in 2026.

Variable	Median ¹				
	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8
June projection	1.4	1.6	1.8		1.8
Unemployment rate	4.5	4.4	4.3	4.2	4.2
June projection	4.5	4.5	4.4		4.2
PCE inflation	3.0	2.6	2.1	2.0	2.0
June projection	3.0	2.4	2.1		2.0
Core PCE inflation ⁴	3.1	2.6	2.1	2.0	
June projection	3.1	2.4	2.1		
Memo: Projected appropriate policy path					
Federal funds rate	3.6	3.4	3.1	3.1	3.0
June projection	3.9	3.6	3.4		3.0

Chart 1: Economic projections of the Federal Reserve (September 2025)

The Fed triggered its first rate cut at the 16-17 September FOMC meeting, lowering the federal funds rate by 25 basis points to a range of 4.00% - 4.25% to balance inflation risks and downside risks to employment. If history is any guide, the timing and the reason for the first fed rate cut is important. Looking at economic cycles of the past 53 years, there were 7 rate-cutting cycles associated with recessions and 5 associated with expansions. History indicates that equities rally in the 6- and 12-month period after the first cut, albeit more strongly during an expansionary phase, and that economically sensitive strategies such as growth, momentum and technology sector tend to lead these advances.

	Three Months after First Cut		Six Months after First Cut		One Year after First Cut	
S&P 500	-4.96%	6.79%	1.01%	9.79%	4.98%	16.66%
Nasdaq	-7.30%	8.27%	1.71%	15.34%	13.28%	25.33%
Russell 1000*	-3.00%	7.00%	3.96%	10.03%	3.82%	16.58%
Russell 2000*	-2.89%	4.46%	6.70%	8.91%	12.17%	15.12%

■ Recession ■ Expansion

* Performance for Russell 1000 and Russell 2000 since 1978.
 Sources: Bloomberg, Macrobond, S&P Global, Russell Investment Group. Analysis by FT Institute. Performance is calculated using daily price returns of the S&P 500 Index and Nasdaq Composite Index since 1972 and of the Russell 1000 Index and Russell 2000 Index since 1978. Performance represents average returns for the periods. Recession periods begin July 15, 1974, April 1, 1980, June 15, 1981, April 15, 1982, January 3, 2001, September 18, 2007 and August 1, 2019. Expansion periods begin September 20, 1984, November 4, 1987, June 6, 1989, July 6, 1995 and September 29, 1998. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Important data provider notices and terms available at www.franklintempletondatasources.com. **Past performance is not an indicator or a guarantee of future results.**

Chart 2: Difference in market return between during policy easing associated with recession or expansion

The chart above shows the effect of interest rate cuts on several US equity indices after 3 months, 6 months, and 1 year. For each period, the effect is measured in two distinct economic environments, namely expansion and recession.

Looking ahead, we are generally upbeat on global growth prospects for 2026. While the US economy did hit a speed bump earlier in 2025, we are now past the point of maximum uncertainty

on trade and fiscal policy that had weighed on sentiment. Together with a persistently weak US dollar, weaker oil prices and looser financial conditions should feed into growth and support equity performance.

Foreign Fixed Income: Accommodative but Uneven Yields

The US market entered 2025 anticipating rate cuts that materialised only late in the year. By September, the Fed pivoted decisively toward employment, opening the door to a gradual easing cycle that should extend through 2026. We expect the policy rate to decline modestly as the Fed tolerates slightly higher inflation and prepares for leadership transition when Chair Powell’s mandate expires.

Excluding the Volcker era (1979–87), when exceptionally high yields were used to combat stagflation, history suggests that the current disconnect between inflation and actual yields since 2022 (Chart 3) is unusual. This points to scope for yields to decline and realign with underlying economic fundamentals. This accommodative stance, combined with deregulation under the “One Big Beautiful Bill Act”, provides temporary relief for corporate credit.

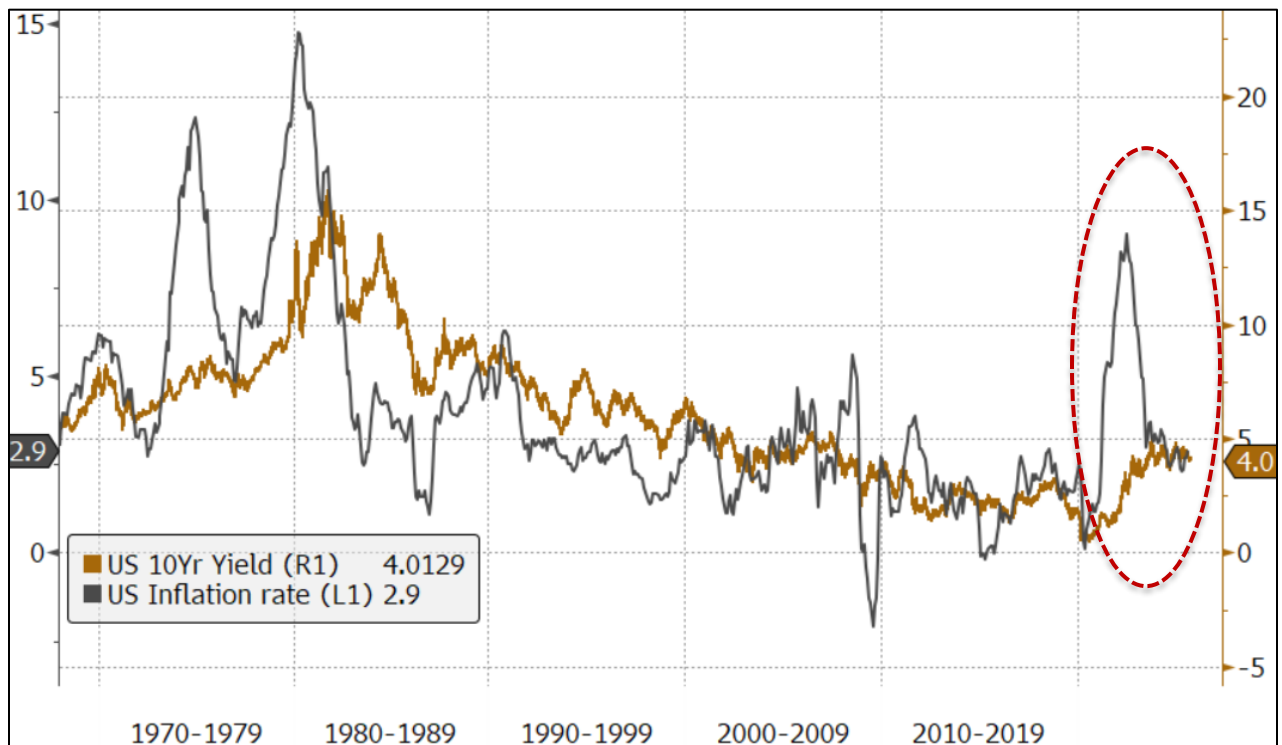


Chart 3: Disconnect between inflation and yields (U.S. 10-Year Treasury Yield vs CPI Inflation)

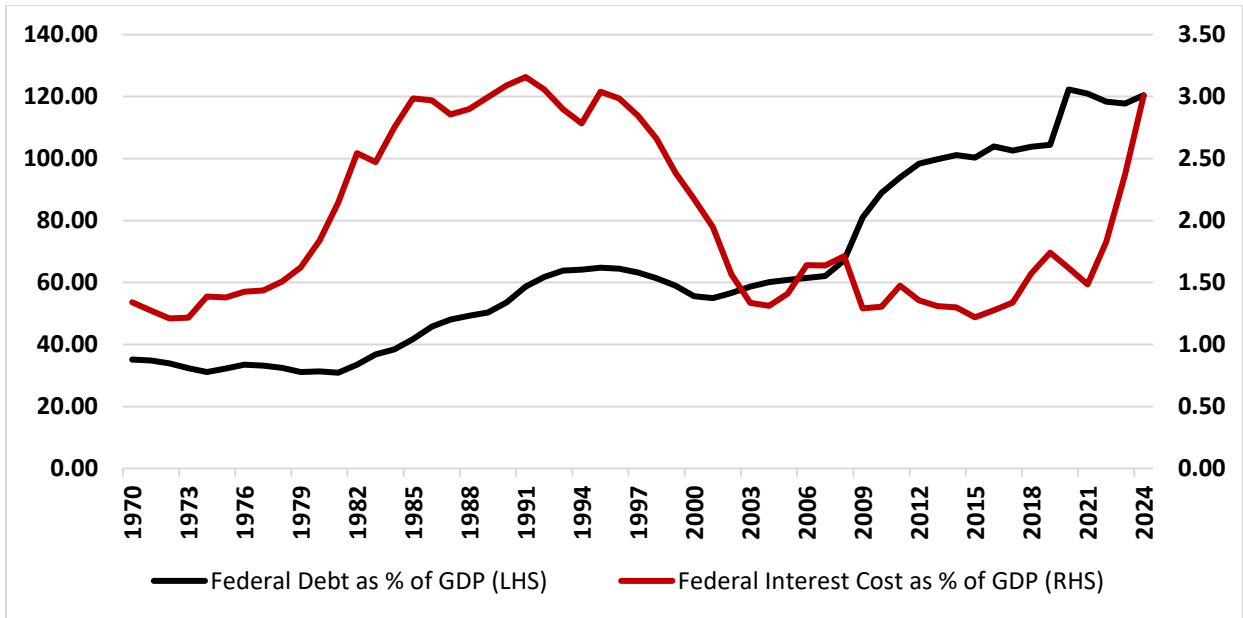


Chart 4: U.S. Federal Debt and Net Interest Costs as a % of GDP

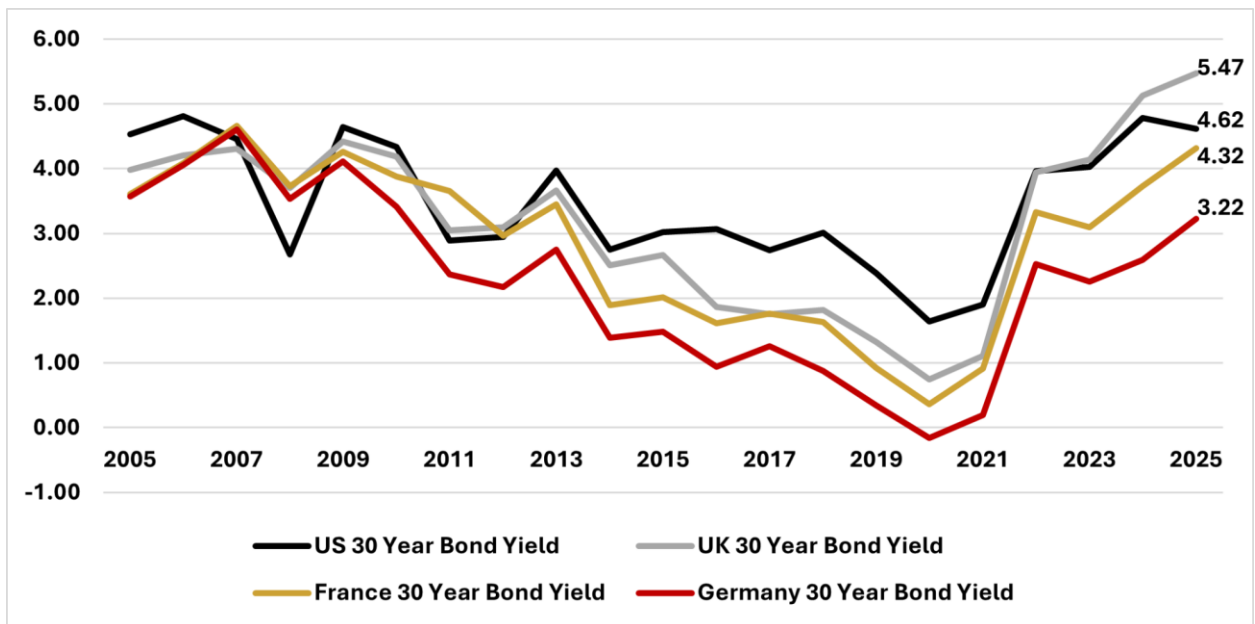


Chart 5: Fiscal concerns have become a key bond market driver

Despite monetary easing, fiscal fragility remains the key structural risk. US federal debt and net interest costs have climbed to record levels (Chart 4), leaving long-term yields stubbornly elevated (Chart 5). While short-term yields should decline faster than long-term ones, the term premium is expected to stay high, anchoring the long end of the curve. On the currency front, whilst we do not expect strong contribution from USD as a currency over the medium term, a weaker USD supports growth and export-oriented US companies.

Local Equities: Stabilisation and Compelling Valuations

Mauritian equities approach 2026 from a position of stabilisation rather than exuberance. Fiscal consolidation remains the government’s central priority, with the deficit targeted to narrow from 9.8% of GDP in FY24/25 to 4.9% in FY25/26. While fiscal tightening may weigh on consumption in the short term, it underpins investor confidence in the macro trajectory.

Frontier markets delivered strong USD returns in 2025 (+37.8% YTD as of 25 September), but Mauritius lagged due to limited foreign participation. Peers such as Nigeria and Kenya have attracted reforms-driven inflows—foreign exchange liberalisation and privatisation programs namely—highlighting the need for continued policy credibility to draw investors to Port Louis.

African Frontier Mkt	USD/Ccy	Key rate	Moody's rating	YTD perf (USD)
Kenya	-0.1%	9.6%	Caa1 (Positive)	44.1%
Mauritius	-3.1%	4.5%	Baa3 (Negative)	5.6%
Morocco	-10.3%	2.3%	Ba1 (Stable)	47.9%
Nigeria	-3.4%	27.0%	B3 (Stable)	124.4%
Tunisia	-8.6%	7.5%	Caa1 (Stable)	36.4%

*YTD performance as at 25-Sep-25.

Chart 6: Performance comparison of African peers in frontier markets

Despite this backdrop however, corporate fundamentals remain resilient, and market multiples attractive. In a context where the Key rate stands at 4.5%, earnings growth and improving dividend payout supported capital gain in local stocks. From both a valuation and dividend yield perspective, we note further upside when compared to 5-year average levels as depicted below:

Market Multiples	Price-to-Earnings	Dividend Yield	Price-to-Book Value
5-year average (2020 – 2024)	9.35	3.3%	0.74
25-Sep-24	6.63	4.5%	0.78
25-Sep-25	6.84	4.8%	0.77

Chart 7: SEM Market Valuation Multiples (2020–2025)

Local Fixed Income: Sustaining Fiscal Discipline

The 2025 austerity budget marked a decisive shift toward restoring fiscal health. While Moody’s acknowledged progress, it cautioned that execution risk remains high. Household consumption — which typically accounts for approximately 69% of GDP, remains the principal growth driver (Chart 8). Yet higher taxes could eventually dampen spending, limiting fiscal revenue gains and potentially pushing public debt ratios higher if growth slows (Chart 9).

In MUR millions	2021/22	2022/23	2023/24	2024/25
Household Consumption	402,632	445,721	476,329	510,036
Private Investment	90,336	104,146	119,403	119,344
General Government expenditure	91,136	91,465	103,793	108,373
(Exports – Imports)	-77,763	-64,054	-80,406	-81,483
GDP	571,568	637,010	693,336	741,887

Chart 8: Key Components of Mauritius' Gross Domestic Product (2021/22 to 2024/25)

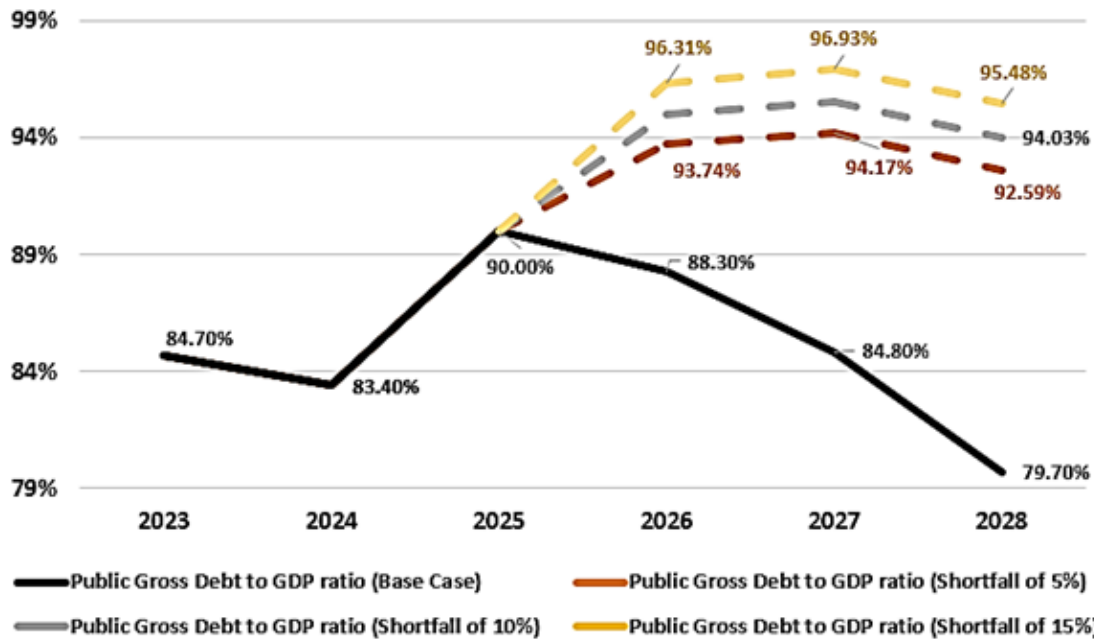


Chart 9: Public Gross Debt to GDP Ratio under different fiscal scenarios (Base Case vs Shortfall)

External cost pressures persist due to rerouted maritime trade via the Cape of Good Hope amid Red Sea disruptions and elevated freight costs. The Bank of Mauritius is expected to remain data-driven, lowering its Key Rate only once inflationary pressures subside sustainably. We do not foresee that the Bank of Mauritius will follow suit with the US in terms of rate cutting unless the FED embarks on a faster/significant rate cutting cycle.

The resulting positive interest rate differential with the USD, given the FED's rate-cutting cycle, would support the demand for MUR. We expect the Bank of Mauritius to closely monitor the (a)

bid-ask spreads on the forex market and (b) divergence between forward and spot exchange rates.

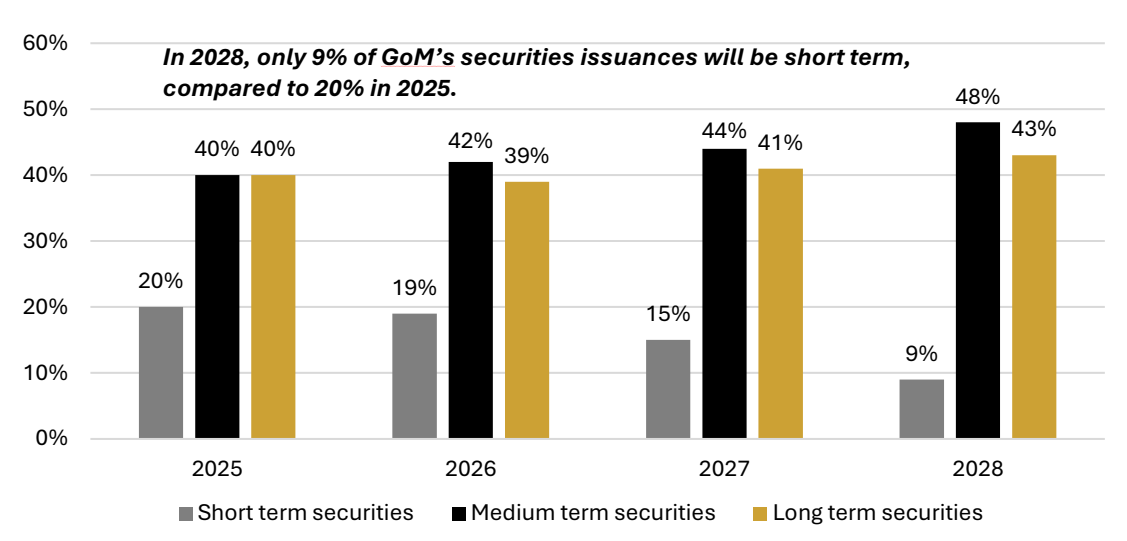


Chart 10: From the budget estimates on future Government of Mauritius (“GoM”) securities issuances, there is a shift from short term to longer dated securities.

Budget projections for 2026 indicate a shift toward longer-dated Government of Mauritius securities (Chart 10). Reduced short-term issuance will exert downward pressure on treasury bill yields, while sustained medium and long-term supply should keep longer yields supported. If fiscal consolidation proceeds as planned, investor confidence should improve, gradually compressing term premia and leading to a flatter yield curve. In terms of corporate issuances, we expect mild to low corporate issuances considering the prevailing high yield environment. Although local yields currently exhibit a downward trajectory, the impetus for companies to approach the market for financing will be largely dependent on whether the BoM implements a Key Rate cut.

Conclusion: A Year of Recalibration

As 2026 unfolds, global markets stand at the intersection of monetary accommodation, fiscal realism, and technological acceleration. While uncertainties remain—from geopolitical frictions to policy execution—investors are entering a phase of re-anchored expectations.

For global portfolios, this means embracing diversification: overweighting selective growth themes, maintaining quality bias in credit, and managing duration exposure tactically. For Mauritius, it means pursuing fiscal discipline without stifling growth, enhancing transparency, and attracting renewed foreign participation.

Ultimately, 2026 should be viewed not as a year of exuberance, but of recalibration—where pragmatic policy, disciplined investing, and innovation collectively define the next leg of sustainable growth.

