



Investing for a
world of change

The risk beneath the rally

We are now well into the third month of the war. What was anticipated to be a quick “in and out” has not materialised, and now we sit with the bizarre situation where both sides want an exit but have no idea where to find it. And the fact that they cannot talk to each other makes it that much harder.

Fortunately, the whole world is invested in the outcome. Most of the oil coming out of the Strait of Hormuz goes to Asia, primarily China and India. The Chinese economy needs the oil, and China can't afford the trade impact of a global recession.

Therefore, the Chinese (who are increasingly emerging as the “adults in the room”) may still facilitate – if not force – the conversation towards a conclusion.



Jeremy Gardiner
Director

The risk beneath the rally

Despite the fact that the war has gone on longer than expected, equity markets seem confident that a resolution will be found. And despite the now inevitable impact on growth and inflation, it should wash out within a year if oil prices moderate. When they eventually do, life can return to normal.

The US earnings season has been strong and President Donald Trump will continue to artificially boost the US consumer before the midterm elections in November through tax relief. If he is able to persuade the new Governor of the Federal Reserve, Kevin Warsh, then there could be rate cuts as well. Whether that works or not remains to be seen. Prediction markets put a high likelihood of Trump losing at least the House of Representatives, if not both the House and the Senate.

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US voters' primary expectation from Trump was to bring the cost of living down, but with tariffs and the oil price spike, the exact opposite has happened. Inflation surged to 3.8% in April, the highest since May 2023.*

On the subject of tariffs, whilst tariff confusion wreaked havoc in markets and global trade last year, the US Supreme Court ruled that they are unconstitutional. Now begins the arduous task for authorities to refund importers.

Also, interestingly, US trade and tariff hostility has led to most of America's traditional friends and trading partners (like Canada, Europe and the UK) dropping reciprocal tariffs and rushing into the trading arms of China and India.

*Source: US Bureau of Labor Statistics, May 2026.

Meanwhile, back home, we are weathering the storm relatively well. Going into the war from a position of low inflation and a primary fiscal surplus (thanks to all the mining royalties) has allowed us to cushion both the growth impact and the increase in the cost of living. Fuel price relief has so far cost us in the region of R17bn and can't continue indefinitely, so we, like the rest of the world, need a resolution in the Middle East sooner rather than later.

For once, South Africa was in a really good space before the war. Inflation was low, interest rates were declining, we were growing, Operation Vulindlela was fixing the country one step at a time, and growth figures of over 2% were in sight which meant we could start meaningfully creating jobs. So as a country, we were recovering after the Zuma years. We had bottomed and we were heading in the right direction.

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But our trajectory is fragile and an extended oil price spike would push us, along with most other countries, into recession. That would result in economic pain, job losses and an environment where populist voices, quietened of late, start regaining traction. In an election year, this is something we can ill afford.

So, let's hope a resolution is forthcoming otherwise it's going to be long winter.

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