

War, AI and Private Credit – Market Commentary

March was marked by the Iran War market declines. Since President Trump proposed his tariffs last April media commentary has pointed to a weak USD and a supposed desire by international investors to reduce US exposure. The current crisis has instead unveiled some standard responses

- a strengthening USD
- an outperforming US market
- sharply underperforming Emerging Markets (“EM”s)
- Value outperforming Growth
- South Africa with its high Resources content underperforming already underperforming EMs

It seems the more things change the more they stay the same.

We add some specifics

- South Africa declined -16.7% in USD terms, but only -10.5% in ZAR terms following +7.5% in ZAR depreciation
- EMs returned -13.1%
- the US fell -5.0% while the MSCI World Index ex-US declined -9.7%
- Value’s outperformance was marginal for the month at -6.1% vs Growth’s -6.7% but material for the year-to-date in 2026 at +7.8% vs -1.9%

The various market returns are summarised in Table 1 below.

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

	Mar-26	YTD 2026
FTSE/JSE ALSI (ZAR)	-10.5%	11.0%
FTSE/JSE ALSI (USD)	-16.7%	15.5%
MSCI World	-6.4%	3.0%
MSCI World ex-US	-9.7%	9.8%
MSCI EM	-13.1%	14.8%
MSCI Value	-6.1%	7.8%
MSCI Growth	-6.7%	-1.9%
S&P 500	-5.0%	0.6%
Nasdaq 100	-4.8%	-1.1%

*Total return indices, Source: Factset

We think the Iran war, AI developments and the slow burn private credit challenges are the three forces currently affecting global markets, perhaps in that order. Of primary importance is the war, with markets responding daily to tweets and actual developments. The US equity market appears to have declared an end to the conflict, or is at least successfully ignoring it. We hope this is correct but remain unsure

- the conflict has not ended and might yet restart, in its hot form
- the Oil price has certainly not declared an end
- second order effects i.e. inflation and growth / recession data are still to feed into indicators and we are concerned about both

There are two issues to consider

1. when and how the conflict might be resolved
2. what the economic, and therefore, market impact will be

Resolution

We have no particular insight into how the conflict might evolve (much like the rest of the market we suspect) and prefer to defer to those with some insight. We also offer some considerations to bear in mind.

We suggested in last month's commentary that we do not consider mainstream coverage to reflect reality. Not least because (much like in the case of Ukraine) we hardly, if ever, hear directly from the other side. We also do not consider President Trump's tweets as reflective of reality as much as he is at the centre of the action, complete with suspicions of insider trading.

Outside of this in the age of social media anyone can, and does, comment. We are of the view however that only sources with a military and/or intelligence background (perhaps also investigative journalists) with appropriate channels, who are willing to speak independently and have a good track record in correctly assessing geopolitical developments are able to offer insight. These are few and typically offer a very different version of events to that commonly circulated by mass media. Based on their commentary and our own observations we make several comments

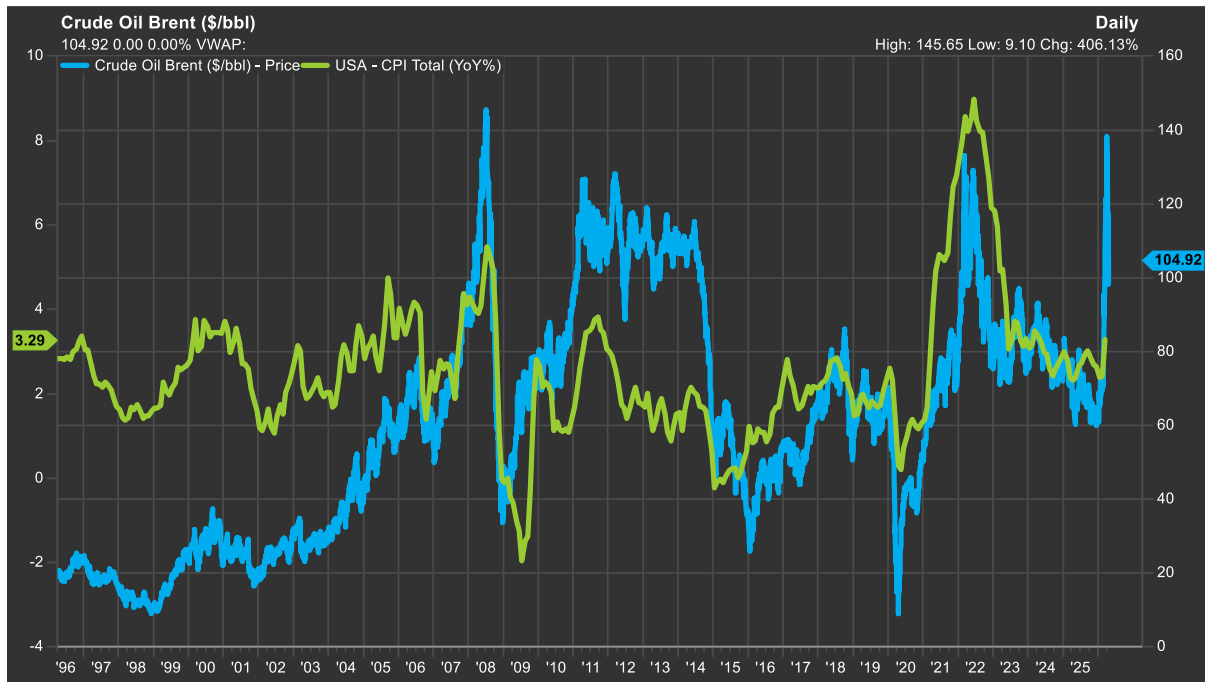
- none of the war's developments to date should be a surprise to anyone following events closely from independent sources (we have been following the conflict in detail since before the war last June, including the various exchanges prior)
- Iran had stated clearly prior to the war (not widely circulated of course) that should it be attacked it would engage in all-out war including attacks on US bases in the Middle East and closure of the Strait of Hormuz
- the current state of affairs, including the closure, the high oil price and supply constraints suggest Iran has clearly not lost and likely will be in a stronger position in dictating terms
- while the current ceasefires and extensions offer hope, the sources mentioned above suggest both sides have been replenishing supplies and preparing for renewed hostilities, with the latter seen as a more likely development
- the direct parties to the conflict have very different interests
- all of the above makes it unclear, at least to us, how agreement might be reached, and this would anyway likely take many months to negotiate (we in fact think one of the parties has no interest in any agreement whatsoever)

Economic impact

The two direct impacts are on inflation and growth. Chart 1 below compares the Oil price to US inflation, with a clear correlation between the two. Causality is as always a different matter. For example while 2022 saw a high oil price and high inflation, the high oil price was likely at least in part due to the onset of the Ukraine conflict. The correlation nevertheless exists.

Magnitude is another matter and it remains to be seen, if inflation is to rise, by how much. A constraining factor should be that inflation is unlikely to be significant in the absence of money supply growth. In contrast to 2021 this currently remains subdued.

Chart 1. Oil price and US inflation



Source: Factset

With respect to growth we read commentary this morning how the US is a net Oil exporter and therefore likely facing merely high inflation while the rest of the world is likely to face pressure on growth.

We are not so sure about this either.

Firstly, the impact is not in the data yet. Once it is, the market will react near-instantaneously and by then it will be too late.

Secondly, price is only one problem. Availability is a greater problem. Asia, as is well-covered, is already being impacted. Airlines in Europe are cutting capacity and are said to have 6 weeks of supply. To us this looks like a sharp decline in economic activity.

Thirdly while the US is indeed a net exporter and despite Mr Trump's best efforts, the global economy remains intertwined. A decline in economic activity in the rest of the world will impact US non-Oil exports and therefore growth.

As mentioned the data is not out yet so it is difficult to tell in advance but we suspect the impact might not be insignificant. We know that 12m barrels of Oil per day are not flowing. Two months of disruption add approximately 1 billion barrels to be drawn from inventories or made up in demand destruction.

A primary casualty of a downturn in the US is likely to be the Tech sector, while the Resources-heavy ALSI is likely to exhibit above-average volatility as it did in March. We doubt Copper, a beneficiary of the energy transition and AI infrastructure, will be resilient.

AI

Allbirds, a US maker of sustainable sneakers from wool and sugarcane, had suffered a 99% decline in its stock price. In April Allbirds announced a new business plan - AI

computing infrastructure, including becoming a GPU-as-a-Service and AI-native cloud solutions provider. It intends to sell USD50m in debt to finance these new initiatives.

The relevance of this is that Allbirds' share price rose +582% on the announcement. Its capitalisation currently stands at USD67m while at its peak it exceeded USD4bn.

We think we have seen this movie before. And if ever there was a sign of a bubble this is it. In a past commentary we suggested these sorts of developments are reminiscent of the dotcom era when merely including .com in a company name was sufficient to raise venture funding or to lift a company's stock price. Including .ai appears to be today's version.

1. we continue to wonder about AI – we are bombarded daily with its capabilities. Anecdotal evidence meanwhile, our own experience, says that Amazon's AI chatbot still remains unable to deal with simple queries
2. Software-driven, and some less software-driven, companies continue to be subject to significant selling pressure on AI fears. If these companies prove to be more resilient than expected (as we suspect they might) this is giving rise to some of the more attractive valuation opportunities currently.

Private credit

We add this section to the commentary not to provide particular insight but once again to highlight an area of concern where there is limited data. The problem continues to evolve.

In general in terms of equity positioning we see little reason for a material rise in markets. Coupled with a relatively high valuation in the US we think caution is warranted.