CUSTODIAN
INSIDE THE CASTLE

AUG 2026

A TALE OF WORRIES AND WINNINGS

WHAT HAPPENED

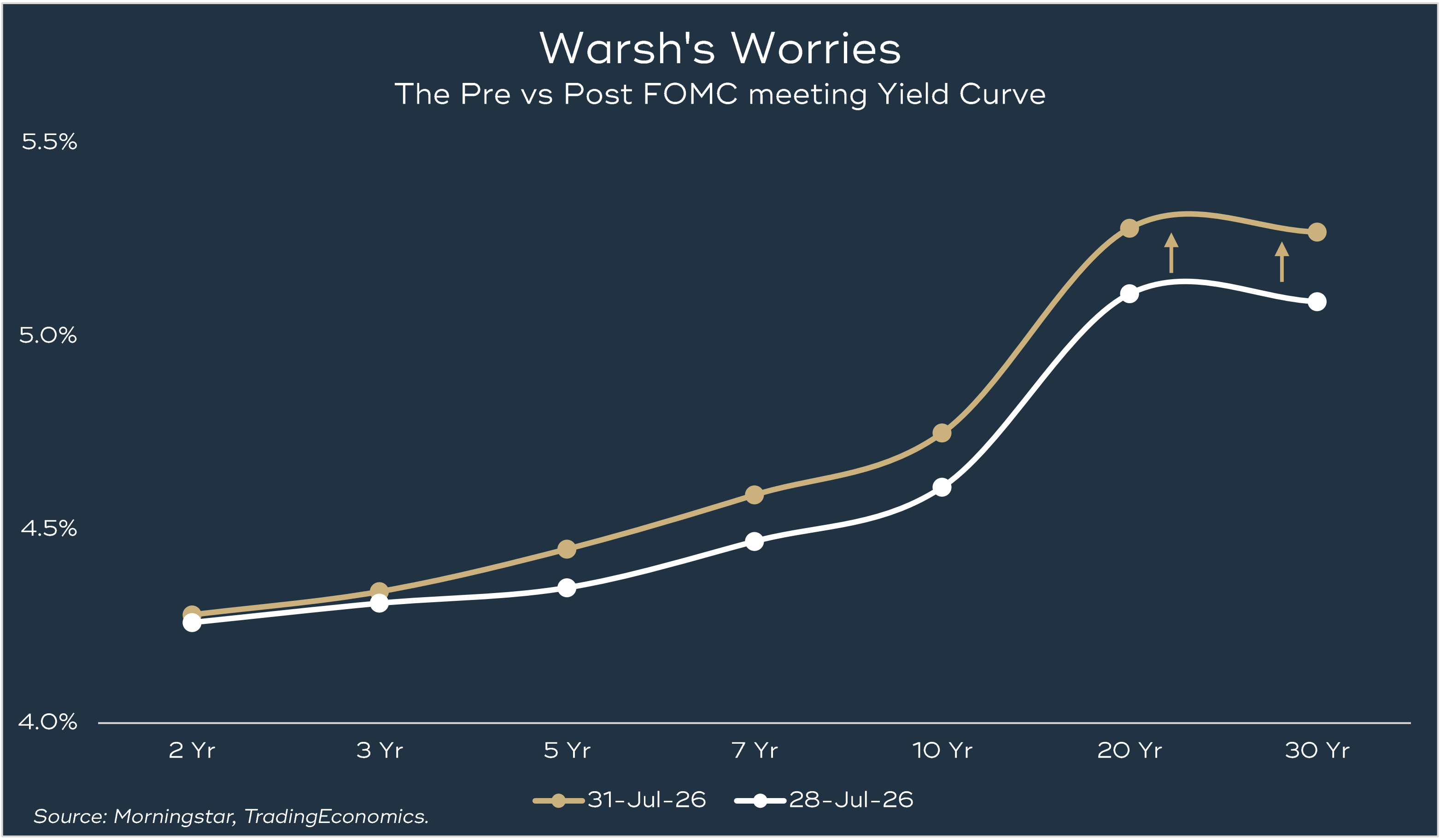
WARSH'S WORRY

One of the standout events this month was the FOMC meeting under Kevin Warsh, who has made reducing Fed communication and market guidance a priority.

What we didn't expect was that he wouldn't explain his decisions. Rates were left unchanged, which wasn't a surprise. But when pressed by veteran market commentators to explain the decision, Warsh offered near no rationale.

There's a big difference between not guiding the market and orphaning it. Warsh effectively played chicken with the bond market and lost. With less guidance, investors have demanded more compensation for holding longer-dated bonds, pushing yields higher. This is referred to "bear steepening" where the less influenceable long end bonds move up without the short end.

Higher yields ultimately mean higher borrowing costs, which is why we continue to favour companies with strong a balance sheet, low debt and generate strong, reliable cash flows.



DIGGING DEEPER

KOSPI, LEVERAGE AND TECH

As a follow up to our previous month's letter, we looked into the increasing tech exposure in Emerging Markets and how the KOSPI (Korea Stock Exchange) is central to this, but there is more to the story.

The core reason is the global build-out of AI, which is pulling capital towards the companies supplying the infrastructure behind it. Since the scale of this build-out is so demanding, it has supported non-US markets that are part of the AI supply chain. This has caused Emerging Markets to increasingly gain tech exposure, performance similarities and trends with developed markets.

BUT, IS THAT A PROBLEM OR A RETURN TO NORMAL?

Looking at the last 20 years, the Rest of the World (ROW) has historically moved much closer to the US. You can see this in the chart below, with the correlation between the US and ROW running quite closely. Until Trump's second term, that is.

Trump and his MAGA regime have been divisive, and it shows. But with the worldwide adoption of the AI build-out, we can see that ROW is increasingly behaving like the US again.

Chart built by Custodian from client-supplied monthly 1-year rolling return correlation data (Jan 2012–July 2026), Vanguard Total Stock Market ETF vs. Vanguard Total International Stock ETF. Presidential terms are shaded for reference: gold for Trump administrations (Jan 2017–Jan 2021; Jan 2025–present), blue for the Biden administration (Jan 2021–Jan 2025). Shading marks calendar terms only and is not a comment on causation.

Looking deeper, we can see how the rapid growth of ETFs has helped investors gain targeted exposure to high-growth sectors. We have seen the rise (and continued rise) of AUM in DRAM (Roundhill Memory ETF) and other AI-focused ETFs, with The Kobeissi Letter noting a MAMMOTH 900 new ETFs launched in the US this year alone.

Annual number of ETF launches, by exposure

United States ETF Industry · 2006–2026 YTD

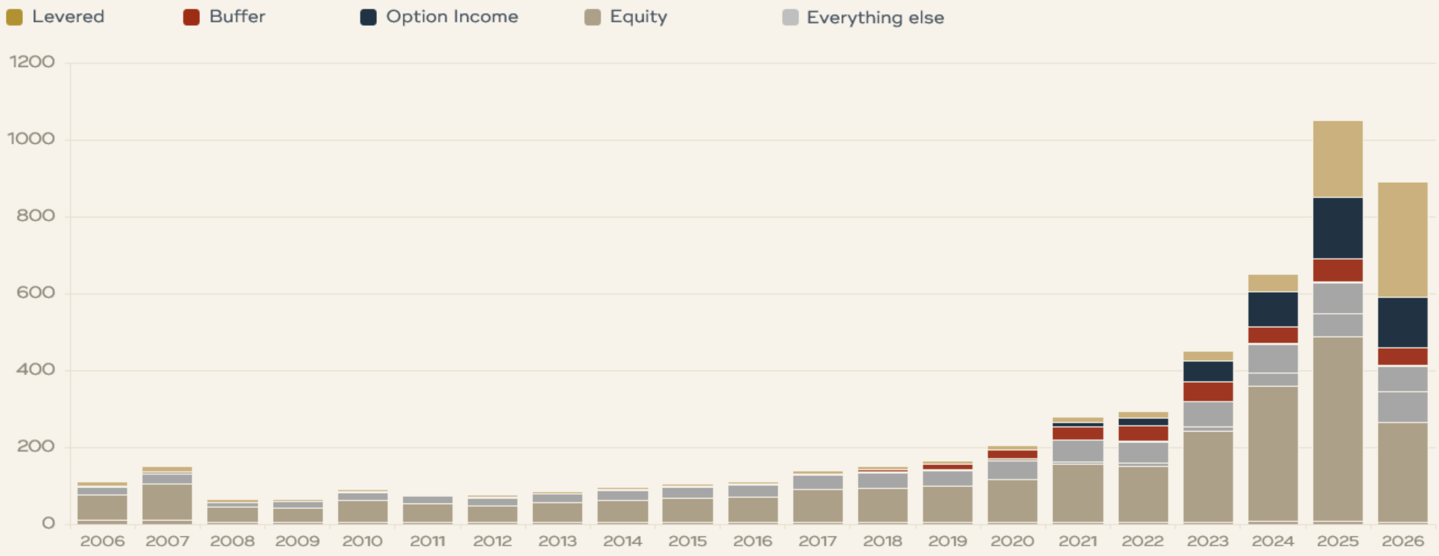


Chart redrawn and restyled by Custodian from ETF launch data originally compiled by Baird Strategas, Bloomberg and ETF Action, as published by The Kobeissi Letter on August 10, 2026. Figures are approximate, read from the original chart, and stacked-segment splits are estimated where exact per-category counts were not published. Levered, Buffer and Option Income are highlighted in Custodian Gold, Rust and Custodian Blue as the three categories driving this year's growth; all other exposures are combined into a single neutral tone.

The KOSPI makes this especially interesting. Around half of the index sits in just two stocks, and those same names accounting for nearly two thirds of the index's movement. This concentration means that as the AI boom pulls capital into memory, the impact on the Korean stock market is amplified.

And it isn't just institutional money. Korean retail investors, the "Ants", have become a major force. Appetite for the AI boom is so strong that there have even been reports of investors selling life insurance policies to fund equity exposure. This bolsters demand and leads to more focused ETFs. More demand leads to leveraged and single-stock ETFs. These leveraged and single-stock ETFs noticeably amplify capital flows into concentrated assets and reflect the strong appetite for risk. Just like that, we have all the ingredients for building a feedback loop.

This doesn't mean AI beneficiaries are poor investments. It means that even strong companies with solid cash flows can be overlooked.

THE MORE THE MARKET IS DRIVEN BY FLOWS, THE HARDER IT BECOMES TO TELL FUNDAMENTAL QUALITY FROM MOMENTUM.

BACK HOME

DISAPEARING DIAMONDS

South Africa's corporate landscape has been changing quietly for years.

The latest example is De Beers.

It hasn't been sold yet, but Anglo American is in the process of separating the diamond business as it restructures itself around copper, iron ore and crop nutrients. The same process has already seen Anglo separate its platinum business, while other assets are being sold or prepared for disposal.

And Anglo is not alone. The JSE has been steadily losing portions of listed names for a while now, but what if that alone isn't the story. One by one and piece by piece, the companies that historically made-up South Africa's corporate identity become foreign-owned, unlisted, separated from their South African parents or simply disappear from the exchange.

Below the surface of the rise and fall of the South African markets this year, there is a continuing trend that below platinum and gold producers, the JSE continues to seep away into shells held and operated from abroad.

BELOW THE SURFACE, IS SA LOSING JSE LISTINGS ONE DEAL AT A TIME

OTHER LINKS

MORE COMMENTARY FROM CUSTODIAN

CUSTODIAN BCI INCOME PLUS MONTHLY COMMENTARY -CLICK HERE

CUSTODIAN BCI BALANCED MONTHLY COMMENTARY – CLICK HERE

SIGN UP FOR THE MONTHLY EMAILS OR SEND TO A CLIENT – CLICK HERE

CUSTODIAN

DISCLAIMER

HAPPY INVESTING