



OCT 2026

MARKETS, MONEY AND POLITICS

WHAT HAPPENED

TWO MARKETS, TWO VERY DIFFERENT STORIES

There is an old saying that bond investors are the “smartest people in the room”. Given the enormous volumes traded in bond markets and their sensitivity to changes in economic conditions, interest rates and credit risk, it is often worth paying attention when bonds start sending warning signals.

And right now, the bond and equity markets are telling two very different stories.

The MOVE Index, often described as the bond market's equivalent of the VIX, surged towards the end of August and finished September 47% higher. Meanwhile, the VIX, which measures expected volatility in equity markets, remained surprisingly subdued, at levels typically associated with relatively little market stress.

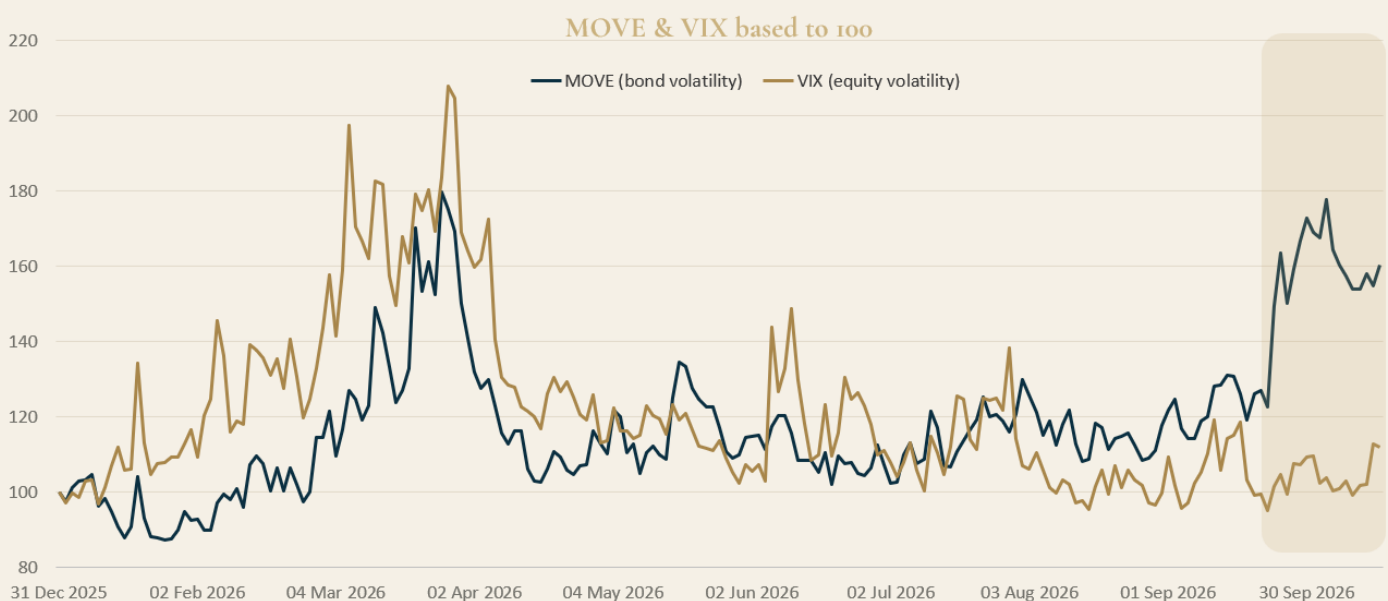
So, what does this tell us? Bond markets appear to be pricing in growing uncertainty, while equity investors remain remarkably complacent. Bonds, traditionally regarded as the shock absorbers in a diversified portfolio, have themselves come under pressure as yields have risen sharply.

Yet equities have barely flinched, despite higher borrowing costs, growing debt burdens and increasing pressure on the valuations of highly leveraged companies.

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MARKETS UNDER THE SURFACE

Bond volatility has woken up



Source: Morningstar, ICE BofA MOVE Index, CBOE VIX. Daily closes to 15 Oct 2026.

When the bond market starts sounding the alarm while equities continue as though nothing has changed, we believe it is worth paying attention. History suggests that bond markets can be early indicators of changing financial conditions, even if equity investors take longer to recognise the risks.

BONDS ARE NERVOUS, EQUITIES NOT

DIGGING DEEPER

MARKET BREADTH: A STRONG MARKET BUILT ON A FEW PILLARS

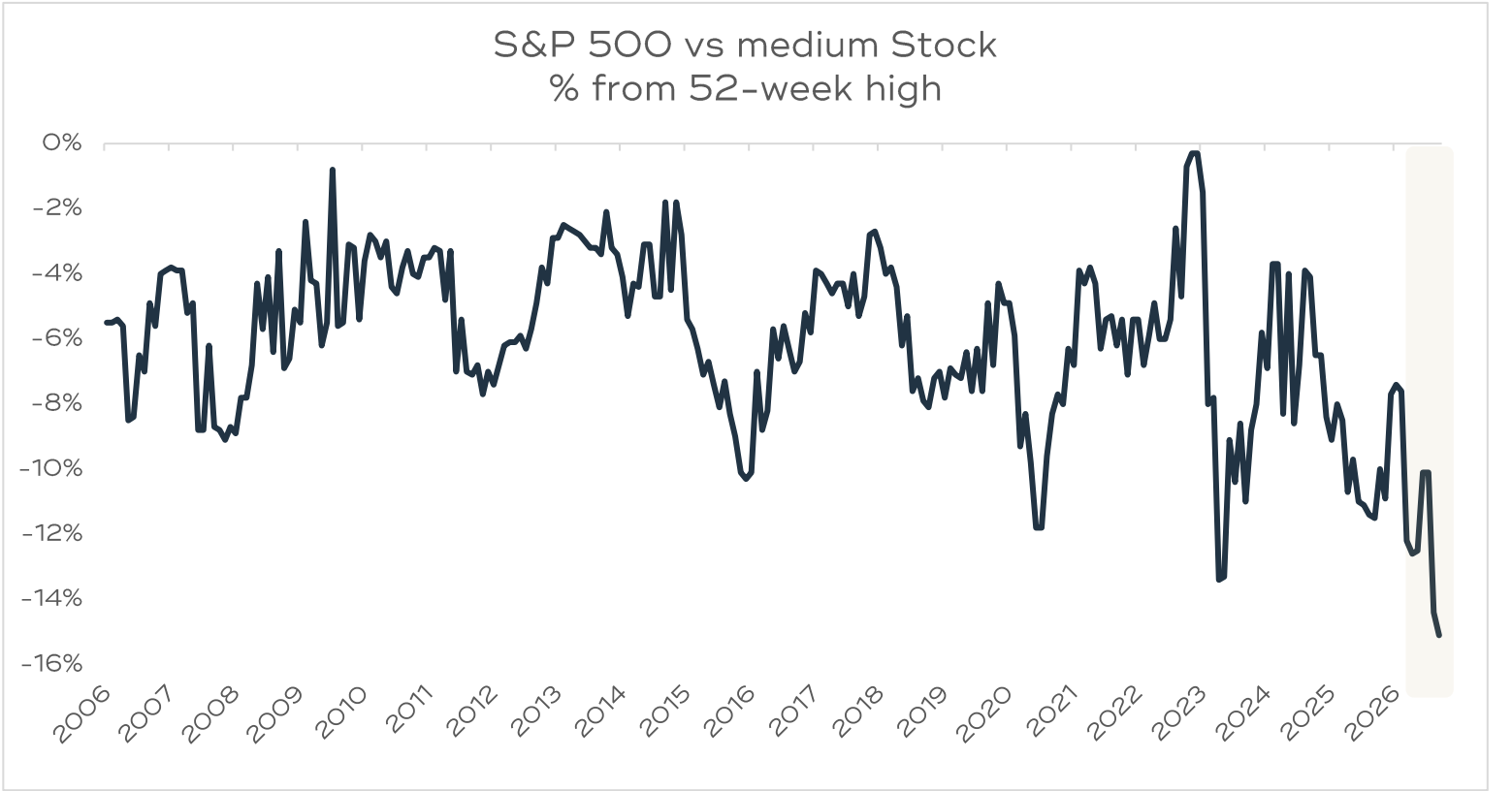
Headline index returns can often disguise what is happening beneath the surface. The S&P 500 gained an impressive 12.7% over the first nine months of the year, yet just ten stocks accounted for approximately 65% of that return. Even more striking is that the ten largest companies now represent roughly 37% of the entire index.

Source: Goldman Sachs Global Research, Marlin Capital and Elliott Wave International, 2 October 2026. Chart recreated by Custodian Investment Managers.

A narrow market is not necessarily an unhealthy one. Strong companies can continue to lead for extended periods. However, when so much of the market's performance depends on so few companies, the risks become increasingly concentrated.

Think of it as a bridge supported by only a handful of pillars. The bridge may look perfectly stable, but when so much weight rests on so few supports, you better be confident in their strength.

The same applies to today's equity markets. As investors, we need to look beyond the headline returns and understand just how much of the market's performance depends on a relatively small group of companies.



Source: Goldman Sachs Global Research, Marlin Capital. Recreated Elliot Wave International chart 2 October 2026. Recreated by Custodian Investment Managers.

DIGGING DEEPER

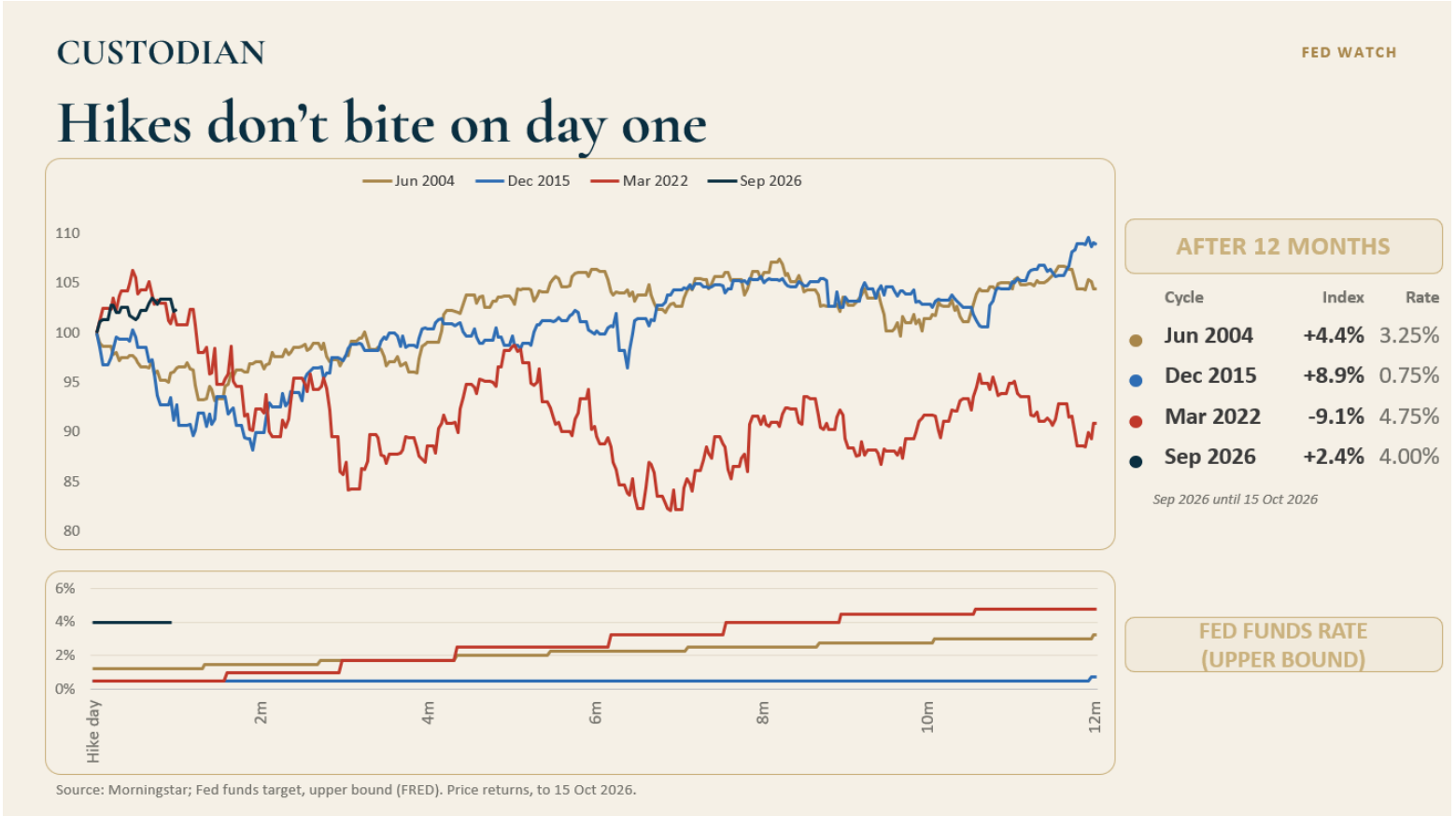
RATE HIKES DON'T BITE ON DAY ONE

There is always plenty of speculation about how equity markets will react when the Federal Reserve raises interest rates. So, we looked back at previous hiking cycles to see what history tells us.

Interestingly, higher interest rates don't necessarily hurt equities immediately. Their impact tends to emerge over time. While higher borrowing costs gradually weigh on businesses and consumers, inflation, often the reason rates are rising, can initially support company revenues as prices increase.

Our chart illustrates this. A year after the Fed's first hike in June 2004, the S&P 500 was up 4.4%, while the December 2015 cycle delivered 8.9%. Even in the aggressive 2022 cycle, equities initially rallied before falling sharply, ending the first year 9.1% lower.

The lesson? Rate hikes are less of an immediate market shock and more of an early warning that conditions are changing. The pressure builds gradually as higher borrowing costs filter through the economy and corporate earnings.

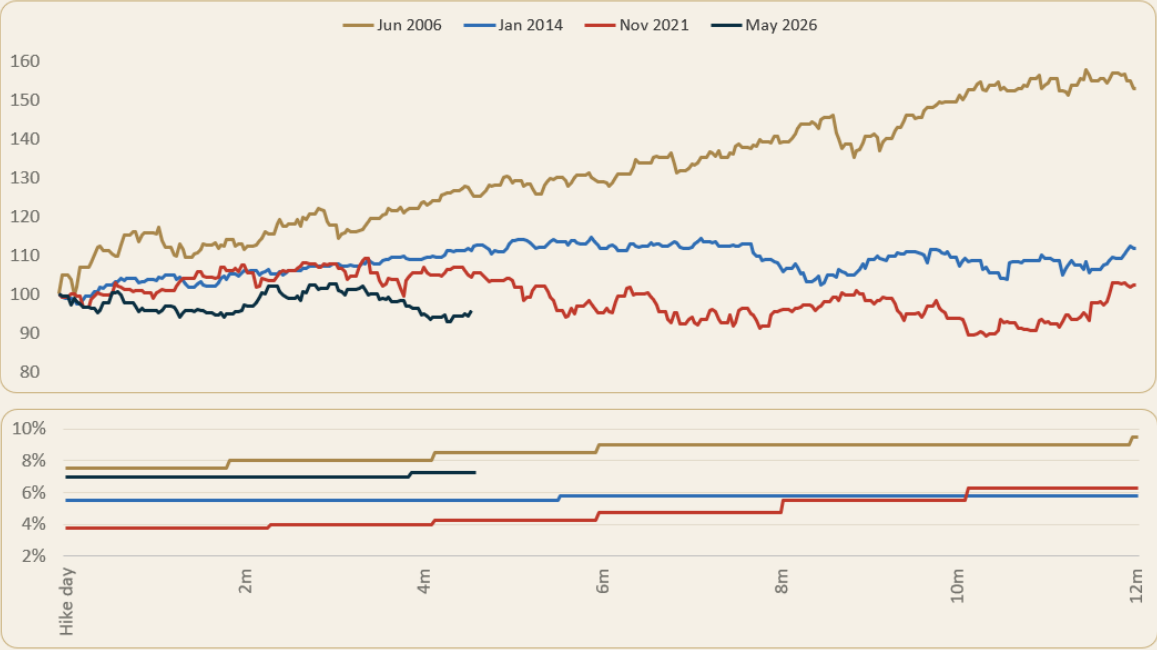


What About South Africa?

The JSE tells a somewhat different story. Unlike the technology-heavy US market, South African equities are more influenced by commodities and global resource cycles. During the 2006 tightening cycle, for example, the commodity boom helped support local equities despite rising interest rates.

While our market is certainly not immune, its different sector composition means the impact of higher rates can be less pronounced. Ultimately, it's not just about where interest rates are heading, but how exposed companies are to the changing environment.

The JSE through SARB hiking cycles



Source: Morningstar, SARB repo rate (SARB, FRED/OECD). Price returns, to 15 Oct 2026.

AFTER 12 MONTHS

Cycle	Index	Rate
Jun 2006	+53.0%	9.50%
Jan 2014	+11.8%	5.75%
Nov 2021	+2.4%	6.25%
May 2026	-4.3%	7.25%

May 2026 to 15 Oct 2026.

SARB REPO RATE

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