INTEGRAL Asset Management

The Outlook

September 2026

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- The globalization tide has turned.
- Driving alliances and filling the vacuum.
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- Questionable interventions by US Treasury Secretary, Scott Bessent.
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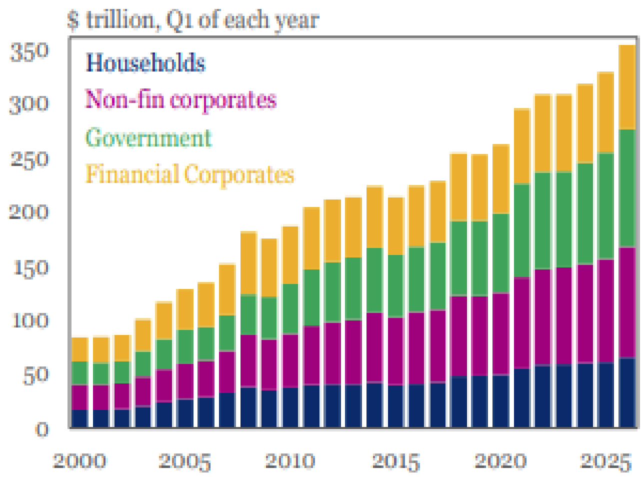
The joys of globalization and debt.

For four decades the world got steadily "flatter". The oil shocks ended, Washington and Beijing restored ties, and trade agreements were signed. The collapse of the Soviet Union in 1991 and China joining the World Trade Organization in 2001 cut communication costs and knitted supply chains together. World trade boomed, with the US-China partnership as the main engine of global growth. This was globalization at its best.

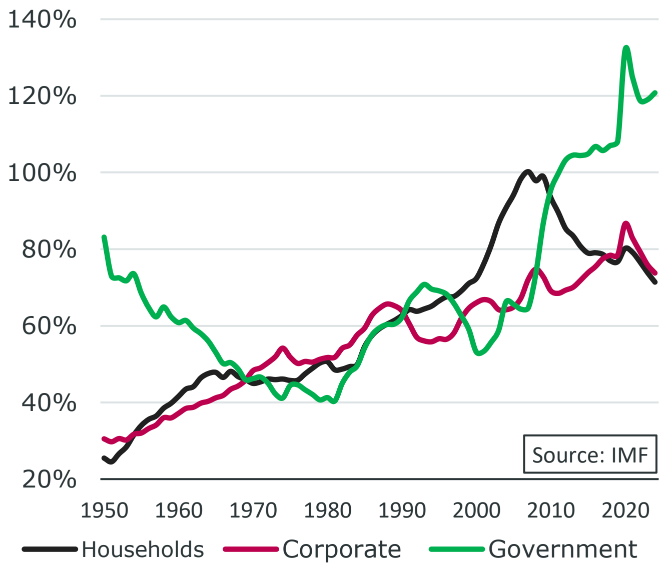
But it also ran on borrowed money. Since 2000, global debt has grown 40% faster than global GDP — up 465% (7.2% a year) against GDP's 250% (5.2%) — to a staggering $350tr.

Global debt at a record $315tr



Two red flags. The first is size: total global debt is now about 300% of global GDP. The second is the mix. Governments did the bulk of the borrowing, and public debt has papered over stagnant real wages and a synchronized global slowdown in productivity since around 2005. Since 2000 government debt has climbed from 53% of GDP to almost 121%. Households, by contrast, have de-levered from a 2007 peak of 100% to 71%, and corporates from 87% in 2020 to 74%.

Global debt as % of GDP



This century growth has shifted from organic to debt-driven because wages lagged corporate profits, resulting in households borrowing - mortgages, credit cards, student, and auto loans - to keep spending. Historically low interest rates after the 2008 crisis and again after Covid made borrowing cheap, and households, corporates and governments all took on record levels of debt.

Deficit spending erodes purchasing power twice over: it pumps more money into the system, and, as we know from bitter experience, governments have become very inefficient at spending tax revenues.

The globalization tide has turned.

Smooth globalization has given way to a fragmented, multipolar world - Wild West territory - marked by wars, trade conflicts, feeble international co-operation, and recently, unorthodox market interventions by US Treasury Secretary Scott Bessent. And above all, President Trump remains a constant disruptive force.

"America First" is barely denting its main targets, Iran and China. Instead, tariffs on allies and sanctions on adversaries are accelerating a major realignment in global economics.

After failing to obliterate Iran, Trump declared "economic D-Day" — a financial siege that penalizes anyone trading with Tehran. The White House is issuing compliance deadlines to China (Iran's biggest oil buyer), the UAE, Turkey and India: "*sever economic ties or face secondary US sanctions and asset freezes*". That sets up a tense meeting between Xi Jinping and Trump on 24 September.

The trade dispute that broke out with Canada this past week has escalated into a full-blown trade war. For perspective, in 2025 the US's top three trading partners were: Mexico ($971bn or 13.5%), Canada ($880bn or 12.6%), and China ($495bn or 6.9%). These tariffs will be paid, directly or indirectly, by US importers and consumers – further disrupting supply chains and adding to inflation. The end goal - local manufacturers replacing imports - will take years to happen, if ever.

We say, "if ever" confidently, as Chinese manufacturers benefit from the country's control of global raw material supply chains, cheaper and more reliable power and grids, and the human and robotic skills.

Driving alliances and filling the vacuum.

For decades, China and Russia have tried to build financial infrastructure that cannot be touched by US sanctions. Trump's maximum-pressure campaigns are giving other nations an urgent incentive to join these alternative systems.

Two unthinkable things are happening. First, Trump's retreat has left a vacuum and de-dollarization has begun. China, Iran, and Middle Eastern traders are building alternative shipping routes and digital asset networks completely outside Western oversight. And to avoid US tariff wars or secondary sanctions, countries are increasingly settling trades in local currencies like the Chinese yuan or UAE dirham instead of the US dollar.

Secondly, while Trump is isolating his allies, Beijing is intentionally positioning itself as the new champion of global free trade. His policies have inadvertently accelerated a deep economic realignment across Eurasia. With live evidence of friction between Washington and Brussels over auto manufacturing and defence, China has launched an aggressive trade charm offensive. China and India are capitalizing on US isolationism with new trade blueprints - including a Eurasian pivot into raw materials and consumer markets once dominated by US goods.

Whilst Trump wags his finger, China has condemned the fresh sanctions and has pledged "*all necessary measures to protect our interests*". With the November US mid-term elections looming, we can see another 'TACO' move when Trump meets with Xi-Jinping on the 24 September. With elections looming, Trump may well have to fall in line with Beijing's call to "*help remove interference and overcome obstacles".*

Meanwhile, in a speech to French business leaders this past week, Ursula von der Leyen warned that the "*EU trade deficit with China (almost €1bn per day) has increased by 45% over the past five years."* She complained about "*unfair trade*" and highlighted that "*price is not the only issue"* but that China is able "*to weaponize its control over critical materials and supply chains."* At a basic level, China rolls out the red carpet for its manufacturers, whilst Brussels piles on red tape.

Signalling tension within the EU hierarchy, Macron (France), Sánchez (Spain) and Merz (Germany) have all recently visited Beijing to sign bilateral cooperation pacts softening the "Trump shock".

Geopolitics and global macro issues.

Global debt has exploded since the 2008 crisis and is now the defining macro-financial issue of the day. Used judiciously, debt can fund long-term infrastructure and services, development, innovation, and growth.

"*But when debt rises faster than GDP, income, or productivity—or if not anchored by policy credibility - it can become a source of vulnerability. In turn, debt-related vulnerabilities can amplify shocks, limit fiscal space, and increase volatility across capital flows, credit spreads, currencies, and asset prices*" - Institute of International Finance (IIF) August report.

Debt accumulation has been asymmetrical. According to the IIF, "*it has unfolded through three broad waves of borrowing: the period around the GFC crisis, the Covid pandemic cycle, and the more recent phase of fiscal expansion and AI investment needs*." Unlike earlier waves, this third phase has not been driven by accommodative policy and is unfolding at interest rates significantly higher than a few years ago.

All that debt and weak GDP must now hold up against a myriad of unfolding macro issues:

- ✓ Russian/Ukraine war,
- ✓ US/Israel – Iran/proxy wars,
- ✓ Strait of Hormuz – global energy shock,
- ✓ Trump's goal of US energy dominance and lower prices,
- ✓ China controls the supply of most refined metals,
- ✓ Deglobalization and the US forsaking its allies,
- ✓ Trump's tariffs and protectionism backlash,
- ✓ Aging workforces and inverted population pyramids,
- ✓ A century-level El Niño event,
- ✓ Japan – extreme debt levels, rising inflation, and depreciating currency,
- ✓ UK – low productivity, high cost of living, strained public services, high taxes, and unstable political leadership,
- ✓ EU – immigration overload, energy issues, Green Deal pressures, Russian/NATO security issues, Trump tariffs, and competition from China,
- ✓ China - is experiencing a complex, structural economic slowdown characterized by population decline, persistent deflation, historically low interest rates, and intensifying global resistance to its manufacturing overcapacity and low prices,
- ✓ US – the real economy is sluggish outside of the phenomenal AI capex projects. Worrying macro issues are: record government debt ($40tr) and deficit, $10tr debt roll-over, Trump tariffs/inflation, affordability (housing, education, and healthcare) problems, immigration, and border security, political polarization, geopolitical fragmentation – alienation of allies and de-dollarization.

Government borrowing is no longer cyclical; it has become structural. And as globalization fractures and geopolitical tensions rise, "*debt-related vulnerabilities can amplify shocks, limit fiscal space and increase volatility across capital flows, credit spreads, currencies, and asset prices" – IIF.*

Questionable interventions by US Treasury Secretary, Scott Bessent.

In a rare joint intervention with the Bank of Japan at the end of July, Scott Bessent sold euros to support the Japanese yen. Using an alternative currency helped avert a wave of US treasury sales by Japanese investors, who remain the largest foreign holders of US debt at $1.12tr. The intervention had limited success: the yen strengthened from ¥164, a 40-year low, to ¥155.20 against the dollar, before weakening back toward ¥160. This was a costly exercise, with Japan deploying $98.7bn and the US an estimated $5bn to $10bn. The exercise points to growing desperation.

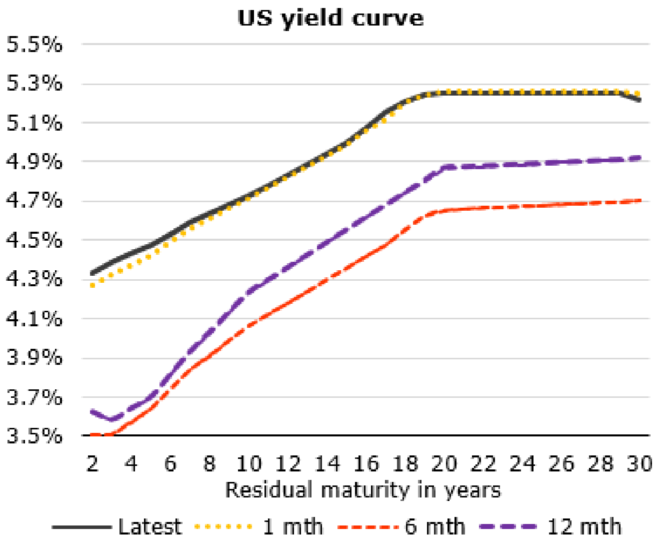
During August Trump again claimed that interest rates are artificially high. Bessent reacted with an operation to buyback long-dated bonds (10 – 30 year) just as the 30-year yield hit a 19-year record level of 5.34%. Bessent calls it providing greater liquidity to the longer-dated debt securities. It looks more like yield curve control and being desperate to stop yields from rising further.

Wall Street heavyweights called Bessent's planned market intervention "*madness*". The reality is that the market's sell-off (higher rates) is structural, driven by: government debt of $40tr, a massive 6% GDP budget deficit, Trump's $4tr tax extensions/reductions, and his request for a $1.5tr defence budget for fiscal 2027.

August ended with Fed Chairman, Kevin Warsh, using his inaugural Jackson Hole speech to emphasize that the Fed's primary focus remains a strict 2% inflation target. Pointing to 3.7% PCE inflation, he noted, *"We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do".*

Warsh's hawkish comments mean that the Fed may raise rates (25bps) at the 15-16 September FOMC meeting, but Warsh wants the market to dictate the shape and level of the yield curve. This puts him at odds with Bessent's recent attempts to lower longer yields. The market is now factoring in a greater than 50% chance of a 25pb rate increase.

US yield curve – spot, 3, 6, and 12 months.



The chart above shows that across the whole yield curve, from 2 months to 30 years, yields have risen sharply over the past six months (lower red dotted line to solid dark line). This signals a structural 'bear steepening' of the yield curve: this implies demand for higher term premiums, driven by expectations of stubbornly higher inflation and growing anxieties over the debt and deficits.

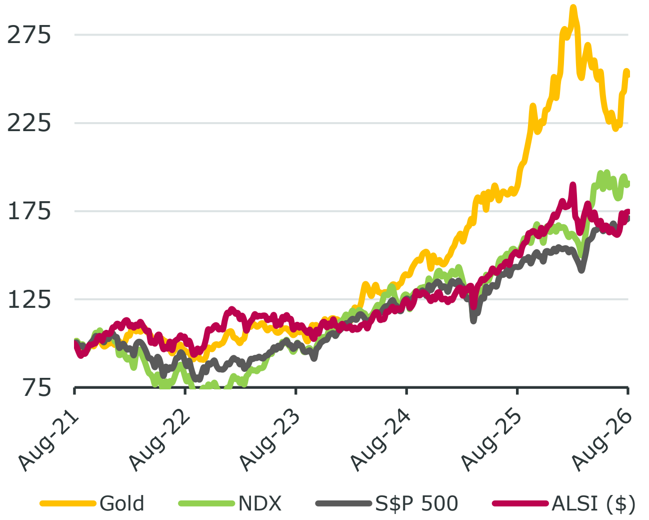
US stocks – credit-led AI capex boom.

Year to date the Nasdaq (14.8%), S&P 500 (11.3%), the JSE ALSI-$ (0.9%), gold (0.5%), and the DXY (1.76%) are all in positive territory. Over the past five years the indices have compounded, respectively, at 13.8%, 11.3%, 11.8%, with gold leading at 20.3%. According to companiesmarketcap.com the global equity market cap is about $155tr – dominated by the US (52%), and followed by China (7.5%), Japan (5.2%), UK (3.1%), and Canada (2.8%).

For some perspective of the extent that AI and technology stocks dominate the US and global equity markets, the US Magnificent 7 account for around 31% of the S&P 500 and are almost as large as the combined China, Japan, and UK stock markets. Meanwhile, the top 10 global mining stocks only account for 0.92% of global market capitalization.

US AI stocks are in a world of their own where capital expenditure, debt, and extended valuations are the prime drivers. Meanwhile personal consumption expenditure, the traditional backbone of US GDP and stock market profits is under significant pressure. A recent CNBC SurveyMonkey poll revealed that "*63% of Americans report living paycheck to paycheck*". The deglobalization forces, wars, and unfolding political tensions will almost certainly mean heightened equity and bond market volatility ahead of the US November mid-term elections.

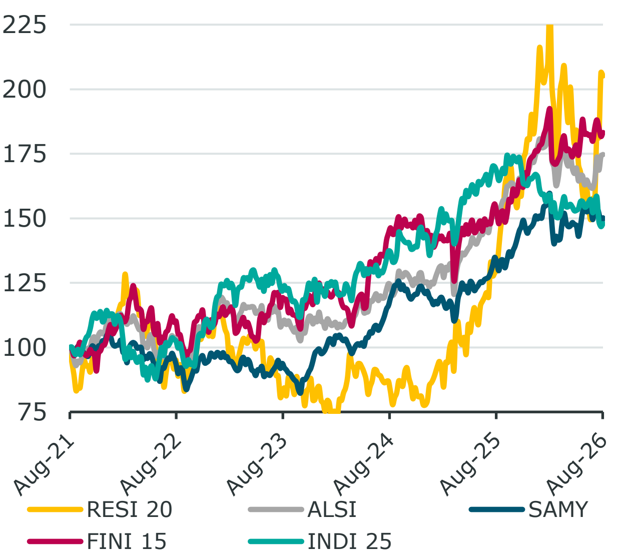
Nasdaq, S&P 500, ALSI ($), Gold (August 2021 = 100)



South Africa – elections looming.

Year to date the RESI 20 (7.8%), FINI 15 (5.6%), SAPY (2.3%), and the ALSI (0.9%) are all in positive territory, with the INDI 25 (-10.5%) persistently underperforming.

ALSI and major JSE indices (August 2021 = 100



The gold, PGM, chrome, iron ore and coal miners, are providing welcome support to the local economy and the fiscus. The Cape is another bright spot, where property, infrastructure development, and tourism contribute positively.

The plight of the industrial sector is explained by poor government policies, infrastructure mismanagement, and regulatory uncertainty. This has caused manufacturing's share of GDP to collapse from 22% in 1994 to around 11%.

The primary policy-driven bottlenecks dragging down the industrial sector include: high energy costs, logistical constraints and high costs, misplaced sector master plans, an over-bearing and complex regulatory environment, and labour friction more recently.

The 4 November local elections loom large. Polling conducted by Ipsos South Africa shows deep-seated civic frustration where "*nearly 47% of South Africans report feeling "politically homeless," stating that no political party accurately represents their views".* The latest polling by the Social Research Foundation and The Common Sense highlight massive shifts across the country's major economic hubs:

- ✓ *City of Johannesburg - the DA holds a commanding lead with 42%, whereas the ANC's support has collapsed dramatically to 18%, with MKP at 13%,*
- ✓ *City of Tshwane/Pretoria - the DA polled 43% among likely voters, followed by the ANC at 18%, and the FF+ at 8%, and*
- ✓ *City of eThekwini/Durban - MKP is ahead with 33%, followed by the DA (23%), and the IFP (16%).*

The polls indicate that we are in for change. Everything will hinge on the calibre of new leaders and common sense and common cause.

Our portfolio positioning remains as follows: extra cash and gold, cash-generative equities, and no exposure to the consumer-facing retailers we judge most vulnerable. In the US, we are cognizant that public and private credit is a major driver of the capex-led AI boom and high valuations.

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