ASHBURTON INVESTMENTS

March 2026

Ashburton Targeted Return Fund

Quarterly Investment Commentary

There are moments in markets when the prevailing narrative, carefully constructed, internally consistent, and broadly agreed upon, is suddenly rendered obsolete. That moment arrived on the final day of February, when hostilities in the Middle East escalated in ways the markets had not priced.

Brent crude began its rapid ascent from the sixties into territory that had not been contemplated in any serious base-case outlook. By quarter-end, the barrel price had settled at $118.35, up 94.5% from the $60.85 level at which it opened the year. For a country as structurally exposed to oil imports as South Africa, with refining capacity that has roughly halved over the past fifteen years and strategic reserves well below historical levels, this was not merely an external data point. It was a fundamental reconfiguration of the macroeconomic environment, arriving with a speed that left both policymakers and markets adjusting to a new equilibrium.

The global response unfolded predictably in its form, if not its magnitude. The Federal Reserve held the federal funds rate at 3.75% through the quarter, as did the Bank of England , while the European Central Bank (ECB) maintained its policy rate at 2.15%. However, rate decisions in isolation tell only part of the story. US CPI, which had appeared comfortably on a disinflationary trajectory at 2.7% year-on-year at the close of 2025, printed at 3.3% by quarter-end, a 60 basis point reversal that was sufficiently sharp to shift the market's read of the easing cycle from a question of timing to a question of whether it remained viable at all. The 10-year US Treasury yield rose 15 basis points to 4.32%, a modest move on the surface, but one that reflected a broader tightening of risk conditions that was felt most acutely in credit markets. US high yield spreads widened nearly 57 basis points over the quarter to close at 348 basis points and investment grade spreads moved out to just under 43 basis points. These are not systemic-stress numbers, but they represent a meaningful reversal of the benign conditions that had characterised the credit environment for much of the prior year.

The World Government Bond Index (WGBI) fell just over 1% for the quarter, confirming that the selloff in rates was not confined to the US.

Global equities absorbed the shift in sentiment with notable unevenness. The S&P 500 declined 4.6% to close at 6,529, while the MSCI World fell close to 4%. The non-US developed market complex held up somewhat better, with the MSCI World ex-US declining just over 1.5%. Emerging market equities, as a composite, were broadly flat on the quarter, ending down just 0.5%, though the range of outcomes within that aggregate was wide. The JSE All Share gave back 0.6% in Rand terms, a resilient number against the global backdrop and one that points to the natural hedge that the local market's commodity composition provides against a sharp oil price move, even for an oil-importing economy.

The domestic macro picture carried its own internal tensions. South African CPI printed at 3.0% year-on-year by quarter-end, down 60 basis points from the 3.6% recorded at the close of 2025. On the face of it, this seems contradictory: an oil price shock of the magnitude witnessed in the quarter, compounded by an 8.76% NERSA-approved electricity tariff increase and meaningful upward pressure on food costs through fertiliser and fuel linkages, should not, in any straightforward model, produce a decline in headline inflation. The explanation lies primarily in timing. The sharp acceleration in Brent occurred through the final weeks of the quarter and with fuel prices adjusting on a lag and agricultural input costs working through supply chains over months rather than weeks, the quarter-end CPI print offers a misleading degree of comfort. The inflationary pipeline is filling. Its full effect will be measured in subsequent quarters.

The SARB held the repo rate at 6.75% at its March meeting. Given the opacity of the outlook at that point, this was arguably the only defensible call available. Inflation was still printing at 3.0%, right on the new target and any pre-emptive tightening into a growth environment that was already under pressure from energy and input cost disruption carried its own risks.

Fund Performance and Positioning

Portfolio positioning through the quarter reflected the caution that had been building in our assessment of the domestic environment for some time. We entered the period with duration exposure that was lower than average, a stance that was rewarded as rates moved sharply.

Exposure to floating-rate and short-dated instruments provided a meaningful performance buffer, and we used the sell-off to selectively add to assets that moved away from their highs as the quarter progressed. In credit, we maintained a preference for high-quality paper and avoided extending into longer fixed-rate instruments in the face of rising rate uncertainty. These positions did not immunise against a difficult quarter, but they mitigated the worst of the duration impact.

Outlook

Looking ahead, the investment landscape is more complicated than it was at the start of the year, and we have few illusions about the certainty of the path ahead. The trajectory of oil prices remains the single most consequential variable for South African fixed income markets and for the Rand. If Brent sustains at current levels, the inflationary consequences for consumer prices, particularly through fuel, electricity, and food channels, are largely a matter of when rather than whether. The SARB will face a genuinely difficult set of trade-offs: tightening into a tough and worsening growth or accepting a period of above-target inflation while the fiscal position continues to erode. Neither is straightforward, and the governor's communication will carry significant weight in how markets interpret the balance between those competing pressures.

At month-end the 10-year South African government bond offered real and nominal value for investors with a sufficiently long horizon and tolerance for volatility, but duration and currency risk remain elevated. We would need greater conviction, or higher yields before extending exposure materially. For now, the short end continues to offer an attractive risk-adjusted return relative to the rest of the curve, and we intend to maintain that posture until the picture clarifies.

Performance vs Benchmark

	YTD	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
Ashburton Targeted Return L	-0.8%	-5.0%	-0.8%	4.3%	16.0%	14.2%	12.4%	11.1%
CPI + 3.5% (1 month lag)	1.6%	0.7%	1.6%	2.7%	6.5%	6.6%	7.4%	8.4%
(ASISA) South African MA Low Equity	-1.0%	-4.1%	-1.0%	3.3%	13.2%	12.5%	11.2%	9.6%

Past performance is not necessarily an indication of future performance.

Market and Economic Data

Table 1: Market Data as of 31 March 2026

Central Bank Decisions	31 Mar	Δ QTD	Δ 100d MA	Δ 200d MA
SA Repo Rate %	6.75	0.00	0.00	(0.08)
Fed Fund Target Rate %	3.75	0.00	0.00	(0.17)
BoE Base Rate %	3.75	0.00	0.00	(0.12)
ECB Main Rate %	2.15	0.00	0.00	0.00
Inflation				
US CPI YoY %	3.30	0.60	0.75	0.57
UK CPI YoY %	3.00	(0.40)	(0.15)	(0.37)
Eurozone CPI YoY %	2.50	0.50	0.59	0.49
SA CPI YoY %	3.00	(0.60)	(0.37)	(0.42)
Market Data				
USDZAR	16.94	2.30%	0.03	0.01
Brent Crude Oil ($/bbl)	118.35	94.49%	54.44%	67.93%
US 10-year Generic %	4.32	0.15	0.13	0.18
3m JIBAR %	6.75	0.00	0.04	(0.06)
3X6 FRA %	7.13	0.57	0.46	0.41
6X9 FRA %	7.47	1.03	0.86	0.85
12X15 FRA %	7.55	1.34	1.03	1.08
Cash - STeFI Composite	650.08	1.66%	0.90%	1.82%
All Bond Index (ALBI)	1,323.91	-3.36%	-3.90%	-1.07%
SA 10-year Generic %	9.31	0.98	0.84	0.62
Composite Inflation Linked Index (CILI)	429.79	-1.13%	-2.12%	0.91%
SA 10-year ILB Generic %	4.51	0.30	0.35	0.10
JSE All Share (ALSI)	21,757.61	-0.61%	-3.40%	0.52%
SA 5Y ASW	-	(77.80)	(79.79)	(83.92)
MSCI World	4,258.31	(172.07)	(199.63)	(141.96)
S&P 500	6,528.52	(316.98)	(298.72)	(255.91)
MSCI World ex. US	2,915.36	(45.72)	(140.82)	(40.45)
MSCI EM	1,397.20	(7.17)	(94.73)	(35.03)
WGBI	908.20	(9.64)	(12.56)	(10.00)
US 10Y	4.32	0.15	0.13	0.18
US IG Spreads	42.95	3.11	3.88	2.88
US HY Spreads	348.44	56.94	41.95	41.43

Table 2: US & SA Economic Data as of 31 March 2026

Event	Survey	Actual	Prior
US			
ADP Employment Change	50k	41k	-32k
Change in Nonfarm Payrolls	70k	50k	64k
CPI YoY	2.70%	2.70%	2.70%
ISM Manufacturing	48.4	47.9	48.2
Unemployment Rate	4.50%	4.40%	4.60%
ISM Services Index	52.2	54.4	52.6
SA			
CPI YoY	3.60%	3.60%	3.50%
Trade Balance Rand	-	37.7b	15.6b
Retail Sales Constant YoY	2.70%	3.50%	2.90%
Manufacturing Prod NSA YoY	-	-1.00%	0.20%
Current Account as a % GDP	0.60%	0.60%	-0.70%

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