Prosperity

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Economic and Market Overview

Latest Global & Local Company Updates

PODCAST

MARKETS & MEANING

Each month, Sean Ashton, Head of Investments, steps back from the headlines to focus on the forces shaping markets and what they mean for long-term investors.

June 2026: When Earnings Matter More Than Headlines
In our latest episode, Sean explores why markets continue to look through geopolitical uncertainty and focus instead on one of the strongest earnings cycles in decades.

The conversation examines what's driving earnings growth, why semiconductor companies remain at the centre of the current investment cycle, and what it all means for long-term investors.

The key takeaway? Markets don't always follow the headlines. More often, they follow the fundamentals.

LISTEN NOW

May was characterised by ongoing geopolitical tensions, elevated energy prices and continued resilience across global equity markets. While the closure of the Strait of Hormuz remained a key source of uncertainty, corporate earnings generally exceeded expectations and investor sentiment improved. Below we summarise the key economic developments, market movements and updates from selected portfolio holdings.

ECONOMIC UPDATE

While talks between the US and Iran continued, the Strait of Hormuz remained largely closed at the end of May and oil prices stayed close to triple digits for much of the month. As a result, consumers globally faced higher transport costs, leaving less disposable income for other goods and services. Businesses also experienced margin pressure from elevated energy input costs.

Despite these headwinds, the global economy has remained relatively resilient. Governments in several countries moved quickly to cushion the impact through fuel tax reductions and subsidies, while substantial oil inventories accumulated earlier in the year, particularly in China, have helped absorb some of the supply disruption.

Importantly, while oil prices have risen meaningfully since the start of the year, they remain below previous peaks in real terms. Oil traded above US$100 per barrel for extended periods between 2010 and 2014 without causing significant long-term economic damage. Furthermore, modern economies are less energy intensive than they were a decade ago, supported by improvements in fuel efficiency and increasing electrification.

The current environment also differs from 2022. At that time, higher energy prices were compounded by a sharply stronger US dollar and significant post-pandemic demand pressures. In contrast, the US dollar has remained relatively stable during the current episode, limiting some of the inflationary effects experienced by non-US economies.

Nevertheless, several major central banks are expected to raise interest rates in the months ahead. The Bank of Japan, Bank of England and European Central Bank are all likely to tighten policy further, while the Reserve Bank of Australia has already done so. The notable exceptions remain China and the US.

China continues to face subdued inflation and remains focused on supporting economic growth through a gradual easing cycle. In the US, inflation remains above target, but softer labour market conditions reduce the likelihood of additional rate hikes. At the same time, strong investment in AI infrastructure continues to support economic activity, limiting the case for lower rates in the near term.

Locally, the South African Reserve Bank increased its policy rate to 7% in May. Headline inflation rose to 4% in April following higher fuel prices and is expected to increase further in the coming months. Food inflation also presents an upside risk, supported by global fertiliser shortages and expectations of a stronger El Niño weather cycle.

Even so, this is likely to be a relatively shallow hiking cycle. Interest rates were already restrictive at the start of the year, while the rand has remained resilient despite global uncertainty. Inflation is expected to peak during early 2027 before gradually declining towards the Reserve Bank's target range. If this outlook materialises, the current cycle could ultimately prove short-lived, with scope for policy easing over the medium term.

MARKET UPDATE

Global equity markets delivered another strong month despite elevated volatility and ongoing geopolitical uncertainty. The MSCI World Index gained 4.6%, extending the recovery that began in April.

US markets led the advance, supported by strong corporate earnings. The Nasdaq rose 8.4%, the S&P 500 gained 5.2%, and the Dow Jones Industrial Average increased 2.8%.

European markets were more subdued. The FTSE 100 finished the month marginally higher as investors weighed persistent inflationary pressures against a slowing growth outlook.

In China, equity markets weakened towards month-end, with profit-taking in technology and semiconductor shares contributing to declines in both the Shanghai Composite and Hang Seng indices. Japan was the standout performer globally, with the Nikkei rising 11.9% and surpassing the 66,000 level for the first time.

The SA market ended largely unchanged. The FTSE/JSE All Share Index declined 0.5%, with weakness in resource shares offsetting gains in financials. Mining stocks remained under pressure as commodity prices softened, while financial shares benefited from higher interest rates.

The rand strengthened 2.5% against the US dollar to close at R16.25, supported by domestic rate increases. Brent crude oil declined sharply during the month, ending at US$92 per barrel, while gold eased 1.7% to US$4,496 per ounce.

GLOBAL HOLDINGS

Apple

Apple delivered a strong second-quarter result, supported by robust demand for the iPhone 17 and continued growth in its Services business. Revenue increased 17% to US$111.2bn, exceeding guidance, while diluted earnings per share rose 22% to US$2.01.

iPhone revenue increased 22% to a record US$57bn for the March quarter, while Services revenue rose 16% to US$31bn, also reaching an all-time high. Gross margin expanded to 49.3%, reflecting favourable product mix and strong operational execution. China was a standout performer, with revenue increasing 28%, indicating continued market share gains.

Management expects revenue growth of 14% - 17% in the June quarter, comfortably ahead of market expectations, although rising memory costs are expected to place some pressure on margins during the second half of the year.

Apple continues to benefit from its powerful brand, loyal customer base and tightly integrated ecosystem of devices and services. These advantages support premium pricing, recurring revenue streams and substantial cash generation. While near-term supply chain and cost pressures remain a consideration, the long-term investment case remains supported by the continued expansion of its Services business and the strength of its global ecosystem.

Tencent

Tencent reported a solid set of results, although revenue was modestly below market expectations due to timing effects related to the Spring Festival period. Revenue increased 9%, while operating profit and net profit grew 9% and 11% respectively.

The business continues to benefit from its diversified platform spanning social media, gaming, advertising and cloud infrastructure. WeChat remains one of the most valuable digital ecosystems globally, with approximately 1.4 billion monthly active users providing Tencent with significant opportunities to deepen engagement and monetisation.

Management continues to invest heavily in AI, with its HunYuan large language model gaining traction and supporting broader AI initiatives across the group.

While user growth has naturally moderated given Tencent's scale, the business continues to generate attractive earnings and cash flow. Its ecosystem advantages, leading market positions and exposure to AI-related opportunities support a favourable long-term outlook.

Deere & Co

Deere reported mixed second-quarter results, with stronger-than-expected earnings offset by continued weakness in large-scale agricultural demand. Revenue increased 5% to US$13.4bn, while earnings per share exceeded expectations, supported by strong operational execution and improved margins.

Performance varied across segments. Production and Precision Agriculture remained under pressure as North American large agriculture demand softened, while Small Agriculture & Turf and Construction & Forestry delivered strong growth and margin expansion. Construction & Forestry was particularly robust, benefiting from increased roadbuilding and construction activity.

Management reiterated its expectation that 2026 will represent the trough of the agricultural cycle and maintained net income guidance of US$4.5bn - US$5bn for the year. Guidance for Construction & Forestry was upgraded, reflecting stronger-than-expected demand.

Although agricultural markets remain challenging, Deere's leadership in precision agriculture, disciplined cost management and growing exposure to technology-driven farming solutions continue to support the long-term investment case.

LOCAL HOLDINGS

Richemont

Richemont reported a strong set of full-year results, with sales increasing 11% at constant exchange rates to €22.4bn and operating profit rising 23%.

Growth was broad based across regions and product categories, led by the Jewellery Maisons division, where sales increased 14% and operating margins exceeded 30%. The Americas delivered particularly strong growth, while Asia Pacific returned to positive momentum following a difficult prior year.

The group continued to face headwinds from higher precious metal prices, tariffs and foreign exchange movements, which contributed to some pressure on gross margins. However, disciplined cost management helped offset these challenges and supported continued profit growth.

Management remains optimistic regarding demand across its key luxury brands despite a more uncertain macroeconomic backdrop. The balance sheet remains exceptionally strong, ending the year with a net cash position of €8.5bn.

Supported by globally recognised brands such as Cartier and Van Cleef & Arpels, Richemont remains well positioned to benefit from long-term global wealth creation and enduring demand for luxury goods.

Reunert

Reunert reported a weaker interim performance, with revenue increasing 1% to R6.3bn while operating profit declined 23% due primarily to weakness in the Electrical Engineering segment.

Demand for cable products remained subdued as infrastructure-related spending was delayed across key markets. Higher copper prices and currency movements also affected profitability. These challenges were partly offset by strong performances from the Defence and ICT divisions, where demand remained robust and recurring revenue streams continued to provide resilience.

Management expects near-term conditions within Electrical Engineering to remain challenging but anticipates improved performance in the second half as delayed projects are executed. Demand within Defence remains strong, supported by a growing order book and favourable global trends.

Looking further ahead, Reunert remains well positioned to benefit from increased investment in transmission infrastructure, rail and ports. Its strong balance sheet and exposure to several attractive long-term growth themes continue to support our positive outlook.

Pepkor

Pepkor delivered a strong interim performance, with revenue increasing 13.2% to R54.8bn and diluted headline earnings per share rising 10.1%. Growth was broad based across the business, supported by continued momentum in Clothing and General Merchandise, Financial Services, FLASH and the Informal Market segment. Financial Services was the standout contributor, with revenue increasing more than 40% during the period.

Margins came under some pressure due to higher debtor costs, acquisition-related expenses and ongoing investment in growth initiatives. Management expects trading conditions to remain competitive but believes tighter credit controls and improved collections will support the quality of the debtors' book over time.

Management remains confident of delivering approximately 10% headline earnings growth for the full year.

Pepkor's value-focused positioning, scale advantages and growing exposure to higher-margin financial services and fintech businesses continue to differentiate the group from traditional retailers. As these businesses become a larger contributor to earnings, the company remains well placed to deliver attractive long-term growth and further market share gains.

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