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ASSET MANAGEMENT

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Equity Market Commentary – Q2_2026

Issue Date: 31 July 2026

Turn, Turn, Turn

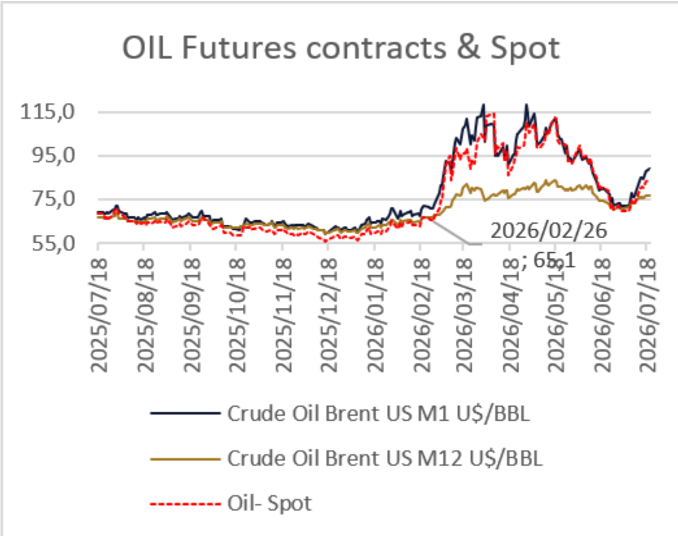
Overview

The second quarter of 2026 was characterised by exceptional geopolitical uncertainty. Words such as *volatile*, *turbulent* and *uncertain* aptly describe a period during which the conflict in the Middle East dominated global financial markets.

Following the escalation of hostilities at the end of the first quarter, the conflict between the United States, Israel and Iran remained the primary driver of investor sentiment throughout the quarter. Particular attention centred on the Strait of Hormuz, through which approximately 20% of global seaborne oil trade and one-third of global seaborne fertiliser trade passes. Temporary disruptions to shipping through this critical route heightened concerns over global energy and food security, increasing the risk of renewed inflationary pressures.

Against this backdrop, the International Monetary Fund (IMF) lowered its global growth forecast by 20bps, based on the expectation of global trade disruptions stemming from the conflict. South Africa's growth outlook was also revised lower by 40bps to 1.0% for 2026.

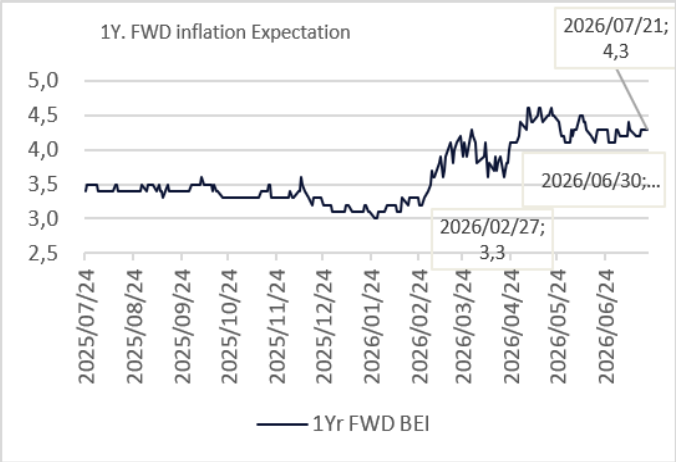
Energy markets reacted sharply to the heightened geopolitical risk. Brent crude oil prices rose from around US$60 per barrel at the beginning of the year to a peak of US$114 per barrel as markets priced in potential supply disruptions. War-risk insurance premiums for vessels operating in the Persian Gulf also increased significantly, further adding to transportation costs and inflationary risks. Although negotiations between the warring parties in Pakistan resulted in a fragile ceasefire during the quarter, allowing oil prices to retrace to around US$70 per barrel, the renewed escalation of hostilities in July has once again placed upward pressure on energy prices.



Source: Refinitiv

Central banks increasingly shifted their attention from supporting economic growth to containing inflation risks on the back of war induced supply chocks. Initially, policymakers adopted a cautious "wait-and-see" approach as they assessed the likely duration and economic impact of the conflict. However, as inflation risks became more pronounced, several central banks moved to prevent second-round inflation effects. During the quarter, the European Central Bank (ECB), Bank of Japan (BoJ) and the South African Reserve Bank (SARB) each increased policy rates by 25 basis points, while the US Federal Reserve maintained its policy rate at 3.75% under its newly appointed Chair.

In South Africa, the SARB warned that inflation risks had shifted meaningfully to the upside, largely reflecting higher fuel costs. As a result, markets began pricing in additional policy tightening to limit the risk of persistent inflation.



Source: Refinitiv

Bond markets (Beak-even inflation) reflected growing concerns around inflation throughout the second quarter, with inflation expectations consistently pricing outcomes above the SARB's 3% target and, at times, above the upper end of the 3%–4% target range. Survey-based inflation expectations also deteriorated during the quarter, with consensus forecasts remaining above 4% over the near term and only gradually converging towards the 3% target in the outer forecast horizon, reaching approximately 3.4% in two years' time. Of particular concern was the rise in inflation expectations among businesses and trade unions, as these groups have a greater ability to embed inflation through higher pricing and wage-setting behaviour, increasing the risk of persistent second-round inflation effects.

A notable positive development for South Africa was Fitch Ratings' long-awaited sovereign credit rating upgrade to **BB** from **BB-**, reflecting improving fiscal fundamentals and contributing to a lower sovereign risk premium.

Market Performance

Despite elevated geopolitical tensions, global equity markets produced remarkably strong returns. The MSCI World Index gained 13.9% during the quarter, while Frontier Markets returned 11.4% and the MSCI Emerging Markets Index advanced an impressive 24.1%.

Emerging market performance was driven primarily by Asia, where improving investor sentiment towards artificial intelligence-related investment and resilient technology earnings, together with declining oil prices, supported significant gains. Korea (+87.6%), Taiwan (+48.9%) and India (+10.2%) were among the strongest-performing markets in US dollar terms.

In contrast, South African equities underperformed. The FTSE/JSE All Share Index declined 2.4% over the quarter. Large-cap and mid-cap shares returned -2.5% and -4.8%, respectively, while small-cap stocks bucked the trend and delivered +6.2%.

Sector performance was mixed. Financials (+11.0%), Industrials (+8.2%), Listed Property (+9.9%) and Retail (+2.1%) all delivered positive returns. However, these gains were more than offset by a sharp decline in the Resources sector (-19.6%) as precious metal prices retreated following the temporary easing of geopolitical tensions.

Spot gold declined 15.8% during the quarter, while platinum and palladium fell 21.0% and 18.1%, respectively. Resource companies were among the weakest performers, with Sibanye Stillwater (-31.8%), Northam Platinum (-30.6%), DRDGOLD (-28.7%), Impala Platinum (-28.0%) and Gold Fields (-27.6%) all recording substantial losses.

The Technology sector also weakened, declining approximately 6.5%, as Naspers fell 4.8% and Prosus lost 8.0%.

Source: Refinitiv

Portfolio Performance

Throughout the turbulent second quarter, we remained disciplined in applying our long-term investment process. Relative to their respective benchmarks, our funds lagged slightly over the quarter. The Active Equity Funds delivered -0.4% relative performance during this turbulent time. However, in the last month of the quarter the funds delivered +0.6% relative return as market unpredictability eased due to the middle east ceasefire.

Key contributors to relative performance included our overweight positions in Aspen (+19.4%), Famous brands (+8.1%). Our underweights in the resources sector such Sibanye (-31.8%), Implats (-28%) and PAN also added value during the quarter.

Performance detractors included our overweight positions in SPAR (-28.8%), Northam Platinum (-32.4%) & DRD (-28.7%) while our underweight position in Shoprite (+7%) Capitec (+16.7%) detracted from relative returns.

Periods of market dislocation often create attractive investment opportunities, and we selectively increased exposure to shares that offered value. We used this dislocation during the quarter as an opportunity to move into neglected consumer stocks that are trading at their long-term low valuations. We maintained our OW in healthcare and added to our consumer discretion stocks such as SPP, FBR, TRU and MRP. We also shifted out of Global diversified minors and PGMs as we took profits in PGMs following strong resources rally the prescinding periods.

Market Outlook

Financial markets are likely to remain heavily influenced by the fluid situation in the Middle East. The breakdown of the ceasefire and renewed military action have increased the likelihood of continued volatility in energy markets, inflation expectations and interest rate policy. We expect South African inflation risk to remain on the upside in the near term, which could result in further interest rate increases by the SARB.

Importantly, while geopolitical events have driven significant market volatility, the fundamentals of many companies within our investment universe have not changed materially. We continue to position the portfolio to take advantage of opportunities that may present themselves in a volatile market as many investors panic. We'll continue to apply our quality-value investment philosophy to find businesses that offer a quality element and are trading at discounts to our calculated fair values, thereby positioning the portfolio for sustainable long-term returns.

As we conclude this quarter's commentary, we are reminded that markets, much like history, move in cycles. Periods of uncertainty inevitably give way to recovery, reinforcing the importance of remaining patient, disciplined and focused on long-term value creation.

To borrow from The Byrds, "To everything there is a season..." Long-term investing is no different. While uncertainty is inevitable, disciplined investors who remain focused on fundamentals are often best positioned to benefit when the cycle turns.

TURN! TURN! TURN!
BY THE BIRDS

Source:	YouTube
Songwriters:	Pete Seeger
Provided:	to YouTube by Radar Classics