INTEGRAL
Asset Management

# The Outlook

November 2026

- The Five Big Forces have interlocked.
- Energy – record high refining margins.
- The inflation landscape has changed.
- US inflation and the ongoing loss of purchasing power.
- The Fed holds rates despite elevated inflation.
- US stocks – credit-led AI capex boom.
- Local Government Elections – the waiting is almost over.

## The Five Big Forces have interlocked.

Ray Dalio's "Five Big Forces" plus population inversion/immigration are now interlocking with significant global political, economic, social, and monetary policy implications. It is fair to say that most of the "forces" – debt, internal and external disorder, acts of nature, and innovation - are at a heightened or crisis level.

Global debt has surged past $365tr which together with supply side constraints has led to rising inflation, presenting central bankers with a stagflation dilemma. The interplay between these "forces" is reshaping the energy and commodity supply chains. The super El Niño – deadly fires, floods, and drought – has been described by the UN as an unprecedented "wrecking ball".

Meanwhile AI is changing the workplace forever, with job losses a near-term concern. The massive US AI infrastructure expenditure, 90% funded by free cash flows in 2024, has shifted dramatically to at least 33% debt, according to Goldman Sachs. For conservative investors, certain tech giants are now considered fiscally safer or more productive than the US government itself. This has created an unprecedented dynamic, whereby the quality end of the private sector is competing against a stretched US Treasury for bond issuances.

This cumulation of high defence expenditure, deficits, debt, and rising inflation have implications for monetary policy and central bank decisions.

## Energy – record high refining margins.

The wars between the US/Israel and Iran as well as Russia and Ukraine are examples of external disorder that is now seriously impacting the global energy market and beyond. And importantly, is embedding inflation in logistics chains and all consumer goods. Prior to the start of the two wars, the Middle East, Russia, and the United States together formed the undisputed "Big Three" of global energy, controlling most of the world's oil and natural gas production and trade.

The energy market is complicated. The equation starts with crude oil, which none of us directly consume. Refineries are critical to separating crude oil into gasoline, diesel, kerosene, and then cracking to produce a range of major distillates and fractions:

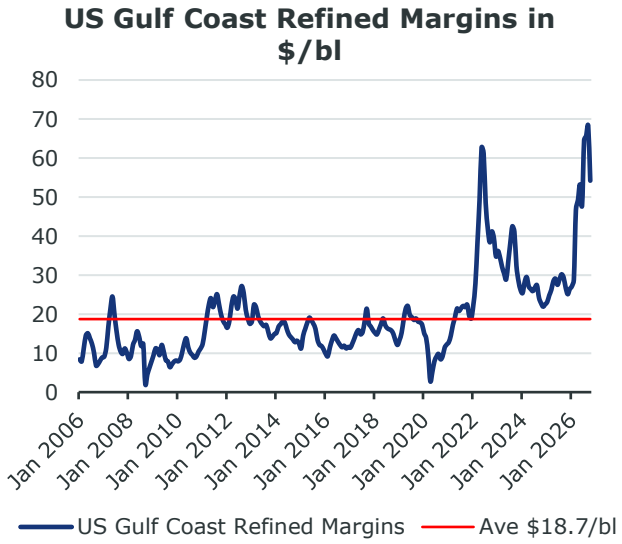
- ✓ LPG: cooking and heating,
- ✓ Naphtha: plastics, polymers, petrochemicals,
- ✓ Kerosene: aviation fuel, heating and lighting,
- ✓ Fuel oil: power stations, industry, ships,
- ✓ Lubricating oils and greases,
- ✓ Paraffin waxes: candles, polishes, and waterproofing, and
- ✓ Bitumen: road surfacing, roof waterproofing.

To understand the true health of the energy sector, we monitor the "crack spreads" – 3:2:1, noting also, that the pricing of these spreads differs by country and

region. The formula assumes that 3 barrels of oil are refined into 2 barrels of gasoline and 1 barrel of diesel/distillate. The following chart indicates how much gross profit a US Gulf Coast refinery makes by converting a barrel of crude oil into usable fuels like gasoline and diesel.

Every day the market religiously quotes the price of crude oil, with Brent and WTI being the main western world benchmarks. However, the oil price is only the starting point. As indicated above, the economy relies on a wide range of refined products, and the cost thereof is the refining margin, or "crack spread".

To your shock and horror, you will see that the US refining margin is currently around $55/bl. Adding this to the Brent price is a proxy for what consumers pay, before adding logistics, naval escorts, insurance, inland transport costs, and taxes, which could sum to another $30/bl. For locals, the current total petrol 95 cost is R18.35/litre, R23.89/litre for diesel.



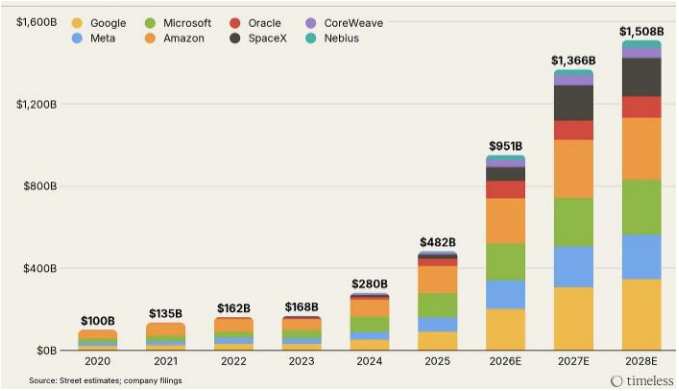

Why are margins so high? The wars were the trigger. Due to physical refinery damage and blockades, Middle East refineries are running about 25% below pre-war levels, and Russian refineries are running at about 40% below capacity. To add to the energy constraints, President Trump has imposed sanctions, and other countries have limited exports.

## The inflation landscape has changed.

The unending wars and global refinery bottlenecks have fundamentally altered the global inflation landscape, decoupling fuel prices from crude oil costs. In addition, freight and insurance costs are sharply higher, and strategic petroleum reserves are at historic lows. Also, from bitter lessons learnt – geopolitical crises, extreme weather events, and the green energy transition - governments are already transitioning from a focus on cheap, single-source energy to a balanced strategy centred on energy security, diversification, and localized production.

Refining shortages are not only due to the wars. Before the wars, many countries had lost their refining capacity or were way behind on maintenance. South Africa must rank near the top of such a list. The physical destruction of infrastructure, and a decade of minimal investment have taken a significant chunk of global refining capacity offline. Consumers and central bankers now face a reality where crude oil prices can normalize, but the gasoline, diesel, and jet fuel burned by industries are likely to remain acutely expensive.

The massive capex-driven AI and Data Centre projects are another factor adding to US inflationary pressures. Although a bit blurred, the chart and table below (top 8 AI players) indicate that AI expenditure has risen dramatically in recent years and will likely rise another 125% or $2.9tr through to 2028.




**Wall Street AI capex estimates in $bn**

| 2000 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|
| 100 | 135 | 162 | 168 | 280 | 482 | 951 | 1,366 | 1,508 |

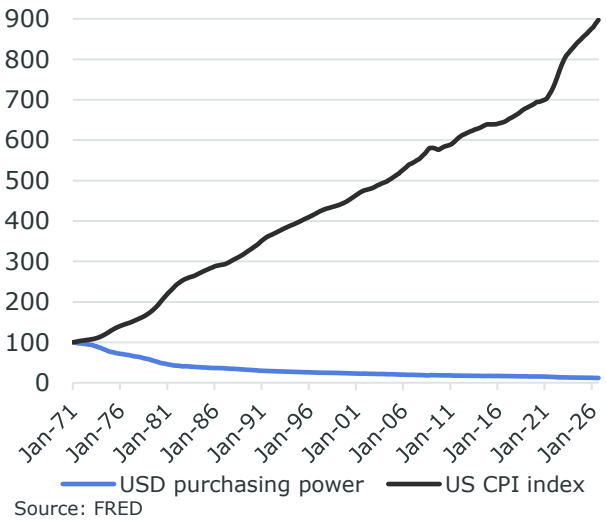
This AI expenditure is adding to inflation. Large tracts of land are having to be secured, along with water and environmental permits. Power projects and associated grids (100MW to 3GW) are being built from scratch, and technical/engineering skills are in short supply. This is before one considers the core hardware (CPUs, GPUs, integrated circuits, and high bandwidth memory

chips), which together with the physical infrastructure are all expensive and are all next-generation items that are in short supply. Then there are the politicians and regulators, piling on "red tape", adding to costs and causing delays.

## US inflation and the ongoing loss of purchasing power.

Inflation is not abstract; it is a reality that is best measured by the loss of purchasing power. Since 1971 when Nixon took the US off the gold standard, US inflation (All Urban Consumers) has increased annually at 4.0%, whilst the purchasing power of a dollar has fallen by 88.2%. The Fed's headache is that post-covid, US inflation has increased annually at 4.35%.

**US inflation and loss of purchasing power (Jan 1971 = 100)**




Source: FRED

The recently released Pew Research Centre surveys found that "*44 percent of US adults reported struggling to pay for necessities like medical care, rent or mortgage, transportation and food amid rising inflation levels"*. At the lower income levels, "*71 percent of those surveyed said they struggled with costs for at least one of these expense categories*". And across the board, 53% said they "*did not have sufficient emergency funds*".

Those surveyed regularly pointed to high gas and diesel prices – a gallon of regular gas in the US has increased by around 40% to $4.33 from a year ago, whilst diesel has increased by about 58% to $6.

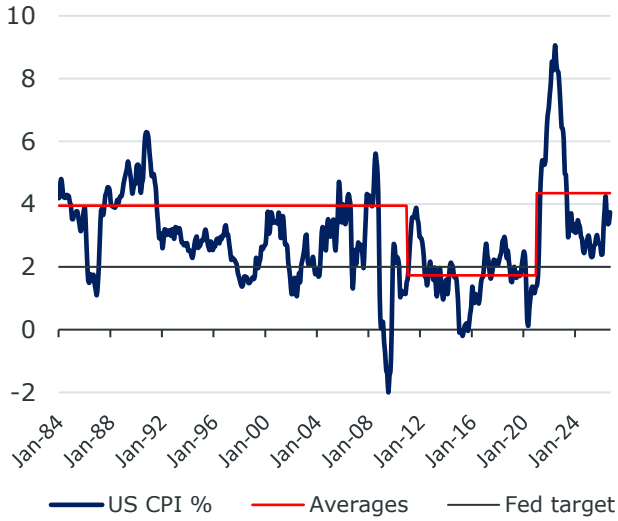
Acutely aware that "affordability" is likely to be the top issue for voters at the midterm elections, President Trump continues to blame high prices on his predecessor, Joe Biden. But at a recent campaign rally in Alaska, the president did not offer hope that the months-long conflict was nearing a close, telling the crowd he has "*had it*" with Iran's leaders and added that his administration was "*going to do a number*" on the country.

Either way, a quick return to pre-war global refining capacity won't happen. This has implications for inflation.

## The Fed holds rates despite elevated inflation.

The chart below shows that US inflation has averaged 4.35% over the past five-and-a half years, way above the targeted 2%. Last Wednesday the Fed decided to leave the Funds rate unchanged. Everything that Fed chair, Kevin Warsh listed, suggested that they should have increased rates – resilient economy, strong consumer spending, solid business investment, and productivity growth.

**US inflation**




Inflation is a double-edged sword. For the average worker, inflation is the ongoing erosion of purchasing power. For the more affluent, those with large pensions and private share portfolios, inflation contributes to higher stock market prices and greater wealth. Lower interest rates reduce debt servicing costs, and boosts economic activity, equity valuations, and increases bond prices. Clearly, the Fed needs to tread carefully.

Warsh did provide some clues to a no rate increase. We think, in recognition of the changing world order, the compromised critical mineral and energy supply chains (Warsh mentioned South Korea), and the untenable level of US government debt, that Warsh is searching for a new monetary strategy or policy.

Warsh has a bigger picture in mind, hence, he said that "*crushing inflation has no calendar date*". To this end, Warsh has set up 5 task teams to assist with the regime change that he intends on introducing.

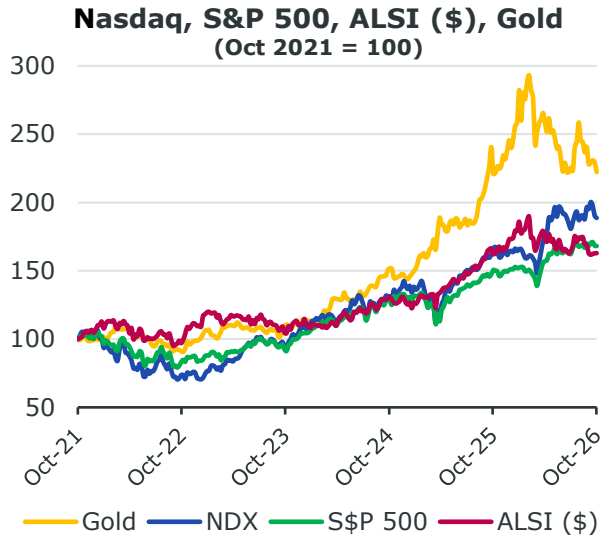
A clue to Warsh's thinking on current market conditions came from his repeated comment of "*look out the window*". This refers to his philosophy of interrogating reality. And the reality in the US right now is that higher interest rates would impact millions of Americans. Furthermore, Warsh noted the importance of the AI expenditure and that recently the market had started reacting to AI debt and higher rates. Finally, Warsh noted that the recent rise in market rates (10-yr yield up 36% to 5% in 12 months) had done some of the heavy lifting for the Fed. Thus, implying a wait - *for more data* - and see.

## US stocks – credit-led AI capex boom.

Year to date the Nasdaq (18.1%) and the S&P 500 (13.1%) continue to perform strongly, whilst gold is down 6.4%. Meanwhile the rand is down by 0.5% and the DXY +3.7%. Conversely, the JSE ALSI-$ (-5.9%) is reflecting a weak and poorly managed economy. Over the past five years the indices - Nasdaq, S&P 500, and the ALSI have compounded, respectively, at 13.5%, 11%, 10.3%, with gold leading at 17.3%.

Despite periodic pullbacks, the S&P 500 has repeatedly notched all-time highs, but the driving forces have completely shifted in recent years. The S&P corporate earnings remain historically strong, despite the macroeconomic headwinds and rising interest rates. Artificial Intelligence (AI) hyperscalers, tech giants, and surging energy/power stocks have been the primary drivers of the S&P 500 year-to-date (YTD) in 2026, with AI-linked companies now accounting for roughly 45% of the index.

On the back of the higher energy prices and massive AI data centre demand for power, new grids, and general electrification, the Energy sector is up around 45% YTD. Performance across the broader market has been dramatically lower or remained flat.




## Local government elections, the waiting is almost over.

Year to date the FINI 15 (2.9%) and the SAPY (+1.6) have registered small gains, whilst the ALSI (-6%), RESI 20 (-8.5%), and the INDI 25 (-13.7%) are all lossmaking. Over the past five years, all the major indices are in positive territory: FINI 15 (+13%), RESI 20 (+12.3%)/ ALSI (+10.3%), SAPY (+9.2%), and the INDI 25 (6.9%).

The results of the late October eNCA MarkData Election Survey reveal "*a highly fragmented and localized political landscape ahead of the 4 November 2026 local government elections*". The results of the major metros are:

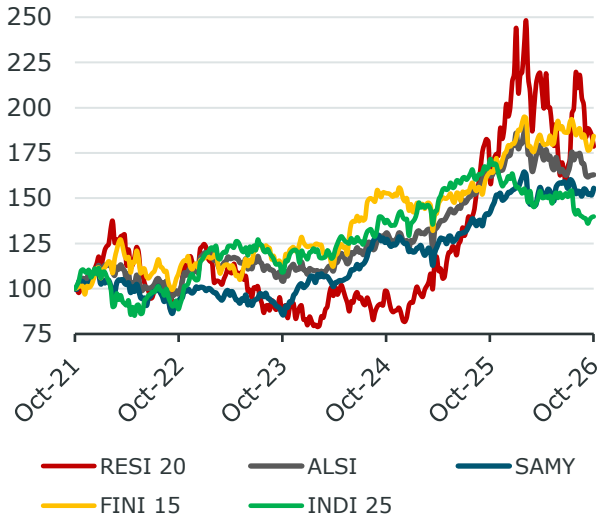
- ✓ Johannesburg: DA (36%), followed by the ANC (22%), MKP (11%), and ActionSA (9%). Public sentiment was highly critical, with 68.7% of respondents assessing the municipality as poorly or extremely badly run.
- ✓ Tshwane: DA (33.9%), followed by the ANC (24.3%), and ActionSA (12%).
- ✓ eThekwini: MKP (43% to 48%) is the leading political force, with the DA at 25% to 28%.
- ✓ Cape Town: The DA polled 52.7%, and the ANC 23.6%.
- ✓ Ekurhuleni: The DA leads at 31.2%, followed by the ANC (24%), and MKP (11.5%).

On an aggregate national level, the poll placed the ANC at 32%, the DA at 26%, the MKP at 12%, and the EFF at 8%. The polls indicate that the DA and MKP will,

respectively, dominate the Western Cape and KZN. Beyond these provinces, we are looking at a "*patchwork*" political landscape, with "*severe voter dissatisfaction*". The poll reports "*that there is a sharp deterioration in general sentiment. Approximately 90% of polled voters believe South Africa is heading in the wrong direction, heavily driven by localized service delivery failures*".

The polling snapshots assume a projected voter turnout of roughly 48.8% with an average margin of error of 3% per metro. Coalitions will not be easy. The country needs quality, operational leaders to step up and for disgruntled citizens to wholeheartedly support achievers, not ideologues.

**ALSI and major JSE indices (Oct 2021 = 100**




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 the sharp rise in interest rates will impact public and private credit, which is a major driver of the capex-led AI boom and high valuations.

**Bruce Williamson**
Director

**Danilo Pagani**
Chief Executive Officer

**Dave Eliot**
Chairman

**The Outlook was generated by the Integral Asset Management investment team: Dave Eliot | Bruce Williamson | Danilo Pagani**
Integral Asset Management SA (Pty) Ltd issued this publication for the information of clients only. It shall not be reproduced in whole or part without our permission. The information herein has been obtained from sources and people whom we believe to be reliable but are not guaranteed accuracy, completeness, or otherwise. All opinions and recommendations expressed are subject to change without notice. No information held herein, no opinion expressed, and no recommendation made constitutes a representation by us or a solicitation for transactions in any of the securities mentioned herein and we have no responsibility whatsoever arising here from or in consequence hereof. Securities or financial instruments mentioned herein may not be suitable for all investors. Any person coming into possession of this publication is obliged to seek additional financial advice for his/her investment decisions. Past performance is not indicative of future results, and investors may get back less than they invested.
Integral Asset Management (Pty) Ltd is an authorized Financial Services Provider **FSP Number** 46545 **Registration Number** 2015/393458/07 | **Directors** Dave Eliot, Danilo Pagani, Bruce Williamson, Richard Goodlace. First Floor, Delta Central, 74 Hillcrest Avenue, Craighall Park, 2196| info@integralasset.co.za