CARTESIAN
CAPITAL

Strategic Asset Allocation H2 2026

Summary of Asset Class Views

Asset Class	Direction	Rationale
SA Nominal Bonds	Positive	We favour the front end of the SAGB curve, expecting a bull steepener as markets, in our estimation, currently overprice further SARB tightening. While South Africa's relative investment case against its EM peers remains constructive, richer valuations and the risk of higher global term premia temper our conviction further out on the curve.
SA Inflation-Linked Bonds	Neutral	We view the recent rise in headline CPI as a fuel-driven relative price shock, not the beginning of a broader inflationary spiral. As such, we continue to favour nominal bonds on a risk-reward basis, while holding inflation-linked bonds selectively as protection against upside risks stemming from energy, the rand or food prices.
SA Equities	Positive	We remain overweight SA Inc., as attractive valuations and a stable policy backdrop should continue to favour domestically exposed sectors, particularly banks and industrials, while maintaining a defensive stance within retail.
SA Listed Property	Positive	SARB hiking cycle likely complete. Predictable earnings and resilient trading conditions support the sector. We favour non-discretionary retail, transport-node retail and logistics assets, while offshore exposure provides diversification against rand weakness. Office fundamentals have stabilised but remain relatively less attractive.
SA Credit	Negative	Market expensive; spreads have compressed on search-for-yield flows rather than improving fundamentals, leaving inadequate compensation for risk.
SA Cash	Positive	Defensive holding; attractive liquidity, capital stability and yield.
Gold	Neutral	Long-term thesis intact — Central Bank reserve diversification, fiscal expansion, currency debasement. Near term lacks a catalyst; risk skewed to a retracement toward $3,430, which we'd treat as an accumulation point.

United States

Overtaken by Events

Early in 2026, our central call was for a strong, fiscally supported US economy in the first half of the year, with inflation easing enough to let a Warsh led Fed begin cutting rates in the second half. We expected the Trump administration's pro-business agenda; deregulation and the growth-supportive "One Big Beautiful Bill", to deliver a front-loaded boost through corporate capex incentives and household tax relief, with the consumer impulse from that relief fading as the year wore on.

We were beginning to see a clearer bifurcation within the consumer. Strong equity markets, driven in large part by the AI rally, were supporting spending among wealthier, asset-owning households, while a broader cohort more reliant on wage growth and credit was increasingly squeezed by higher real rates. At the same time, tariff-related inflation that had become evident in the data looked set to begin rolling off in the second half as favourable base effects emerged. Housing was also showing clearer signs of softening, while the labour market was gradually losing momentum beneath still-resilient headline numbers. All accounted for, we believed this backdrop of moderating growth would provide the 'Warsh-led Fed' with sufficient cover to begin cutting rates in H2.

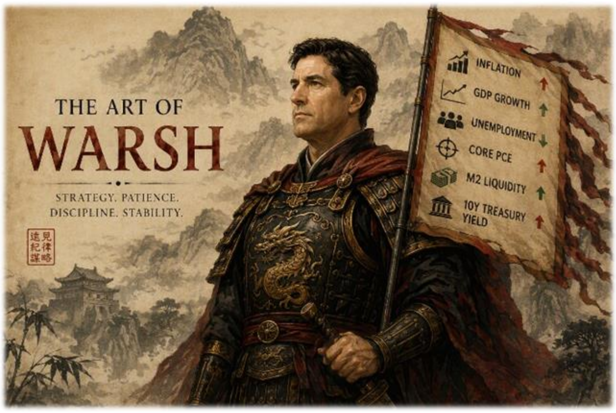
That thesis was overtaken by events.

A Middle East energy shock pushed headline inflation to its highest level in three years and led markets to reprice the Fed's next policy move as a hike before year-end. Even now, we continue to lean against what we view as overly hawkish market pricing.

> *Our base case is for an extended policy pause through 2026, with the next move from the Fed a rate cut rather than a hike, most likely landing around the middle of 2027.*

Fundamentally, we expect a Warsh led Fed to gradually move away from treating the policy rate as its sole instrument for influencing the economy; contingent on Warsh's ability to build consensus and carry the broader Committee with him.

The Art of Warsh



Co-Pilot generated Federal Reserve Chairman Kevin Warsh depicted as Sun Tzu's Warrior in 'The Art of War'

Markets are now firmly pricing in a rate hike before year-end following Fed Chair Kevin Warsh's inaugural press conference, which markets broadly read as a hawkish inflection point.

Our interpretation is more nuanced.

At a press conference, the Chair's role is typically to reflect the prevailing FOMC consensus rather than to advance a purely personal stance. That matters especially in this instance as Warsh's debut came under an unusually high level of scrutiny, given his appointment by President Trump after earlier efforts this year by the administration to test the boundaries of Fed independence. In that context, Warsh largely worked within the existing framework he inherited – while at the same time signalling that it is likely to evolve over time rather than be torn up immediately. Despite that nuance, the updated dot plot still showed nine of eighteen participants pencilling in a rate hike before year-end. We think markets are placing too much weight on that signal.

> *While nine of the eighteen participants projected a rate hike this year, only twelve members vote on policy. Based on our analysis of recent speeches and public communications, we believe it is more likely than not that at least eight of those twelve voting members have yet to signal support for a rate hike this year.*

Warsh also declined to submit a dot himself while still encouraging his colleagues to do so — a subtle, but deliberate action, we think. Rather than imposing a new framework on the Committee immediately, he deliberately set a new direction for the Fed from day one while keeping his colleagues fully inside the process and giving them ownership of how that process evolves. In doing so, Warsh skilfully diminished the signalling weight of the dot plot — and, more broadly, the authority of the inherited framework and his colleagues' projections — without alienating the room. Warsh paired this with a pointed critique of the prior regime, and of the framework itself, noting that it had failed to deliver on price stability over the past five years. Yet Warsh was unequivocal that ***this Committee will achieve price stability*** — a goal the whole Committee can readily unite behind — even as he begins to reorient what that ultimately requires. Crucially, Warsh left the "how" deliberately unspecified.

> *The message was clear: Warsh is steering the Fed onto a new path he believes will prove more effective in delivering price stability, but he is doing so through a process of participation and consensus-building rather than a clean break from the existing framework.*

There Is a Task Force for That

The announcement of five task forces marks a concrete step in embedding Warsh's new direction at the Fed. Their structure clearly reflects elements of Warsh's known views, even as Warsh stressed that he would not prejudge outcomes and framed the exercise as an open-ended, first-principles review. The inflation-framework task force is the most consequential we think, particularly if it validates Warsh's view, which we broadly share, that liquidity has been a meaningful driver of both inflation and asset prices in recent years, contributing to the breakdown of several previously stable macro relationships. If that link holds, it also strengthens the case for the balance-sheet task force, which will examine how liquidity created through the Fed's balance sheet transmits into financial conditions, shaping risk appetite and credit creation and, in periods of excess liquidity, potentially fuelling bouts of market froth as animal spirits gain room to run.

The remaining three task forces cover Fed communications, data and economic measurement, and productivity and employment, reinforcing Warsh's preference for a genuinely data-dependent framework with greater emphasis on data quality and less on forward guidance. We think, taken together, the five task forces point to an incremental but meaningful broadening of the Fed's operating framework ahead - beyond a purely rate-centric view of policy - towards a more explicit recognition of liquidity and balance-sheet channels as well. That interpretation was reinforced by Warsh's remarks to a reporter's question on current policy restrictiveness, where Warsh noted that transmission remains uneven - restrictive in parts of the real economy, particularly in housing, but far less so in financial markets owing to abundant liquidity.

Liquidity Looking for an Outlet

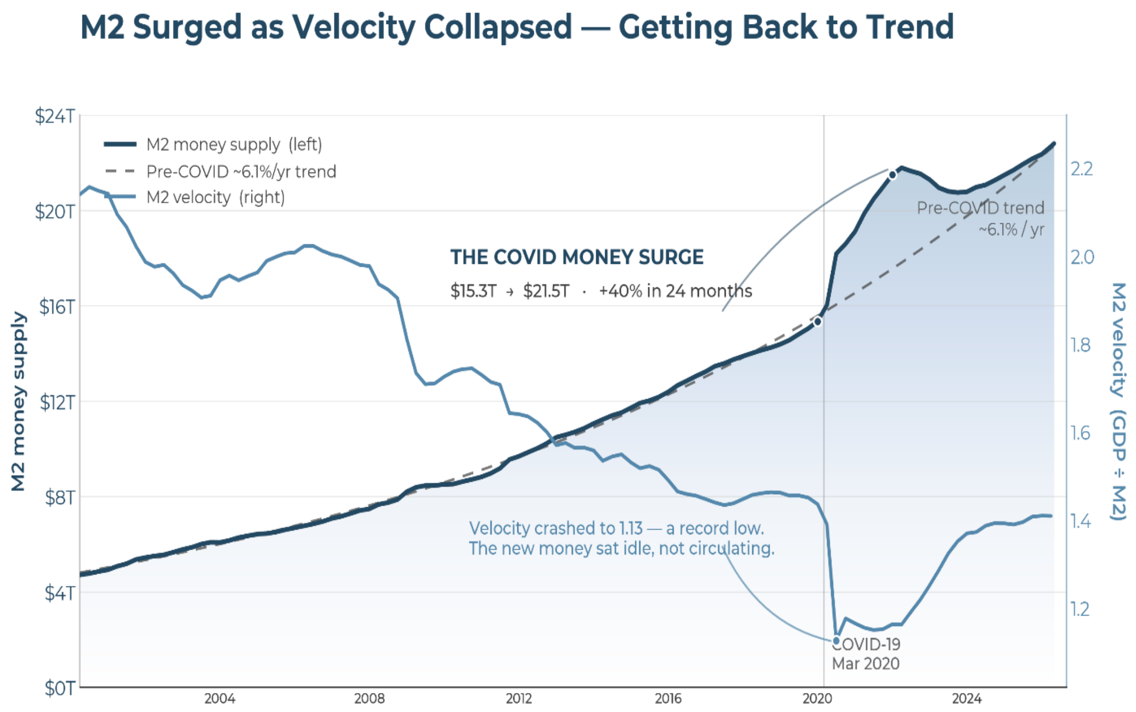
The case for elevating the liquidity channel in the new framework begins with examining the effects of the post-pandemic era liquidity overhang. Using M2 as a broad proxy for readily deployable money in the economy, the money stock expanded from roughly $15.4 trillion at the start of 2020 to around $22.8 trillion today — a steep, near-parabolic 48% increase that durably reset the economy's liquidity base to a structurally higher level.

But the level alone understates what happened. In our view, it was the pace of the expansion, as much as its size, that did the lasting damage. Money was created far faster than the real economy could absorb or productively deploy, and that speed broke relationships that policymakers and investors had long relied on — above all the stable link between money growth, nominal activity, and prices.

> *When the normal transmission channels are overwhelmed, money is not destroyed or lost; it simply finds another outlet. The extraordinary expansion in M2 clearly contributed to inflation in recent years, but we would argue that a meaningful share of that liquidity bypassed the real economy and was instead absorbed into asset prices as well.*

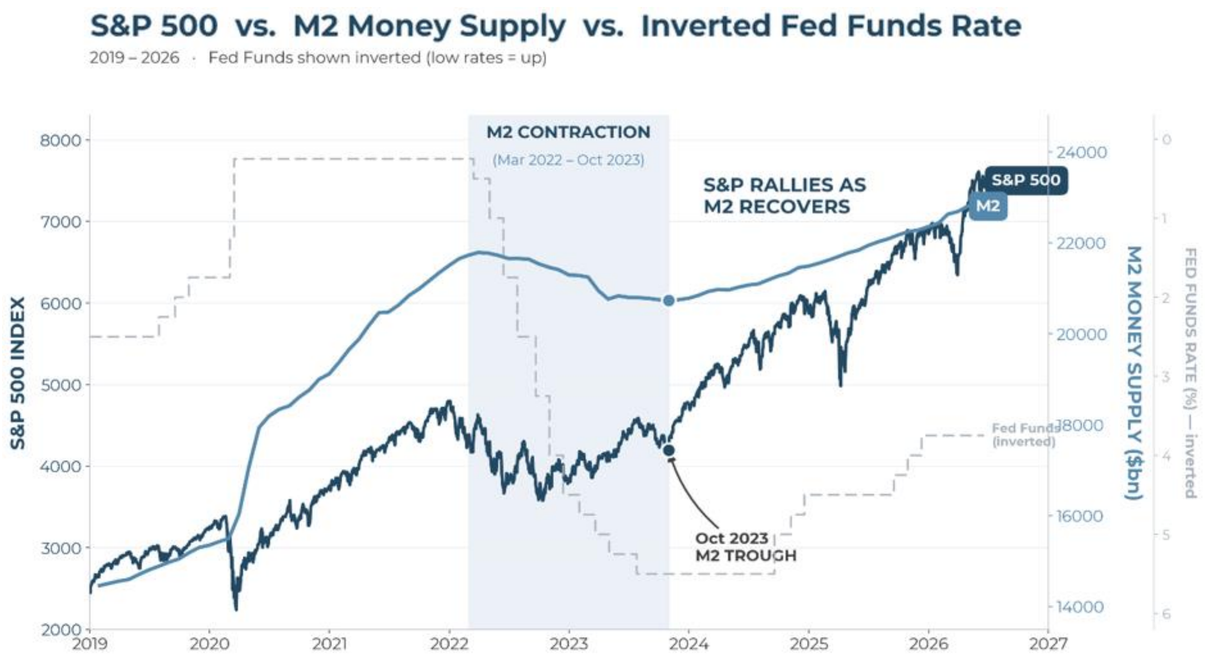
M2 velocity, (the rate at which money circulates through the economy), illustrates the distortion.

M2 velocity collapsed to a record low during the pandemic as unprecedented fiscal and monetary stimulus drove the largest expansion in the money supply in modern history. Inflation ultimately absorbed much of that excess, but we would argue that a meaningful share was also capitalised into asset prices, creating financial conditions that became increasingly self-reinforcing. While not conclusive, the fact that velocity remains below its pre-pandemic norm is consistent with part of that liquidity continuing to circulate primarily through financial markets.



Source: Bloomberg data and Claude Generated Visual

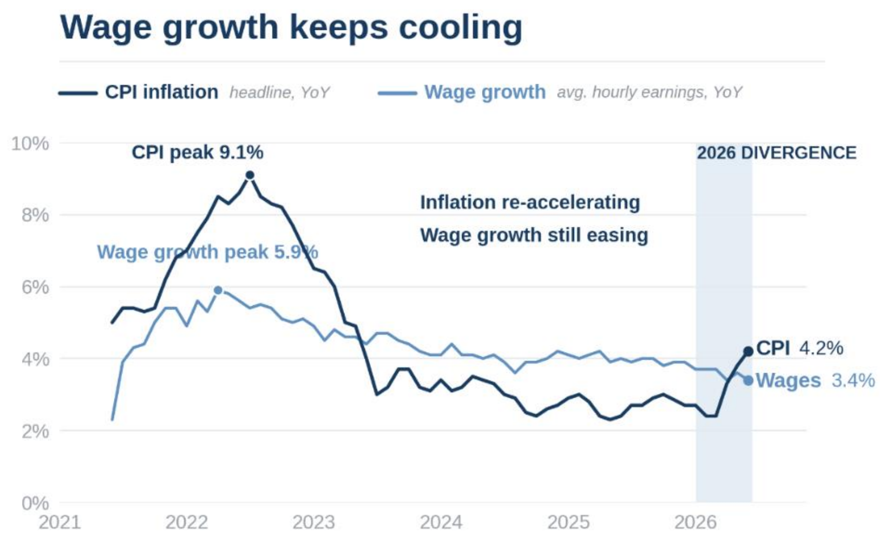
Encouragingly, M2 growth has largely reverted to its long-run trend. Even so, we do not believe the effects of the extraordinary post-pandemic surge in money supply have fully unwound. This is not to suggest that liquidity should replace the policy rate as the primary instrument of monetary policy. Rather, our view is that **liquidity deserves greater consideration alongside interest rates**. Even with policy rates still restrictive in our estimation, liquidity dynamics continue to shape both asset prices and, ultimately, inflation. A framework that focuses on the price of money while underweighting its quantity- and the speed at which it was created—risks overlooking an important part of the transmission mechanism.



Source: Bloomberg data and Claude Generated Visual

Still a Tale of Two Economies

More broadly, we think the post-COVID liquidity shock has left financial markets far less sensitive than the real economy to restrictive policy rates. The gap between Wall Street and Main Street has rarely looked wider. Equities sit at record highs after three consecutive years of double-digit gains and are on track for a fourth, while the University of Michigan consumer sentiment index remains below the troughs of previous recessions. Meanwhile, the household savings rate has fallen to 3%, around half its post-2000 average, suggesting consumption is increasingly being supported by savings drawdowns rather than income growth, consistent with persistently subdued wage inflation.



Source: Bloomberg data and Claude Generated Visual

The result is an economy where elevated equity valuations continue to support asset owners, while the consumer (the engine of roughly two-thirds of GDP) remains constrained by restrictive interest rates.

> *Higher policy rates will do little to close this gap; and risks further amplifying the divergence between the two economies.*

A Labour Market Propped Up by Nurses

On the surface, the labour market still looks firm. Unemployment edged down to 4.2% in June - the kind of headline resilience that has shaped interest rate policy under Chair Powell. But the detail is softer.

The fall in joblessness was driven more by a drop in participation than hiring, and hiring itself has slowed meaningfully, with just 57k jobs added in June and prior months revised lower. It fits the same “low hire, low fire” pattern that took hold last year, when job growth slowed to its weakest non-recession pace in more than two decades.

Importantly, absent the healthcare and social assistance sector, headline employment growth would have been negative last year. That dependence has persisted into 2026, with more than half of net job creation again coming from the same sector. June followed the same pattern, with healthcare and social assistance accounting for virtually all payroll gains while employment across the rest of the economy was broadly flat to negative. In other words, what appears to be labour market resilience is increasingly being driven by a single, structurally supported sector rather than broad-based cyclical strength.

Two decades ago, roughly 1 in 8 Americans were aged 65 or older. Today it is closer to 1 in 6, and it is on track to reach 1 in 5 by 2030. The 65+ population is growing roughly twice as fast as the working-age population, with the 75+ cohort accelerating further. As this ageing demographic wave builds, it is steadily lifting healthcare demand. Nursing and related care roles are set to be among the fastest-growing occupations in the US over the coming decade, outpacing the growth rate of almost all other occupations, on average.

> *That is why healthcare continues to dominate job creation — a structural force that sits largely outside the reach of interest rates or the business cycle.*

To be fair, 2026 has started on a firmer footing. Job creation is running ahead of last year's pace, even after revisions, but momentum appears to be stalling as the year progresses. Slower immigration has lowered the bar for what now counts as a "healthy" jobs print. Strip out healthcare and the underlying picture looks bleak. Wage growth also continues to ease. Our read is that the broader signal still argues against hiking rates this year — and increasingly toward a need to become more supportive of the cyclical economy over time.

Hikes Without Hiking

For the credit-dependent segment of the economy, policy has already tightened materially. Even with no change to the policy rate, financial conditions have tightened through market pricing along the curve, as investors have increasingly priced in potential rate hikes this year and next, ahead of the Fed. Mortgage rates, anchored to the 10-year part of the Treasury curve, have effectively absorbed something close to one rate hike already, while front-end consumer credit—particularly new auto loans, which are typically priced off the 2-year segment—has tightened by closer to two.

> *For these reasons, we do not see a compelling need for the Fed to deliver rate hikes, given that markets have already done much of the tightening work by effectively transmitting "shadow hikes" into financial conditions already.*

Takeaway

The five task forces will begin work shortly, with recommendations due by year-end, creating a transition period during which the Committee will operate within an evolving policy framework. Our read is that this effectively buys the Fed time, easing the urgency to deliver a rate hike as focus shifts from defending the old regime toward shaping the new one. Markets are currently pricing a hike at the December meeting, broadly aligned with the point by which Warsh indicated the task forces would conclude their work. While we concede a hike before the new framework is fully embedded remains possible and a risk to our view—and one we will continue to monitor and reassess as evidence evolves—it is not our base case; we think the bar for a hike is high and the window narrow. We expect an extended interest rate hold through 2026, with the next move more likely a rate cut around mid-2027.

South Africa

A Bump in the Road, but Not a New Direction

Our start-of-year outlook called for two SARB rate cuts in 2026, one fewer than the market and many investment houses expected. We believed markets had become overly optimistic in their rates pricing, underestimating the stickiness of administered prices and services inflation. The market, however, was in no mood to let such concerns spoil the party. Investors continued to price an increasingly aggressive easing cycle, buoyed by a weaker US dollar, improving emerging market risk appetite and a South African re-rating that had been gathering momentum for much of the previous year. The Government of National Unity (GNU) ushered in a renewed sense of confidence—a powerful force in financial markets in its own right. That confidence was reinforced by an improving fiscal outlook under Finance Minister Enoch Godongwana, the adoption of a 3% inflation target, South Africa's removal from the Financial Action Task Force greylist, and growing expectations that further sovereign credit rating upgrades could follow. The Iran conflict interrupted that narrative, but in our view did not break it. While we expect a firmer dollar and softer precious metal prices to create near-term headwinds, we think the broader constructive investment case for South African assets remains intact.

Crucially, the SARB entered this period of heightened volatility from a position of strength. Its measured easing cycle left policy mildly restrictive rather than accommodative, preserving valuable policy space to respond once external risks materialised. Ahead of the May MPC meeting, we argued that a rate hike was unnecessary, while recognising that the Committee might still choose to deliver one. By the final days before the decision, however, the outcome had largely been decided. With markets fully pricing a hike, the MPC had little reason not to purchase some precautionary insurance—particularly so soon after lowering its inflation target to 3%. It took that opportunity, but only just. Four members voted to hike, while two preferred to hold even at the height of the uncertainty.

> *We now see little justification for another rate hike in July. Our base case is for the SARB to leave the repo rate unchanged at 7.00% in both July and September. The free option the MPC enjoyed in May has now expired. The shock that warranted precautionary insurance is unwinding, while the demand destruction now evident across the economy is steadily reducing pricing power and limiting the risk of broader second-round inflation.*

Insurance Is Not Bought Twice

The May hike was a defensible pre-emptive move; insurance against a deteriorating inflation outlook. *But insurance is purchased against a risk, and while that risk still warrants close monitoring, it is receding quickly.*

The SARB's May scenarios were explicitly conditional. The additional two-hike path required a sustained Middle East shock that kept oil prices elevated, with clear spillovers into food and the rand, while the three-hike path assumed a broader, high pass-through environment.

The El Niño scenario, by contrast, represents a more medium-term food inflation risk and is unlikely to materially influence either the July or September MPC meetings.

The conditions underpinning the near-term interest rate tightening scenarios have instead faded. While developments in the Middle East remain fluid, the Strait of Hormuz is, at the time of writing, open once again, tanker traffic has resumed, Brent has fallen back below its pre-conflict level, and the rand has proved far more resilient than the Bank's stress assumptions implied. Measured in rand, Brent has effectively round tripped the shock. Fuel prices have begun to adjust lower, although they remain above pre-conflict levels, and current market pricing points to further relief if these conditions persist. In our view, headline inflation peaked in June and should moderate from July onwards. The inflation impulse the Bank sought to insure against has not disappeared, but it is no longer evolving with the intensity or persistence embedded in its more adverse scenarios.

The strongest challenge to our view comes from inflation expectations. The BER’s latest survey showed the energy shock lifting expectations across the economy, with the SARB’s preferred measure, the two-year-ahead inflation expectation of professional forecasters, rising from 3.6% to 3.9%. The Bank places significant weight on that measure in its reaction function and, having only recently adopted a lower 3% inflation target, has every incentive to reinforce and protect the credibility of the new framework.

Even so, context matters.

The survey fieldwork was conducted during the peak of the energy-driven risk premium, when Brent was approaching $100 per barrel and domestic fuel prices were under intense pressure. Those responses reflected the risks as they appeared at the time. Since then, oil prices have retraced sharply, and fuel prices have begun to ease. We therefore expect the next survey to show at least a partial reversal, viewing the latest increase as a temporary repricing of fuel-related inflation rather than a broader shift in inflation psychology. Just as importantly, two MPC members voted to hold rates even when the energy shock—and the associated upside risks to inflation—were at their most acute. In our view, that sets a high bar for further tightening now that those risks have begun to recede.

The timing of the El Niño risk points in the same direction. It remains a genuine upside risk to the inflation outlook, but it is unlikely to be a decisive consideration for either the July or September MPC meetings. South Africa enters this cycle with considerably stronger supply buffers than in previous episodes. A record 17.25 million tonne maize harvest has left grain inventories exceptionally well supplied, helping keep food inflation at a 17-month low of 1.6%, while easing foot-and-mouth disease-related supply constraints have also taken pressure off meat prices. Water security is equally supportive, with the Vaal Dam sitting above 100% capacity—more than 30 percentage points higher than ahead of the 2023/24 El Niño episode. More importantly, agricultural inflation responds with a lag. Even if El Niño develops as forecast, the greatest drought risk falls during the October–December planting season, meaning any meaningful crop losses would only begin feeding through to food prices during the 2027 harvest cycle. For now, favourable domestic supply conditions should continue to anchor food inflation, leaving El Niño as a 2027 inflation risk rather than an immediate monetary policy concern.

> *The forward-rate market has already begun to walk back the tightening path, shifting from fully pricing roughly a further 50bps of hikes for the remainder of the year to closer to 25bps currently. We expect the residual hike premium to continue to be dialled back from here — and we would position for it rather than wait for the MPC to confirm it.*

Chokepoint to Choke Point: Pass-Through Denied

The prevailing narrative (reflected both in sell-side research and among the MPC's more hawkish members) is that the oil shock will trigger broad second-round inflation. We take the opposite view, and it is the cornerstone of our mid-year call.

That is, not to deny the obvious, but the recent energy shock will inevitably push up transport, logistics, fertiliser and a range of adjacent input costs, with some of those increases finding their way into consumer prices. Our contention is simply that they are unlikely to develop into the broad, self-reinforcing inflation spiral that would justify further monetary tightening.

Second-round inflation is often treated as the inevitable consequence of an oil shock. We think that oversimplifies the transmission mechanism. Higher energy prices are merely the catalyst; whether they evolve into a sustained inflation cycle depends on the economy's capacity to absorb and propagate the initial shock. That requires firms with pricing power, workers with bargaining power and households with the income to validate higher prices. Our assessment is that South Africa entered this episode with little evidence of any of those conditions. Indeed, many of the underlying signs of strain were already evident before the conflict began.

Start with the consumer, the ultimate arbiter of whether higher costs become entrenched inflation. The evidence increasingly points to a household sector under pressure rather than one validating higher prices. Real take-home pay fell to a two-year low in May, declining 1.7% over the first five months of the year as nominal salaries rose just 0.9% year-on-year against inflation of 4.5%. The slowdown was already evident before the fuel shock had fully filtered through the economy. Household consumption growth slowed from 1.2% quarter-on-quarter in Q4 2025 to just 0.1% in Q1 2026, while discretionary spending swung from 2.6% growth to a 1.7% contraction over the same period. Retail sales also stalled after eight consecutive quarters of expansion, and households increasingly turned to short-term credit to bridge tightening cash flows. Taken together, these are not the hallmarks of a consumer with the pricing power to entrench inflation, but rather one making increasingly difficult trade-offs as higher living costs squeeze disposable income.

Survey evidence reinforces the same conclusion. Consumer confidence recorded its sharpest deterioration since the pandemic, falling from -7 to -19, while the household finances index slumped from +12 to zero. Around two-thirds of respondents indicated they would struggle to service their debt if interest rates were to rise again. Importantly, the deterioration is most pronounced among higher-income, vehicle-owning households—the very consumers who account for a disproportionate share of discretionary spending and typically possess the greatest purchasing power. That is not the backdrop in which sustained demand-led inflation typically takes hold.

The corporate sector tells a similar story. Higher input costs are colliding with weakening demand, leaving firms with limited scope to pass those costs on to consumers. Instead, the adjustment is occurring through margins and activity rather than prices. Manufacturing output contracted 2.7% in the most recent print, inventories were drawn down rather than rebuilt, and the SARB's leading indicator softened across most components. An economy slowing into a cost shock is far less likely to propagate it into a broader inflation cycle.

Nor do we see much evidence that the wage channel is taking hold. Unemployment rose to 32.7% in the first quarter as the economy shed roughly 345,000 jobs, while corporate profitability is coming under increasing pressure. Outside a narrow set of unionised sectors, there is little indication that workers have the bargaining power needed to turn a temporary fuel shock into sustained wage gains. Without that wage–price feedback loop, the shock is more likely to stay what it is at this stage—a temporary price impulse rather than something that embeds into an inflation spiral.

> *Ultimately, broad second-round inflation requires someone willing—and able—to pay for it. The South African consumer is telling us—in the national accounts, the labour market, the credit data, the surveys and, yes, even at the stadium turnstiles—that they simply cannot.*

Politics

The key political question in South Africa is increasingly shifting from whether the Government of National Unity survives to who succeeds President Ramaphosa as ANC leader. While the GNU appears relatively secure through 2027, the ANC's December 2027 elective conference is shaping up to be the next major political battle and inflection point for markets.

> *In our view, markets remain overly focused on a binary contest between Paul Mashatile and a Ramaphosa-backed insider, most likely Fikile Mbalula. The more interesting possibility, we'd like to think, is a Patrice Motsepe candidacy.*

As President Ramaphosa's brother-in-law, Patrice Motsepe, is already closely aligned with the current ANC leadership, yet combines business credibility, political experience and broad public appeal in a way few contenders can match. His stewardship of Mamelodi Sundowns, transforming the football club into one of Africa's most successful sides, and his tenure as CAF president, a highly political position in its own right, have reinforced a reputation for competent execution and inspired leadership, while the absence of a clear consensus candidate within the Ramaphosa camp could create space for a unifying figure.

We would expect Motsepe to avoid committing to the race before the conclusion of the November 2026 local elections, allowing the ANC's performance to shape the succession debate.

Should the party disappoint; pressure for a genuine renewal candidate would intensify. Motsepe is already polling more strongly than other potential contenders, and an ANC under his leadership governing alongside the DA would, in our view, rank among the more constructive political outcomes for South African assets.

More interesting, however, is what we see as a growing vacuum at the political centre. Despite the GNU's relative stability, no established party is convincingly capturing the imagination of voters. The DA has generally built a strong record in government, with ministers such as Dr Leon Schreiber earning widespread praise for reforms at Home Affairs. Yet that has been offset by high-profile missteps—including John Steenhuisen's handling of the recent foot-and-mouth disease outbreak—and bouts of public infighting that have distracted from its broader message. More fundamentally, despite its strong governing credentials, the DA is likely to find it a gradual process to win over the hearts of many voters who have historically supported the ANC but are increasingly searching for a new political home.

Polling by the Social Research Foundation consistently points to an electorate that is moderate, pragmatic and broadly centrist, with strong support for ANC–DA cooperation where no party wins outright. Yet no political formation currently speaks with authority to that middle ground, making it the largest unclaimed constituency in South African politics. That opportunity is beginning to attract attention. Jacinta Ngobese-Zuma's March and March movement, while not yet a political party, has demonstrated how quickly civic energy can mobilise around issues neglected by established parties, and we would not be surprised if it—or a similar civic movement—eventually entered electoral politics. Likewise, political analyst Prince Mashele has signalled his intention to launch a meritocratic, market-oriented political movement after the local elections. Both remain early-stage developments, but they point to a political landscape that is becoming more fluid.

> *For investors, the implication is not near-term instability—the GNU should continue to provide an anchor for political stability through 2027—but a widening range of medium-term outcomes. Importantly, that distribution includes scenarios that could prove more constructive for South African assets than markets currently appreciate, whether through the emergence of a credible reform-minded leader such as Patrice Motsepe or a political movement capable of commanding South Africa's pragmatic centre with a clear electoral mandate.*

The principal downside risk to markets remains a future realignment between the ANC, EFF and MK, a coalition markets would likely view less favourably given its perceived policy direction. That possibility cannot be dismissed, particularly if Paul Mashatile were to emerge as ANC leader. Even so, our base case remains that the ANC would ultimately favour retaining the current GNU arrangement with the DA. We think any future ANC leadership will remain acutely aware of the economic and market consequences of abandoning a coalition that has helped restore investor confidence.

Asset Class Views

Nominal Bonds

We remain constructive on the front end of the SAGB curve.

As outlined in our rates view, we believe markets continue to overprice the risk of further SARB tightening and expect the repo rate to remain at 7% through year-end. That leaves us positioned for a bull steepener, with the adjustment occurring primarily through lower front-end yields.

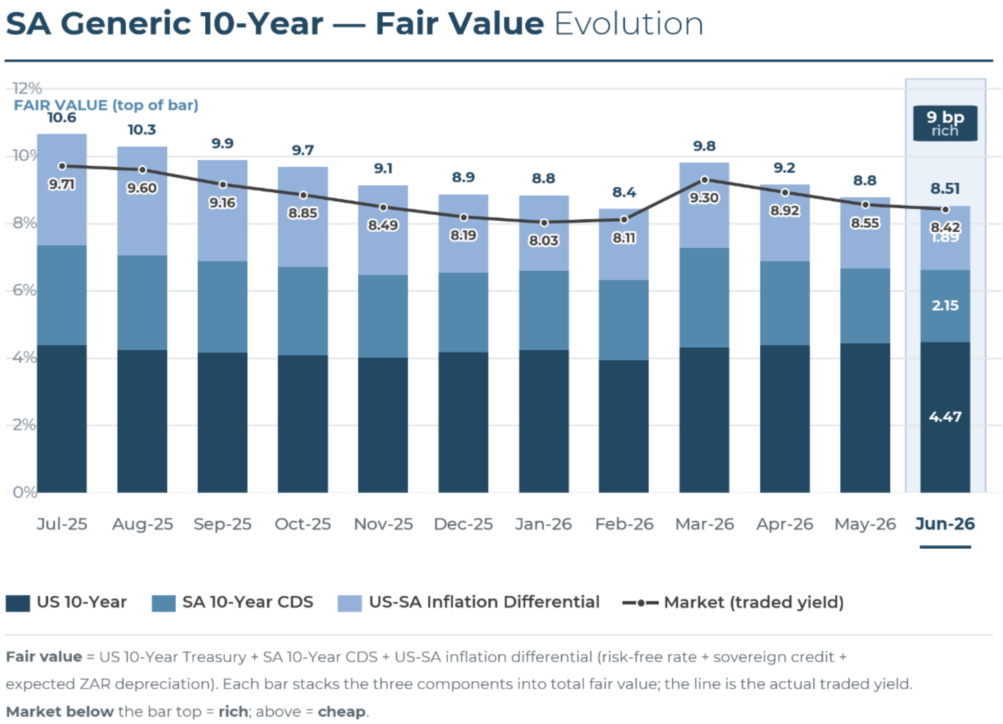
Further out the curve, however, our conviction fades. While we expect the domestic optimism that defined much of the past year to reassert itself as the energy shock unwinds, our caution lies offshore. Longer-dated SAGBs remain heavily influenced by US Treasuries, the global risk-free benchmark. Although we continue to lean against the extent of Fed rates tightening currently priced, we are less convinced that stable or lower US policy rates will necessarily translate into support for long-end Treasury yields.

> *The 2024 Fed easing cycle continues to echo in our thinking. Despite the Fed opening the cycle with a 50bp cut, the US 10-year Treasury yield was more than 90bp higher just 100 days later—the only one of the past eight easing cycles in which yields were higher 100 days after the initial rate cut.*

With US fiscal deficits still exceptionally large, debt-servicing costs exceeding $1 trillion annually, and the fiscal outlook deteriorating further following the Iran conflict, we suspect the same forces that drove term premia higher previously could once again re-emerge, even as US policy rates remain stable or move lower. Should that theme re-emerge in the second half of the year, longer-dated SAGBs are unlikely to escape unscathed. Another risk sits on the periphery. Japan has already intervened heavily to support the yen, and as the largest foreign holder of US Treasuries, any renewed need to defend its currency could, at the margin, potentially result in Treasury sales, adding further upward pressure to long-end US yields and global term premia.

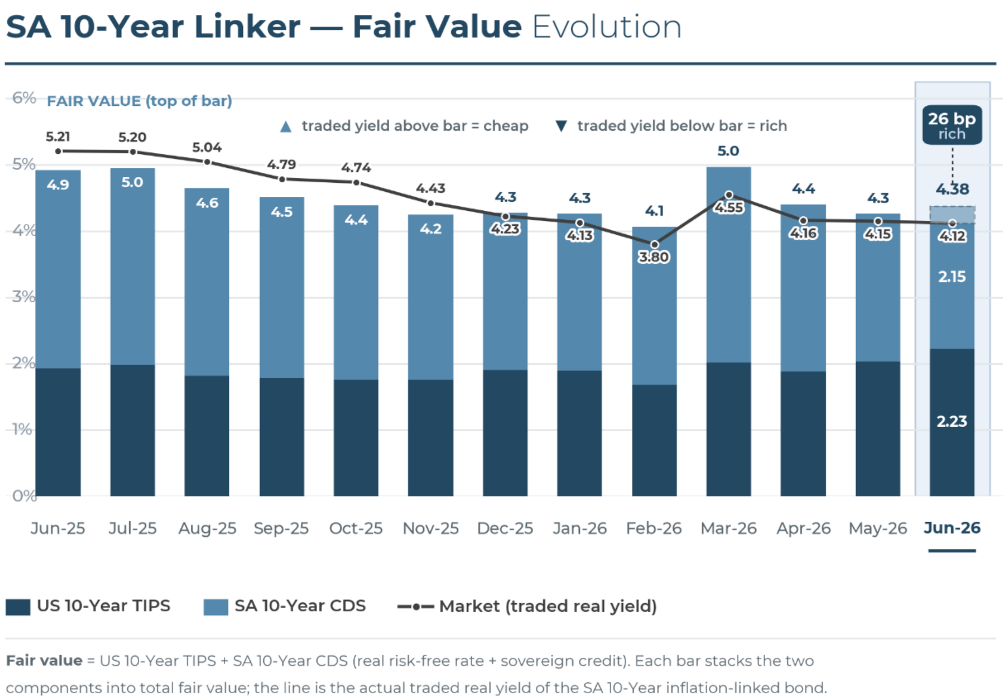
Even so, relative performance is a different question. South Africa's investment case continues to strengthen relative to several emerging-market peers. Mexico faces mounting fiscal pressures and renewed sovereign rating concerns, while Brazil is approaching another election cycle likely to bring its usual bouts of policy uncertainty and market volatility. Coupled with still-attractive carry, that relative backdrop has helped draw foreign investors back into our bond market, with non-residents purchasing R15.2 billion of SAGBs in June. That is why we continue to see value in nominal bonds, even if our preference is to express that view through the shape of the yield curve rather than outright duration.

The challenge is that this improving relative story arrives just as valuations have become less forgiving. A year ago, the generic SA 10-year traded around 89bp through our fair value estimate because the market was correctly anticipating improving fundamentals. Those improvements have now largely materialised. Our fair value estimate has fallen by roughly 209bp over the past year, driven by tighter sovereign CDS spreads, a narrower US–South Africa inflation differential following the SARB's adoption of the 3% inflation target, and resilient US real yields. In effect, fair value has caught up with the market. The bond still trades only modestly rich to our model, but the asymmetry has shifted. Last year's richness reflected the market getting ahead of improving fundamentals; today, those improvements are largely embedded in fair value itself. The valuation cushion is therefore much thinner should sovereign risk or global term premia begin to reprice.



Source: Bloomberg data and Claude Generated Visual

Inflation Linked Bonds



Source: Bloomberg data and Claude Generated Visual

Inflation-linked bonds remain an effective hedge against genuine inflation regime risk, and we continue to see value in holding them where inflation protection is the primary objective. However, for investors seeking to express our current macro view, we believe nominal government bonds offer the more compelling opportunity. Our central expectation is that the recent pickup in inflation will prove temporary, with food disinflation, subdued core inflation and weak household demand preventing a broader inflation cycle from taking hold.

Valuations reinforce that view. Based on our fair value framework, the generic 10-year inflation-linked bond is currently trading around 26 basis points rich to fair value, while nominal government bonds are trading much closer to their fair value estimates. In our view, that leaves relatively little valuation cushion in inflation linkers, whereas nominals continue to offer a more attractive balance of valuation and upside should inflation pressures ease as we expect.

We therefore prefer to own ILBs selectively as portfolio insurance rather than as a core overweight position. They remain valuable protection against the principal risks to our outlook—a renewed energy shock, a materially weaker rand, stronger-than-expected administered-price pass-through, or a resurgence in food inflation. Absent those outcomes, we expect nominal government bonds to deliver superior returns over the medium term.

Money Market

Money market remains a core defensive allocation in our asset-allocation framework. With our base case calling for the SARB to hold the repo rate at 7.00% through the remainder of the year, the asset class continues to offer an attractive combination of liquidity, capital stability and yield. We are therefore positive on this asset class. Cash is not a substitute for duration—we continue to favour selectively adding exposure at the front end of the nominal curve—but it remains an efficient source of income and optionality. Until markets gain greater conviction that the tightening cycle has definitively run its course, we think money market will continue to pay investors to wait.

Credit

Domestic credit remains one of the least compelling areas of the local fixed-income market. Spreads have compressed to levels that, in our view, reflect an increasingly aggressive search for yield rather than a meaningful improvement in issuer fundamentals. Strong flow-driven demand continues to overwhelm available supply, allowing borrowers to issue at historically tight levels and the market to look through risks that have not disappeared. Investors are now being paid progressively less to assume credit, liquidity and issuer balance sheet leverage risk, leaving little margin for error should conditions deteriorate. In our view, current spreads do not adequately compensate investors for the risks facing South African borrowers. We therefore remain negative on domestic credit.

Equities

We remain overweight SA Inc., supported by attractive valuations, compelling dividend yields and our expectation that the SARB will keep the repo rate unchanged for the remainder of the year. As markets gradually price out the remaining rate-hike premium embedded in the front end of the curve, lower bond yields should provide a tailwind for domestically exposed equities. While the precious-metals complex has relinquished market leadership following its recent correction, we expect incremental investor flows to increasingly favour sectors with greater leverage to the SA Inc. investment case.

We prefer to express this view through banks, which remain our highest-conviction sector. Strong capital positions, resilient earnings and attractive valuations provide a solid starting point, while a stable interest-rate environment should underpin asset quality, improve the outlook for credit growth and support further multiple expansion. Industrials are the second leg of the call. As confidence in South Africa's medium-term outlook gradually improves, we would expect infrastructure investment and private-sector capital expenditure to follow, creating opportunities for well-positioned industrial businesses. This remains a sector where stock selection is critical, however, and we continue to favour a selective, bottom-up approach over broad sector exposure.

Within retail, our stance remains deliberately defensive. We do not expect a sharp rebound in the consumer. Household finances remain under pressure following several years of elevated interest rates, and any recovery in spending is likely to be gradual. We therefore continue to favour non-discretionary retailers, with a preference for value and grocery-led franchises over more aspirational consumer formats.

We remain neutral on the cyclical precious-metals and PGM sectors. While we see few near-term catalysts for the sector to regain market leadership, the recent correction is beginning to create opportunities to add exposure at more attractive levels. We are not there yet, but we are becoming increasingly attentive to potential entry points.

We are positive on listed property, albeit with a preference for high-quality retail, industrial and logistics assets. Within retail, we favour centres located around major public transport nodes and township economies, where convenience and necessity-driven spending continue to underpin tenant performance. If our view that South Africa is experiencing a bump in the road rather than a fundamental deterioration proves correct, this part of the sector should be well placed to benefit. With lower-LSM consumers continuing to face pressure on household budgets, proximity and accessibility become increasingly important, supporting centres that minimise travel costs and remain closely integrated into consumers' daily spending habits.

With our view of rates likely having peaked, the risk of further upward pressure on funding costs has reduced, providing a more supportive backdrop for property earnings and valuations. At the same time, trading conditions across much of the sector have remained resilient despite pressure on household finances, supporting predictable cash flows and dividend distributions.

We also see value in diversified REITs with meaningful offshore exposure. These portfolios provide geographic diversification and a natural hedge against any renewed weakness in the rand, while reducing reliance on the domestic economic cycle.

While conditions in the office market appear to have stabilised, we remain cautious on the sector. Vacancy trends have improved and the worst of the post-pandemic adjustment appears behind us, but rental reversions remain under pressure and earnings growth is likely to lag other property subsectors. We therefore continue to favour retail, industrial and logistics exposure over offices.

Overall, we maintain a positive but selective stance toward listed property, favouring companies with high-quality assets, predictable income streams and exposure to structural growth themes rather than broad sector exposure.

Gold

At the start of the year, we were constructive on gold, driven by continued central-bank diversification at the margin away from US assets—particularly the dollar and Treasuries—and towards gold. The US–Iran conflict has since knocked that trade off course. The subsequent pullback in gold coincided with a sharp rally in the US dollar, which reasserted itself as the market's preferred safe haven. At the same time, markets reverted to a familiar "buy the rumour, sell the fact" dynamic, as the geopolitical risk investors had been positioning for ultimately materialised, prompting an unwinding of defensive positions. Our sense is that the move was likely amplified by investors monetising liquid holdings such as gold to meet margin calls elsewhere in their portfolios. After an extended rally, gold had also become increasingly vulnerable to a period of profit-taking.

Our longer-term bullish conviction remains intact, underpinned by continued central-bank buying, persistent fiscal expansion in the developed world, and the likelihood that concerns around currency debasement re-emerge over time. In the near term, however, the direction of gold will likely be dictated by the market's pricing of interest rates. As long as investors continue to price a more hawkish policy outlook, gold may remain under pressure. But if oil prices stabilise and expectations for further rate hikes begin to unwind, we would expect those structural tailwinds to once again dominate.

> *Perhaps most encouraging has been the behaviour of China's central bank. Rather than stepping aside as prices corrected, the PBOC appears to have treated the pullback as a buying opportunity, adding 10 tonnes of gold in May—its largest monthly purchase since December 2024—and extending its buying streak to 19 consecutive months.*

Tactically, however, we struggle to identify what gets gold decisively towards $5,000/oz without a meaningful repricing of Fed rate expectations. For now, the path of least resistance appears to be further consolidation, with a move back towards the $3,430/oz area well within reason. The technical picture is hardly offering much encouragement either: gold has slipped below its 200-day moving average and recently registered a bearish death cross on the 1-year chart, with the 50-day moving average falling below the 200-day moving average. None of that alters our longer-term conviction. If anything, we would view a deeper pullback as an opportunity to accumulate gold exposure at more attractive levels rather than a reason to question the structural investment case.

Source: Bloomberg data and Claude Generated Visual

Conclusion

The Middle East energy shock overtook our start-of-year expectation of policy easing in both the United States and South Africa. While those events delayed that outcome, we do not believe they changed the broader direction of travel. As the dust settles, we continue to view the shock as a bump in the road rather than a turning point. In both economies, markets appear to have over-extrapolated a temporary, energy-driven inflation impulse into a more persistent problem than we believe is justified.

In the United States, we expect the Warsh-led Fed to remain on hold rather than resume tightening. The dot plot notwithstanding, we do not believe a voting majority supports further rate hikes this year, while financial conditions have already absorbed the equivalent of "shadow tightening" through higher market rates. Beneath resilient headline data, labour market strength is becoming increasingly concentrated in a single, structurally supported sector.

In South Africa, we believe the bar for further tightening has risen materially. The May hike was a credible pre-emptive response to elevated geopolitical uncertainty, but many of the conditions underpinning a more extended hiking cycle have since faded. Brent has largely round-tripped the shock in rand terms, food inflation is at a 17-month low, and a financially stretched consumer leaves little scope for meaningful second-round inflation. We expect the repo rate to remain at 7.00% through year-end, headline inflation to moderate from July, and the residual hiking premium embedded in the front end of the curve to continue unwinding.

Our positioning follows directly from that view. We favour the front end of the SAGB curve, positioned for a bull steepener, while remaining more cautious further out where renewed upward pressure on global term premia remains a risk. Within equities, we retain a constructive view on SA Inc., favouring banks, industrials and a deliberately defensive stance within retail. We also remain positive on listed property, with a preference for high-quality transport-node retail and logistics assets. Money market continues to pay investors to wait, while credit spreads offer inadequate compensation for risk. We hold inflation-linked bonds selectively as portfolio insurance rather than as a core overweight and would view a deeper pullback in gold towards US$3,430/oz as an opportunity to accumulate rather than a reason to question the long-term investment case.

The principal risks to our outlook remain a renewed energy shock, a further rise in global term premia, and inflation expectations proving more persistent than we anticipate. We will continue to reassess our views as the evidence evolves.

> *Our message for H2 2026 is simple: if energy prices remain contained, we think the rates tightening priced into markets is unlikely to be delivered, and positions in the front end of the curve, in SA Inc. and in quality income assets should be rewarded.*