February 2026

Economic Commentary

AUTHOR: SAUL MILLER, PORTFOLIO MANAGER

Energy prices rise, metals rally

February was characterised by heightened geopolitical tensions, a strong rally in precious metals, and a constructive domestic fiscal backdrop in South Africa. While local developments are supportive for South African assets, global risks remain elevated, particularly around energy markets and inflation dynamics. A prolonged conflict would dominate market performance over the short term.

War drives energy prices higher

The escalation of conflict in the Middle East has pushed energy prices higher due to damage to oil infrastructure and disruptions to oil and gas shipping through the Strait of Hormuz. About 20% of global oil and fuel supply passes through this critical route, with a large share destined for China, Japan and India. Only a small portion of the supply can be redirected via pipelines.

Global oil inventories appear sufficient to cover supply disruptions over a limited period. However, the key risk for markets lies in the duration of the conflict. A prolonged disruption could sustain higher energy prices and contribute to inflationary pressures. Europe remains particularly exposed due to its sensitivity to natural gas prices. Our original base case at the outbreak of the conflict was that this war would not be prolonged. However, with the conflict spreading to neighbouring regions and further escalation of attacks on infrastructure, there is a risk that energy, gas, and fertiliser prices will remain higher for longer. This would impact energy and food inflation.

Precious metal concentration remains high

Precious metals continued to play a significant role in South Africa's equity market performance. The strength of precious metal prices has been supported by numerous factors, including declining dollar dominance and rising deficits in platinum group metals (PGMs). These factors should result in sustained higher prices than have historically been the case.

However, price increases now appear excessive. In real terms, the price of gold is roughly double the level of the previous two peaks over the past fifty years. Profitability for gold miners is therefore exceptionally high. At these levels, further increase in the gold price provides diminishing upside to earnings, while on the other hand, greater sensitivity to the downside applies.

The PGM basket price has strengthened but appears less extended relative to historical norms. As a result, our preference remains for PGMs over gold.

Gold and PGM companies now represent 18% and 10% of the ALSI, respectively, highlighting the growing concentration of precious metals within the South African equity market. Increased speculative interest in gold has begun to spill over into platinum, as it has with silver. This has significantly increased the correlation between the two sectors.

Beyond the significant concentration risk, both sectors are highly cyclical. As a result, we hold larger underweights than would typically be the case. This positioning reflects a focus on capital protection while also seeking to outperform the index over the long term.

Budget supportive of South African assets

Locally, the 2026 National Budget signalled a notable shift toward more disciplined fiscal management and a more predictable environment. Importantly for the fixed-income market, Treasury is reducing the supply of long-term government debt while increasing its use of short-term financing and healthy cash reserves.

Treasury’s decision to cancel previously proposed tax increases and provide relief to South Africans through inflation-linked tax bracket adjustments signals a degree of confidence in the revenue trajectory. This approach should enable a gradual decline of the country's debt profile over the next few years. This reinforces the credibility that recently contributed to improved international credit assessments and sentiment towards South Africa.
While the fiscal outlook is encouraging, the sustainability of progress will depend on the state's ability to execute on its spending plans.

SA bond yields and financial shares have already responded positively ahead of the Budget. Credit spreads are now below historical averages, and inflation expectations priced into bonds are closer to the SARB’s revised target of 3-4%. Our exposure to duration remains low. From an SA equity perspective, we have reduced the extent of our overweight position in financials. While price-to-earnings ratios for financials have rerated to one standard deviation from their long-run averages, dividend yields and growth still point to compelling high-teens returns from this sector, and we maintain a healthy position.

More broadly, strong performance of the ALSI, driven by mining companies and much of SA Inc, has resulted in fuller market valuations. Consequently, we have reduced our overall equity exposure. This has been implemented through selective share sales across these outperforming sectors and via ALSI collar protection, which was available at attractive pricing levels during the month.

AUTHOR

Saul Miller, FFA | Portfolio Manager & Analyst

Saul Miller is a senior portfolio manager at Truffle Asset Management with 27 years of industry experience. Since joining Truffle in 2016, he has played a key role in managing equity and balanced strategies. Saul is known for his strong analytical skill, consistent outperformance, and deep understanding of fundamental equity investing.

Disclaimer

Truffle Asset Management (Pty) Ltd is a registered Financial Services Provider (FSP Number: 36484). Registered for Categories I and II. This document does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation and is only intended for the use by the original recipient/addressee. If further distributed by the recipient, the recipient will be responsible to ensure that such distribution does not breach any local investment legislation or regulation.

Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments.

Opinions expressed are current opinions as at the date appearing in this material only. The information is confidential and intended solely for the use of Truffle's client's and prospective clients, and other specific addressees. It is not to be reproduced or distributed to any other person except to the client's professional advisers.

While information obtained is from sources we believe to be up to date and reliable, Truffle does not guarantee the accuracy or completeness thereof. Truffle does not accept any liability for inaccurate or incomplete information contained, or for the correctness of any opinions expressed. Past performance is not an indication of future performance.

info@truffle.co.za | +11 035 7337 | truffle.co.za

Invest in the value of experience.