

Digging deeper into current markets

We all know the old saying that “a week is a long time in politics.” That certainly remains the case – just cast your eye to the UK - but it can apply equally to markets as well. It feels like we have just finished our mid-year Insight seminars, but already conditions have evolved. An uneasy truce is taking hold in the Gulf, which is allowing ships to move. Oil prices have reacted, but so too have currencies and commodities, and not necessarily in the manner expected. This note delves into some of these unfolding trends.

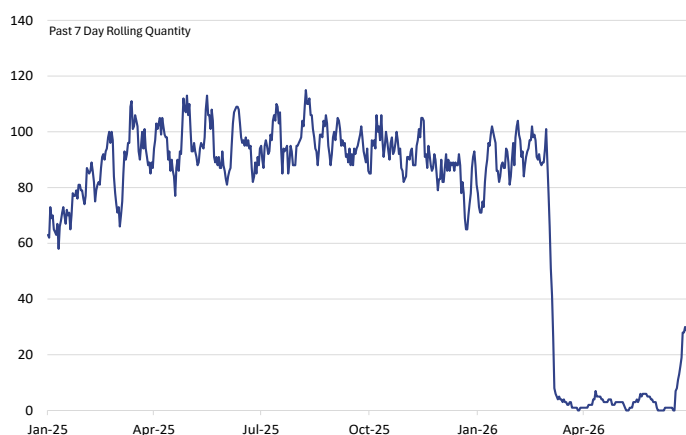


Michael Porter

There are periods when it seems that nothing much happens, and then days or weeks when the whole world seems to shift on its axis given the magnitude of events. That applied in February when war broke out, but events have moved quickly in June as well. On 16th June, a Memorandum of Understanding (MOU) was unveiled between the US and Iran. Two days later, an interim peace deal was signed, paving the way for the Strait of Hormuz to be reopened. We have no doubt that there will be many bumps on the road to peace, but markets are focussed on the end goal. Crucially, the US is allowing some Iranian oil to flow back into markets.

One of the themes we discussed in our recent Insight seminar was the outlook for the oil price. Our analysis suggested

SHIPS TRANSITING THROUGH STRAIT OF HORMUZ



At the time of writing, the number of ships passing through the Strait had risen to 27 on a rolling 7-day basis. It is a far cry from normality, but the trend is certainly positive.

SPEED READ

- A peace deal has been tentatively signed. Ships are once again passing through the Strait of Hormuz.
- Oil prices have fallen far quicker and further than we anticipated.
- Despite the disinflationary pulse from lower oil prices, markets are expecting the Federal Reserve to raise interest rates – thanks to a hawkish new chairman.
- Consequently, the Dollar has strengthened, and commodity prices have tumbled.
- Without the AI-driven hype, US market returns are negligible this year.
- However, In SA, the Top 40 Index would be 10% higher (rather than the actual 5.6% lower) if the gold and platinum shares are excluded.

that even if the Strait reopened, it would take time for oil prices to normalise – given the combination of severe stock drawdowns, seasonally higher demand in the Northern Hemisphere summer, and the disruption to shipping routes that would take time to rectify. That outlook as been turned on its head. Oil prices have declined sharply – now back to almost \$70 per barrel – virtually unchanged from the price on the last day of February before war broke out. Interesting, in Rand terms the price per barrel is now R1,198 versus R1,150 on the 27th February, and the low point of R986 in the first week of January.

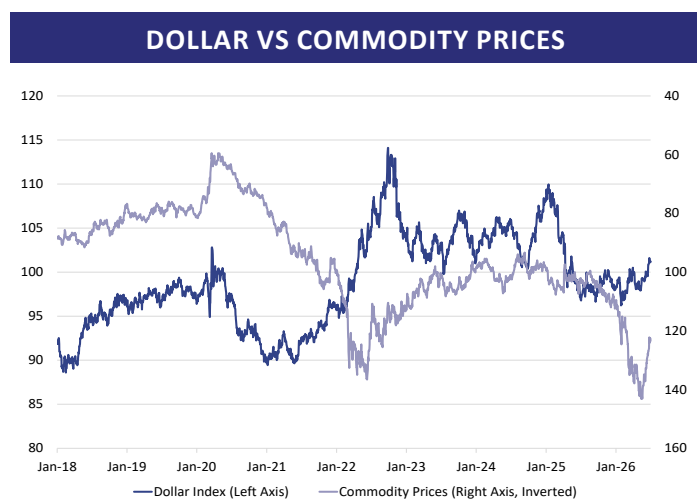
What has transpired in the past few weeks to cause such a dramatic change of fortune? It appears to be a combination of two factors. Firstly, oil stocks have not been drawn down as aggressively as expected. Secondly, there has been greater demand destruction than expected – i.e., demand for oil has dropped in response to higher prices. Combined, these point to an oil market under significantly less stress than anticipated.

The Strait has now partially reopened, as evidenced by the chart below which shows the number of ships transiting the

Strait on a rolling 7-day basis. Before the war, 100 ships on average passed through every week. That dwindled to virtually zero, but has now bounced back to 27 at the last count. Further normalisation will take time, but we are on the right path.

One would think that falling oil prices would be a panacea for markets. After all, oil is the biggest driver of inflation, so lower oil prices would surely give central banks breathing room to reign in any unnecessary interest rate hikes. This has been the case in SA, where expectations for another rate hike in July have receded. But not so in the US. There it is a more nuanced situation. On the one hand, markets and the economy are strong – buoyed by the avalanche of money being thrown at AI investments. Consequently, labour markets and underlying GDP growth are strong. The unemployment rate sits at just 4.3% - virtually unchanged over the past two years despite tariffs and the Iran war. Furthermore, it is not surprising that inflation has risen – a response to higher oil prices like everywhere else. The complicating factor has been the change in chairman of the Federal Reserve – Jerome Powell has been replaced by Kevin Warsh. Backed heavily by President Trump, many thought Warsh would be under political pressure to lower rates, even in the face of rising inflation. His first meeting as chair threw cold water on that scenario. To the contrary, his comments carried a hawkish tone. That has caught markets off-guard.

The implication is that US investors are now expecting the Federal Reserve to raise interest rates this year, whereas with developments in the Gulf, one could easily argue that rates should at best be on hold. The prospect of higher rates has caused the Dollar to strengthen and consequently, commodity prices to fall. The implications thereof are rippling through our own market, but I will come back to that point later.



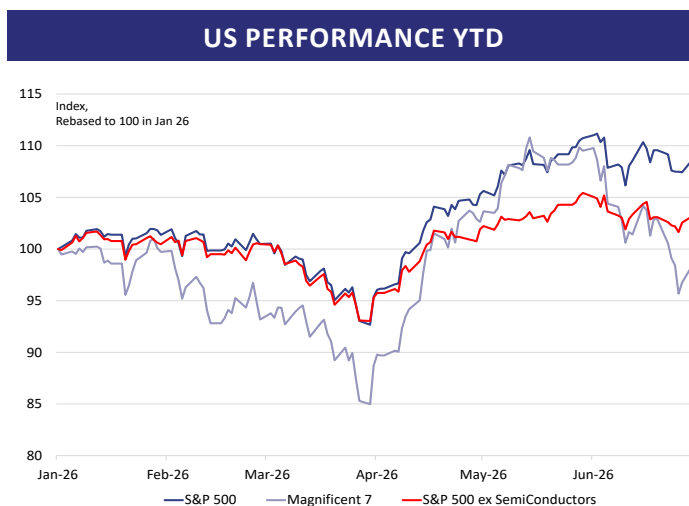
There is an inverse relationship between the direction of the US Dollar and commodity prices. Dollar strength implies weaker commodity prices. That is exactly what has transpired. Gold and platinum prices have been especially sensitive to this trend.

At the same time, the love affair with AI continues. Investors



The oil price has dropped from its high point during the Iran war, which saw a massive and rapid spike after the Strait of Hormuz was blockaded.

will be so familiar with the term, “The Magnificent Seven” – a reference to the handful of large US tech companies that have dominated the investment landscape for the past ten years. That guard has changed. Now it is all about “the picks and shovels” – companies that are supplying the chips and infrastructure to build datacentres – and not necessarily the companies paying for that datacentre capacity or driving AI adoption. The Magnificent Seven are out – replaced by the semi-conductor industry with global tentacles that spread as far as Japan, Taiwan, South Korea and the Netherlands. Increasingly, offshore markets are becoming increasingly concentrated – suppliers to the AI revolution are booming, whilst the balance are performing far more modestly. Many sectors are in negative territory for the year – a contrast to what the headlines imply.



On the surface, the US appears to be delivering good returns. But the Magnificent 7 are flat for the year and without the semiconductor sector, the S&P's performance would be barely positive.

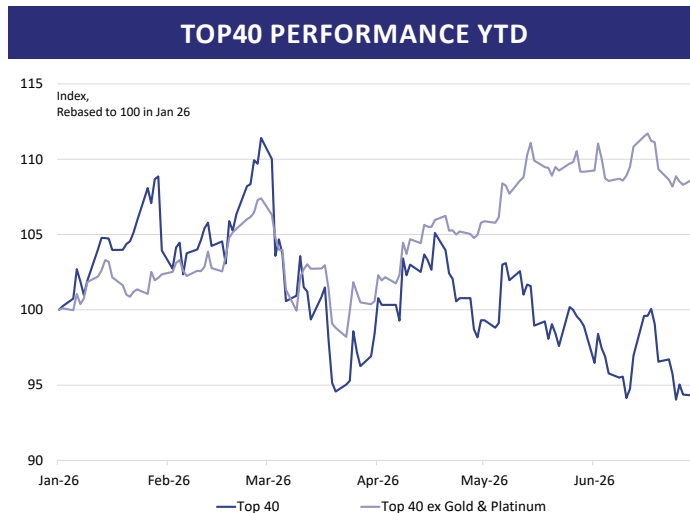
If we turn our attention to our own market, the same underlying trends are evident. Some sectors have performed well, but the overall index has been dragged lower by the fall

in the gold and platinum sectors, as those commodity prices have retraced from their highs. At the time of writing, the JSE All Share Index was down 4.8% for the year, with the Top 40 Index faring slightly worse, down 5.6%. However, if we strip out the volatile gold and platinum shares from the Top 40 Index – eight of the forty stocks in that index are either gold or platinum miners – then the picture looks somewhat different. In fact, the balance of the Top 40 basket is actually up 9%. That is thanks to robust performances from domestic sectors – banks, property, telecoms, general industrials and consumer goods. This performance is even more remarkable if we consider that Naspers and Prosus – heavyweights in the index themselves – are both down close to 25% this year.

Looking ahead, the crystal ball is no clearer than it was a few weeks ago. What is remarkable is the relative strength of the Rand in the face of both weakening precious metals prices and a stronger dollar.

Given how events have unfolded, we do believe that the worst of the war is behind us. It is hugely encouraging that oil prices have retreated so quickly. Petrol and diesel prices fell by approximately R2 and R3.50 per litre respectively earlier this week – some relief to both businesses and consumers. Should oil prices sustain their current levels, we can expect further relief at the pumps next month as well. That will start to unwind the inflationary pulse caused by the war.

As expected, markets are extremely fluid. Any hint that the



The Top 40 shares in South Africa have actually performed solidly this year if the impact of the gold and platinum shares are removed.

Federal Reserve will hold rates steady rather than raise them will see a change in the Dollar trend, and with it, commodities. Clients should brace themselves for the occasional (or should that be frequent?) whipsaw, as headlines make day-traders run from one side of the ship to the other. Nonetheless, we can take encouragement from the sudden improvement, which should allow South Africa's improving fundamentals to reassert themselves. That would bode well for growth and returns in 2027.



Despite the fall in commodities, such as gold and platinum, and the concomitant fall in related miners' shares, the Rand has held up.



Our next seminar will delve into the complicated world of AI and articulate how we have positioned portfolios to benefit from this fast-moving technology.”



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HARVARD HOUSE GROUP



3 Harvard Street, Howick, 3290, South Africa



P.O. Box 235, Howick, 3290, South Africa



+27 (0) 33 330 2164

Topic:

Positioning your portfolio for AI

Natal Midlands

Date: 10th of September, 2026

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 8th of September, 2026

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: N/A

Venue: Kelvin Grove Club, 144 Camp-ground Rd, Newlands, 7700

Time: 7.30am

Venue: Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town

Time: 5.30pm for 6pm



+27 (0) 33 330 2617



admin@hhgroup.co.za



www.hhgroup.co.za

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