

Daily indigestion

by Gus Roberston

The US and Israel launched a coordinated military campaign against Iran on 28 February 2026, prompting retaliatory attacks with numerous flashpoints in and around the Middle East. Crude oil shipments through the Strait of Hormuz have been disrupted and each day, as this situation unfolds, brings news of wider damage being done to crude oil production, storage and infrastructure facilities in the region.

The price of a barrel of Brent crude oil, which oscillated comfortably in the \$60 to \$70 range for much of the last 12 months, has responded in a volatile manner, at one point moving well beyond the \$100 per barrel level. The longer this disruption on global oil supplies plays out, the greater the potential impact on inflation and economic growth, both domestically and abroad. This has been affecting global currency, bond and equity markets, and is causing discomfort and uncertainty among global investors.

We don't claim to have unique insights into how this situation may play out; there is simply still too much uncertainty. So rather than pondering the wide range of outcomes, each with their own second- and third-order effects, we want to offer you some insights into how your investments have been positioned going into these events, and the actions we have been taking in response to them.

Our approach in such events is best described as evolutionary, rather than revolutionary. We tend not to make chunky portfolio changes but rather nibble in the areas that are offering the potential for good investment outcomes.

Granate BCI Multi Income Fund

South African policymakers have recognised the importance of growth-friendly reforms, and we've seen three very positive concurrent reform developments:

1. structural reform with meaningful focus on the backbones of our economy – electricity, rail, ports, etc. – along with an ideological change in favour of including the private sector in the solutions
2. monetary policy reform, with a lower inflation target meaning that desired real returns are 'penalised' by a lower inflation hurdle

3. fiscal reform, which means that we can now confidently foresee our country's indebtedness (debt/GDP) stabilising and likely improving in the years ahead, after having risen towards the 80% level.

The result of all this has been a buoyant local bond market, and a steadily strengthening currency. It has been our view that SA's yield compression has been fundamentally justified by clear evidence in the intent of these reforms. However, in more recent months, it appeared that the market was pricing in too much positivity, too early. We reduced the Granate BCI Multi Income Fund's duration while its cash and money market exposure gradually increased. When markets are strong, cash can feel like a heavy passenger. But when markets weaken, that same passenger becomes a reassuring companion that empowers us to invest when negativity is overdone.

During March thus far we have put some of that cash to work, predominately buying bonds in the 6- to 10-year maturity range. Associated yields of around 8.5% would still offer a compelling real yield even in the extreme scenario where the SARB needs to hike the repo rate, rather than continuing to cut towards the 6% level as has been expected. This selective buying activity, where we see the most

attractive risk compensation, has inched the portfolio duration up, while the fund still has cash on hand to deploy into potential further opportunities

Granate BCI Flexible Fund and Granate BCI Balanced Fund

Over the last three months we have been selectively reducing the foreign equity and fixed income exposure of the Granate BCI Flexible Fund and Granate BCI Balanced Fund in favour of domestic equity names, while allowing their cash balances to drift slightly higher. The foreign equity reduction has largely been valuation driven on a selective basis, with several of our holdings in the semiconductor capital equipment arena having rewarded the fund well over recent years but recently entering into price territory that justifies some action.

We exited LAM Research (semiconductor wafer fabrication equipment) and Disco Corp (semiconductor wafer dicing and polishing equipment), and reduced Applied Materials (broad semiconductor manufacturing equipment supplier), Tokyo Electron (Japanese semiconductor fabrication equipment manufacturer), ASML (lithography machines for advanced chip production) and VAT (high-vacuum valves used in semiconductor manufacturing).

We have redeployed some of those proceeds into other foreign companies. Tencent (Chinese internet and gaming conglomerate) was a new addition after we gained comfort around its VIE structure, while we increased position sizes in some existing holdings. These included Microsoft (global software and cloud computing leader), Shopify (e-commerce platform enabling online stores), Mercardolibre (Latin American

e-commerce and digital payments platform) and Mastercard (global electronic payments network). Domestically we added to our financials exposure by increasing our Standard Bank position and introducing First Rand Bank into the portfolios. Additionally, we had been recycling capital out of strongly performing property stocks (predominately Unibail-Rodamco-Westfield and SA Corporate) into other property stock holdings that still have the potential to realise a lot of their value, such as London-listed Derwent and New River REIT. Since the military campaign that started at the end of February, we have gradually been deploying cash into the market, across both domestic and global counters, taking advantage of weakness to accumulate exposure at lower levels. These have been small, incremental movements rather than anything drastic or sudden.

In addition, we've been running hard currency put options to shield foreign equity returns from being offset by rand strength. These staggered hedge positions have benefited the funds, but at current rand levels the need for so much protection is less obvious. A portion of our hedge positions is nearing expiry, and we decided to let that portion roll off rather than initiating new cover. The implication is that our multi-asset funds will still be protected against a strengthening rand, just to a lesser extent. The additional uncertainty introduced by the current state of global markets gives us further confidence that allowing these hedges to roll off is the right thing to do.

Proceeding with discipline and caution

The situation in the Middle East is still very much 'live', and it would be foolish to predict any sort of resolution, when it may come, and what the ultimate outcomes will be. We can, however, contemplate and consider various scenarios, and take portfolio actions based on where we see the best risk compensation and most attractive share price dislocations. Our responsibility is to make sure that emotions do not drive our decisions, and we are fortunate to have experienced numerous major market disruptions over our careers and to work as part of a tight-knit, experienced team. We continue to carefully manage the capital you have entrusted to us, taking measured and disciplined actions that we believe will maximise the odds of protecting and growing your savings over time.



Granate is a people business.

We are committed to creating a rich and rewarding culture through our shared values. Granate is configured thoughtfully and intentionally so that our team can thrive for the benefit of our clients. We care about the same things you do and are *relentlessly committed to protect and grow your savings.*

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