ASHBURTON INVESTMENTS

**July 2026**

Ashburton Fixed Income

# Quarterly Investment Commentary

**The second quarter of 2026 extended the sharp repricing that began in March, as markets continued to adjust to a materially different inflation and policy environment. What initially appeared to be a short-lived geopolitical shock evolved into a more persistent macro driver, with elevated oil prices feeding into inflation expectations and shifting the global monetary policy backdrop.**

This adjustment was most clearly reflected in interest rate markets. The repricing in the forward rate agreement curve that began late in Q1 continued into Q2, with expectations for policy easing fully unwound and replaced by the pricing of further tightening. This shift was consistent with the inflation trajectory, as South African headline CPI accelerated from 3.1% in March to 4.5% by May, largely driven by fuel, while core inflation began to edge higher.

The South African Reserve Bank responded at its May Monetary Policy Committee meeting, raising the repo rate by 25 basis points to 7.00%. The decision reflected a cautious but proactive approach to rising inflation risks, although the 4–2 split highlighted the uncertainty around the persistence of the shock and the appropriate policy response. This uncertainty was further reinforced by the June BER inflation expectations survey, which showed a deterioration in expectations and increased concern around second-round effects becoming embedded.

Bond market performance in the second quarter reflected a strong reversal of the sharp sell-off experienced at the end of Q1. The ALBI returned 7.87% over the quarter, as yields declined meaningfully across the curve. The rally in nominal bonds was broad-based, with the most pronounced moves observed in the belly and long end of the curve. Yields on bonds in the 3- to 7-year segment, including the R2030, R213, and R2032, declined by 60 to 75 basis points, reflecting a compression in term premia and a partial unwinding of the aggressive policy repricing seen in March. Further on the curve, longer-dated bonds such as the R2037 to R2053 also rallied strongly, with yields falling by approximately 85 to 95 basis points, indicating renewed demand for duration as inflation concerns began to moderate. Shorter-dated instruments saw more muted moves, with yield declines generally below 15 basis points, suggesting that while the market reassessed the longer-term inflation and policy outlook, near-term rate expectations remained relatively anchored following the SARB's May hike.

Inflation-linked bonds also performed strongly, with the CILI returning 6.48% over the quarter, following a -1.13% decline in Q1. In contrast to earlier expectations of a steeper inflation path, real yields declined across the curve, with most inflation-linked bonds seeing yield compression of between 40 and 60 basis points over the quarter. The move was particularly evident in the short to intermediate segment of the linker curve, where instruments such as the R210, I2029 and I2031 experienced declines in real yields of over 50 basis points, reflecting a moderation in near-term inflation concerns as oil prices eased and market expectations stabilised. Longer-dated linkers also rallied, although to a slightly lesser extent, as real yields declined by around 40 basis points, consistent with a broader compression in inflation risk premia.

Credit markets remained relatively resilient throughout this period. While spreads widened modestly during the peak of volatility in March, the adjustment was contained relative to rates, reflecting stable domestic fundamentals and continued demand for income-generating assets. As conditions stabilised into Q2, spreads tightened marginally, supported by limited primary issuance and ongoing investor demand. The environment continues to favour higher-quality credit and shorter-duration positioning, particularly given the uncertainty around the path of inflation and monetary policy.

Looking ahead, the outlook for fixed income remains finely balanced. The sharp repricing in yields has already created improved carry opportunities, and much of the market's initial adjustment to the inflation shock appears to have taken place. However, the near-term path for inflation and monetary policy remains uncertain. While the recent moderation in oil prices and the stabilisation in inflation expectations are constructive developments, the risk of second-round effects, particularly through food, services, and administered prices, persists. Against this backdrop, the SARB is likely to remain cautious and data-dependent, with policy decisions increasingly sensitive to the evolution of inflation expectations. From a market perspective, much of the initial adjustment to the inflation shock has already taken place. The sustainability of the bond market rally will therefore depend on a continued moderation in inflation pressures and greater clarity on the policy path. In the interim, the environment continues to support a balanced approach, with a focus on carry, selective duration exposure, and high-quality credit.

## Fund Performance and Positioning

The **Ashburton Money Market Fund** delivered a year-to-date return of 3.5%, marginally ahead of the STeFI 3-month benchmark at 3.2% and outperforming the ASISA Money Market peer group at 3.3%. Short-term performance remained stable, with the fund returning 1.7% over three months, reflecting consistent income accrual in a higher-interest-rate environment.

The **Ashburton Core Plus Income Fund** returned 3.8% year-to-date, outperforming the STeFI Composite benchmark at 3.4%, while the Ashburton Stable Income Fund delivered 3.7% year-to-date, also ahead of its benchmark. Over the quarter, both funds generated returns of approximately 1.7%, benefiting from selective bank exposure and credit positioning as yields retraced during Q2.

The **Ashburton SA Income Fund** produced a strong 4.1% year-to-date return, outperforming the STeFI Composite at 3.4% and the ASISA Short-Term peer group. The fund delivered 3.1% over three months, reflecting its higher sensitivity to duration and curve positioning, which contributed positively as bond markets recovered.

The **Ashburton Diversified Income Fund** returned 3.9% year-to-date, outperforming its enhanced benchmark (110% STeFI Composite) by 0.2%, and delivered 3% over three months.

The **Ashburton Bond Fund** delivered a year-to-date return of 4.2%, in line with the FTSE/JSE All Bond Index at 4.2%, despite the volatility experienced earlier in the year. Over the quarter, the fund returned approximately 7.8%, reflecting the strong rebound in nominal bonds as yields declined across the curve

### Performance vs Benchmark

| | YTD | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years | 3 Years | 5 Years |
|---|---|---|---|---|---|---|---|---|
| **Ashburton Money Market L** | **3.5%** | **0.6%** | **1.7%** | **3.5%** | **7.4%** | **7.9%** | **8.3%** | **7.3%** |
| STeFI 3 Month NCD ZAR | 3.2% | 0.5% | 1.6% | 3.2% | 6.8% | 7.3% | 7.7% | 6.6% |
| (ASISA) South African IB Money Market | 3.3% | 0.5% | 1.6% | 3.3% | 7.0% | 7.5% | 7.7% | 6.6% |
| **Ashburton Core Plus Income L** | **3.8%** | **0.7%** | **1.8%** | **3.8%** | **8.2%** | **8.7%** | **8.9%** | |
| STeFI Composite ZAR | 3.4% | 0.5% | 1.7% | 3.4% | 7.1% | 7.6% | 7.9% | 6.9% |
| (ASISA) South African IB Short Term | 3.8% | 0.8% | 2.2% | 3.8% | 8.5% | 9.0% | 9.2% | 8.0% |
| **Ashburton Stable Income L** | **3.7%** | **0.7%** | **1.7%** | **3.7%** | **8.0%** | **8.6%** | **8.9%** | **7.9%** |
| STeFI Composite ZAR | 3.4% | 0.5% | 1.7% | 3.4% | 7.1% | 7.6% | 7.9% | 6.9% |
| (ASISA) South African IB Short Term | 3.8% | 0.8% | 2.2% | 3.8% | 8.5% | 9.0% | 9.2% | 8.0% |
| **Ashburton SA Income L** | **4.1%** | **0.9%** | **3.1%** | **4.1%** | **10.6%** | **11.2%** | **11.0%** | **9.2%** |
| STeFI Composite ZAR | 3.4% | 0.5% | 1.7% | 3.4% | 7.1% | 7.6% | 7.9% | 6.9% |
| (ASISA) South African IB Short Term | 3.8% | 0.8% | 2.2% | 3.8% | 8.5% | 9.0% | 9.2% | 8.0% |
| **Ashburton Diversified Income L** | **3.9%** | **0.8%** | **3.0%** | **3.9%** | **11.1%** | **11.2%** | **10.8%** | **9.4%** |
| 110% STeFI Composite ZAR | 3.7% | 0.6% | 1.8% | 3.7% | 7.8% | 8.4% | 8.7% | 7.6% |
| (ASISA) South African MA Income | 3.8% | 1.0% | 3.3% | 3.8% | 10.7% | 10.4% | 10.3% | 8.7% |
| **Ashburton Bond L** | **4.2%** | **1.6%** | **7.8%** | **4.2%** | **21.2%** | **20.2%** | **18.1%** | **12.7%** |
| FTSE/JSE All Bond TR ZAR | 4.2% | 1.5% | 7.9% | 4.2% | 21.5% | 19.9% | 17.8% | 12.4% |
| (ASISA) South African IB Variable Term | 4.2% | 1.6% | 7.6% | 4.2% | 20.8% | 18.5% | 16.5% | 11.4% |
| **Ashburton Targeted Return L** | **3.0%** | **-0.1%** | **3.8%** | **3.0%** | **15.1%** | **14.2%** | **13.0%** | **11.2%** |
| CPI + 3.5% (1 month lag) | 4.9% | 0.9% | 3.2% | 4.9% | 8.0% | 7.2% | 7.7% | 8.6% |
| (ASISA) South African MA Low Equity | 2.5% | 0.1% | 3.5% | 2.5% | 12.0% | 12.7% | 11.7% | 9.9% |

Past performance is not necessarily an indication of future performance.

## Market and Economic Data

### Table 1: Market Data as of 30 June 2026

| Central Bank Decisions | 30 Jun | Δ QTD | Δ 100d MA | Δ 200d MA |
|---|---|---|---|---|
| SA Repo Rate % | 7.00 | 0.25 | 0.16 | 0.21 |
| Fed Fund Target Rate % | 3.75 | 0.00 | 0.00 | 0.00 |
| BoE Base Rate % | 3.75 | 0.00 | 0.00 | (0.01) |
| ECB Main Rate % | 2.40 | 0.25 | 0.20 | 0.22 |
| **Inflation** | | | | |
| US CPI YoY % | 4.20 | 1.50 | 0.54 | 1.08 |
| UK CPI YoY % | 2.80 | (0.40) | (0.17) | (0.26) |
| Eurozone CPI YoY % | 2.80 | 0.70 | (0.04) | 0.41 |
| SA CPI YoY % | 4.50 | 1.00 | 0.70 | 0.88 |
| **Market Data** | | | | |
| USDZAR | 16.39 | -1.73% | -0.88% | -0.33% |
| Brent Crude Oil ($/bbl) | 72.92 | 17.73% | -25.30% | -14.25% |
| US 10-year Generic % | 4.47 | 0.36 | 0.05 | 0.17 |
| 3m JIBAR % | 6.99 | 0.23 | 0.15 | 0.21 |
| 3X6 FRA % | 7.33 | 0.76 | 0.10 | 0.41 |
| 6X9 FRA % | 7.42 | 0.97 | (0.02) | 0.44 |
| 12X15 FRA % | 7.41 | 1.18 | (0.07) | 0.47 |
| Cash - STeFI Composite | 660.91 | 3.39% | 0.90% | 1.80% |
| All Bond Index (ALBI) | 1,428.08 | 4.94% | 3.22% | 3.34% |
| SA 10-year Generic % | 8.45 | 0.03 | (0.33) | (0.14) |
| Composite Inflation Linked Index (CILI) | 457.65 | 5.42% | 2.17% | 3.10% |
| SA 10-year ILB Generic % | 4.08 | (0.14) | (0.07) | (0.06) |
| JSE All Share (ALSI) | 21,244.60 | -3.13% | -3.58% | -4.71% |
| SA 5Y ASW | 46.59 | (41.10) | (14.39) | (25.25) |
| MSCI World | 4,825.50 | 364.31 | 172.28 | 258.82 |
| S&P 500 | 7,499.36 | 593.62 | 303.66 | 467.19 |
| MSCI World ex. US | 3,185.67 | 219.23 | 68.24 | 95.91 |
| MSCI EM | 1,722.89 | 321.23 | 81.97 | 156.31 |
| WGBI | 914.40 | (5.33) | (1.13) | (4.21) |
| US 10Y % | 4.47 | 0.36 | 0.05 | 0.17 |
| US IG Spreads | 36.89 | (3.16) | (0.98) | (1.47) |
| US HY Spreads | 297.01 | (0.86) | (7.57) | (6.24) |

### Table 2: US & SA Economic Data as of 30 June 2026

| Event | Survey | Actual | Prior |
|---|---|---|---|
| US | | | |
| ADP Employment Change | 120k | 122k | 109k |
| Change in Nonfarm Payrolls | 88k | 172k | 115k |
| CPI YoY | 4.20% | 4.20% | 3.80% |
| ISM Manufacturing | 53 | 54 | 52.7 |
| Unemployment Rate | 4.30% | 4.30% | 4.30% |
| ISM Services Index | 53.8 | 54.5 | 53.6 |
| SA | | | |
| CPI YoY | 4.70% | 4.50% | 4.00% |
| Trade Balance Rand | 12.8b | -1.8b | 15.2b |
| Retail Sales Constant YoY | 2.00% | 1.30% | 2.60% |
| Manufacturing Prod NSA YoY | 1.50% | -2.90% | 0.90% |
| Current Account as a % GDP | 1.10% | 2.40% | 0.60% |

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