Market Matters

SYMMETRY

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INVESTING IN AN ODD WORLD



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Synopsis:

- While 2025 was a terrific year for South African investors, 2026 has proved more difficult.
- Oil, datacentres and debt have dominated the global investing landscape this year, creating crosscurrents for investors.
- The oil price spike is due to war in the Middle East and can reverse quickly if politics allows for peace.
- Higher fuel prices have put pressure on companies and households, but the global economy remained resilient overall.
- This is partly due to the massive datacentre boom, but questions remain whether all this spending will result in sufficient profits down the line. Markets are increasingly worried that datacentre builders are overextending themselves.
- This is particularly relevant since they are borrowing large amounts of money, competing with governments that are also increasing debt levels.
- While rising government debt is a long-term trend, this year has seen upward pressure on borrowing costs, compounding the short-term problem.

As November gets underway, it is fair to say that it has been a very eventful year. While 2025 was a terrific year for South African investors, 2026 has been tough going, particularly for the local equity market. From the perspective of investors, it has been a particularly "ODD" year, dominated by oil, datacentres and debt. Let's take a closer look at each.

OPERATION EPIC FOLLY

When the US and Israel attacked Iran in late February, President Trump was probably hoping for a repeat of the raid on Venezuela that quickly toppled its strongman leader, Nicolas Maduro. However, not only is Iran's regime still standing, but it also spread the fighting throughout the Gulf region. Most notably, it attacked shipping in the Strait of Hormuz, disrupting the world's most important maritime channel for seaborne oil. What followed was a predictable spike in the price of crude oil. It jumped from $60 per barrel at the start of the year to $120 per barrel in April, before peace talks and an eventual ceasefire calmed things down by mid-year.

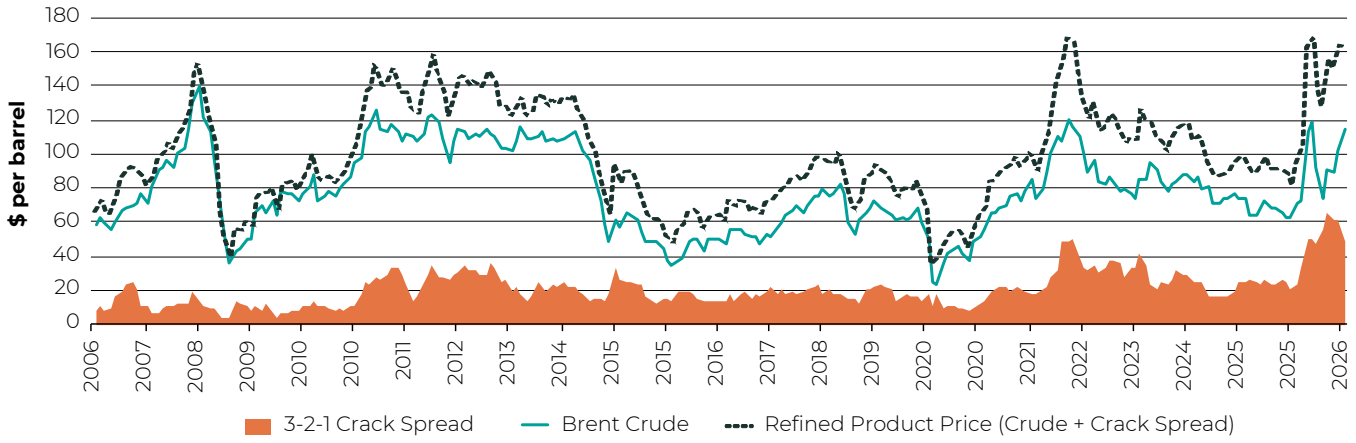
The second phase of the 2026 oil shock started around September when it became clear that the ceasefire would not be durable. Fighting between the Iran-backed Houthi rebels from Yemen and Saudi-Arabia have sparked further fears of sustained supply disruptions. Despite this, it appears that oil exports

from the region have nearly recovered to pre-war levels. The fact that the crude oil price has headed back towards $120 therefore reflects a substantial risk premium, as well as a dramatic increase in the cost of shipping. Ship captains, owners and insurers naturally want compensation for navigating the gauntlet through Hormuz.

BARREL HALF FULL

Whether the glass (or barrel) is half full or half empty depends on what one chooses to focus on. On the one hand, the crude oil price never reached levels that would be considered extreme in a historic context, as the solid line on chart 1 shows.

CHART 1: CRUDE OIL AND REFINED PRODUCT PRICES

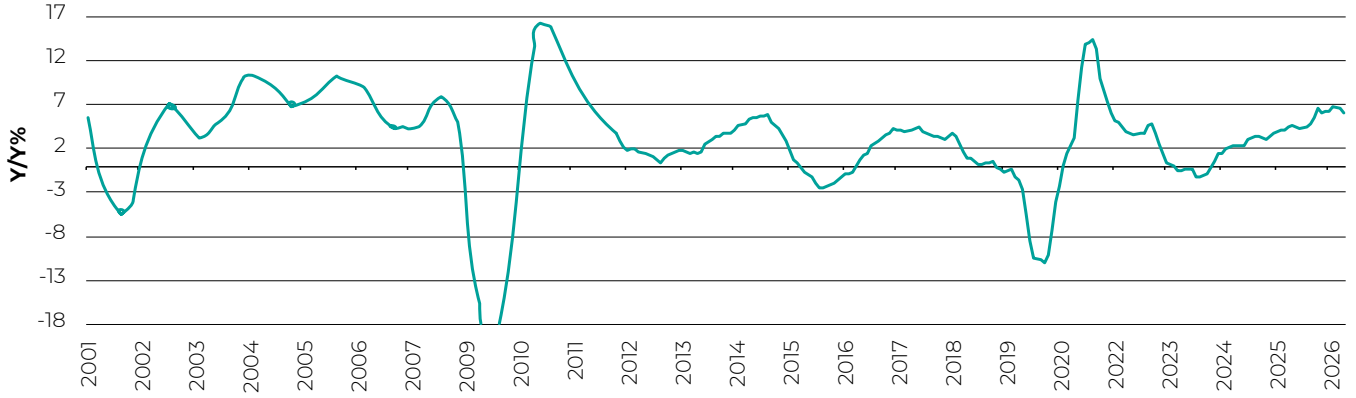


Source: LSEG Datastream

However, refined product prices have increased much faster than crude prices over the past two months or so. The solid area on chart 1 shows the "crack spread", a proxy for refinery margins. Apart from refineries in the Middle East, plants in Russia have also been damaged in the ongoing war with Ukraine. Add the crack spread to the crude oil price, and the dotted line approximates the price that consumers and firms pay for fuel. This is near record levels.

Nonetheless, the world economy has been resilient. This is partly because we are less dependent on fuel to generate economic activity compared to 20 or 30 years ago. For instance, modern petrol cars are far more fuel-efficient, and the share of electric and hybrid vehicles has grown. Moreover, the fuel price spike has not been compounded by an interest rate shock and surging US dollar as in 2022. Finally, there is the datacentre boom.

CHART 2: GLOBAL EXPORT VOLUME GROWTH



Source: CPB World Trade Monitor

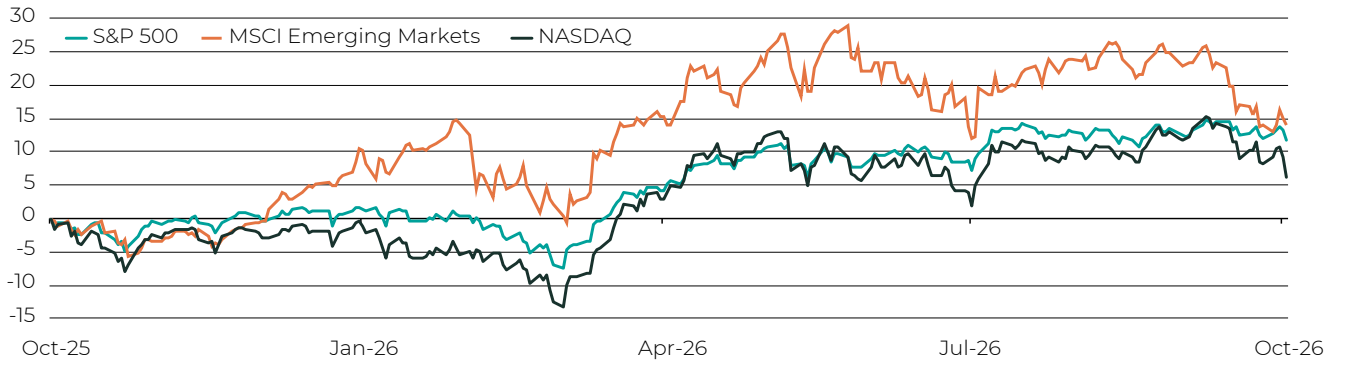
The massive build-out of the datacentres powering artificial intelligence models has been compared to some of the largest capex booms in history. While datacentre construction is largely taking place in the US, components come from all over the world. These include semiconductors from Taiwan and memory chips from South Korea, electronics from China, server systems from Germany, grid equipment from Japan, and copper from Chile, among many others. Global export volumes have been growing strongly over the past year, despite US tariffs.

There is no question that datacentre construction is boosting the world economy, and the US in particular, at an otherwise difficult time. The question is whether all this spending will generate a sufficient return or end up creating massive white elephants. Few doubt that AI will be a transformative technology, but it ultimately depends on how much people and companies will be willing to spend on it, and whether the AI companies will have pricing power.

For instance, Gartner, the tech consultancy, calculated that spending on AI by customers would need to be a cumulative $8.5 trillion by 2030 for datacentre owners to cover capex, financing costs and earn a decent return. However, it believes this number will only be $3.5 trillion – still a massive amount, but not enough. This is just an estimate, but it does suggest that many firms without strong competitive business models and sticky customer relationships will struggle to survive.

Investors have grappled with these issues since the AI rally started, and mostly decided things will be fine. However, there have been periodic pullbacks in the market, including the past two weeks.

CHART 3: EQUITY INDICES IN DOLLARS



Source: LSEG Datastream

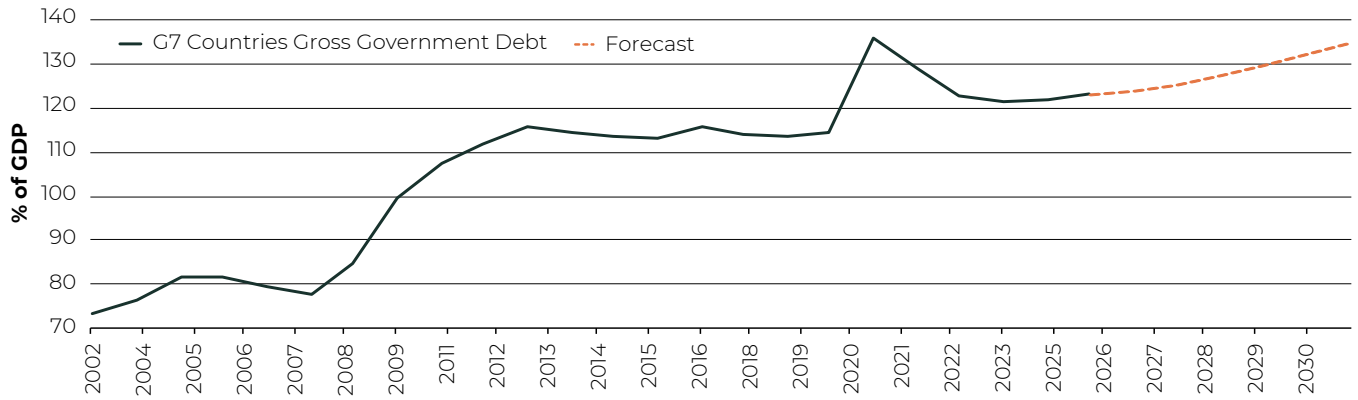
These corrections are uncomfortable, but necessary. It is much better for investors to recalibrate expectations regularly along the way than to wake up one morning realising that their projections were way off. This is especially true since datacentre construction is increasingly funded with borrowing from banks, private credit funds, the bond market – or from suppliers (also known as circular funding). A different form of liability that is funding the datacentre boom is "take-or-pay" agreements, where AI labs have committed to pay for datacentre capacity even if they don't ultimately use it. This has understandably raised eyebrows.

The longer a borrowing binge carries on uninterrupted, the worse the fallout when investors eventually realise that they've overdone things. There have been plenty of such capex cycles in real estate and other sectors to demonstrate this point. Moreover, the more the debt is structured in complex, opaque and off-balance sheet vehicles, the greater the odds of a serious reckoning.

DEBT

Datacentres and debt therefore intersect, but the worrying rise in global government debt levels long predates the AI frenzy. According to the International Monetary Fund (IMF), the global government debt-to-GDP ratio is on course to reach levels last seen in the wake of World War II, led by the advanced economies. (The 2020 spike in the seen in chart 4 was because the denominator fell so sharply during Covid).

CHART 4: G7 COUNTRIES GROSS GOVERNMENT DEBT

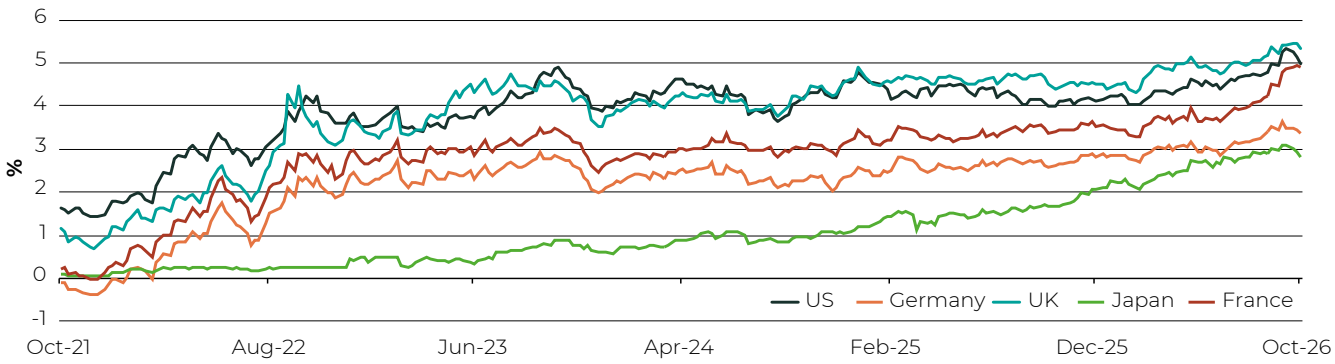


Source: International Monetary Fund

Datacentre builders borrow much less than governments, but they are still competing for the same pool of available savings and investment capital. By supporting economic growth this year, the datacentre boom also indirectly contributed to interest rate increases. Central banks usually look through oil price spikes, but when the underlying economy is healthy, they fear second-round effects where businesses pass on cost increases to consumers. Major central banks have hiked rates this year, while we've also seen substantial increases in government borrowing costs (bond yields).

This compounds the debt problem. New borrowing and rolling of maturing debt now take place at higher yields. raising the long-term interest burden. This reduces the borrower's creditworthiness, potentially putting further upward pressure on yields.

CHART 5: 10-YEAR GOVERNMENT BOND YIELDS, %



Source:LSEG Datastream

A full-blown debt crisis in the markets is not inevitable, particularly where governments borrow in their own currencies. They can find ways of keeping the funding taps open, including "financial repression" that artificially lower the interest burden. However, while a government can force domestic institutions to lend it money, it cannot force foreigners. Currency weakness might still provide the escape valve, and the US dollar's special status does not make it immune to this risk. Finally, as we've seen with riots in France recently, the fiscal crisis doesn't necessarily appear in the markets, it can also show up in the streets.

LOOKING AHEAD

Whether 2027 will also be ODD depends greatly on politics. While AI is a commercial enterprise, the potential risks mean that increased regulation is almost inevitable. The current US administration is very AI-friendly, especially as it views the AI race with China as critical for national security. However, that will not necessarily be the case in future. In contrast to previous exciting new technological developments, people fear the impact of AI on jobs, cybersecurity, and social stability. Communities across the US are also pushing back against datacentre construction in their backyards. This will feature in this week's elections, where Americans will vote not only for their Congressional representatives, but also for thousands of state and local level officials who could put the brakes on some datacentre construction.

The outlook for the oil price also depends on politics and geopolitics. There is talk of another major US and Israeli strike on Iran after the midterm elections, but it is hard to see what further bombing can achieve that previous strikes could not. The squeeze on Iran's economy through sanctions and blockades could be more effective in forcing Iran to make concessions, but it will take time. For now, we remain stuck with elevated oil prices, but they can come down very quickly if there is a durable peace process. It is also worth remembering that the world is not short of oil, it is just trapped in the wrong areas. Reconfiguring flows of the right grades of crude to the right places will take time but will happen eventually. Previous big run-ups in the oil price were always followed by significant declines, as chart 1 shows. In the meantime, however, it will squeeze the global economy. Although it adds to inflation, central banks need to be cautious because eventually the downward pressure on real incomes exceeds the upward pressure on inflation.

Finally, while some of the upward pressure on government bond yields this year is probably temporary, high levels of government debt are structural. Developed countries have ageing populations, while internal polarisation means the political will to deal with the issue decisively is missing. France is the dramatic case, while last week's UK Budget was a more insipid example. Perhaps only a real crisis will force meaningful fiscal discipline. Therefore, while global bond yields are looking much more attractive compared to recent years, investors will still need to navigate longer-term worries. As it happens, South Africa is a rare example of a government trying to reduce its borrowing. The rebased and recalculated GDP numbers from Stats SA improve the debt-to-GDP ratio optically (nominal GDP is 5% larger than previously estimated), but the rand amount of outstanding government debt remains at R6 trillion, and the portion of tax revenues needed to service this debt remains at 20%.

Therefore, it seems likely to still be an ODD world, though no doubt 2027 will bring other themes and trends to worry about. The flipside of challenging times in markets is usually that new opportunities emerge, but it remains a time for being appropriately diversified and not making big bets.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US$	4 862.0	-0.27%	-0.84%	9.75%	10.98%
United States	S&P 500	US$	7 580.0	-0.58%	-0.94%	10.72%	10.00%
Europe	MSCI Europe	US$	2 752.0	1.29%	0.29%	4.12%	8.77%
Britain	FTSE 100	US$	14 367.0	0.47%	2.13%	7.36%	11.94%
Germany	DAX	US$	2 436.0	2.18%	-0.04%	3.67%	3.92%
Japan	Nikkei 225	US$	401.6	-1.67%	-4.03%	25.00%	20.61%
Emerging Markets	MSCI Emerging Markets	US$	1 567.0	-0.70%	-8.09%	11.61%	10.98%
Brazil	MSCI Brazil	US$	1 672.0	-22.48%	-12.14%	1.58%	5.76%
China	MSCI China	US$	66.4	-0.44%	-7.16%	-19.64%	-24.42%
India	MSCI India	US$	900.3	2.20%	1.16%	-14.66%	-14.90%
South Africa	MSCI South Africa	US$	662.0	-1.63%	-4.20%	-10.90%	0.30%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	107 622.0	-0.37%	-0.82%	-7.09%	-1.87%
All Share	All Share (Total Return)	Rand	21 104.0	-0.37%	-0.39%	-3.60%	2.13%
TOP 40/Large Caps	Top 40	Rand	19 195.0	-0.58%	-0.97%	-4.56%	0.90%
Mid Caps	Mid Cap	Rand	32 319.0	0.29%	5.01%	-1.85%	7.01%
Small Companies	Small Cap	Rand	56 760.0	0.73%	2.55%	5.53%	12.70%
Resources	Resource 20	Rand	10 047.9	-3.32%	-9.08%	-8.76%	6.47%
Industrials	Industrial 25	Rand	27 459.0	0.31%	3.80%	-11.53%	-15.47%
Financials	Financial 15	Rand	21 502.0	1.23%	3.65%	7.69%	17.88%
Listed Property	SA Listed Property	Rand	3 309.6	0.48%	1.99%	5.47%	12.96%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government Overall (USD Unhedged)	S&P	US$	73.7	0.17%	1.11%	-3.83%	-4.30%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 448.2	0.61%	2.10%	5.72%	12.34%
Government Bonds	BESA GOVI	Rand	1 420.9	0.63%	2.15%	5.69%	12.25%
Inflation Linked Bonds	BESA CILI	Rand	465.3	0.71%	0.22%	7.05%	14.02%
Cash	STEFI Composite	Rand	676.1	0.13%	0.57%	5.72%	6.96%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US$	113.4	-2.82%	15.74%	85.95%	74.51%
Gold	Gold Spot	US$	3 975.0	-0.95%	-5.22%	-7.73%	0.23%
Platinum	Platinum Spot	US$	1 443.0	-7.56%	-15.86%	-28.17%	-9.53%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	16.71	-0.69%	-1.69%	-0.87%	3.50%
ZAR/Pound	ZAR/GBP	Rand	22.37	-0.76%	-2.64%	-0.31%	1.61%
ZAR/Euro	ZAR/EUR	Rand	18.64	-0.29%	-0.18%	4.33%	7.28%
Dollar/Euro	USD/EUR	US$	1.12	0.00%	1.16%	4.82%	3.57%
Dollar/Pound	USD/GBP	US$	1.34	-0.10%	-0.67%	0.82%	-2.17%
Dollar/Yen	USD/JPY	US$	0.01	0.46%	0.11%	0.58%	2.24%

Source: I-Net, figures as at 30 October 2026

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