

SEP 2026

MARKETS, MONEY AND POLITICS

FUND COMMENTARY

PROBABILITY OVER PREDICTION

August was dominated by expectations around the Fed meeting. Markets offered plenty of opportunity to gamble on what might happen next, but we prefer the taking ego out of the equation and not gambling. So, rather than trying to predict the outcome, we moved our portfolios closer to their internal benchmarks.

WHAT HAPPENED

MARKETS ARE BETTING BLUE

The US midterm elections are still some time away, but markets have already started placing their bets.

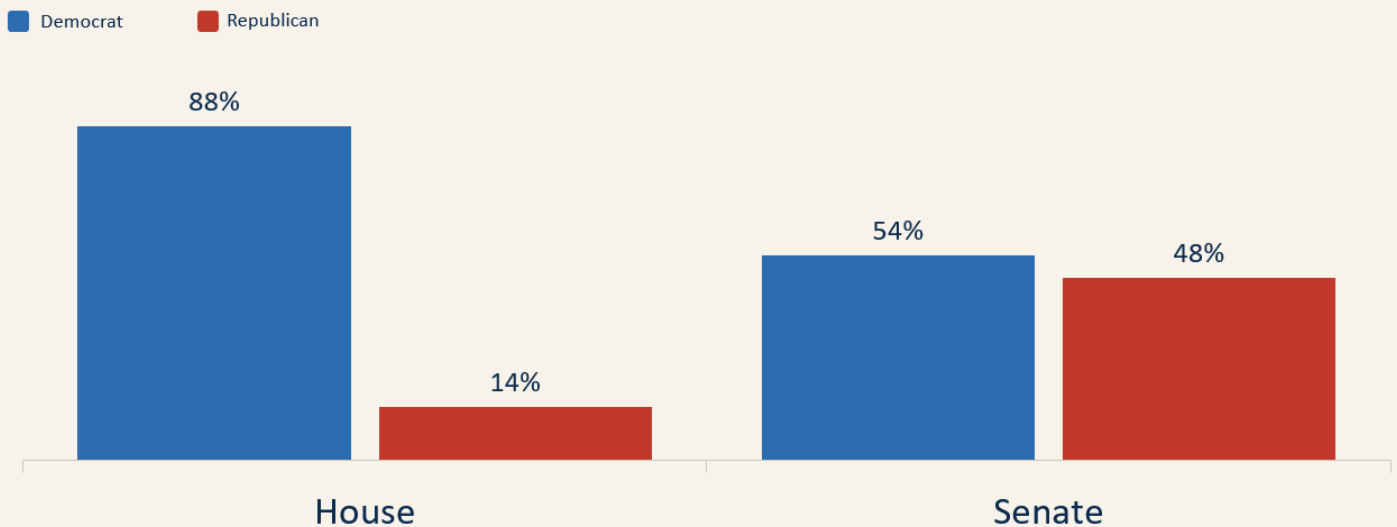
Prediction markets such as Polymarket effectively allow investors to assign probabilities to political outcomes, with the Democrats currently favoured to take the House of Representatives while the Senate remains a much closer contest.



ELECTION WATCH

2026 US midterms

THE MARKETS ARE BETTING ON BLUE



Snapshot - 15 September 2026 - Source: Polymarket

What is also very interesting is how comfortable markets have become with pricing uncertainty. Politics, elections, interest rates and some events are being turned into probabilities, traded by people willing to put money behind their opinions.

But there is a difference between betting on an election and investing in an equity market. The equity market is in a sense “rigged”.

Not rigged in the tinfoil hat kind of way but structurally designed to reward patience. Successful companies grow, reinvest earnings and replace unsuccessful companies within the index. Over time, markets will rise.

This is also why the period following US midterm elections has historically been positive for equities. Once the uncertainty passes, markets tend to return their attention to earnings, economic growth and capital allocation.

CERTAINTY CAN SUPPORT MARKETS

DIGGING DEEPER

FED MAY NOT BE IN CHARGE ANYMORE

Fed Chair Warsh has faced a trial by fire since taking office. His stoic demeanour and lack of clear guidance have done little to reassure the bond market, leaving his credibility under sustained pressure.

What we have seen is an increase of US bond yields with the US 10-year reaching 5%. We still believe that these higher yields are the central headwind facing the AI buildout story as increased lending costs challenge growing companies as well as Mortgages becoming more expensive, limiting the capital available for investment. All-in-all higher rates are restrictive to an economy’s growth.

Why was there a rate hike you ask? Well, we don’t believe it is a reaction to a changed inflation story, but rather the fact that the bond market is demanding more compensation from a FED who has spent 65 consecutive months above the 2% inflation target.

Forcing the Fed to raise short-term rates is one thing, but reassuring the long-term bond market requires a credible plan to control government spending and bring inflation back to target. Investors committing their capital for years will demand higher yields to compensate for the risk that inflation erodes their purchasing power. Until that confidence is restored, long-term yields will remain under upward pressure.

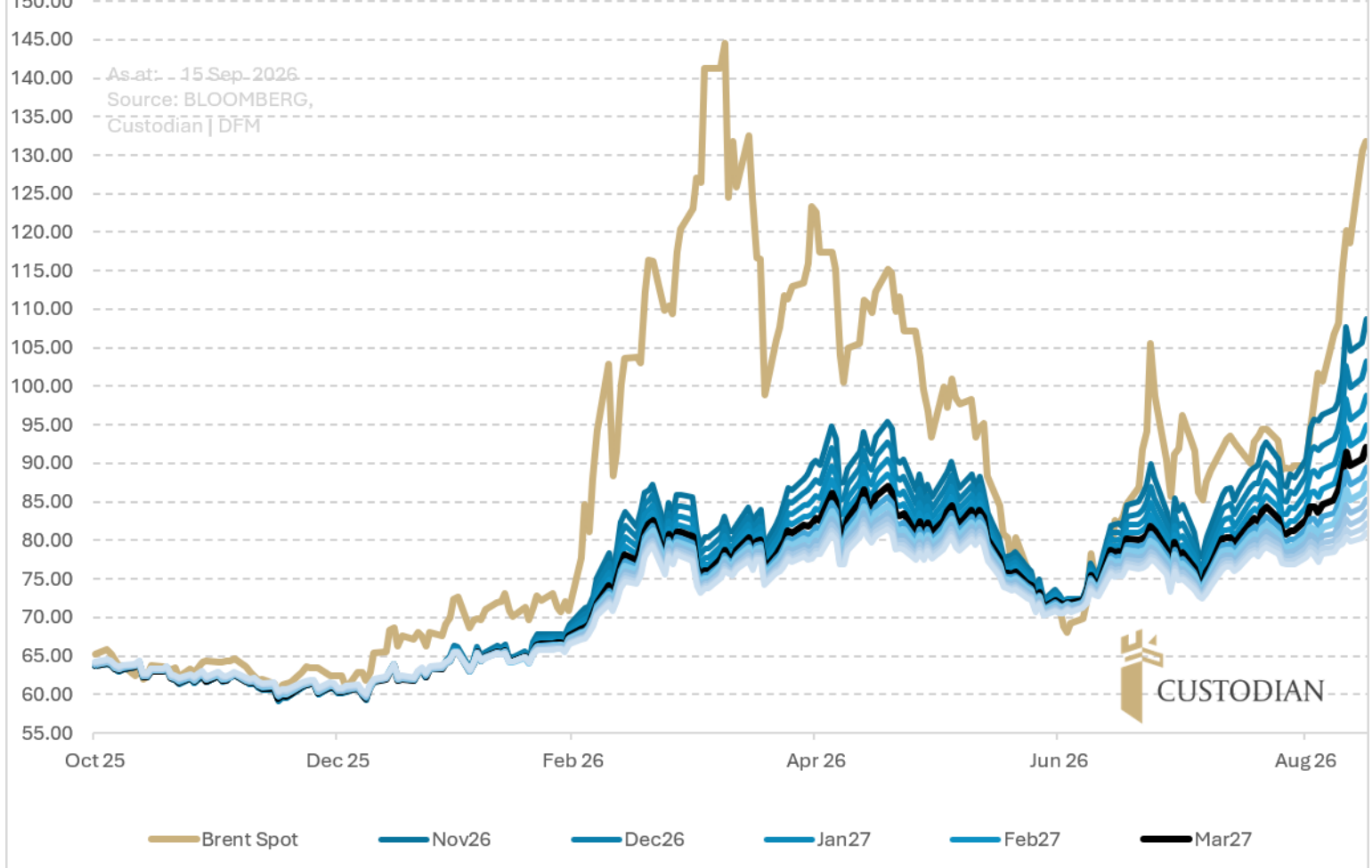
THE BONDS MARKET MAY BULLY THE FED INTO ACTION

DIGGING DEEPER

OIL PRICE

With War dominating headlines, the Oil price has surged and so has forward looking prices as you can see below. The Golden line is the oil price for immediate delivery where the blue lines are the future market prices.

Brent Crude: Spot vs Future Expiry



OIL RESERVES MAY DICTATE HOW LONG THE WAR WILL LAST

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GLOBAL BONDS MAKE OR BREAK SA RESOURCES

Gold prices sit in an interesting holding pattern. With US interest rates rising, the opportunity cost of holding gold is also increasing yet the funding cost of all the US debt is boosting gold as a hedge against unscrupulous debt.

Interestingly if we put on our South African hats, the JSE Resources 10 is becoming increasingly linked to gold. The one-year rolling correlation has reached 0.81, its highest level in 20 years.

JSE Resi 10's link to gold

1-Year Rolling Correlation between Gold and the JSE Resi 10 is the highest in 20-Years

■ Gold vs. JSE Resi 10

Latest (31 Aug 2026): **0.81**



Monthly · 31 August 2007 – 31 August 2026 · 1yr rolling correlation of LBMA Gold/Platinum (USD) with the FTSE/JSE Resources 10 (USD)

For South African investors, we need to watch the FED and how it navigates its upcoming challenges as it affects us more than ever.

GOLD IS A SAFE HAVEN TO MANY, BUT FOR SA IT'S A CORE TO OUR GROWTH

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