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September 2026

Ashburton Equity Fund

Quarterly Investment Commentary

Overview

The South African equity market has not been immune to global energy-induced inflation headwinds and geopolitical uncertainty. The JSE Capped All-Share index declined by -0.3% in rand terms during the quarter, with many South African-facing industrial names bearing the brunt of the sell-off due to weaker local economic growth.

Inflation pressure forced the South African Reserve Bank governor's hand to raise interest rates by +25bps. This was an unwelcome hike into already weak local economic growth, adding further pressure to already weak consumer spending.

Within the local equity market context, it was once again a very narrow market during the third quarter. Basic materials were the only sector which delivered meaningful positive performance, increasing by +15% in rand terms. Although, within this we have seen significant volatility in several commodity prices and equities linked to Middle East news flow. Rising inflation and the upward pressure on bond yields have slowed the rapid ascent of the gold and platinum group metals prices and related equities. This has introduced more uncertainty into the outlook for precious metals relative to prior years.

Telecommunications, discretionary and technology sectors were the local laggards, declining by -18%, -15% and -12% respectively. MTN came under pressure during the quarter due to a weaker than expected performance in South Africa and news of potential litigation linked to their Iranian business (which the company impaired in its latest results). Discretionary retail continued to slide as earnings disappointed. The outlook remains constrained due to macro pressures on consumer spend. Naspers and Prosus' underperformance also continued during the quarter. Chinese technology companies have not participated in the global technology and artificial intelligence (AI) rally. When combined, these two names constitute a large percentage of the local benchmark and their significant underperformance year to date has weighed on the local equity index returns.

The Ashburton equity team recently attended a week-long investor conference in Cape Town where we were able to engage with many locally listed company management teams. Outside of the resource sector, there was little to cheer about. Most management teams are 'battening down the hatches' and looking to weather this period of weak growth. A silver lining is that many local companies are relatively well managed, with strong balance sheets.

This gives them the ability to trade through this weak macro period and hopefully emerge stronger with less competition as weaker peers are forced to exit during this period of stress.

An important trend to take notice of is the rapid rise in global bond yields during the last three months. Investment professionals in the early stages of their careers have largely operated in a global interest rate regime which has been a negative outlier relative to its long-term average. Low interest rates, together with quantitative easing, have been used as a default central bank remedy for several crises over the past few decades. A similar interest rate cutting playbook was used following the dot.com crisis in 2000, the global financial crisis in 2009, and most recently the global Covid-19 pandemic shutdown in 2020. Within this context, many market participants now consider financial market conditions over the past two decades as 'normal'.

This combination of ultra-low interest rates and excess liquidity has been a boon for global risk asset prices. Rising asset prices, abundant liquidity, along with increased market access and information (via technological enablement) have given rise to increased speculative behaviour from both professional and retail investors. This was compounded by the fact that investors in these performing high-risk asset classes have not had to forego a material opportunity cost given ultra-low yielding fixed income assets.

During the third quarter, the US 10-year Treasury yield (the global proxy for the risk-free rate) rose almost 100bps, to end the quarter at a nominal yield of 5.3% (from a low of 0.6% post the Covid-19 pandemic). Energy induced inflation risks due to the Iran / Middle East conflict, fiscal sustainability concerns in developed markets and rising funding demands for significant artificial intelligence (AI) data-centre capex have seen fixed income investors demand more yield compensation given the current conditions.

Why are rising global bond yields important to South African investors?

A famous Buffett quote aptly describes "interest rates are to asset prices, what gravity is to the apple." Given this context, rapidly rising Treasury yields during the third quarter are now dominating financial market discourse. Particularly the potential impact that higher interest rates may have on future equity prices across the world, and more specifically the high-flying technology sector, which given its scale is currently holding up developed equity markets and supporting US economic growth via massive data-centre investment spend.

It is important to remember that rising bond yields and discount rates, cause non-linear changes in time value of money valuations. Importantly, valuations of higher growth companies are more negatively impacted (in percentage terms) by material increases in the discount rate used relative to slower growing companies (*ceteris paribus*).

Younger investors have yet to experience an interest rate regime around the current levels, which despite aggressive increases in Treasury yields over the last quarter remain below the 50-year average. Going forward, equity investment opportunities will need to compete more fiercely against increasingly attractive real bond yields. At the time of writing, the real yield for a 30-year US treasury inflation protected security (TIPS) has breached the 3% level.

For the quarter, world equity markets increased by a modest +1.3% in US dollars (MSCI All World Index). The technology heavy S&P500 index also only grew by +2% for the quarter as we started seeing increasing discourse around the outlook for many AI related securities and debt instruments as interest rates increased and a very large data-centre project funder (Oracle) announced a force majeure. Highlighting that stresses are starting to emerge in the AI funding ecosystem.

Portfolio Performance

The Ashburton Equity Fund (A Class) delivered a negative return of -1.1% for the third quarter of 2026, -80bps below the JSE Capped All Share Index's negative rand terms return of -0.3%.

For the quarter, our overweight positions in Northam Platinum, Mondi, Glencore, Investec and Impala Platinum helped active performance. While not owning Capitec and Richemont also contributed positively as they sold off.

In terms of quarterly detractors, not owning Valterra Platinum, Sibanye and Harmony hurt performance. While overweight positions in Pepkor, Foschini and Woolworths also detracted over three months. We have been adding to these discretionary retail positions during the recent sell-off.

Over one year, the portfolio outperformed its benchmark by +1.1%, delivering a positive return of +6.7%.

Relative to peers, the portfolio placed in the first quartile for both one year and five years. It has now been five years since the portfolio was restructured and managed under our proven investment process.

Outlook & Strategy

The outlook into the final quarter of the year remains opaque and challenging. Global macro events and particularly the Middle East conflict continues to dominate investor sentiment both locally and abroad.

The resultant rising energy prices are already feeding through into higher inflation and weaker consumer spending. These pressures are likely to endure until energy prices moderate.

Importantly, the transition mechanism of rising global inflation and fiscal sustainability concerns feeding through into higher global real bond yields will mean that multi-asset investors need to consider the relative attractiveness of equities versus fixed income securities. This may mean more equity volatility, particularly in developed markets.

Developed market equity index returns remain very dependent on the performance of a small number of very large AI and technology linked companies. This concentration risk remains front of mind, particularly if bond yields continue to rise and the AI earnings and sentiment continue to 'wobble' post some recent negative data-centre news flow.

In South Africa, we are less exposed to this technology concentration risk, with only Naspers and Prosus having meaningful indirect exposure to the AI theme via Tencent. Interestingly, Naspers, Prosus and Tencent's ratings have materially lagged those of their non-Chinese AI and technology peers. This implies that there is potential upside via a catch-up trade should Chinese equity sentiment improve or, conversely less downside risk if global tech ratings moderate over the coming months.

The macro headwinds in South Africa have seen many consumer-facing companies share prices derate this year. While these share price declines are painful, they give rise to good buying opportunities for investors with a longer time horizon. History often shows that there is value to be had in being able to 'zoom out' from only next quarters earnings. Equity prices and ratings fall and rise together with forecasted earnings, and the ability to distinguish when earnings pressure is due to cyclical macro factors or company specific factors which are unlikely to endure, opens opportunities to acquire quality assets at very attractive prices. History shows us that these opportunities are often the source of positive future alpha as the cycle normalises. We have been adding to quality counters at attractive prices during the current downturn. We don't know the exact timing of the macro trough but are confident that current valuation arbitrages are wide enough to reward our patience.

As always, we continue to construct our portfolio with a risk-adjusted mindset. We aim to balance portfolio holdings across several sectors. We target a portfolio comprised of holdings across different sectors which have diversified drivers of their earnings and cash flows. Some portfolio holdings will be beneficiaries of higher energy and commodity prices, while others are negatively impacted. To invest in opportunities experiencing short term headwinds, we need to believe that there is a wide enough arbitrage between the current price and our assessment of intrinsic value is enough to compensate us for the uncertainty.

Local elections take place in the fourth quarter. These will be an interesting gauge on whether the South African electorate patience with the ruling party is closer to a breaking point. The City of Johannesburg and eThekwini Municipality (Durban) will be two key battlegrounds where polls seem to indicate a change in political leadership. The mooted change in the eThekwini Municipality may not be perceived as very 'market friendly' should former President Zuma's MK party gain the ascendency. However, this could be offset by a potential change in leadership in Johannesburg, which has faced significant governance and service-delivery challenges under its current leadership. Johannesburg remains South Africa's economic heartland, and a positive revival will go a long way towards improving local investor sentiment. Jockeying within potential political coalitions in the important metros means that predicting these outcomes with any certainty remains difficult.

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