Melville Douglas Focused Quarterly Commentary

/ Q2 2026

De-escalation and resilience support financial markets

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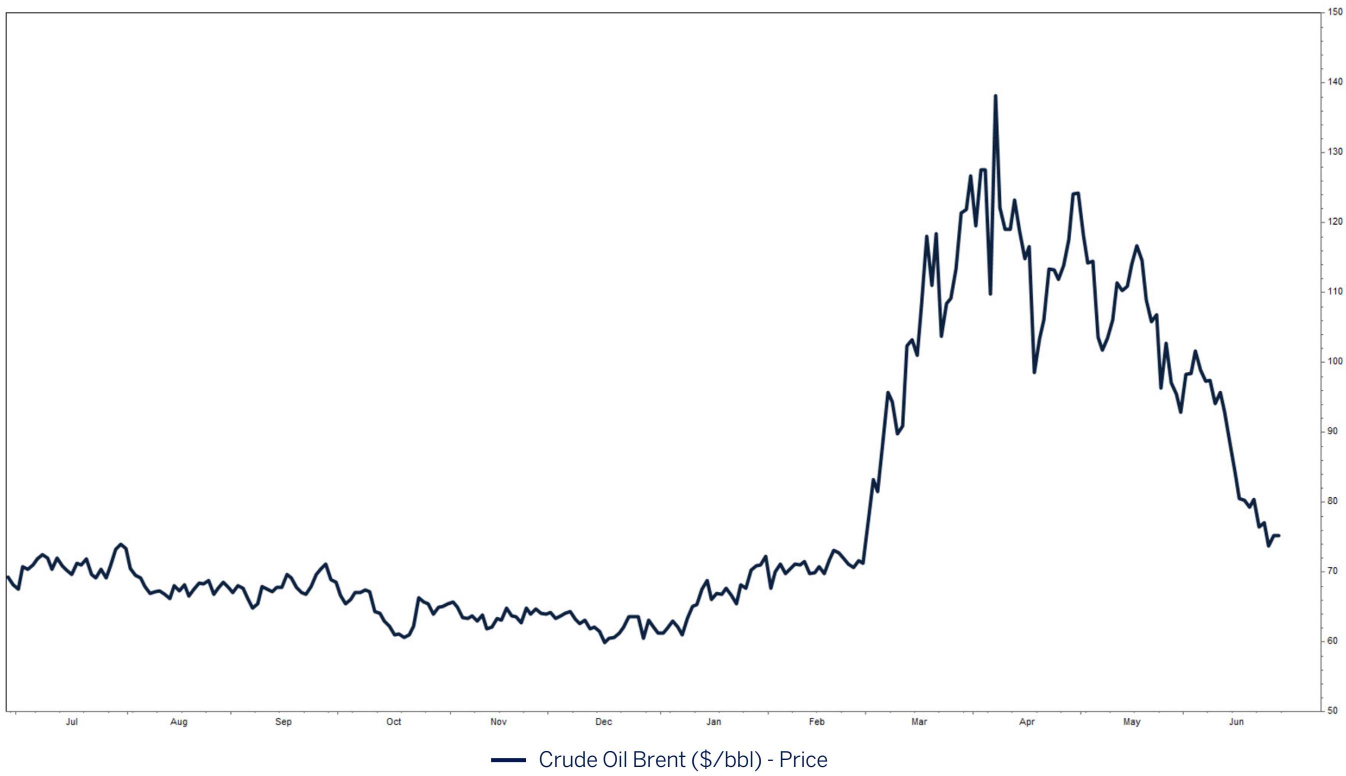
/ Chief Investment Officer

The second quarter of 2026 was characterised by a notable improvement in the geopolitical backdrop, specifically the signing of a Memorandum of Understanding (MoU) between the United States and Iran. This agreement represents a significant de-escalation of what had previously been one of the most acute geopolitical risks facing global markets. While many challenging issues still need to be negotiated during the agreed two-month ceasefire period, and likely beyond - the immediate cessation of military hostilities has led investor sentiment to improve considerably.

A key transmission channel of this improved outlook has been through energy markets. Uncertainty surrounding the Strait of Hormuz had previously driven a meaningful risk premium into oil, gas, fertilizer and shipping costs. Encouragingly, early indications suggest that shipping transits through the Strait are improving and set to normalise, although the precise timing of a full return to pre-conflict levels remains uncertain, given that both nations have accused each other of violating their ceasefire.

> The reopening of the Strait of Hormuz has led oil prices to fall back to almost pre-war levels

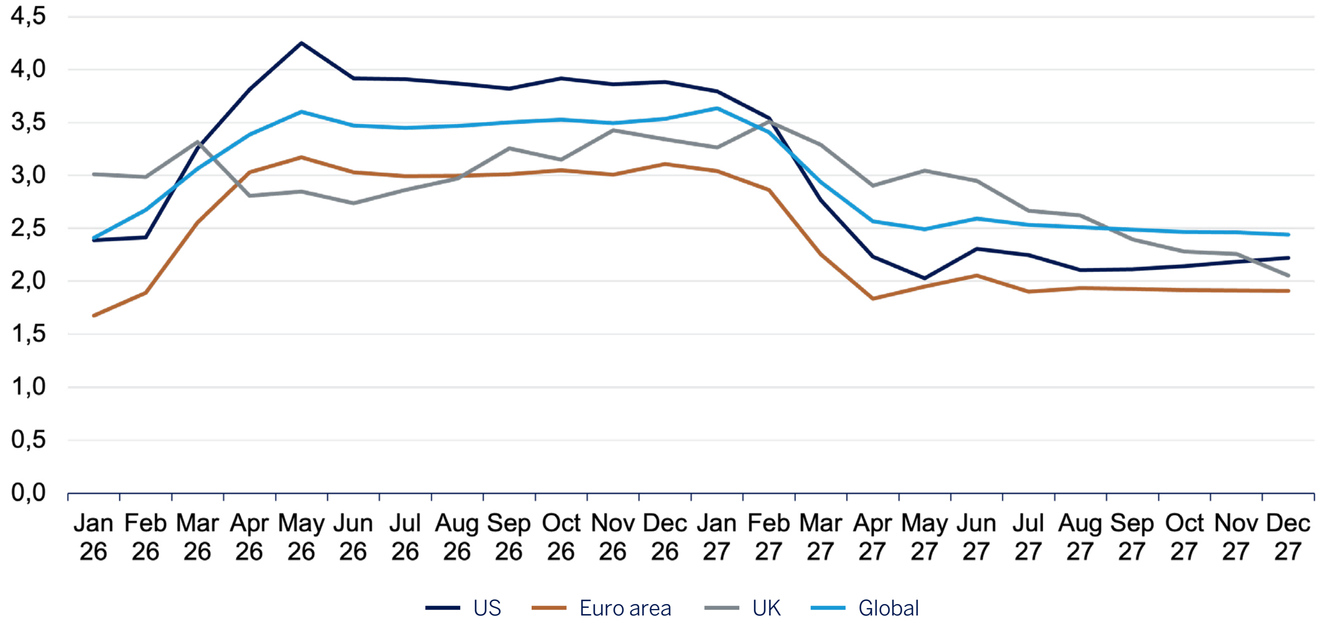
THE REOPENING OF THE STRAIT OF HORMUZ HAS LED THE OIL PRICE TO FALL BACK TO ALMOST PRE- WAR LEVELS



Source: FactSet

The easing of geopolitical tensions has provided welcome relief, with oil prices falling back to close to pre-war levels. This reversal is expected to ease inflationary pressures, particularly in the second half of the year, as lower energy costs typically feed through into both reduced transportation fees and manufacturing input costs, ultimately resulting in reduced consumer prices. This should provide some welcome relief for households and support real disposable incomes. At the same time, the benefits extend to corporates, where lower input costs can help to sustain profit margins. However, while the direction of travel for inflation is now clearly downward, the pace of adjustment remains uncertain. Economic data has remained robust, most notably in the United States, where second quarter growth is currently tracking at close to 2.5%, while the labour market is beginning to rebound. These developments suggest that underlying demand remains firm, reducing the likelihood of a swift and sustained decline in core inflation. In this environment, our central expectation is that interest rates will remain on hold in the coming months, allowing policymakers to assess how quickly inflation moderates. However, financial markets continue to price in a degree of tightening bias, reflecting ongoing concerns around the persistence of inflation and the robustness of economic growth.

HEADLINE INFLATION EXPECTATIONS

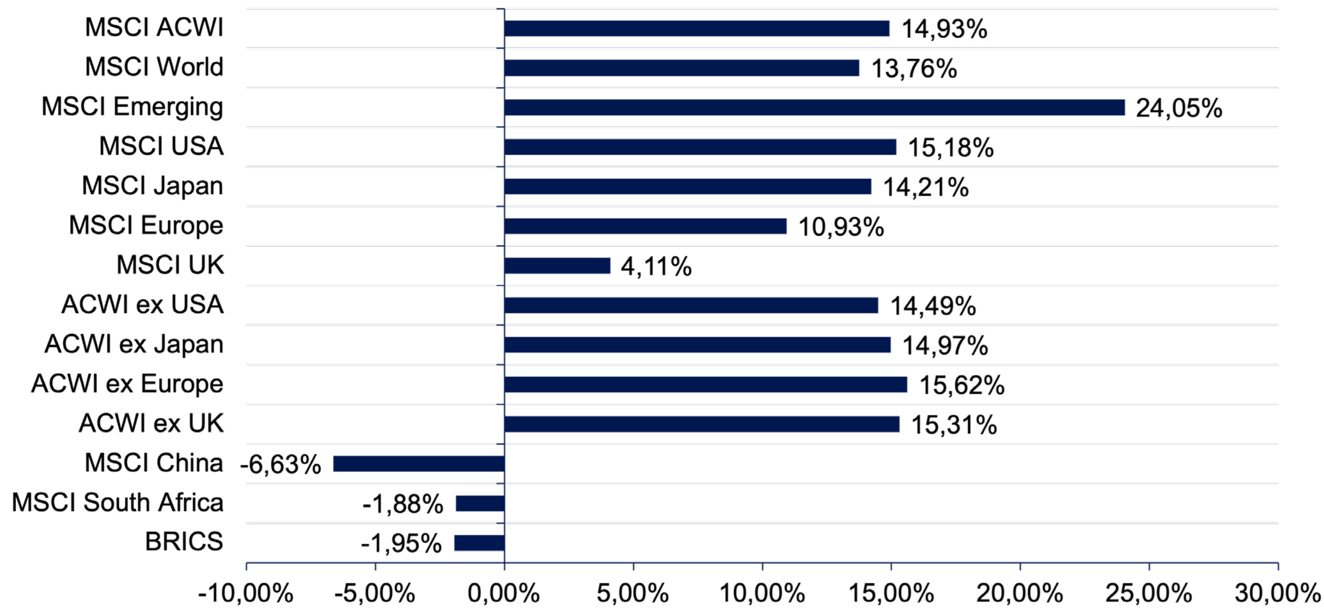


Source: JPMorgan Securities

Equity markets have recovered as growth reasserts itself

Global equity markets rebounded strongly in the second quarter, supported by resilient economic fundamentals and the belief that supply disruptions associated with hostilities in the Middle East would be short lived. The MSCI All Country World Index (ACWI) rose by 15% and 14% in USD and GBP terms, respectively.

WORLD EQUITY (MSCI ACWI) REGIONS Q2 2026

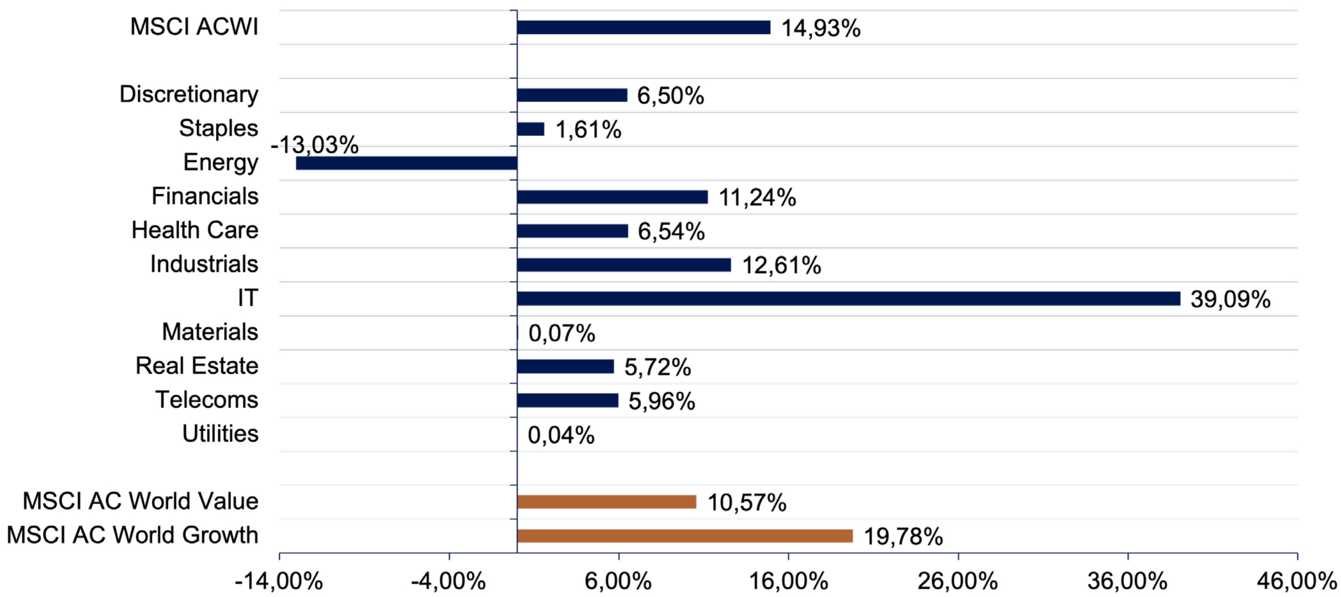


Source: FactSet

Emerging markets were among the standout performers in the quarter. However, a closer look at the composition of returns reveals that less than a handful of companies - namely Samsung Electronics, SK Hynix, and Taiwan Semiconductor Manufacturing Company – accounted for the lion's share of the region's gains. This narrow breadth leaves equity markets more vulnerable to idiosyncratic shocks affecting these sectors or companies. A change in sentiment towards AI or cloud-related spending, for example, would likely result in an outsized impact on overall index performance.

A defining feature of the quarter was the clear rotation back into growth-oriented sectors, particularly Information Technology (IT). The IT sector delivered a return of 39%, far exceeding the broader market and underlining strong investor conviction in long-term structural themes. This resurgence has been driven by the continued expansion of AI capabilities, increasing cloud adoption, and the scaling up of global data centre infrastructure. Companies supplying into this ecosystem, especially chipmakers and semiconductor manufacturers, have been the primary beneficiaries. These businesses sit at the centre of capital spending by the hyperscalers (the "big three" being Amazon, Microsoft and Alphabet) and have seen both earnings expectations and valuation multiples improve.

WORLD EQUITY (MSCI ACWI) – SECTORS Q2 2026



Source: FactSet

At the same time, there has been a notable divergence in sector performance. Areas that had previously benefited from higher commodity prices, particularly energy -13%, lagged the broader market. This is unsurprising given the significant fall in the oil price since April as geopolitical risk subsided.

Investor enthusiasm surrounding artificial intelligence (AI) and digital infrastructure has also extended beyond listed markets. Valuations for several high-profile private companies, including SpaceX, Anthropic and OpenAI, have continued to increase materially as investors position for anticipated long-term growth in AI and related technologies. Whilst these developments highlight the scale of the opportunity perceived by investors, they also serve as a reminder that expectations embedded within parts of the market are becoming increasingly ambitious and reinforce the importance of maintaining valuation discipline.

One of the most important drivers behind strong equity market performance during the quarter has been the resilience, and indeed the positive surprise, in corporate earnings profit growth.

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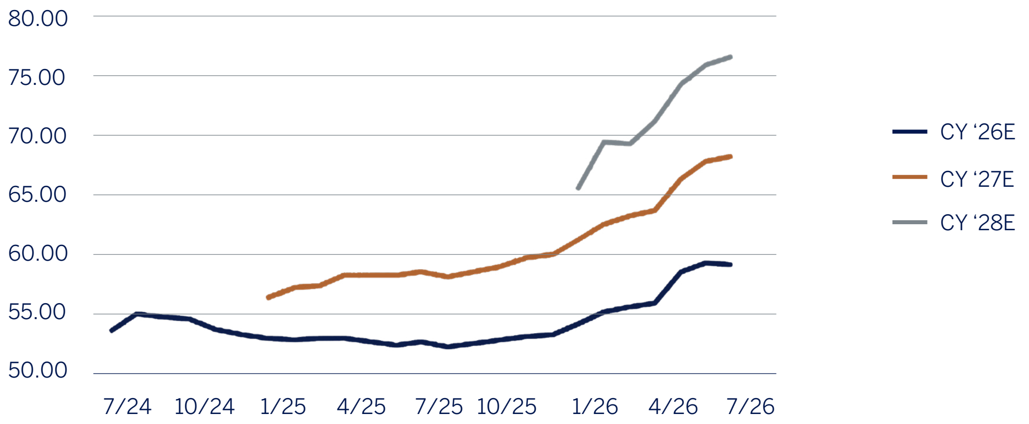
Companies have, on balance, delivered results that have materially exceeded expectations

EARNINGS EXPECTATIONS TRAJECTORY - MSCI ACWI



Source: FactSet

Against a backdrop of geopolitical tensions and tighter monetary policy, companies have, on balance, delivered results that have materially exceeded expectations. This has been particularly evident in sectors linked to technology and digital infrastructure, where demand continues to outpace even optimistic forecasts.

EARNINGS ESTIMATES

MSCI World			
	2026e	2027e	2028e
Energy	57.8%	-7.2%	0.9%
Materials	42.2%	9.9%	4.2%
Industrials	13.0%	15.4%	14.0%
Discretionary	29.7%	15.9%	18.1%
Staples	6.2%	7.8%	7.7%
Healthcare	3.4%	16.6%	10.5%
Financials	9.5%	11.2%	10.1%
IT	47.2%	33.5%	18.5%
Telecom	16.9%	7.7%	15.3%
Utilities	8.1%	8.5%	8.6%
Real Estate	8.3%	6.9%	8.2%
Market	21.4%	15.4%	12.7%

Source: JPMorgan Securities, Consensus

Shift away from speculative assets

In contrast to the strong performance of equities, speculative assets such as gold and Bitcoin declined during the quarter. This reflects a broader shift in the macroeconomic narrative, particularly changing expectations for interest rates.

As geopolitical tensions have eased and the outlook for growth has improved, demand for traditional safe havens such as gold has diminished. At the same time, a modest strengthening of the US dollar exerted additional downward pressure on these assets. Similarly, digital assets such as Bitcoin have faced headwinds from the reduced likelihood of near-term monetary easing. As markets reassess the path of interest rates, the high-liquidity environment that previously supported speculative assets has moderated, leading to a rotation toward equities and other growth-oriented investments.

Government yields spiked higher before easing again

Government bond markets remained highly sensitive to changes in inflation expectations during the quarter. Following the de-escalation in Middle East tensions and the subsequent decline in oil prices, bond markets repriced for a more benign inflation outlook in the second half of the year. While inflation remains above central bank targets in most major economies, recent developments have reduced the risk of a sustained energy-driven shock. Clearly risks around the ceasefire remain but should it hold, economic fundamentals are likely to reassert themselves as the key drivers behind interest rate expectations and bond yield direction throughout the remainder of the year.

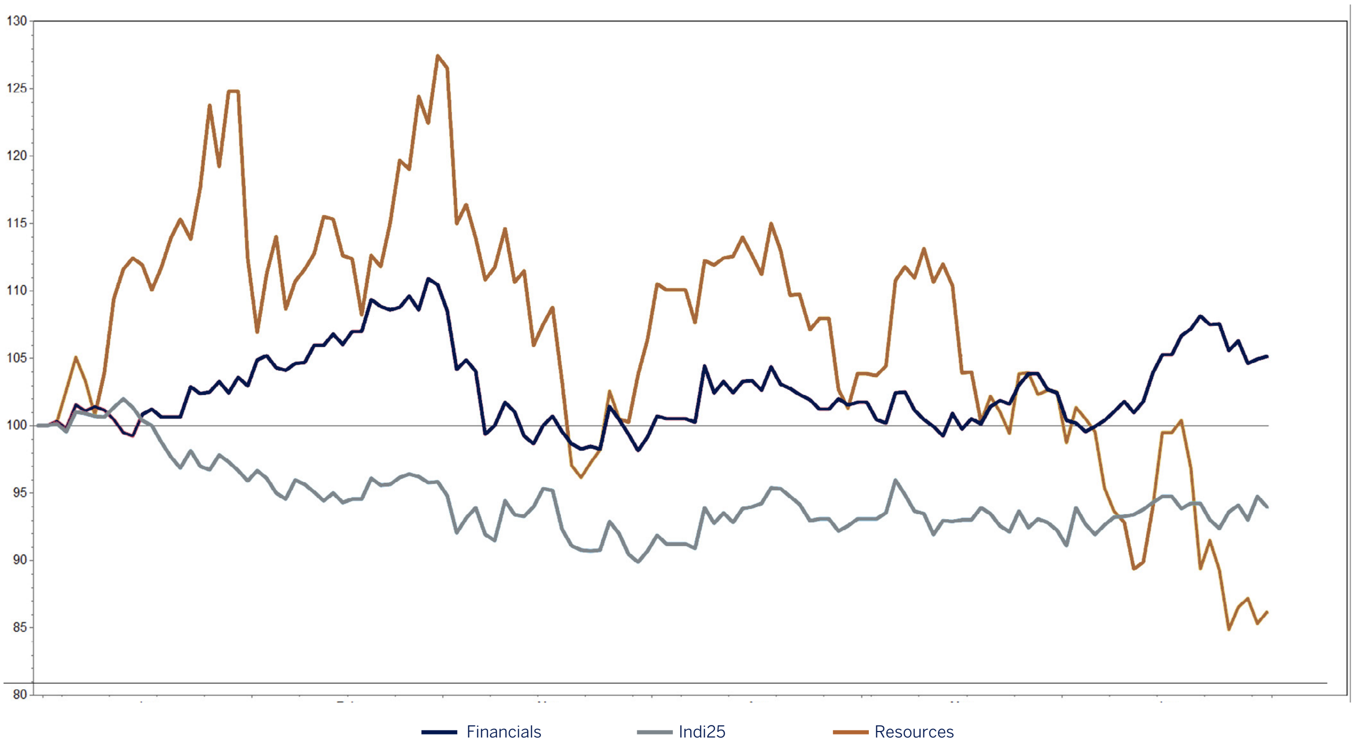
South Africa

A quarter of quiet progress beneath a noisy global backdrop

The second quarter of 2026 unfolded against a complex and often distracted global backdrop, with investor attention frequently drawn to escalating geopolitical tensions, most notably the intensification of the conflict involving Iran. As a result, developments in smaller emerging markets, including South Africa, were at times overshadowed by movements in oil prices, global risk sentiment, and broader geopolitical risk premia.

Nevertheless, beneath this global noise, South Africa's investment landscape exhibited several constructive shifts during the period. Within the equity market, an important shift in leadership dynamics emerged. The JSE All Share Index experienced a rotation away from the Resource sector, which underperformed for the first time in several quarters and contributed to the SA equity market's underperformance relative to international markets. This weakness was primarily driven by softer commodity prices, particularly in gold and platinum group metals, which had previously provided significant support to earnings and index performance. In contrast, other sectors, including Financials and Industrials, demonstrated relative strength, reflecting improving domestic prospects, attractive valuations, and a degree of earnings resilience.

JSE ALSI SECTORS

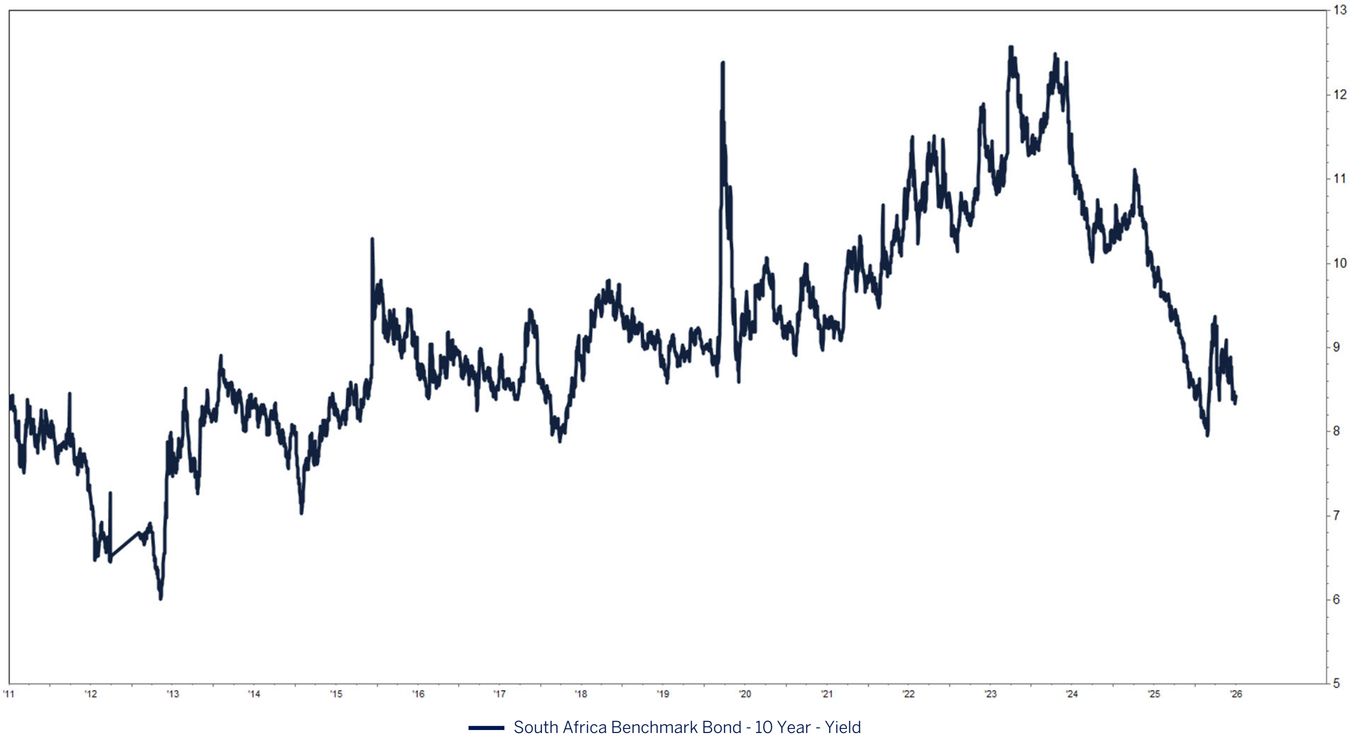


Source: FactSet

South African Government Bonds on the other hand performed strongly and ended the quarter up 4.2%. What is perhaps more remarkable is that the All-Bond Index has been compounding at a rate of 17.8% over the past 3 years, marginally ahead of the All-Share Index's 17.4%. A reminder that buying assets at discounted valuations coupled with an improving fiscal backdrop in South Africa, can generate very attractive returns for patient investors. The asset class has benefited from a supportive South African macroeconomic backdrop, underpinned by improving fiscal dynamics, ongoing structural reforms, and constructive feedback from credit rating agencies. Additionally, inflation expectations appeared contained within a manageable range, while the Rand demonstrated notable resilience over the quarter, benefiting from an improved fiscal backdrop and supportive terms of trade.

> We expect this interest-rate hiking cycle to be modest relative to previous tightening cycles

SA 10YR GOVERNMENT BOND: YIELD TO MATURITY %



Source: FactSet

At the monetary policy level, the South African Reserve Bank maintained its cautious stance, opting to increase the policy rate by a further 25 basis points during the quarter. This move reflected its commitment to anchoring inflation expectations and mitigating potential second-round effects arising from elevated global oil prices driven in large part by geopolitical developments in the Middle East. The decision underscores the SARB's continued prioritisation of price stability amid a volatile external environment. We expect this interest-rate hiking cycle to be relatively modest, with cumulative increases of just 25–50bps versus an average of around 500bps in previous tightening cycles. Consequently, we do not expect it to materially undermine growth, although it may temper consumer and business confidence.

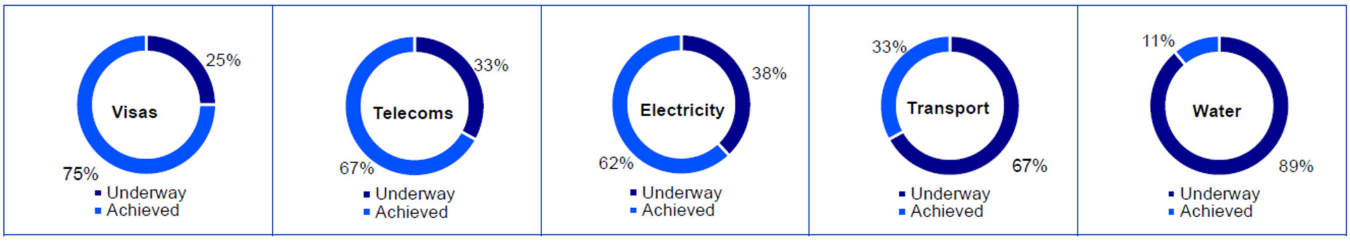
Update on structural reforms

South Africa has been trapped in a prolonged period of sub-1% growth since 2008. The successful implementation of structural reforms remains critical to unlocking South Africa's growth potential and overcoming its persistently subdued economic performance. Without reliable infrastructure, effective security, and well-functioning education and healthcare systems, economic growth is likely to remain constrained, while social inequalities and the risk of unrest become further entrenched.

It is therefore pleasing to note that structural reform efforts under Operation Vulindlela continued to yield incremental, yet meaningful, progress. Notable achievements during the quarter included ongoing improvements in energy sector liberalisation, enhanced capacity in logistics through initiatives at Transnet, and further regulatory easing in telecommunications spectrum allocation. Increased private sector participation in infrastructure development should support a gradual increase in fixed investment and economic activity. These reforms have begun to translate into improved operational conditions in key network industries, laying the groundwork for stronger medium-term growth.

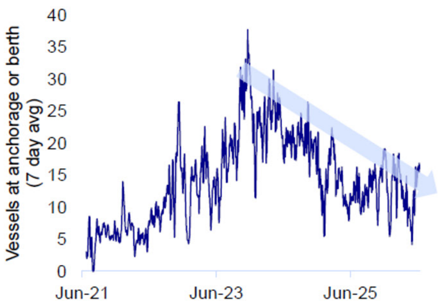
Summary of progress on reforms

OPERATION VULINDLELA

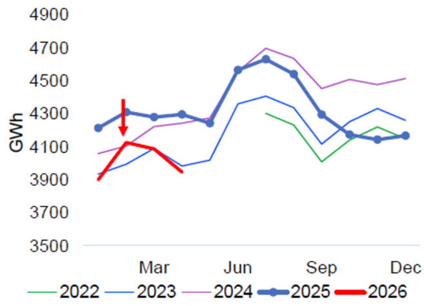


RAIL FREIGHT VOLUMES IMPROVING

PORT DELAYS HAVE IMPROVED



LOADSHEDDING OVER BUT DEMAND WEAK



Source: SBG Securities, National Treasury, Eskom, Transnet, SAAFF

Looking ahead, Operation Vulindlela has identified urban governance, particularly the challenges facing the City of Johannesburg, as a key reform priority. Improving metropolitan service delivery, infrastructure maintenance, and municipal financial management will be critical to unlocking economic activity and restoring investor confidence in South Africa's largest economic centre. While ongoing structural reforms should support a gradual improvement in growth, achieving and sustaining GDP growth above 2% will ultimately require a meaningful recovery in business confidence, stronger private-sector investment, and accelerated job creation.

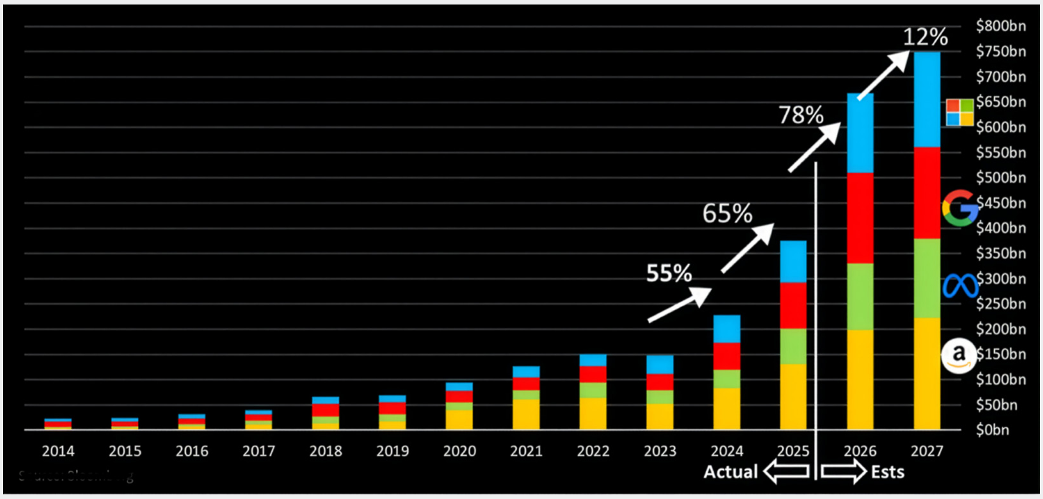
Conclusion

Positioning for a resilient cycle

The investment backdrop appears increasingly constructive. The de-escalation in the Middle East has removed a key source of uncertainty, and while risks remain, the probability of prolonged disruption to global trade has diminished meaningfully.

Global economic growth remains resilient, supported by strong private-sector investment and healthy corporate profitability. An important contributor to this resilience has been the significant investment being undertaken by major technology companies in cloud infrastructure, AI and data-centre capacity.

CAPITAL EXPENDITURE TO 2027 FOR AMAZON, META, GOOGLE & MICROSOFT



Source: Baird Securities

While there is a risk that interest rates could remain higher for longer in the short term, we expect the overall rate cycle to be relatively shallow. Central banks are likely to balance the need to contain inflation with the recognition that many recent inflationary pressures are temporary, reinforcing the need for patience as the disinflationary process is underway but not yet complete.

Equity market valuations are above long-term averages, but this needs to be viewed in the context of unusually strong profitability and earnings growth. Companies are generating high returns on equity, and the outlook for earnings over the next two years remains robust, particularly in sectors exposed to structural growth trends.

GLOBAL EQUITY MARKETS TRADE ABOVE THEIR LONG-TERM AVERAGES

	12m Fwd P/E			ROE		
	Current	Median	Upside	Current	Median	Upside
World	19.0	15.7	-17%	16.7	12.1	-28%
US	21.1	15.5	-27%	20.7	14.5	-30%
Europe	14.8	13.1	-12%	14.0	11.8	-16%
UK	12.2	12.4	2%	15.0	13.4	-11%
Eurozone	15.3	12.9	-16%	12.3	10.7	-13%
Germany	14.3	12.9	-10%	11.7	11.5	-2%
France	14.7	13.1	-11%	11.1	10.0	-10%
Italy	12.8	12.6	-1%	13.1	9.5	-27%
Spain	13.4	11.6	-14%	14.7	10.2	-30%
Japan	17.3	16.7	-4%	9.4	8.4	-10%
Australia	17.5	14.4	-18%	12.8	11.6	-10%
Hong Kong	13.7	14.1	3%	7.3	10.6	44%

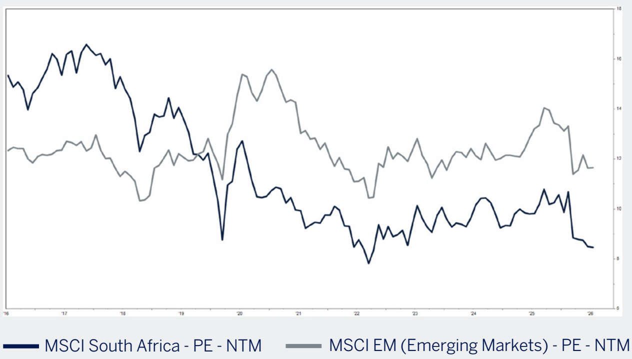
Source: JPMorgan, IBES, MSCI, Datastream. *Long term median.

Despite some elevated valuations, we have taken the decision to increase our tactical exposure to global equities to an overweight position, while maintaining a disciplined and diversified approach to portfolio construction. We believe that improving geopolitical conditions, resilient economic growth, and strong corporate earnings provide a compelling case for maintaining a constructive stance on risk assets as we move into the second half of the year.

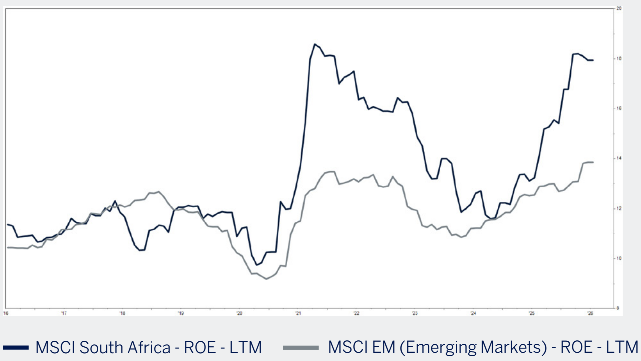
In addition, we maintain a constructive view on South African listed assets. While global developments dominated headlines during the quarter, South Africa's investment case quietly improved at the margin, supported by reform progress, resilient financial markets, and a gradually stabilising macroeconomic outlook.

South African financial markets remain attractively valued on both an absolute and relative basis, supported by compelling income yields and earnings growth of 10–15% for locally listed companies. Despite delivering higher levels of profitability, the South African equity market continues to trade at a discount to its Emerging Market peers and has yet to fully reflect the decline in the country's cost of capital, as government bond yields have fallen meaningfully over the past two years. A sustained improvement in South Africa's economic growth outlook and successful implementation of structural reforms would be key catalysts for unlocking this latent value.

PRICE EARNINGS RATIO: SA VS EM



RETURN ON EQUITY (%): SA VS EM



Source: FactSet

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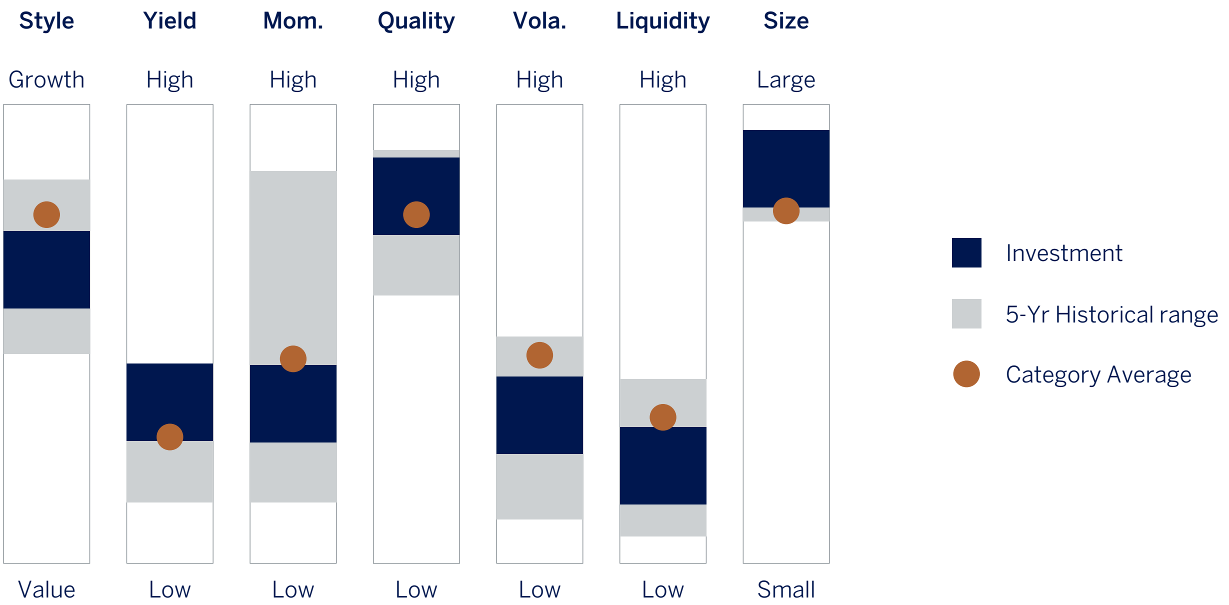
The underlying fundamentals of quality growth businesses remain intact

Investment performance
Quality Growth equity underperformance

The offshore equity allocation within clients' portfolios has lagged, in line with the relative underperformance of large-cap quality growth on a year-to-date basis and, over the past 18 months. There has been a meaningful rotation towards cyclical and value-oriented sectors (including European banks and capital-intensive industrials) that outperform when economic activity is resilient. Furthermore, outsized gains came from data centre infrastructure suppliers that were most squeezed by short-term bottlenecks, such as memory chip manufacturers. The portfolio has exposure to AI via the chip designers, foundries and Mag-7 stocks and whilst these core holdings in portfolios generated attractive absolute returns, they lagged more volatile sub-industries benefiting from AI. As such, participation was narrow across the quality growth stocks we favour and hold within clients' portfolios, where we maintain prudent diversification.

MELVILLE DOUGLAS FOCUSED GLOBAL EQUITY
GROWTH/QUALITY INVESTMENT STYLE BIAS



Source: Morningstar

Despite this period of relative underperformance, we remain confident in the outlook for quality growth companies to deliver favourable long-term investment returns. The underlying fundamentals of quality growth businesses — strong balance sheets, durable earnings, and high returns on capital — remain intact. Importantly, the recent valuation reset has improved entry points, while long-term structural growth drivers continue to support earnings compounding.

Our approach

We remain disciplined and focused on identifying companies with:

- **Sustainable competitive advantages**
- **Strong management teams**
- **High returns on capital**
- **Clear long-term growth drivers**
- **Sensible valuations**

We continue to rigorously assess portfolio positioning, ensuring that we are exposed to businesses that can compound value over time while remaining mindful of valuation discipline.

Whilst the past 18 months have tested patience, we believe the underlying fundamentals of investing in large-cap quality growth at a reasonable price are as strong as ever. Periods of style underperformance are an inevitable feature of long-term investing and often create opportunities to increase exposure to exceptional businesses at more attractive valuations. We remain confident that the consistent compounding of high-quality companies will ultimately reassert itself in long-term returns.

Global Portfolios Asset Allocation

Global Equity – Overweight

- Earnings revisions remained firmly positive through the first half of 2026 and importantly have broadened across sectors, signalling that growth is becoming more durable and less concentrated. This broad-based earnings momentum reinforces confidence in the underlying strength of global corporate profitability.
- The recent de-escalation of geopolitical tensions between the US/Israel and Iran has led to a sharp decline in oil prices. This development is likely to ease inflationary pressures more quickly than previously anticipated, supporting real incomes and consumption while also providing relief to corporate cost structures. Lower energy input costs should translate into an improvement in margins over the medium term, particularly for energy-intensive industries.
- In the near term, sectors underpinned by strong secular and structural drivers, such as Technology (especially AI-related segments), digital infrastructure, and Healthcare are expected to remain resilient. These sectors benefit from sustained demand trends that are relatively insensitive to short-term macroeconomic fluctuations.
- Valuations have adjusted to reflect both moderating inflation expectations and continued earnings strength. While current multiples remain above long-term averages, this is partly justified by structurally higher profitability, improved balance sheets, and the growing weight of high-quality, high-margin sectors within indices. We acknowledge the likelihood of modest multiple compression; however, we expect this to be more than offset by strong, broad-based earnings growth, resulting in positive equity return prospects.
- Healthy corporate fundamentals: Balance sheets remain robust, leverage is generally contained, and cash flow generation is strong, supporting ongoing investment, dividends, and buybacks.
- In combination, these factors support a constructive outlook for global equities, where earnings growth, not valuation expansion, is expected to be the primary driver of returns.

Sector views

Consumer Discretionary	Neutral
Consumer Staples	Underweight
Energy	Underweight
Financials	Underweight
Healthcare	Neutral
Industrials	Neutral

Information Technology	Overweight
Materials	Underweight
Communication Services	Overweight
Utilities	Underweight
Real Estate	Underweight

Global Fixed Income / USD Mandates **– Neutral**

- Whilst we see limited scope for bond yields to fall in the short term, yields of 4% plus across the maturity spectrum remain attractive on a risk-adjusted basis when allowing for the uncertain global backdrop.
- Importantly, if the bulk of the upcoming rise in inflation is deemed transitory, the Fed should 'look through' the data and refrain from hiking rates, particularly as the recent rise in government yields has already tightened financial conditions, effectively relieving the central bank of much of the 'hawkish work' already.
- We suspect that the FOMC will allow inflation to 'run hot' in the short-term knowing that recent pressures should fade and therefore, expect interest rates to remain on hold in the coming months, although there is undoubtedly a bias for tighter monetary policy priced into money markets.
- Whilst a resolution to the war in Iran would suppress fears of the worst-case scenario for inflation, we still see limited medium-term downside for longer-dated government bond yields. The economy remains on a firm footing; inflation is still above the Fed's target and fiscal and budget deficits appear to be a permanent problem for the longer end of the maturity spectrum.
- We maintain a neutral stance on US fixed income and would only reconsider if inflation or economic data deteriorate materially.

Global Fixed Income / GBP Mandates **– Overweight**

- Whilst the UK economy posted stronger than forecast GDP in the first quarter, we are confident that the preceding quarters will disappoint. Significant headwinds to post-Q1 growth include higher inflation, tighter financial conditions (via higher government bond yields) and seemingly endless political turmoil. The hard data is showing strains, particularly the jobs market where unemployment has risen to 5% and 'real wages' are struggling under the weight of higher inflation.
- The worst case 'inflation' scenario appears to be behind us given the recent slide in the oil price and it is possible that price pressures peaked in March, however, the waiting game to the central bank's target level remains a stubbornly persistent theme and material growth headwind.
- The BoE sensibly 'looked through' the current inflation dilemma and heeded the economic warning signs by leaving interest rates unchanged in June and we think this 'on hold' pattern persists over the coming months until the next move, which may be downwards.
- The UK bond market has experienced a significant repricing with the 10-year government benchmark yield breaching 5%, a level not seen since the GFC in 2008.
- In the UK we are confident that yields at current levels represent attractive medium to long term value.

Sector views

G7 Government	Underweight
Investment Grade - Supranational	Overweight
Investment Grade - Corporate	Neutral
High Yield - Corporate	Overweight

Cash Plus / Underweight

- Used to fund the tactical increased exposure to Global Equity.
- A prudent split between Enhanced Income, Liquidity and Absolute Return funds is being deployed.
- Weightings are dependent on base currency of portfolio.

Domestic asset allocation

Domestic Equity – Overweight

- Local valuations remain attractive and EPS growth over the next two years are expected to be between 10% -15%.
- Earnings growth is expected to benefit from favourable base effects and elevated metal prices.
- While interest rates appear to have reached their cyclical low, we do not anticipate a material increase from current levels, as inflation expectations remain well anchored.

Sector views

Consumer Discretionary	Underweight
Consumer Staples	Overweight
Energy	Underweight
Financials	Overweight
Healthcare	Underweight

Industrials	Overweight
Information Technology	Overweight
Resources	Underweight
Telecommunications	Underweight
Real Estate	Neutral

Domestic Fixed Income – Neutral

- SA bonds offer attractive returns/yields in absolute and real terms, and we would expect the asset class to outperform cash over the next year.
- An enhanced medium term growth outlook for South Africa, coupled with prudent fiscal management, could eventually lead to an upgrade in the country's credit rating.
- SA's inflation target has been lowered to 3%, which should drive interest rates and bond yields lower over time.

Sector views

Government	Neutral
Duration	Overweight

Global Equity – Neutral

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Global Fixed Income – Neutral

GO TO PAGE

SA Cash – Underweight

- Favour longer duration and higher yielding fixed income over cash.

Market performance / as at 30 June 2026

EQUITIES	JUNE	QTR	12M
All Share Index	-3.7	-2.4	18.4
All Share Capped Index	-3.7	-2.4	19.4
Resources	-15.9	-18.7	42.3
Financials	3.0	8.4	30.1
Industrials	2.2	4.8	-1.6
All Bond Index	1.5	7.9	21.5
MSCI US	0.3	10.3	12.0
MSCI UK	0.1	0.4	8.8
MSCI Emerging	-0.2	18.8	32.4
MSCI AC World	0.4	10.0	14.1

US DOLLAR RETURNS	JUNE	QTR	12M
MSCI US	-0.9	15.2	21.5
MSCI UK	-1.0	4.9	18.0
MSCI Japan	-0.3	14.2	29.1
MSCI Emerging	-1.4	24.1	43.5
MSCI AC World	-0.8	14.9	23.7
Citigroup WGB Index	-0.7	0.7	-0.1

CURRENCY VS US DOLLAR	JUNE	QTR	12M
Rand	-1.0	3.3	7.5
Euro	-2.0	-1.1	-3.1
Yen	-2.0	-2.3	-11.4
Sterling	-1.4	0.3	-3.4

It's Personal.

MelvilleDouglas
Standard Bank Group