INTEGRAL
Asset Management

The Outlook

May 2026

- Major events are impacting the global monetary system.
- One global economy, very different interest rates.
- US predicts Iran conflict could end soon.
- The US stealth manufacturing boom.
- The US economy and stock market.
- South Africa, growth risks remain in place.

Major events are impacting the global monetary system.

For much of the past two decades, global investors operated within a broadly similar monetary environment: falling interest rates, contained inflation, and policy across the major economies that were in sync. During this period, liquidity expanded greatly and refinancing become easier over time. For the record, the US 10-year Treasury yield fell 92%, from 6.6% in January 2000 to 0.51% in mid-2000.

This encouraged rising levels of debt across households, non-financial corporates, and governments. Based on Q4-2025 data from the Institute of International Finance's Global Debt Monitor, several major economies now carry total debt loads exceeding 300% of GDP. Rough estimates suggest that government debt:GDP above 100% signals heightened fiscal risk for the following reasons:

- ✓ Interest payments are likely to become the largest expenditure line item,
- ✓ Reduced investor confidence demanding higher rates,
- ✓ Fiscal "doom loop" – higher rates require more debt, and
- ✓ The debt overhang weighs on economic growth.

The severity of the debt depends on who holds the debt. In the case of Japan, the Bank of Japan owns roughly half of the national debt, while the balance is held mainly by domestic banks and insurance companies.

Global debt burden - % of GDP				
Country	Household	NF corporate	Government	Total
HK Hong Kong	86%	227%	67%	380%
JP Japan	60%	113%	199%	372%
SG Singapore	45%	130%	172%	347%
FR France	59%	156%	110%	326%
CA Canada	100%	118%	97%	315%
CN China	60%	142%	97%	298%
US United States	68%	73%	123%	264%
KR South Korea	89%	111%	49%	249%
IT Italy	36%	59%	141%	236%
MY Malaysia	70%	88%	66%	224%
TH Thailand	88%	76%	60%	223%
BH Bahrain	24%	56%	143%	223%
GB UK	74%	59%	81%	214%
DE Germany	49%	89%	63%	200%
IL Israel	43%	71%	70%	184%
BR Brazil	36%	50%	92%	178%
JO Jordan	27%	56%	90%	172%
GD Grenada	37%	64%	68%	168%
MV Maldives	18%	17%	132%	167%
IN India	39%	49%	74%	163%
VN Vietnam	23%	107%	32%	161%
HU Hungary	18%	70%	73%	161%
CL Chile	41%	86%	31%	158%
SN Senegal	5%	29%	123%	156%
ZA South Africa	34%	35%	79%	149%
TN Tunisia	23%	39%	81%	143%
SV El Salvador	22%	25%	88%	134%
TT Trinidad/Tobago	34%	35%	65%	134%
KW Kuwait	41%	83%	7%	131%
CG DRC	3%	35%	93%	131%

Source: Visual Capitalist - March 2026

In the case of the US, government debt is now 123% of GDP and foreigners own around 31% or $9.2tr of non-intragovernmental debt. The top three foreign holders are: Japan (12.8%), UK (9.3%), and China (7.4%).

During decades of declining interest rates, rising debt did not create immediate pressure. It was absorbed.

But that dynamic has changed. Today the global stock of debt is significantly larger, the cost of capital is no longer falling, and inflation and geopolitical factors are adding uncertainty to policy. This combination does not need to produce a crisis that matters. But when financing costs stop falling, highly leveraged systems become sensitive and vulnerable to: rate volatility, shifts in liquidity, and changes in investor confidence.

The environment outlined above no longer exists. Change has come from many directions: the lingering effects of the GFC, China's challenge to US hegemony, Covid, the push for green energy, a greater focus on ESG, the Russia/Ukraine war, a Trump second term, and now the US/Israeli – Iran war.

The 'globalization' framework is evolving, and capital flows are changing. Part of this change is reflected in the increase in GDP per capita between 2000 and 2025. The top five performers were: China (+1,430% to $14.7k), Russia (+811% to $17.3k), India (+589% to $3.1k), South Korea (+195% to $37.5k), and Brazil (+185% to $10.7k). The US in 8th position leads with $92.9k (+156%). South Africa is estimated at $6,770.

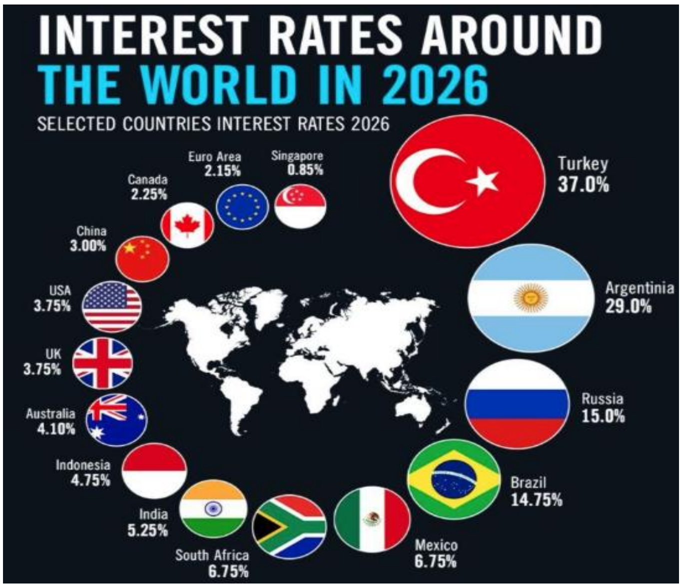
One global economy, very different interest rates.

The level of interest rates and the relative value of currencies impact our daily lives. The following Visual Capitalist chart highlights just how wide the dispersion in interest rates has become. Singapore (0.85%) is at the low end and Turkey (37%) at the upper end with South Africa at 6.75%. Rates rise when politicians get it wrong.

This dispersion in rates reflects differences in: inflation dynamics, currency stability, capital flows, policies, and economic resilience. We know that the global economy has shifted from a US-dominated unipolar system to a multi-polar one. And this includes fragmenting into several monetary regimes, led mainly by China. Given the absolute dominance of US stock, bond, and currency markets, most commentators predict that the shift away from the dollar will be gradual.

However, a clear and strong indication of the move out of the dollar is that for the first time since 1996 foreign central banks now hold more gold than US Treasuries (debt) in their reserves. The split between gold and US Treasuries is now 24% versus 23%. Between 2021 and 2025, China, India, and Turkey significantly increased their gold holdings.

Gradual or otherwise, fragmentation within the global financial system is happening, and will extend to trade and geopolitics.



The attacks on more than 80 oil and gas facilities spanning nine countries (+40 classified as severely damaged) will likely have far reaching implications for energy and food (fertilizer) security in the coming months. The big unknown is, to what extent volumes are reduced and for how long.

The war has already exposed the rivalry within OPEC with the recent withdrawal of the UAE from OPEC. The UAE want to prioritize its national interests by maximizing oil production capacity to 5mb/day by 2027 and abanding limiting production quotas. Is this OPEC being dismantled and will this accelerate the demise of the petrodollar? This is the exact opposite of what Trump is trying to achieve.

US predicts Iran conflict could end shortly.

Two months later and no meaningful peace discussions, yet President Trump and Wall Street are still assuming that the war will end shortly. History suggests otherwise. The "differences" between the US and Iran go back, at least to 1979 when the Shah was removed following a popular uprising. The monarchy was officially replaced by an Islamic Republic under Ayatollah Khomeini. And since then, there has been heightened US/Iran tension.

The major stumbling block is that the US refuses to allow Iran to develop any nuclear weapons. And this is strongly supported by Israel, Saudi Arabia, and the UAE. However, there is more to Trump's relationship with Crown Prince Mohammed bin Salman (MBS). Remember that Trump's first foreign trip as president was to Saudi Arabia in May 2017. Ostensibly to realign state relations, and to secure major investment and arms deals for the US. A month later, in June 2017 Crown Prince Muhammed bin Nayef was suddenly replaced by MBS. Since then, MBS has focussed on dramatic, long-term development, economic transformation, and social reforms. And this includes significant investments in the US and the traditional arms purchases. Some reporters have referred to this as Trump's 50-year Super Deal.

Relative to the oil shock of the 1970s, we think that the impact of the blockade of the Strait of Hormuz and damaged oil and gas infrastructure is likely to be far worse. This time, due to infrastructure damage, significant volumes are going to take a while to be brought back into production.

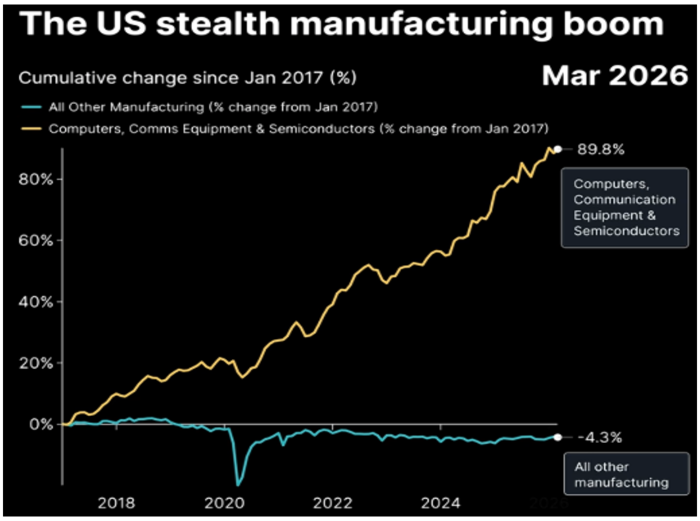
The US stealth manufacturing boom.

Trump's second term has been tumultuous. A central goal of his election campaign was MAGA (Make America Great Again), a dream to rebuild the country's manufacturing base, bring back factories, and restore blue-collar jobs. And tariffs were meant to protect domestic industries, reverse offshoring, and reduce reliance on foreign countries like China.

That has not happened, not even close. Estimates indicate that roughly 108,000 jobs were lost in the first year of the administration. Of note, around 25,000 jobs in cleantech manufacturing were lost as investment in green energy slowed.

The following chart shows that general US manufacturing has declined since 2017, but that AI manufacturing (data centres, computing, semi-conductors, machine learning, robotics, etc) has increased by almost 90%. The bottom line is that manufacturing jobs are down, but output is up. And as part of Trump's Super Deal, the same AI push is playing out in the defence sector.

Key players in AI manufacturing are the MAG7 shares and other such as TSMC and ASML in which we are invested. The following Q1-2026 results summary highlights the massive revenues (annualized) being generated by these companies, but more astounding is the capex being spent. The changes that AI is introducing to the workplace, and to products and



Q1-2026 results		Amazon	Alphabet	Microsoft	Meta	Total
Ann revenues	($bn)	726	440	580	225	1971
Planned capex	($bn)	200	190	190	145	725
Mkt cap	($bn)	2,829	4,219	3,152	1,699	11,899
% of S&P 500	(%)	4.1%	6.1%	4.6%	2.5%	17.2%

services are already mind blowing and have only just begun.

The positives are a greater range of products and services, and productivity gains. The red flag is a loss of jobs and the impact on disposable income. Already Meta has indicated that it will retrench upwards of 10,000 employees (12%), deemed necessary as 2026 expenses are projected to rise significantly.

The US economy and stock market.

Being a consumer and services dominant economy and a net energy exporter, the US economy is extremely resilient. However, cracks are showing and the workforce is experiencing a significant bifurcation, often described as a K-shaped economy or a divide between high and low skill jobs. This is driven by rapid technological advancements and AI.

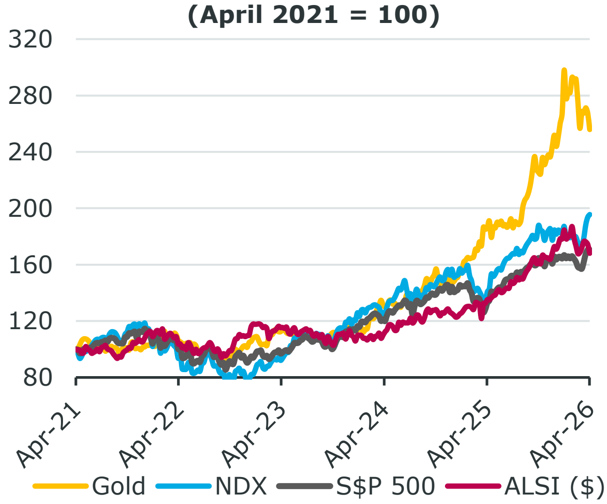
On the inflation front there has been no reprieve for US consumers as the Core Personal Consumer Price index increased steadily from 2.6% in August 2025 to 3.2% in March 2026. This is 60% above the Fed's inflation target benchmark of 2%. At this week's Fed meeting the committee decided to leave its policy rate unchanged. In recent says the Brent European oil price breached $120/bl, which did not surprise us given the attacks on oil refineries and ongoing supply tightness expected in the coming months. The inflationary impact of higher oil prices is still to be seen in the global economy. Not helpful is that US interest rates have trended higher since the Iran war started in late

February.

Over the five years to April 2026 the Nasdaq and the S&P 500 have, respectively, compounded annually at 14.4% and 11.3%. In turn, the gold price and the JSE ALSI (in $), have compounded annually at +20.7% and +11%. And despite all the "haven" commentary, the dollar index has appreciated annually over the past 5 years by only +1.8%.

After the sharp sell-off in March shares rebounded strongly in April. YTD the Nasdaq and the S&P 500 are respectively, +7.7% and +4.2%, whilst the dollar index (DXY) is up 0.65%. In turn, the gold price is up 5.9%, whilst the JSE ALSI (in $) is down 2.6%.

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



South Africa – growth risks remain.

Over the five years to April 2026 the major JSE indices have compounded annually at the following rates: FINI 15 (+15.3%), RESI 10 (+12.1%), ALSI (+11%), SAPY (+8.4%), and INDI 25 (+8.1%). After a very strong two-year performance, precious metal miners were sold off over the past two weeks. Industrials continue to disappoint on the back of near zero growth and consumer pressure.

YTD the performance is more varied and continues to be shaped by resources, with the industrials under pressure: RESI 10 (+3.5%), FINI 15 (+2%), ALSI (-0.2%), SAPY (-1.7%), and INDI 25 (-6.6%).

ALSI and major JSE indices (April 2021 = 100)

We expect the US/Iran war to weigh on global markets in the near term. Locally, growth will remain constrained through 2026 due to weak investment policies, structural bottlenecks, energy, water, and logistics shortcomings, and a constrained budget. The higher oil prices and Eskom's near 9% tariff increase will further restrain the consumer.

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