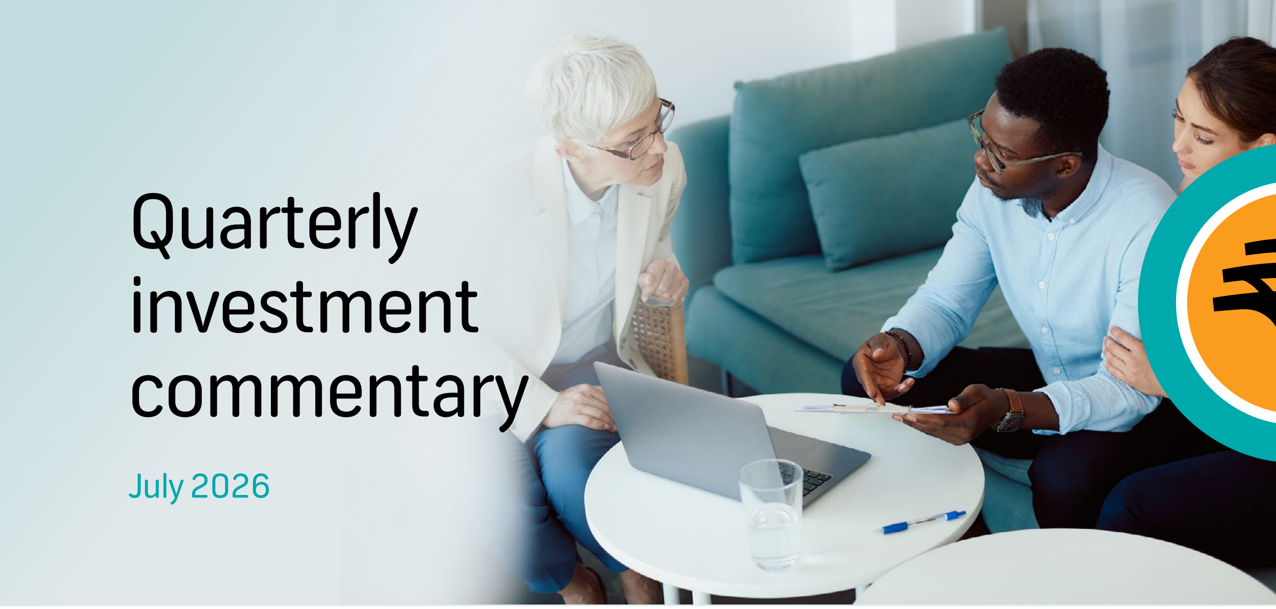


Quarterly investment commentary

July 2026

Powerful AI-led Rally and an Elusive Peace Dividend Prop up Global Markets

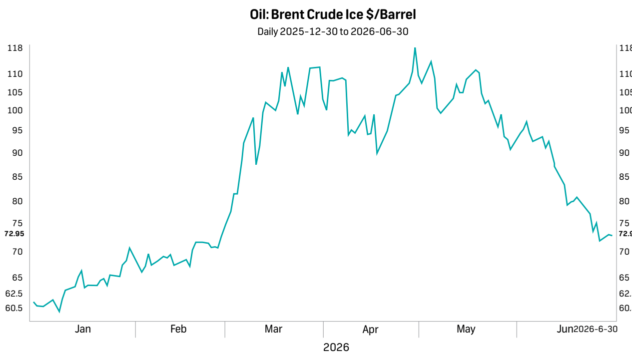
The first half of 2026 dampened the euphoria from the previous six months.

The escalation of hostilities between the US and Israel towards Iran led to the closing of the Strait of Hormuz and a spike in energy prices in April. While markets were initially sanguine about a 'short war', it was only in June that a peace accord was mutually struck. As strategic oil reserves were running dry, global markets had braced themselves for a macro shock triggered by potentially higher for longer oil and gas prices. The signing of a peace treaty mid-June was embraced tentatively, having been previously lured by the false hope of a ceasefire even as ship traffic was restored in the Strait. On the other hand, a powerful AI-led rally drove up US equities and emerging markets.

Nonetheless, it is good news on the inflation front with oil markets retracing back towards pre-war levels. The one remaining concern, though, is fertiliser prices still at 80% above pre-war levels with one-third of traded fertiliser transiting through the Strait of Hormuz and the potential impact on food prices globally going into 2027. At the time of writing, hostilities between the US and Iran have restarted, but we remain hopeful that both parties will get back to the negotiating table soon.

Global Economy

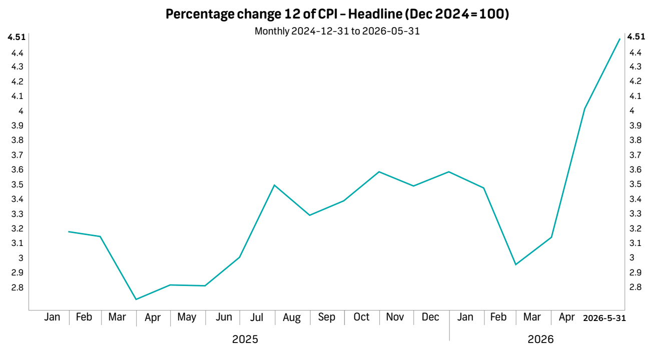
An expectation of a ceasefire in May led to a rapid normalisation in the crude oil price with a further leg down in June as the prospect of the Strait re-opening grew closer, with Brent Crude oil trading close to pre-war levels at the end of the quarter (See crude oil price chart below).



Source: Bloomberg

Inflationary Impact

The higher oil and gas prices added 1.5% to US headline CPI in May, with US headline CPI reaching **4.2%** in May, well ahead of the Fed's 2% target. Likewise, South African CPI spiked to **4.5%** from under 3% pre-war (see below), despite a R3/litre reduction in the fuel levy in April. A recent inflation expectations survey shows that these have breached the 4% mark for 2027. This has prompted the South African Reserve Bank to hike interest rates already by 25 basis points to ensure that inflation expectations remain anchored to its stated target of 3% in the medium term.



Source: Bloomberg

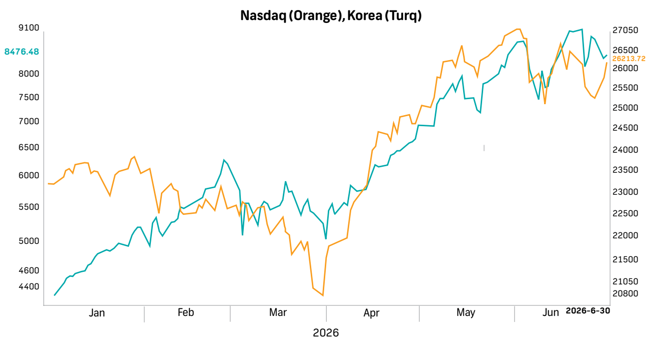
Globally, all eyes remain on **new Fed Chairman Kevin Warsh**, who has vowed to drive inflation back down to the Fed's 2% target. He also wants to give less forward guidance to the market, which could lead to greater market volatility. The market is expecting at least one hike in the US before the end of the year, but weak employment data and the lower energy prices make this far from certain. The ECB raised rates by 25 basis points in May already with headline inflation reaching 3.2% - ahead of their 2% target. In the UK, the resignation of the Prime Minister in June after two years should lead to Andy Burnham succeeding him in office.

The Chinese economy appears to be recovering from a long malaise post-Covid. Chinese exports continue to remain strong, and the economy appears to have adjusted to the energy price shock better than initially expected. The country continues to focus on Sovereign AI to reduce their reliance on western graphic processing units (GPUs).

Global Markets: Strong First Half for Semiconductor Stocks

Global Equities performed **strongly** in the first half of the year, with performance up over **10% year on year**, adding 9% in the second quarter in rands. The tech- heavy Nasdaq was up **19%** in the first half of the year, with a strong second quarter **up 23%** in rands. This largely reflects the performance of the **semiconductor stocks** which are involved in the design of AI chips such as Nvidia, the equipment manufacturers, memory chip producers such as Micron and networking equipment such as Broadcom. The semiconductor index delivered over **100%** return in the first half of the year with especially strong performance in the second quarter.

Surprisingly, the Magnificent Seven largest tech stocks were up only 2.6% in the first half of the year, despite a 9% rebound in rands in the second quarter. Emerging markets remain the star performers in the first half of the year, up **23%** year on year, with a 20% performance in the second quarter in Rands. This was driven also by AI-related stocks in Korea, which the Korean exchange up over **109%** year on year in the first half of the year and up 74% in the second quarter. (See chart showing the Nasdaq and Korean equity index below).



Source: Bloomberg

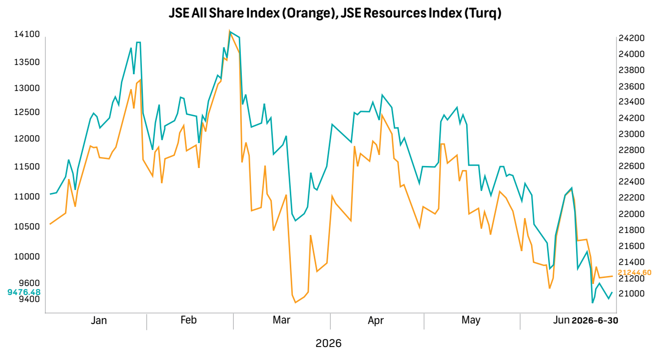
Strong markets saw SpaceX lead a wave of IPOs and successfully raise $80bn at a nearly $2 trillion valuation, the largest IPO in history (See below). Alphabet also raised funds in a secondary offering during Q2, highlighting the immense capital needs of the AI industry. The hyperscalers are expected to spend in the region of $700bn this year and Goldman Sachs estimates at least $1trillion per annum over the next 5 years!

Source: Bloomberg

What is more notable is how index providers such as Nasdaq or Russell have proposed new rules to allow these jumbo companies with free floats of less than 10% of their shares to enter the index at five times the market value of the shares available to trade. In addition, these newly listed giants are now allowed to be included within major indices within five days of listing as opposed to three to 12 months for traditional indices like the S&P 500. Index funds will have no choice but to buy into these new listings!

South African Markets: Resources Stocks Sell-Off

The **JSE All-Share Index** is down almost **4%** since the beginning of the year and down almost 5% in the second quarter. The index substantially underperformed the broader emerging market equity index which was up 23% year to date (see chart below). The index was dragged down by the large-cap **resources stocks**, down **12%** since the beginning of the year, with a sharp sell-off of -19% in the second quarter and the gold price down -13% year to date.



Source: Bloomberg

Year to date the beneficiaries of the higher oil price have performed strongly, with Sasol up 52% and MTN up 37% year to date. Financials were up 7% year to date. On the downside, Platinum stocks have lagged given the pressure on Platinum Group Metals, with Sibanye down -40%, Implats down -33% and Northam down -28% year to date.

We have yet to see the full impact on the local gross domestic product (GDP), which was up 0,5% in the first quarter – its sixth consecutive quarterly expansion. Growth in **household consumption expenditure** had moderated already in the first quarter from 1.2% to **0.1%** and the higher petrol price should put further pressure on consumption expenditure. It was disappointing to see **gross fixed capital formation** decrease in the first quarter due to lower private sector spending. South Africa needs to arrest the decline of gross fixed capital formation to GDP, currently at 13.5% and get that well over the 20% mark in order to push GDP growth over 2% over the forthcoming five years.

South Africa Fixed Income

After selling off in the first quarter by -3%, the All Bond Index was up 8% in the second quarter year on year. Year to date, the All Bond Index is up 4%, driven by the long end of the curve and exceeding cash returns at 3.4%. Year to date Inflation-linked bonds were up by over 5% with the oil price driven spike initially pushing returns in the shorter-duration bonds and the roll over in the oil price feeding through into better returns from the long-end of the curve. South African investors initially over-estimated the impact of the Middle East conflict on long-term inflation expectations and have since re-adjusted those given the inflation fighting credentials of the South African Reserve Bank.

Conclusion

Global growth this year is projected to slow from 3.2% to 3% per annum. For South Africa, in contrast, growth is expected to accelerate slightly from 1% to 1.2% in 2026. The resumption of hostilities at the beginning of July between the US and Iran may push the global and local economy into further turmoil. That said, we remain hopeful that both parties will return to the negotiating table and that tensions will ease in the coming months.

Asset allocation view

Asset classes	
SA Equities	**Overweight** – The 10% sell off in the All-Share Index in March means that there are pockets of value in the local market. However, we remain circumspect about companies which are overly reliant on a cyclical recovery. Domestic valuations remain attractive relative to most developed and emerging markets.
SA Property	**Neutral** - South African listed companies are able to grow dividends again but yields are not as attractive relative to nominal bonds.
SA Fixed Income	**Neutral** – This asset class has sold off after a strong rally last year as the SA risk premium normalised. The recent spike in inflation and resultant sell-off provided us with an attractive entry point but yields normalised towards the end of the quarter.
SA Cash	**Overweight** – After moving down four times in 2025, the SARB decided to hike rates by 25 basis points in order to anchor inflation expectations to its new 3% target.
Offshore Equities	**Overweight** – The sharp selloff in March allowed us to rebalance our risk exposure geographically. The sharp de-rating of the US market, while earnings growth forecasts for 2026 remain strong, has allowed us to add to our offshore position relative to other developed markets.
Offshore Property	**Underweight** – The real estate sector, which had anticipated rate cuts this year, is not reflecting a growth slowdown.
Offshore Fixed Income	**Underweight** – Valuations have corrected substantially but the combination of higher inflationary impulse and the precarious sovereign debt position of most developed countries remain a concern. We remain underweight due to the term premium not adequately compensating for the duration risk.
Offshore Cash	**Underweight** – Cash rates are now expected to move up again as central banks have to deliver on their inflation targets.

The FNB Core Balanced delivered a 2.3% return this quarter, underperforming its peer group which delivered 2.8%. The fund delivered a 13.6% return over the past year, compared to the peer group average of 12.7%. Over a three-year period, the fund delivered 13.2% per annum, ahead of its peer group's 12.9% per annum.

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