

War and More War – Market Commentary

February was a very strong month for South Africa (perhaps a peak month given developments to date in March), driven by its large exposure to Resources. The local market returned +7.8% in USD terms relative to +5.5% for the MSCI Emerging Markets Index. Over the two months since the start of the year South Africa has returned +15.5% in USD terms vs the MSCI Emerging Market Index at +14.8%. We know that the EM Index had some high-performing markets over the period i.e. South Korea, therefore we do not think there is correlation between the South Africa performance and the aggregate EM performance.

The MSCI World Index returned +3.0% over the two months, however this masks disparate performance between the US and the Rest of the World. The S&P 500 returned +0.6%, and the Nasdaq -1.1%, vs the MSCI World ex-US at +9.8%. Apart from more negative recent sentiment, the US market also had significant impact from the Software selloff in February. This is evidenced by the S&P 500's February return of -0.8% vs the Nasdaq at -2.3%.

Related to the above is strong outperformance by Value for the first two months of the year at +7.8% vs Growth at -1.9%.

The various market returns are summarised in Table 1 below.

Table 1. South African and global equity returns (USD) for January 2026*

	Feb-26	YTD 2026
FTSE/JSE ALSI (ZAR)	7.0%	11.0%
FTSE/JSE ALSI (USD)	7.8%	15.5%
MSCI World	0.7%	3.0%
MSCI World ex-US	4.8%	9.8%
MSCI EM	5.5%	14.8%
MSCI Value	2.9%	7.8%
MSCI Growth	-1.6%	-1.9%
S&P 500	-0.8%	0.6%
Nasdaq 100	-2.3%	-1.1%

*Total return indices, Source: Factset

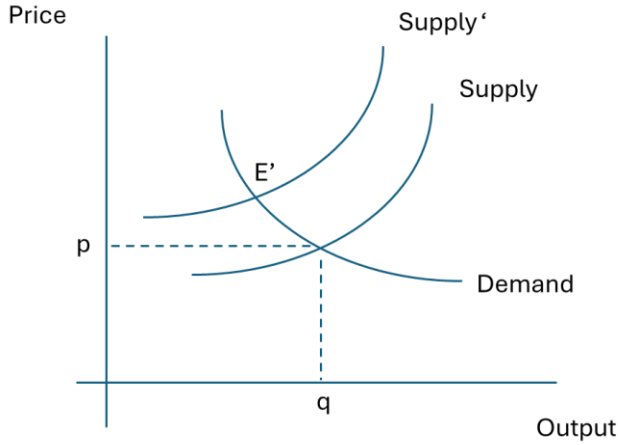
The obvious subject of commentary this month is the war in the Middle East since this has a direct bearing on current market movements. More precisely war developments appear to be driving the US market which in turn is driving the rest of the world including South Africa. We observe this daily.

In terms of investment effects some of the more prominent and well-covered indicators include

- **Oil** – this has implications for inflation and recession (stagflation). We include a basic economics graphic in Chart 1 below to explain the reasoning
 - o Aggregate Supply and Demand are initially balanced at quantity q and price p
 - o an increase in the price of Oil as input cost raises the price of supply at every quantity to Supply'

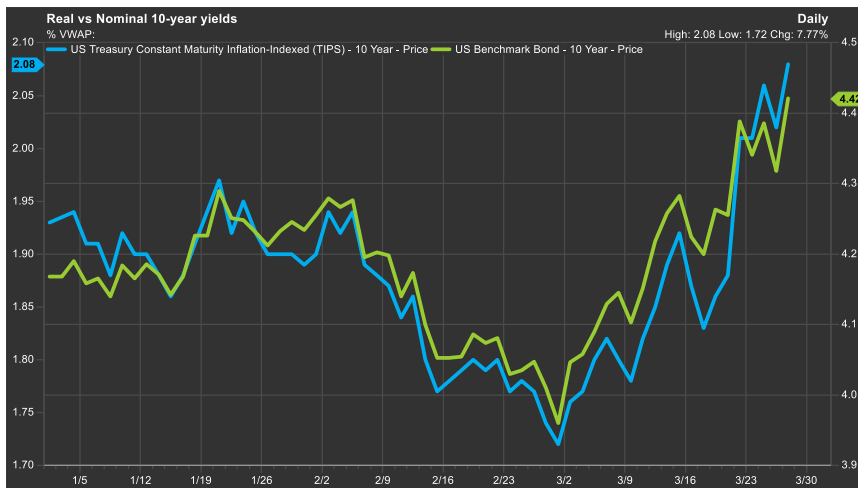
- the new equilibrium of Aggregate Supply' and Demand settles at E' at a higher price level (inflation) and lower level of output (recession)

Chart 1. Oil and stagflation



- **Treasury yields** – up we are told – the 2-year US Treasury is up +0.5% from 3.4% to 3.9%. The 10-year Treasury yield is also up approximately +0.5%. We point out however that about +0.4% comes from a rising real yield. We present both the nominal and real yields in Chart 2 below.

Chart 2. Real vs nominal 10-year yields



Source: Factset

We find the commentary on rising yields somewhat unconvincing since the change is relatively small when considered in historical terms, in Chart 3 below. Certainly we do not think there is a structural break of any form. The best we could say is yields remain stable, as they have been since 2023.

Chart 3. Real vs nominal 10-year yields – longer term perspective



Source: Factset

- **Gold** – if there is a rising fear of inflation and rising interest rates, indeed of geopolitical risk, we would be expecting Gold to rise. Instead Gold has tracked the S&P 500's slide, in Chart 4 below, though its percentage drop has been greater.

Chart 4. Gold vs the S&P 500



Source: Factset

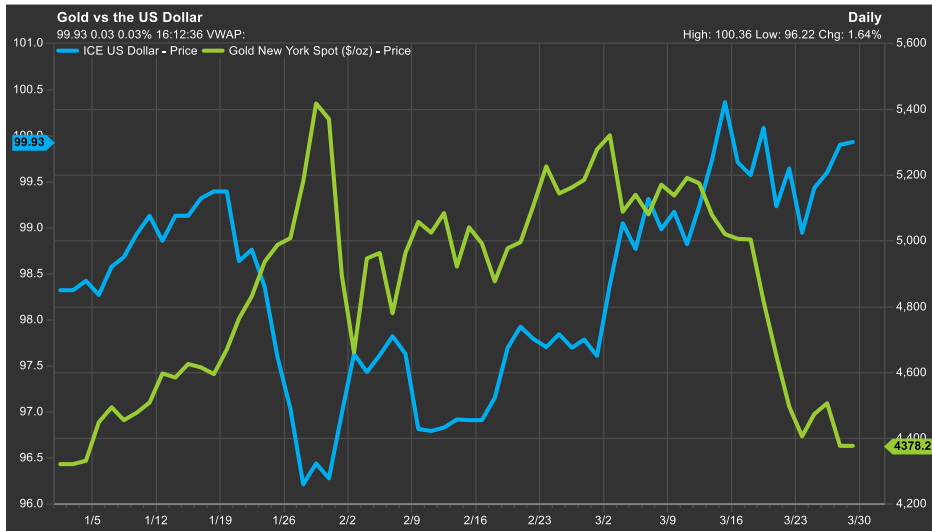
Chart 4 above reinforces our view, much like the Software selloff in February, that current events are a trigger to unwind a strong speculative rise in 2025. We would not be surprised if a significant portion of this unwinds in 2026.

With respect to the Software selloff we commented last month that we were more inclined to see this also as a trigger to bring overvalued securities back to longer term averages.

- **US Dollar** – not unexpected to see strength though not significantly so. The popular negative USD view has reversed at least temporarily. Per Chart 5 below

there is a case for saying Gold has been responding to USD movement. Much like with the S&P 500, Gold's percentage moves have been more pronounced.

Chart 5. Gold vs the USD



Source: Factset

The first casualty of war is the truth

On to the actual war. The heading above is sometimes attributed, incorrectly it appears, to Napoleon. It is nevertheless valid. A further quote, correctly attributed to Napoleon, reads

"Four hostile newspapers are more to be feared than a thousand bayonets"

We see this play out daily hence our highlighting it. We understand the Middle East war may be an emotive subject to some. Ordinarily we would not discuss non-investment matters. It is currently however very much an investment matter therefore we try as best we can to understand a narrative as close to reality as possible.

In this context we are sceptical of mainstream media coverage, whose narratives we are exposed to daily. We are even more sceptical of pronouncements by the Trump administration. We suggest instead that there are quite credible sources which present a very different narrative. We suggest to anyone interested in the subject to find them – they are publicly available and easily accessible.

We spare the details, though there are many, and worth a separate commentary in their own right, but summarise that our understanding is that

- Iran is not at all losing in the conflict. If true, and we have no reason to believe that it is not, and bearing in mind Iran's official requirements for reparations and guarantees for no further military activity against it, our best guess is that a settlement will be difficult to reach and the war might continue for some time. This then implies more Oil price pressure for longer, and further market declines
- far from President Trump's pronouncements of a forthcoming end to hostilities, and likely related to the above, is that we actually expect additional escalation in early April which would also likely be negative for markets unless it somehow leads to resolution (though we suspect not)

- a comment in favour of quick resolution is that President Trump has 60 days i.e. to the end of April, to conclude the war following which Congressional approval is required to continue. This in turn likely explains the expected escalation in the coming days (as well as a minor conclusion that if further escalation is required then clearly Iran cannot be losing). As mentioned, it also appears that it is not solely up to him and the US side to decide.

Bigger issues

Could there be a bigger issue than the war? The war is the current driver of the market. In the background however the private credit issues remain and appear to be building. We commented last month that in this sense the market is reminiscent of early 2008. Indeed should there be a quick resolution to the conflict, a market rebound would be expected. The credit problems are likely just as serious however, perhaps more so, and could lead to more sustained declines.