

Market Perspective

Second Quarter 2026

Current Outlook – Market Volatility

The resilience of the global economy is being tested by the evolving conflict in the Middle East which has generated new inflationary pressures while creating significant uncertainty, according to the OECD's latest Economic Outlook. The evolution of the conflict is highly uncertain and poses considerable risks to both economies and markets, with a global recession becoming more likely if oil prices remain high into the second half of 2026.

South Africa

South Africa's GDP is expected to grow by a modest 1.6%, signalling a slow but positive recovery that remains highly dependent on policy implementation to support growth and job creation. Continued improvements in infrastructure, regulatory efficiency and targeted sector support could lift growth, but the escalating Middle East conflict and ongoing political tensions within the GNU risk undermining efforts to push the economy back above 3% annual growth.

The JSE All share index had a great start to the year, reaching an all-time high of 129,000 at the end of February. Since then it has fallen by 10% due to risk aversion triggered by the Iran war.

The closure of the Strait of Hormuz, which 20% of the world's oil flows through, is sending shockwaves through the global economy. Oil prices have spiked from around \$ 65 per barrel to \$ 110 currently.

SA is benefitting from strong commodity prices, notably gold and platinum, which despite some pull-back are still trading at much higher levels than their 5 year averages. The Rand has weakened to R16.80 against the US\$ over recent weeks, in line with other emerging market currencies, due to heightened risks around the Iran war.

Portfolio Position – Defensive

Developed Markets

Global growth was forecast to remain steady in 2026, led by resilient US support from consumer spending and additional fiscal stimulus. However, the conflict in the Middle East has required the International Monetary Fund (IMF) to revise its outlook downwards. "All roads now lead to higher prices and slower growth" according to the IMF.

The S&P500 index has fallen only 6% from its January 2026 highs despite the risks surrounding the Iran war and oil prices of over \$100 per barrel. Japanese and European equity markets also seem to have priced in a short conflict with limited economic repercussions. However, analysts warn that US and European equity markets have shown excessive complacency in the face of significant geopolitical and economic risks.

On the other hand, US & Developed market bond yields have jumped to the highest levels in over a decade, as bond investors, who focus on capital preservation, are pricing in the likelihood of higher inflation due to higher oil prices.

Global inflation, which was trending toward central bank targets through 2026, is now expected to rise sharply on the oil shock. The prospects of a worldwide recession become more real the longer the Iran conflict continues.

The longer oil prices remain elevated due to the conflict in the Middle East, the greater the inflationary shock that will be felt in countries all over the world. Our portfolios reflect our cautious outlook, prioritising capital preservation whilst locking in profits through regular rebalancing.

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