The Outlook

June 2026

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Diversification is a risk-management strategy.

Diversification is a risk management strategy that spreads investments across multiple asset classes, industries, and regions. By avoiding concentration in a single investment, it reduces the impact of poor performance in any one area, helping to smooth returns and protect against significant losses. Our portfolios typically include equities (including listed real estate), bonds, cash, and commodities and include offshore assets. Diversification in investments is often referred to as "*the closest thing to a free lunch*". But how does this play out in practice?

To sense how concentrated or dominant the US is at a global level, consider that the dollar accounts for 49% of global equities, 58% of global central bank reserves, 70% of foreign-currency debt issuances, and close to 90% of daily global foreign currency transactions. And to support US hegemony they have +750 military bases across at least 80 countries.

At a local US equity level, the investment paradox is that while the number of available global assets is vast, the massive outperformance of the so-called MAG 7 stocks has attracted a disproportionate amount of capital, effectively turning global portfolios into concentrated tech and US index plays.

The level of concentration is insane. The 10 largest S&P 500 companies, representing a mere 2% by number, now account for a record 41% of the entire S&P 500 market capitalization. The top 10 include the now famous giant AI/tech stocks led by Nvidia, plus Tesla, Berkshire Hathaway, and JP Morgan. This extreme concentration is driven by the building of new foundational AI infrastructure, power and grid infrastructure, and supported by genuine earnings growth, and value expansion.

This week on Bloomberg, a Wells Fargo strategist suggested that AI accounts for 95% of current US economic growth. For context, these 10 stocks are larger than the combined European stock market. The chart below shows how, in a consumer driven economy, the relative value of US Discretionary stocks has reduced significantly since 2015.

Source: BofA Global Investment Strategy, Bloomberg

Beyond the US, recent stock market gains were overwhelmingly concentrated in Taiwan and South Korea, where the AI semiconductor supply chain is deeply embedded. The South Korean stock market is now larger that of the UK. By the day, AI and new power projects are reordering global stock market rankings. As a feedstock into this new wave of infrastructure expenditure, commodities are also well positioned for potential strong demand.

The market still expects the Iran conflict to end shortly.

US investors remain hyper optimistic that a peace deal will soon be signed with Iran. We are less hopeful as the original differences for Iran to:

- ✓ hand over all enriched uranium;
- ✓ end its nuclear missile programme, and
- ✓ to restore unconditional transit through the Strait of Hormuz,

have not been agreed to, with the Iranian lawmaker Ebrahim Rezaee this week describing the peace text as "*more an American wish-list than a reality*". Also, US investors seem to be ignoring the Israelis who continue to attack Hezbollah in southern Lebanon and Hamas in Gaza. This is important as Tehran wants all conflict with its proxies to be included in the peace-deal. Not to forget the deeply troubled US/Iran past – the 1954 coup orchestrated by the CIA and M16, the 1979 overthrow of the Shah, and the recent killing of Ayatollah Ali Khamenei and family members. We think that decades of distrust will require an extraordinary diplomatic effort.

A prolonged blockade of the Strait of Hormuz has serious global implications for the supply of oil and gas and the associated oil derivatives, fertilizers, helium, sulphuric acid, and aluminium. Ship deliveries are negligible, storage facilities are running dry, and Strategic Petroleum Reserves are at critically low levels, including the US and SA. Already countries such as Cuba, Bolivia, Ethiopia, Cambodia, Laos, and Vietnam are severe suffering fuel shortages and price shocks.

The US economy and AI.

The dominant role that AI related activities are playing in the US economy is unprecedented. It extends from apps (software programs) being adopted to streamline every aspect of daily life and work, to microchip manufacturing (140 projects totaling $650bn across 30 states), and to data centre construction. But AI cannot happen unless secure sources of 24/7 power, high-voltage transmission lines, and the associated grids are permitted, built and funded.

This enormous AI activity has provoked claims from some commentators that AI spending was the only thing standing between the US economy and a recession. Apart from the obvious concerns that much of the AI expenditure is supported by fragile financing, we are mindful of the pitfalls associated with the power projects needed for the successful delivery of this large number of projects. Power is the primary obstacle.

The first issue is that electricity supply is normally, for obvious reasons, provided by a public utility. What are the likely difficulties? In short: grid and transmission bottlenecks; slow permitting; the aging and closure threat of existing coal energy capacity, weak economics for new gas plants, and regulatory uncertainty.

Capex and cost concerns: private sector base-load energy supply and owner grids are expensive; power prices are higher; long waits for 24/7 supply, and costly onsite solutions such as gas turbines, batteries, backup diesel, pipeline redundancy, and power-quality equipment. Skills are also an issue.

The risks include: interruptions; equipment stress from volatile AI loads; cooling solutions; and possible redesign costs if grid rules change. The result is that reliable baseload power for AI is achievable, but likely to be slower, more complex and significantly more expensive than many expect.

New Fed chairperson Kevin Warsh.

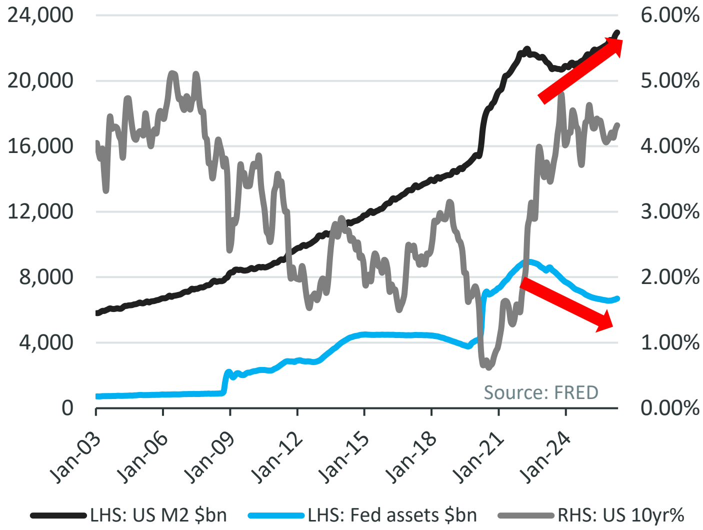
On 22 May, Kevin Warsh was appointed the new chairperson of the Fed. As a Trump appointee and due to Trump's vocal demands for the Fed to cut rates, we think that the broader market might have a wrong perception of Warsh's monetary policy philosophy. Milton Friedman famously said, *"inflation is always a monetary phenomenon"* and Warsh is a staunch supporter of his Stanford professor. Remember that Warsh resigned from the Fed in 2010 in protest to Ben Benanke's excessive QE or "money printing".

Warsh is highly critical of the Fed's overuse (Quantitative Easing) of its balance sheet, believing that this encouraged Congress' prolificacy (debt:GDP 125% and deficit:GDP of 6%) and ushered in a new level of lobbying.

See the following chart. The post-Covid period is what Warsh may be alluding to. With the US 10-year yield still well below 1%, the Fed continued to buy US Treasuries (QE), the banks fueled money supply, and the government, corporates, and households continued to feed at the debt trough. Irresponsibility all round, but Warsh believes that the Fed *"should have stepped back".*

As we tend to do, the rest of the world followed the example of America and profligacy spread. This all happened with inflation under control thanks to China exporting its low-cost goods. And to complete what Warsh says, "*is a Ponzi scheme*", China, Japan, and other large exporters continued to buy US Treasuries.

US Money supply, Fed assets, US 10 yr yield



Warsh's view is that the Fed and Congress need to "*Heal thyself*". He has also warned that "*there is no free-lunch"* and reminds us that *"fiscal spending and Fed printing"* have, in the words of Milton Friedman, "*long and variable lags*". He also acknowledged that "*the Fed's two main monetary policies, interest rates and adjusting its assets don't work perfectly together*".

Warsh further acknowledged that "*the Trump administration inherited a mess from Biden and Yellen, and that gold and bitcoin are providing politicians and the Fed with warning signals to fix things*". He says that "*the situation is worrisome, but fixable, but don't tip the economy into a recession*". Finally, he sees "*the way out through growth and productivity*, *budget constraint, and reducing the Fed's $7tr balance sheet".* Warsh quotes are from a range of interviews.

In summary, we think that Fed Chairman Kevin Warsh may be more traditional than the market thinks. If the market does not "force his hand", he will withdraw the Fed from the limelight, relook at the regulations, do away with the dot plot and guidance, and prioritize growth ahead of lower inflation, and then lower rates.

The US stock market.

Driven by a decisive rotation back inti AI stocks, global equities have staged a powerful risk-on rally since the February/March sell-off. MRB Partners believe that "*solid economic foundations, especially in terms of corporate profitability, and supportive monetary and fiscal conditions, warrant betting on a higher global stock/bond ratio in the next 6 to 12 months, with the caveat that indeed the Strait of Hormuz is soon re-opened*".

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MRB Partners adds that "*If the global economic expansion persists, as we expect, then the risk of significantly higher bond yields will intensify due to: sticky DM inflation, mounting fiscal excesses and lagging central banks*. MRB's comments and our AI coverage above simply reflect investors' continued appetite for companies leveraged to the AI investment cycle.

During the equity rally, rising yields caused by elevated oil prices, growing inflation and fiscal sustainability concerns weighed on government bonds.

To state the obvious, current risks are two-sided. A timely reopening of the Strait could see energy prices fall and rate expectations ease, while a continuation of the blockade could dampen activity and entrench inflation simultaneously. In this environment, the case for a well-diversified portfolio with exposure across asset classes, geographies, and themes remains as vital as ever.

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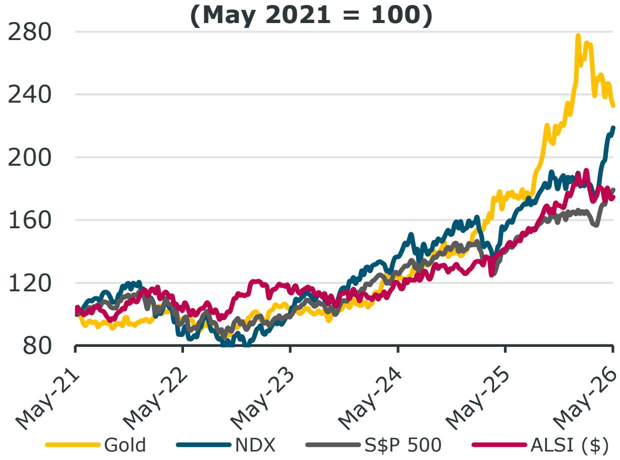
Over the five years to May 2026 the Nasdaq and the S&P 500 have, respectively, compounded annually at 17% and 12.4%. In turn, the gold price and the JSE ALSI (in $), have compounded annually at +18.4% and +11.8%.

Nasdaq, S&P 500, ALSI ($), Gold (May 2021 = 100)



Despite all the "haven" commentary, the dollar index has appreciated annually over the past 5 years by only 2%. This probably reflects the growing willingness by China and its major non-dollar trading partners to settle trade outside of the dollar.

After the sharp sell-off in March shares rebounded strongly in recent weeks. YTD the Nasdaq and the S&P 500 are respectively, +18.7% and +9.8%, whilst the dollar index (DXY) is up 2%. In turn, the gold price is up 2.7%, whilst the JSE ALSI (in $) is up 0.8%.

Clem Sunter: High Road and Low Road.

Many readers will fondly recall the late Clem Sunter's mid-1980s High Road/Low Road scenario planning presentations that urged all South Africans to understand that the future was open, that citizens choose their own destiny, and that the future was not pre-determined. Forty years later and this is a replay of the High Road/Low Road scenario. It is hard to think that the stakes are higher than in 1985, but they are.

The local political landscape has changed dramatically. There are 508 parties registered to contest the Local Government Election on 4 November. And we don't know if President Ramaphosa will face the impeachment committee or not. Municipalities throughout the country urgently need competent leadership supported by experienced engineers. At the same time the GNU needs to urgently introduce policies and incentives that will ensure growth.

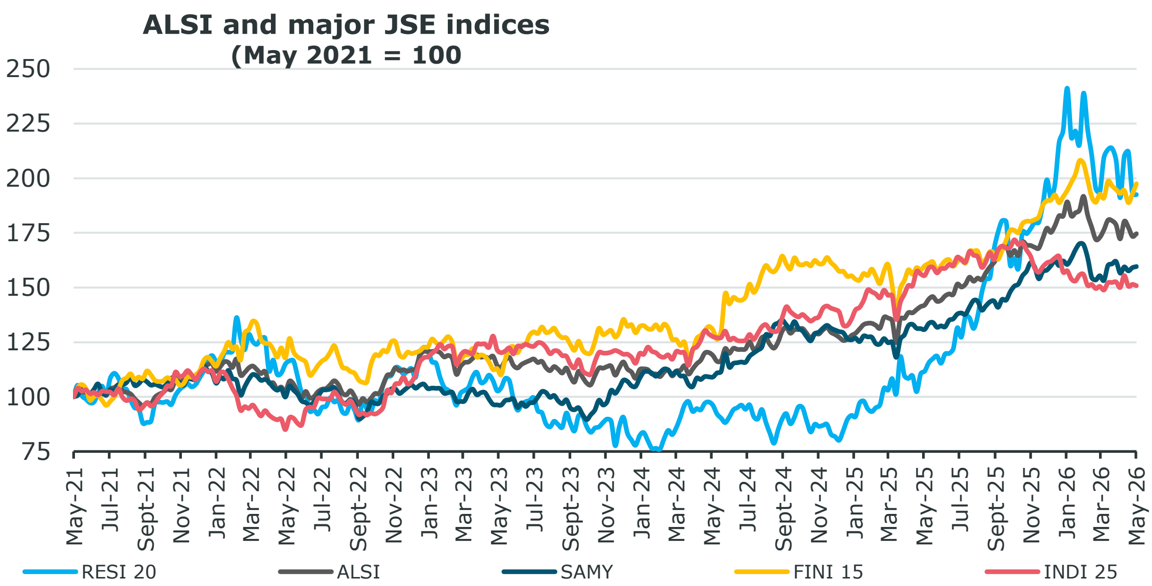
Madlanga reveals uncomfortable truths.

Over the five years to May 2026 the major JSE indices have compounded annually at the following rates: FINI 15 (+14.5%), RESI 10 (+14%), ALSI (+11.8%), SAPY (+9.8%), and INDI 25 (+8.6%).

After surging to recent highs, precious metals pulled back in recent weeks. Industrials remain under pressure amid near-zero growth and strained consumers, a trend that could worsen after the SARB's 25bp rate hike.

YTD the performance is more varied and continues to be shaped by resources, with the industrials under pressure: RESI 10 (+0.83%), FINI 15 (+4%), ALSI (-0.35), SAPY (-0.3%), and INDI 25 (-6.9%).

The challenge remains how to balance the Iran geopolitics, the hyper US AI optimism, constrained local growth, and the uncomfortable truths of the Madlanga Commission.



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