ASHBURTON INVESTMENTS

March 2026
Ashburton Equity Fund

Quarterly Investment Commentary

Overview

The volatility associated with global and local equity markets' during the first quarter of 2026 was a healthy reminder of why an equity risk premium exists.

Equity investors earn higher long-term real returns versus cash, bonds and other less volatile asset classes precisely because they must be willing to accept a higher level of asset price volatility. While this is common knowledge, navigating one's way through bouts of extreme equity market volatility is never easy as it stresses investors' emotional and behavioural biases.

It becomes even more challenging when the source of the current volatility is not linked to traditional economic or valuation fundamentals but rather emanates from the military-led geopolitical conflict between the unpredictable Trump-led White House and an ideological Iranian regime. Neither of these parties share many of the traditional post-World War II non-confrontational geopolitical values. Given the parties involved, attempting to forecast geopolitical outcomes in the region has been impossible.

Unfortunately, it appears that the 'post-World War II peace dividend' that most market participants have grown used to is now firmly waning and we may need to become used to navigating our way through more frequent bouts of geopolitical tension and armed conflicts. One needs to look no further than the Russian-Ukraine invasion and now the latest US-Iran conflict for evidence of this new geopolitical doctrine.

At the beginning of the year, South Africa's macro environment was well poised. Positive terms of trade from surging gold and platinum group metal (PGM) prices, benign oil prices, and a strengthening Rand meant our local inflation was very well controlled. These conditions gave the local Reserve Bank Governor confidence to seize the opportunity and officially lower our long-term inflation target to 3%. This would structurally lower South Africa's cost of capital or borrowing costs and reduce the level of long-term Rand depreciation relative to developed markets.

We were also in the early innings of an interest rate cutting cycle, which would have started alleviating some pressure from our embattled consumers.

The outlook for local GDP growth was more positive versus the pedestrian local growth that our economy had been consistently delivering over the last decade (in part due to government mismanagement). Some of the building optimism has been due to Operation Vulindlela led state reforms starting to deliver tangible signs of progress.

On the back of the above positive macro-outlook, many local facing equity sectors performed well into the 2025-year end, and this positive local market performance continued during the first two months of this quarter, with the JSE All share Index up +11% as of the end of February 2026. Pleasingly, after many years of reducing offshore South African equity ownership, we had started to see a noticeable pick-up in offshore interest and ownership.

However, this changed when the US and Israel attacked Iran's military leadership and infrastructure on the 28th of February. While on the face of it, the Iranian military conflict appears somewhat one-sided, Iran has clearly been preparing itself for such an eventuality and despite the early decapitation of its leadership structures, it has proven to be very capable of 'digging in' and using unconventional means to apply maximum pressure on the United States by disrupting the global energy supply chain through the closure of the Strait of Hormuz, a critical Middle East chokepoint for global energy and petro-chemical related products.

This has led to surging global energy costs and rising global stagflation fears. The price of Brent Crude oil increased by +63% during the month of March alone and the US dollar staged a 'risk-off' comeback reversing a prolonged period of weakness versus other developed and emerging market currencies.

South Africa, as an open, energy-importing emerging market, was not immune to the current global energy crisis. Our Rand weakened by 6% during March (the worst of the emerging market peer set) and the outlook for local inflation deteriorated due to surging energy costs and a weaker currency.

Potential interest rate cuts in 2026 quickly swung into fears of future interest rate hikes, especially if the Reserve Bank plans to aggressively defend its new lower inflation target. This is unwelcome news for the already weak South African consumer.

Counterintuitively, gold, a traditional safe-haven asset class sold off aggressively from recent highs during the first quarter, as fears of future interest rate hikes by the United States Federal Reserve to combat energy-induced inflation took hold (after the market had been expecting interest rate cuts just a few weeks earlier). The gold sector derating during March, dragged the local PGM sector down with it. Post the strong performances of gold and PGM sectors in 2025, these two precious metal sectors have become significant contributors to local equity indices making up just under 30% of the JSE Capped All share Index. Given the significant weighting of gold and PGMs in South African indices, MSCI South Africa was one of the worst performing global equity markets during the month of March, declining -19% in US dollars.

It is worth mentioning that the Rand denominated gold and PGM prices still remain at healthy levels when compared to South African listed gold and PGM sector cost structures and spot prices still imply healthy margins and returns on capital (versus gold and PGM companies long-term average margins and returns), but a fair amount of the 'froth' came out of these precious metal prices in March as retail speculators exited what had previously looked like a one-way trade higher for bullion prices. Despite the weakness late in the quarter, the macro drivers of gold's multi-year rally remain intact.

The outlook for the broader South African economy remains somewhat in the balance, although the recent agreement of a two-week ceasefire in the Middle East provides definite cause for optimism over pessimism. Should the current ceasefire hold, and the Strait of Hormuz remain open from April, we are still likely to feel the lingering aftereffects of energy and petrochemical supply chain imbalances for at least the balance of 2026. There has been significant damage to Middle East energy infrastructure which will take many months if not years to repair.

We have a recent energy price spike precedent post Russia's invasion of Ukraine during 2022 where we saw the temporary negative effects on the South African economy from higher energy costs feed through into higher inflation and interest rates. From this recent example, we are certain that higher energy costs will again be detrimental to local consumer spending for the balance of 2026. This will delay the expected recovery in consumer discretionary spending as more income is diverted towards transport costs in the months ahead. This weak outlook has already led to a material derating in many of the consumer discretionary counters listed on the JSE.

Positively, the recently announced ceasefire (post quarter-end) will mean that the equity market will start looking through the current energy induced inflation spike. South Africa is also fortunate to be entering the current inflation shock at a time when our inflation rate is very low. Furthermore, it appears that the ceasefire may have come just in time to avert petrol and diesel shortages in the South African market where we were probably a month or two away from fuel shortages or rationing. To this end, we had already seen fuel restrictions in several countries (e.g. Australia, Sri Lanka and Korea to name a few).

For the first quarter, the JSE Capped All Share Index returned negative -0.45%.

Telecommunications, healthcare and basic materials were the sectors which delivered positive performances of +11.4%, +9.2% and +7.5% respectively. Within basic materials, there was a wide dispersion of outcomes as energy and chemicals related counters did very well (+86%), while precious metals and mining gave back significant early gains in March to only grow by +3% over the three months.

The laggards for the quarter were the technology and consumer services sectors, which fell -22.3% and -11.9%, respectively.

Portfolio Performance

The Ashburton Equity Fund (A class) delivered +44bps of positive return for the first quarter of 2026, +90bps above the JSE Capped All share Index's negative Rand return of -45bps.

This was in part due to the fund's overweight position in Glencore, a beneficiary of higher energy prices while the fund's underweight position in the gold sector helped quarterly alpha generation. This placed the fund in the first quartile of peer performances for the quarter.

Over one year, the fund returned +32.5% versus the JSE Capped SWIX's return of +34.1%, underperforming the benchmark by -1.6%. The main driver of one year underperformance was our gold sector underweight and the weak performance from some of the portfolio's small and mid-cap exposures which performed poorly due to weak South African sentiment (but remain very attractively priced). Our overweight positions in Northam and the South African banks have helped active performance over the past year.

Over three years, the fund has delivered a respectable +18.6% per annum, slightly behind the benchmark return of +19.2% per annum. Our portfolio performance over both one and three years placed us in the second quartile versus peers.

Pleasingly, for the first time since the Ashburton equity portfolio restructure on the 1st of October 2021, our five-year return of +15.1% per annum now exceeds the benchmark's +15% per annum by +10bps.

Outlook & Strategy

While the short-term outlook for South African and global equities remains opaque due to the current Middle East energy crisis.

A lot will depend on whether the current ceasefire holds and if the current global energy disruptions are temporary. At best we are likely to see a similar local and global impact to that of the Russian-Ukraine invasion energy crisis and slow subsequent recovery in the second half of the year.

However, should the Middle East ceasefire fail and the conflict escalate again, we will see more prolonged impact on both global and local growth, with global stagflation the order of the day. In this situation, there will be very few winners globally with potentially several years of weak global growth ahead.

However, as is common with any crisis and subsequent asset price deterioration and recovery, opportunities always present themselves for investors who can ‘zoom out’ from the opaque, short-term mindset and remember that the future seldom plays out exactly as we expect. History shows that markets are adaptable and capital flows into new areas to solve supply and demand mismatches, creating new investment opportunities.

Given the above short-term uncertainties, we caution against adopting too negative a mindset. Equity markets by nature favour optimists. For evidence of this one only needs to look at both the five-year and forty-year total returns of +19.6% and +17% per annum from SA equities (as of the end of 2025). Over both these time periods, one would have had to endure and absorb some sort of crisis like conditions. Investors typically lack the ability to ‘hop on and off the bus’ at exactly the right moment to avoid large market drawdowns and catch the subsequent market recovery. Attempting this will more than likely be to the detriment of long-term equity returns.

Furthermore, our local equity market is also trading at attractive relative valuation metrics versus its long-term average, improving the probability of outperformance versus many other developed and emerging markets (from current levels). One needs to look no further than the recent derating of many of the previously high-flying magnificent seven US tech listed names for evidence that starting point valuations matter in terms of downside risk protection.

In terms of our portfolio construction, in times of uncertainty we aim to construct a portfolio that is not overly exposed to any one sector or theme. We attempt to achieve a healthy balance which ensures that portfolio performance is not tied to any one future macro-outcome. As forecasting macro-outcomes accurately and consistently is extremely difficult. We achieve this balance by selecting the best risk adjusted opportunities as highlighted by our detailed bottom-up fundamental company analysis across the several different South African market sectors.

Some of our portfolio holdings will be direct beneficiaries of higher energy prices, while others are negatively impacted (either directly or indirectly), but where we believe the market has become overly pessimistic as to the long-term impact on its intrinsic valuation or its cash flow generating capabilities (despite the obviously weaker near-term outlook given current macro conditions). In these cases, we aim to extract the ‘time horizon arbitrage alpha’ as many investors are fixated on the next quarter or next year’s earnings potential.

Furthermore, we are continuously challenging ourselves not to hold our views too rigidly in such a dynamic environment. We have bought a few counters over the last few years where we believed the risk versus reward balance was in our favour given the current macro conditions at the time of purchase. However, when conditions changed due to the volatile macro events, and we could see that these changes would be very detrimental to the company’s balance sheet (given our understanding of their business model), we needed to be nimble enough to change our mind. Even if this meant selling at a loss versus our initial purchase price. Downside risk management remains an important consideration in our equity process and portfolio construction.

Lastly, our positioning on the southern tip of Africa, well out of harm’s way is a relatively attractive and important consideration in the current global context. Especially relative to many other competing jurisdictions which may find themselves in the unfortunate position of being directly involved in the current Middle East conflict.

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