



RESILIENCE THROUGH DIVERSIFICATION IN VOLATILE MARKETS

The global geopolitical landscape shifted dramatically on February 28, 2026, with the launch of “Operation Epic Fury”; a coordinated U.S.-Israeli strike targeting Iran’s nuclear and ballistic infrastructure. The escalation follows the collapse of nuclear diplomacy and heightened regional tensions after the 2025 “Twelve-Day War.” While the military objectives remain geographically contained, the economic consequences have rapidly spread across global markets.

At the centre of the disruption lies the Strait of Hormuz, the world’s most critical oil transit chokepoint. Although not physically blocked, the strait has effectively become inaccessible due to surging insurance costs and security risks. This has removed a substantial portion of global energy supply from the market almost overnight.

ENERGY SHOCK & MARKET IMPLICATIONS FOR INVESTORS

Oil markets reacted immediately and sharply. Brent crude surged to above \$120 per barrel before moderating slightly. With approximately 20% of global oil and liquified natural gas supply, around 20 million barrels per day, flowing through the Strait of Hormuz, the disruption has far-reaching global ramifications.

While some producers, notably Saudi Arabia, are attempting to reroute exports via alternative channels such as the Red Sea, these measures only partially offset the shortfall. The result is a meaningful tightening in global supply, placing upward pressure on prices.

Historically, geopolitical conflicts tend to have a sustained impact on financial markets only when they materially disrupt economic activity. In this case, the primary transmission channel is energy supply. Encouragingly, the global economy entered this period from a position of relative strength. Growth momentum was improving, supported by accommodative monetary and fiscal policy, and oil markets were previously characterised by excess supply. Absent a major escalation, this backdrop provides some resilience.

However, the war introduces a stagflationary impulse into the global economy:

- **Growth:** The impact is expected to be modest in the near term, with global expansion supported by existing momentum and resilient corporate earnings.
- **Inflation:** The more significant effect is upward pressure on inflation. Energy costs are feeding into broader price dynamics, reinforcing an already challenging inflation outlook in developed markets.

Bond yields, which had risen prior to the conflict, may partially retrace if tensions ease. However, structurally higher inflation suggests yields are likely to trend upward over the medium term.

SOUTH AFRICA: RESILIENT BUT EXPOSED

South Africa enters this period of global uncertainty from a relatively strong starting point. Inflation is subdued at 3% and commodity prices are supportive, bolstering export revenues and fiscal dynamics. However, South Africa is not insulated. The most immediate transmission mechanism is fuel prices, with inland petrol and diesel costs rising R3.03 and R8.46 per litre, respectively. This will feed directly into inflation and weigh on consumer spending.

APRIL 2026

HIGHLIGHTS

Geopolitical Shock Impacts Markets

- US-Israel strike disrupts Middle East stability
- Strait of Hormuz effectively constrained
- Global energy supply impacted

Energy Prices Surge

- Oil rises above \$120 per barrel
- Supply disruptions tighten markets
- Inflation pressures increase globally

Stagflation Risks Emerge

- Inflation driven by energy costs
- Growth remains resilient for now
- Bond yields likely higher over time

South Africa: Resilient but Exposed

- Inflation anchored near 3%
- Fuel price increases filter through
- Consumer pressure expected to rise

Scenario Outlook for Markets

- Bull: Rapid de-escalation
- Base: Prolonged but contained conflict
- Bear: Escalation and global recession



SOUTH AFRICA: RESILIENT BUT EXPOSED - Continued

Given the uncertainty, three plausible scenarios frame the potential economic and market outcomes:

Bull Case: Rapid De-escalation (4-8 weeks)

A relatively quick resolution, either through a formal ceasefire or the reopening of the Strait of Hormuz, limits the duration of the supply shock.

- **Impact:** A sharp but temporary spike in inflation, primarily driven by fuel prices.
- **Markets:** Oil prices retrace, risk appetite improves, and financial markets stabilise.
- **South Africa:** Inflation pressures prove short-lived, potentially allowing the South African Reserve Bank to proceed with rate cuts. Government may also cushion the shock via further fuel levy adjustments.

Base Case: Prolonged but Contained Conflict (8-12 weeks)

The conflict persists for several months, with intermittent disruptions and a slow normalisation of supply chains.

- **Impact:** A classic stagflationary environment; moderate growth slowdown combined with sustained inflation pressures.
- **Markets:** Elevated energy prices and continued volatility across asset classes.
- **South Africa:** Higher fuel costs and imported inflation weigh on growth, while interest rates remain higher for longer. Economic momentum softens but remains positive.

Bear Case: Escalation and Regional Conflict (Extends to December)

A significant escalation, potentially involving regime change efforts or broader regional involvement, leads to sustained energy disruption.

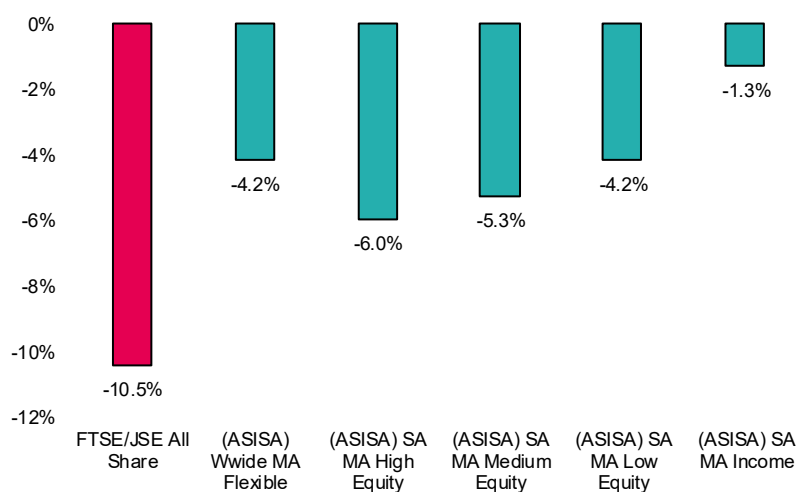
- **Impact:** A global recession driven by persistent supply shocks and collapsing confidence.
- **Markets:** Risk assets sell off sharply, while safe-haven assets outperform.
- **South Africa:** Severe inflationary pressure combined with weak growth creates a difficult policy environment. The rand depreciates, bond yields rise, and fiscal pressures intensify.

DIVERSIFICATION REMAINS THE ONLY FREE LUNCH

For South African investors, the situation remains highly binary. While uncertainty is elevated, it is premature to adopt an aggressively defensive stance. A balanced approach; maintaining liquidity, staying neutral on equities, and maintaining a well-diversified portfolio positioning remains appropriate.

For those invested in well-diversified portfolios across asset classes, their portfolios would have provided considerably greater levels of drawdown protection relative to the market during the March sell-off. While our local equity market ended the month down -10.5% amidst the heightened global volatility, the average high equity and low equity funds were down only -6.0% and -4.2% respectively.

Figure 1. March 2026 Performance



Source: Morningstar

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