April 2026

Economic Commentary

Truffle Asset Management

AUTHOR: SAUL MILLER & NICOLE AGAR, PORTFOLIO MANAGERS

A fragile ceasefire – for now

The war in Iran is increasingly being viewed as ill-advised and ill-considered, with insufficient allowance made for the range of potential adverse outcomes. After 39 days of contradictory messaging from the US administration, oscillating between escalation and de-escalation, a fragile two-week ceasefire has been declared. Both the US and Iran have much to lose should this conflict escalate further, although evidence to date suggests that logic does not always prevail.

Despite the recent vitriol, the US required an off-ramp from what risked becoming a protracted conflict, as well as a mechanism to reopen the Strait of Hormuz. The ceasefire remains temporary, and a permanent resolution to the conflict appears to hinge on a 10-point proposal from Iranian officials, which the US has described as "a workable basis on which to negotiate". Material stumbling blocks include acceptance of Iran's uranium enrichment, the re-opening of the Strait and broader regional dynamics, including Israeli actions in Lebanon.

The Strait of Hormuz remains the critical variable for markets. Approximately 20% of the world's oil supply and 45% of urea (used for fertiliser production) flows through this channel. Markets have thus far been reasonably sanguine about the potential risks relating to an extended conflict, with the MSCI ACWI declining 7.1% and the ALSI falling 10.4% in March, ahead of the ceasefire.

A worst-case scenario involving significant damage to energy infrastructure and sustained withdrawal of oil supply is clearly not being priced. Such an outcome would likely lead to stagflation, which would be negative for both equities and bonds. Even if this outcome is avoided, current supply dynamics remain dependent on inventory drawdowns. As these inventories diminish, price pressures will increase. The coming weeks are therefore critical: oil must begin to flow freely through the Strait before inventories are materially depleted.

Inflation: higher for longer?

The oil price is unlikely to retrace to pre-war levels in the short-term, given the time required to restore production and repair infrastructure. This supply shock is inherently inflationary, not only through higher energy and fertiliser prices but also through secondary effects on administered pricing and inflation expectations.

The US is relatively insulated from a higher oil price compared to parts of Asia. Structurally, oil intensity has steadily declined over the past decades, with the U.S. economy now using roughly 60% less oil per unit of GDP than in the 1970s. This reflects efficiency gains and a transition from manufacturing to service industries, significantly reducing the sensitivity of economic growth to higher oil prices. In addition, the U.S. has become a major producer and net exporter of oil and refined petroleum products, further reducing its vulnerability.

Whilst declining oil intensity is a global development, regional sensitivities remain. China is relatively cushioned, with only about 30% of its oil supply passing through the Strait, and a more diversified energy mix, given its use of coal, nuclear, and renewables. Japan and South Korea are more exposed, with approximately 70% of their oil supply dependent on this route.

In theory, oil/energy shocks are typically transitory and not something monetary policy should overreact to. However, this war will, hopefully temporarily, add pressure to current inflation. In addition, the labour market, whilst softening, is not collapsing. As a result, central banks, particularly the Fed, are likely to maintain a "wait and see" approach and the probability of near-term interest rate cuts has reduced, unless there is a meaningful deterioration in growth.

Gold: The chameleon asset

Gold drivers remain complex and multifaceted. At different times, gold will behave as an inflation hedge, a currency proxy, or a geopolitical safe haven. More recently, gold has been a speculative trade, benefiting in a risk-on environment. This helps explain the recent pullback: as oil spiked, and markets moved risk-off, gold declined. The liquidity needs during a market correction would also have led investors to sell their winners (like gold) to fund broader de-risking.

Gold has fallen by about 20% from its recent meteoric peak, which was exceptionally high at approximately double the inflation-adjusted levels of the previous two major peaks over the past 50 years. While the positive narratives supporting gold, such as declining dollar dominance and rising fiscal debt, remain even more relevant amid the current events that justify a relatively higher price, a meaningful portion of these factors is likely already reflected in the current price.

We reduced our gold position across our portfolios at the end of February, ahead of March events. We have subsequently used recent weakness to moderately reduce this underweight.

More broadly, the conflict further cements the strategic importance of resource security, providing a structural underpin to commodity prices. Furthermore, the longer-term implications of the oil shock will galvanise the world's transition to renewables, thereby increasing demand for metals like copper.

South Africa: held hostage to global dynamics

National Treasury's conservative February Budget stance now appears prudent, having excluded a commodity-driven revenue windfall and refrained from upgrading growth forecasts. Unfortunately, positive progress on inflation and fiscal consolidation is being overshadowed by global developments.

Although South Africa's terms of trade have been negatively affected by higher oil prices and weaker precious metal prices, they remain at a favourable level, which has helped support the rand. And while precious metal prices have retraced, we expect them to remain above historical long-term averages, providing some support for the domestic macro-outlook.

Implications for portfolio positioning

We reduced risk exposure in the conflict and purchased affordable protection on the ALSI. The volatile environment created selective valuation-driven buying opportunities, which we have begun to exploit.

We enter the second quarter with a portfolio that reflects a balanced outlook – positioned to navigate both elevated uncertainty and emerging opportunities. Our base case is for gradual de-escalation, although conditions remain extremely volatile given the complexity of ceasefire dynamics. We will continue to use periods of dislocation to gain cheap entry points into compelling investment opportunities.

AUTHOR

Nicole Agar, (CA) SA | Portfolio Manager & Analyst

Nicole Agar is a senior portfolio manager at Truffle Asset Management with over 25 years of investment experience. She joined Truffle in 2015 and brings extensive expertise across equity research and portfolio management. Nicole is recognised for her disciplined approach and deep research capabilities across South African equities.

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.

Truffle
Asset Management

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.