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Quarterly Investment Commentary

Roaring markets defy global debt concerns

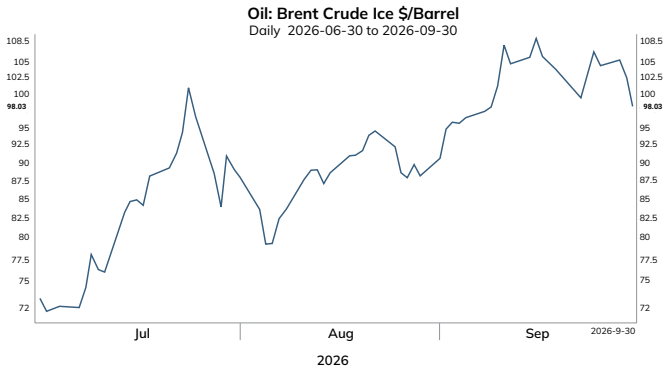
The third quarter extended the recovery in major US equity indices, but the hoped-for peace dividend remained elusive. Renewed energy pressures and tighter monetary policy weighed on bonds, while South African equities suffered a sharp September reversal. The investment challenge is to participate in resilient earnings growth while accounting for persistent inflation and global sovereign debt concerns offshore.

Global Economy

The IMF's July update projected global growth of 3.0% in 2026 and 3.4% in 2027. Its central message was an uneven economy: the war shock constrained energy importers, while the technology investment cycle supported economies integrated into the AI supply chain. The global disinflation trend appears to have stalled, leaving the recovery exposed to renewed conflict and financial-market repricing.

US activity remained resilient. The final estimate available at quarter-end put second-quarter GDP growth at 2.2% per annum, supported by consumer spending and investment in AI infrastructure. August headline PCE inflation was 3.4% year on year, below the consensus expectation of 3.7%. The softer reading eased immediate rate-hike expectations but did not remove the underlying inflation risk.

Oil remained a key transmission channel from geopolitics to the economy. At the end of September, the more actively traded December Brent contract settled at $98 per barrel. The rise in energy costs is particularly challenging for countries like South Africa that import fuel. The widening crack spread for refined fuel has also meant that the imported diesel has continued to increase with coastal diesel price increasing over R33/litre at the beginning of October.



Source: Bloomberg

Global Markets

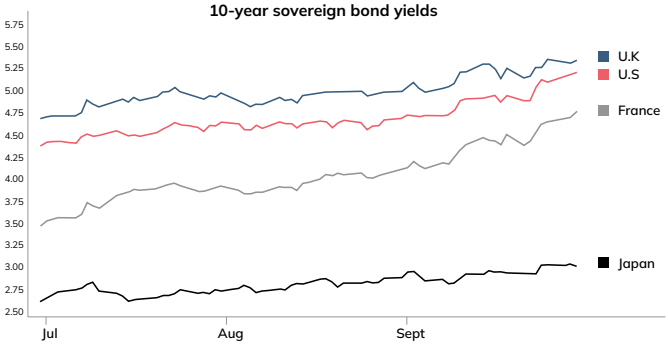
US equities delivered another strong quarter, rising 2.5%, while the Nasdaq Composite gained 2.3% in rand terms, driven by strong performance of the Magnificent Seven large technology stocks, which were up 12.6% in rand terms. MSCI World returned 1.8% in rand terms, while MSCI Emerging Markets declined 3% in rand terms, weighed down by a sharp sell-off in Korea which was down close to 10% during the quarter.

As at 30 September, the S&P 500's year-to-date price gain was close to 12% in rand terms, compared with 20% for Nasdaq. These figures underline the continuing importance of technology exposure to US index performance. AI continued to drive earnings growth and capital-spending momentum. Within emerging markets, Asian semiconductor and infrastructure companies benefited from this investment cycle with the Korean market up 89% year to date in rand terms, although China's broader domestic recovery remained uneven.

Global Sovereign Yields Spike

The Federal Reserve raised its target range by 25 basis points to 3.75% -4.00% on 16 September. The unanimous decision reflected elevated inflation despite solid economic activity, resilient domestic spending and robust capital investment. The Fed reiterated its commitment to returning inflation to 2%.

An analysis of G7 developed economies suggests that debt levels have played a significant role in the sell-off sovereign bonds. While the oil-price shock might have acted as the spark for the bond sell-off, accumulated debts are the dry fuel causing the blaze to get out of control.



Source: Bloomberg

Italy had the highest debt load of the group at 149% of GDP in 2025, according to the Organisation for Economic Cooperation and Development (OECD). That compares with 126% in the U.S. France is not far behind at 117% of GDP, and the concern now is that figure could balloon under a far-right or far-left future president. By contrast, three countries with significantly smaller debt-to-GDP ratios than the U. S.- Germany, the United Kingdom and Canada, all saw smaller jumps in sovereign yields. It is therefore no surprise that Global Bonds sold off by over 3% this past quarter.

South Africa faced a similar policy tension, with weaker growth alongside higher inflation. Headline CPI increased to 4.4% in August from 4.3% in July. In September, the SARB unanimously raised the repo rate by 25 basis points to 7.25%. It reduced its 2026 growth forecast from 1.4% to 1.2% and warned that inflation could exceed 5% later in the year before returning towards 3% near the end of 2027. These decisions reduce the likelihood of a rapid easing cycle.

South African Markets: September Sell-Off

The flat performance of the JSE All-Share index for the quarter masked a sharp September sell-off of close to 6%. Resource gained close to 15%, while industrials fell 10% and financials declined by almost 4%. Gold's monthly fall and the stronger dollar were important headwinds. The rand weakened from R16.12 to R16.42 per US dollar during the final month of the quarter.

The economic backdrop also became less supportive. Real GDP contracted by 0.2% in Q2 after six consecutive quarters of expansion. Our assessment is that domestic opportunities require careful stock selection both in the domestic equity and credit spaces: balance-sheet strength, cash generation and pricing power matter more when growth is weak and funding costs are rising.

South African Fixed Income

The All-Bond Index returned -0.7% during Q3, while cash gained 1.7%. Higher short-term interest rates continue to support cash income, but prospective bond returns depend on inflation, fiscal credibility and the path of global yields. The prospect of an encouraging Medium-Term Budget, which would further cement our path to fiscal consolidation and the potential for a sovereign credit upgrade has continued to attract foreign investors to our bond market.

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. We expect local headline inflation to peak in the third quarter before moving back towards the 3% target in 2027. The past quarter demonstrated that resilient corporate earnings could support equities even when inflation and interest rates rise. It also highlighted how quickly geopolitical developments can reverse gains in commodities, currencies and bonds. Our emphasis is on valuation discipline, diversified sources of return and sufficient liquidity to respond to market dislocations.

Asset allocation view

Asset classes

SA Equities	**Overweight** – The 5% sell-off in the All-Share index in September 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 property companies are able to grow dividends again but yields are not as attractive relative to nominal bonds.
SA Fixed Income	**Neutral** – This asset class had sold off with the outbreak of the war, which gave us a good entry point to add to our position, but has since retraced closer to fair value.
SA Cash	**Overweight** – After moving down four times in 2025, the SARB has raised rates in order to anchor inflationary expectations to its new 3% target.
Offshore Equities	**Neutral** – 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 tactically increase our exposure to US equities 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 increase in inflationary impulse globally and precarious sovereign debt position of most developed countries remain a concern. We are neutral duration and hold exposures at the shorter end of the curve as the term premium is not yet attractive.
Offshore Cash	**Neutral** – Cash rates are now expected to increase this year in developed markets to fight the increase inflation fuelled by the higher energy prices.

The Ashburton Balanced Fund delivered a return of 7% over the past year, compared to the peer group average of 6.3%. Over a three-year period, the fund delivered 13.75% per annum ahead of its peer group's 13.26% per annum.

Patrice Rassou
Chief Investment Officer

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