## AI or Oil – Market Commentary

August saw a rebound of the AI trade following July's collapse and this drove US and global benchmarks higher. Gold also surged leading the local market to outperform.

The Nasdaq rose +4.2% and the S&P 500 rose +2.7% courtesy of stronger AI stocks. The MSCI World Index rose +2.6% although the MSCI World ex-US was not far behind at +2.2%.

Somewhat surprisingly Value and Growth were in line at +2.6% for the month.

Strong AI performance also drove the South Korean and Taiwan markets higher, with the MSCI South Korea and the MSCI Taiwan Indices returning +5.9% and +6.4% respectively. These in turn helped drive the MSCI Emerging Markets Index up +3.4%.

Encouragingly a stronger Gold, and with it Platinum, price led the South African market to a +7.4% return in USD terms. This was almost double the MSCI Emerging Markets return for the month. The local market is however still far behind the Emerging Markets Index on a year-to-date basis.

The various market returns are summarised in Table 1 below.

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

| | Aug-26 | YTD 2026 |
|---|---|---|
| FTSE/JSE ALSI (ZAR) | 4.6% | 2.8% |
| FTSE/JSE ALSI (USD) | 7.4% | 5.6% |
| MSCI World | 2.6% | 13.1% |
| MSCI World ex-US | 2.2% | 13.9% |
| MSCI EM | 3.4% | 24.1% |
| MSCI Value | 2.6% | 17.4% |
| MSCI Growth | 2.6% | 8.9% |
| S&P 500 | 2.7% | 12.9% |
| Nasdaq 100 | 4.2% | 17.1% |

*Total return indices, Source: Factset

## An Approaching Oil Crisis

The threat of oil supply disruption has loomed large since the initiation of hostilities against Iran in February. We were initially told to expect shortages by the end of May, then by the end of June, then the end of September. At the time of writing it is nearing the end of September and we have reason to believe the crisis may be finally be close to materialising. We regard this possibility as the single greatest threat to economic growth and therefore to investment markets.

### Why isn't the Oil price higher?

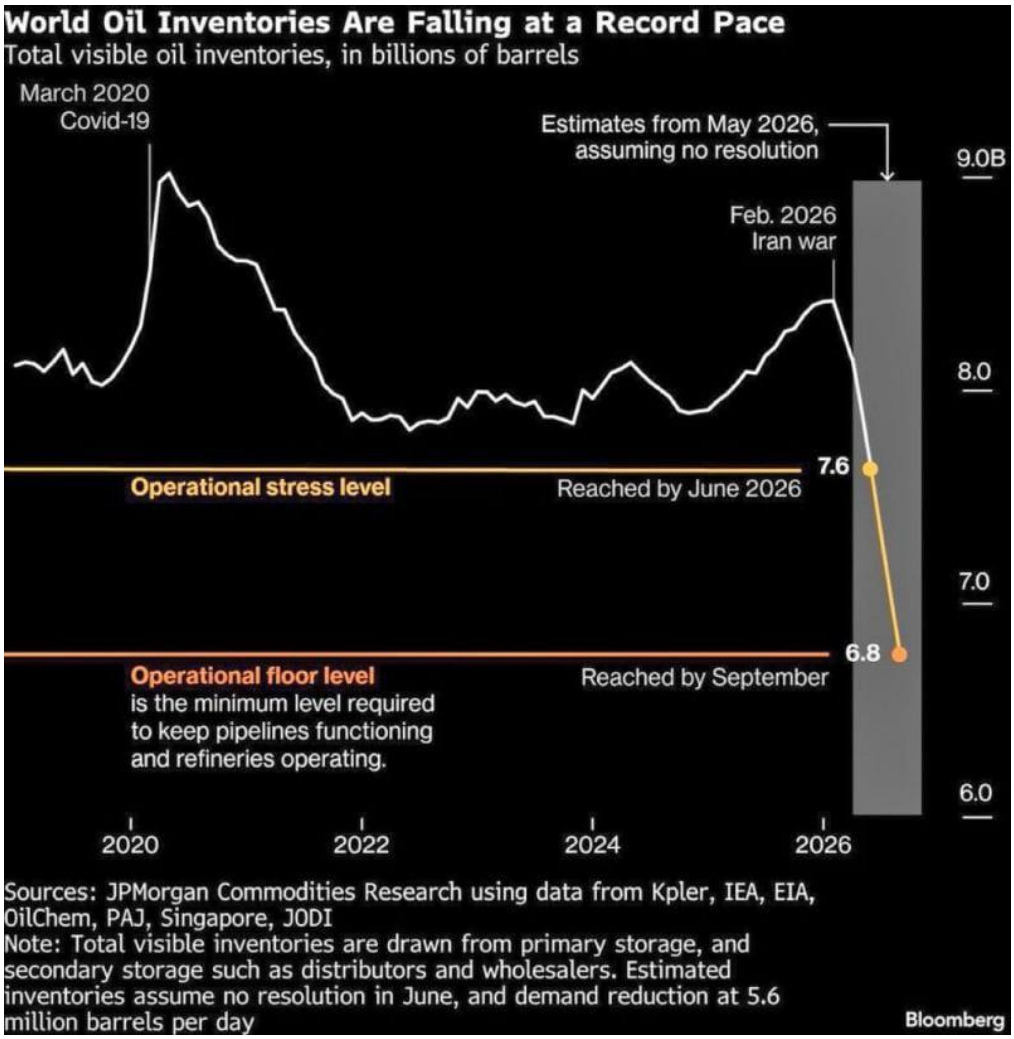
Several explanations have been advanced for this. For completeness we briefly review these below

- demand destruction – we have been quite sceptical of this argument since Oil demand tends to be highly inelastic, that is to say very insensitive to changes in price. This is the reason why there exists the possibility of a crisis to start with

- the number of ships crossing the Strait is greater than officially reported – we think this is plausible but also unlikely. We have maintained since the start of the war that Iran is in control. Nothing has materialised since to suggest otherwise (previous commentaries expand on this)
- alternative routes – it appears this is the reason for the recent attacks on Saudi refining capacity (sparsely reported on by Western media), the East-West pipeline and Houthi action in South-Western Saudi Arabia i.e. it is being closed down
- drawdown of reserves – this is the single most important reason for the crisis not being felt sooner, but one with finite capacity and fast being exhausted

With respect to the latter we present a JP Morgan / Bloomberg chart below on the drawdown of reserves, which reserves had coincidentally been built up prior to the war though not in anticipation of the war.

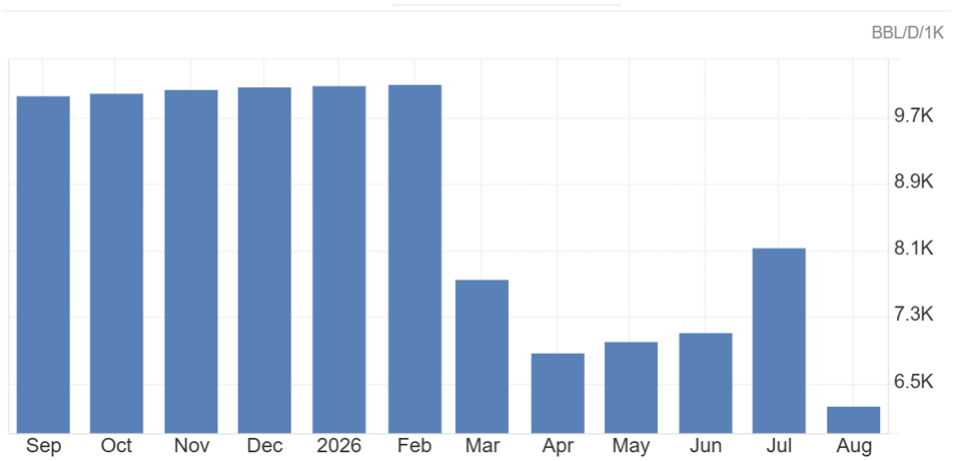
**Chart 1. Oil inventories at critical levels**




Per Chart 1 above, it appears Oil inventories are close to being exhausted.

Production is itself also being impaired. Chart 2 below presents Saudi Oil production which is down 35%. Saudi Arabia is one of the top 3 global producers along with Russia and the United States, each producing close to 10m barrels per day.

**Chart 2. Saudi Oil production**




Source: www.tradingeconomics.com

**The composition of disruption is more important than aggregate levels**

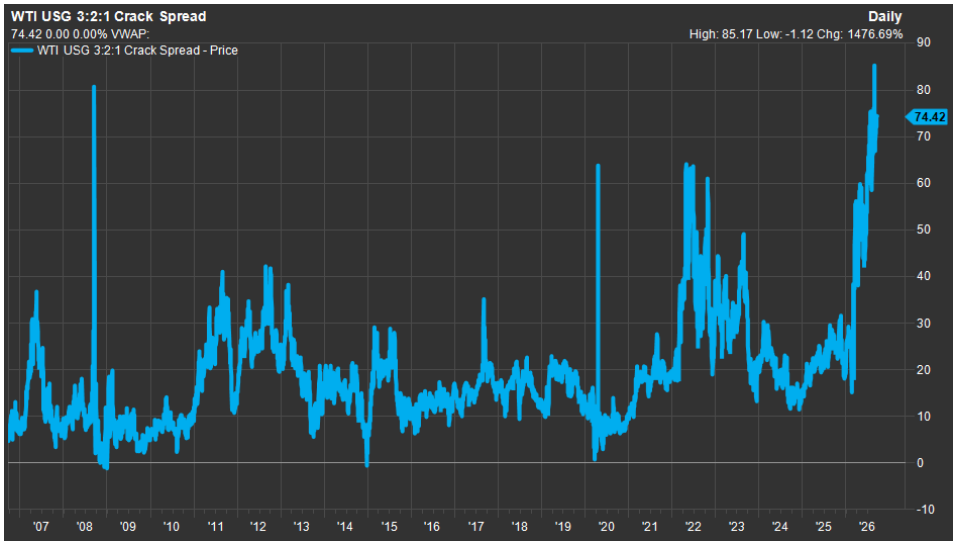
Almost all refined petroleum products including gasoline, kerosene, and jet fuel are technical distillates. In industry language however *distillate* refers to products falling between gasoline and heavy residual fuel oils i.e.

- diesel used for trucks, buses, trains, and heavy machinery
- heating/furnace oil used for residential and commercial building heat, and
- kerosene and jet fuel used in aviation and portable heaters

This is where the inventory declines are being felt most acutely, with a worldwide shortage of motor oil and a quadrupling in its price one example, amongst others.

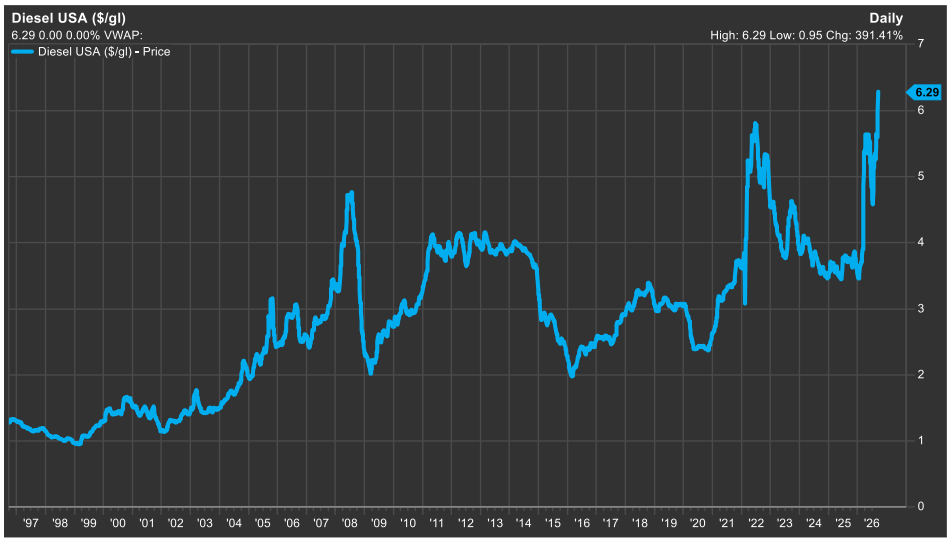
We present in Charts 3 and 4, the crack spread i.e. the difference between refined product and crude oil, and the diesel price, both of which are at highs.

**Chart 3. The crack spread**




Source: Factset

**Chart 4. Diesel price**




Source: Factset

Finally, even with the Oil price not as high as expected we are seeing signs of stress e.g. governments removing fuel taxes to alleviate pressure.

**Why are equity markets rising?**

AI would be the easy, obvious answer. We point however to the Atlanta Fed Q3 2026 US GDP growth forecast of +5.1% (real). This growth is composed more or less equally of

- a buildup of inventories (perhaps this is due to the current geopolitical uncertainties)
- private investment spending, a large part of which is AI spending, a large part of which is debt-funded
- US Government deficit spending, a large part of which is current war spending, and also debt-funded

We think that until there is a clear threat to the strong growth rate, markets are unlikely to decline materially. Yet the threat is building. We are reminded of early 2020 when the evidence from China was known and available e.g. empty parking lots and inactive factories, yet the US market continued to rise in January and February of that year.

**How might markets respond?**

Should a recession scenario materialise, equity markets would be expected to decline. Tech stocks would likely experience the sharpest declines, and AI stocks would likely exhibit the sharpest declines within Tech stocks.

In South Africa, the Resources sector and Platinum shares in particular, would likely be most affected, although a strengthened US currency would dampen the effects in ZAR terms.

**Other risks**

The other obvious risk is a rising long term interest rate i.e. the US Treasury yield. This will be the subject of a later commentary.

In general we continue to suggest caution.