



ANCHOR

NAVIGATING
CHANGE

THE NAVIGATOR

STRATEGY AND ASSET ALLOCATION REPORT
4th Quarter 2026

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Introduction



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With investing, the long-term path may be upward, but the journey is seldom a straight line. Financial markets have once again reminded investors of this, with extreme volatility, a major shock to global oil supplies and growing concerns about the availability and price of diesel. These developments have contributed to a sharp rise in bond yields, while equity markets continue to be supported by optimism around artificial intelligence (AI). At the same time, the gold price and the rand have surrendered some of the gains that have characterised much of this year.

Through all of this, we retain a sense of calm. Uncertainty is a permanent feature of financial markets, not an exception. There is always a potential storm cloud on the horizon, but volatility is an inherent part of investing rather than a reason to abandon a long-term investment strategy. Markets will inevitably experience periods of uncertainty, but history demonstrates that investors who remain invested through these periods are generally better positioned to capture long-term growth in financial markets. Time in the market, rather than attempts to time the market, remains one of the strongest determinants of long-term investment success.

Diversification across asset classes is an equally important part of navigating this journey. Exposure across asset classes can help portfolios remain more resilient when individual markets come under pressure. We have long viewed alternative assets, including hedge funds, protected equity structured products, physical property, etc., as important components of a well-diversified portfolio. These investments offer more differentiated return drivers and, in some cases, defensive characteristics that can help improve portfolio resilience and enhance risk-adjusted returns during volatile periods.

Alternatives remain a new and relatively underutilised asset class for most South African (SA) investors, despite representing a meaningful allocation in many international institutional and family office portfolios. As the global interest-rate cycle progresses and rates move lower, we believe the relative attractiveness of selected alternative investments is likely to increase further as investors seek differentiated sources of return and portfolio protection.

At Anchor Capital, we remain committed to building diversified portfolios that balance opportunity with resilience. Our investment philosophy continues to emphasise disciplined asset allocation, broad diversification and maintaining a long-term perspective through changing market conditions. Looking ahead, we believe the environment remains supportive of a measured pro-risk positioning, particularly if inflation continues to moderate, interest rates gradually decline, and global earnings growth remains constructive.

We also continue to advocate that a healthy portion of SA investment portfolios should be allocated offshore to leverage diverse opportunities and return profiles while mitigating SA-specific risk. The current rand/US dollar exchange rate presents a reasonable opportunity to externalise a portion of your portfolio. International markets continue to offer a broader universe of investment opportunities, greater sector diversification and access to structural growth themes that are less readily available locally. For SA investors, global diversification remains as much about improving portfolio quality and reducing concentration risk as it is about currency exposure.

Asset Allocation

The following table illustrates our house view on different asset classes. This view is based on our estimate of the risk and return properties of each asset class in question. As individual Anchor portfolios have specific strategies and distinct risk profiles, they may differ from the more generic house view illustrated here.

Asset class	Current Stance			Expected returns (own currency) (%)
	Negative	Neutral	Positive	
DOMESTIC				
Equity				15
Bonds				10
Listed property				11
Cash				7
Alternatives*				10 to 15
Rand vs US dollar (rand stronger)				2.5
GLOBAL				
Equity				10
Government bonds				7
Corporate credit				7
Listed property				7
Cash				4
Alternatives*				8 to 12

*Alternatives include hedge funds, protected equity structured products and physical property.

Asset Allocation Summary

Financial markets were shaken by the US/Israel alliance's 28 February military strikes on Iran and that country's subsequent closure of the Strait of Hormuz, a critical global energy transit route. It triggered what the *International Energy Agency* described as the largest supply disruption in the history of the global oil market. The resulting surge in oil prices, together with concerns around further supply disruptions and the implications for global inflation, has weighed on asset prices.

The conflict has also proved difficult to contain, with hostilities escalating across the Middle East and tensions spreading to the Red Sea as the Houthis stepped up attacks on Saudi Arabia. It has become increasingly apparent that there is no positive outcome for the US from its incursion into Iran, and just extracting themselves from the war is going to be

difficult. Unless there is a meaningful de-escalation, the inflationary shock from higher oil prices could persist through much of 2026 and into 2027. This creates a challenging backdrop for central banks and financial markets, particularly given the potential for higher-for-longer interest rates.

Figure 1 below highlights our US dollar return outlook for the various major global asset classes. The bars in Figure 1 represent the reasonable range of potential outcomes, with the dots indicating our estimated outcomes under various scenarios. We have become more positive on bonds given the higher yields on offer, while maintaining our positive outlook on equities and alternatives. We remain neutral on listed property and cash, where the prospective returns are less attractive relative to those available from equities and bonds.

Figure 1: 12M return scenarios for various asset classes in US dollar terms

Source: Anchor Capital

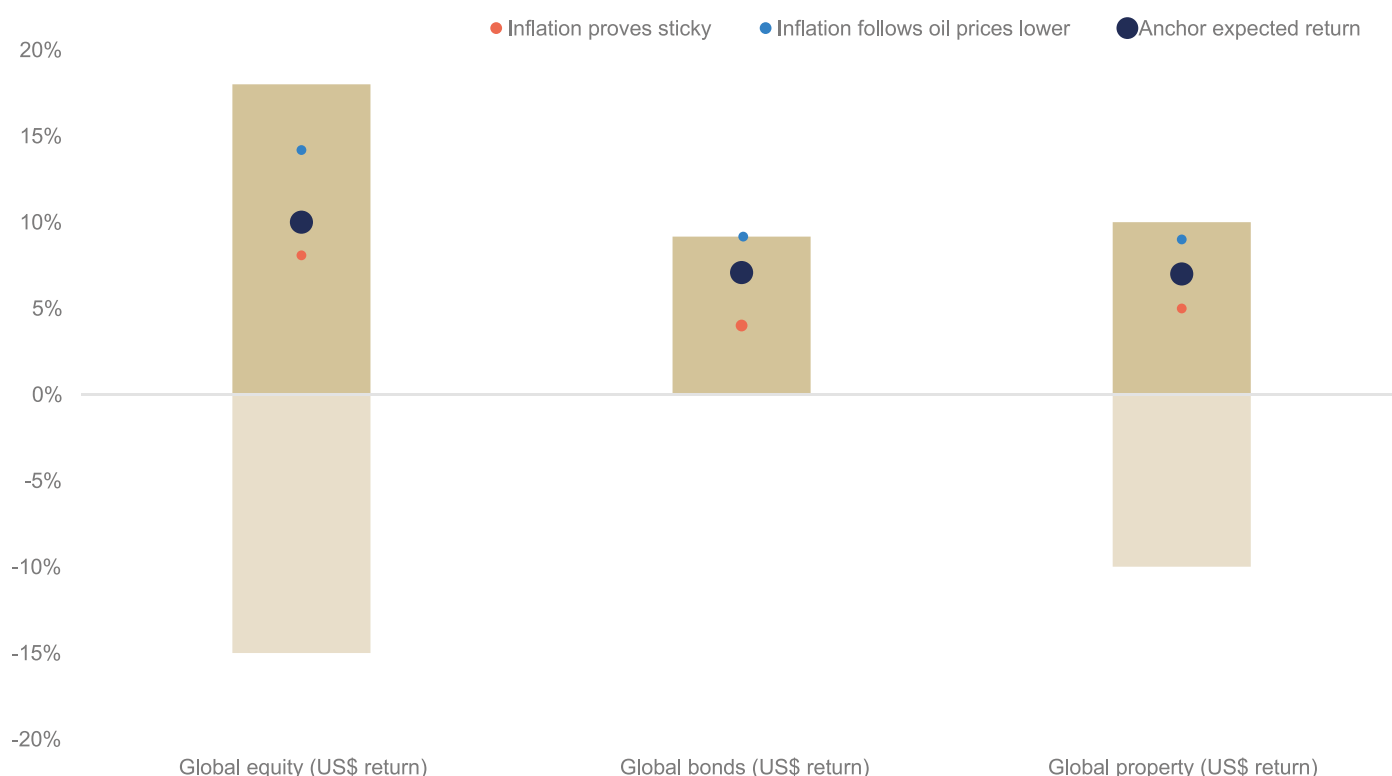
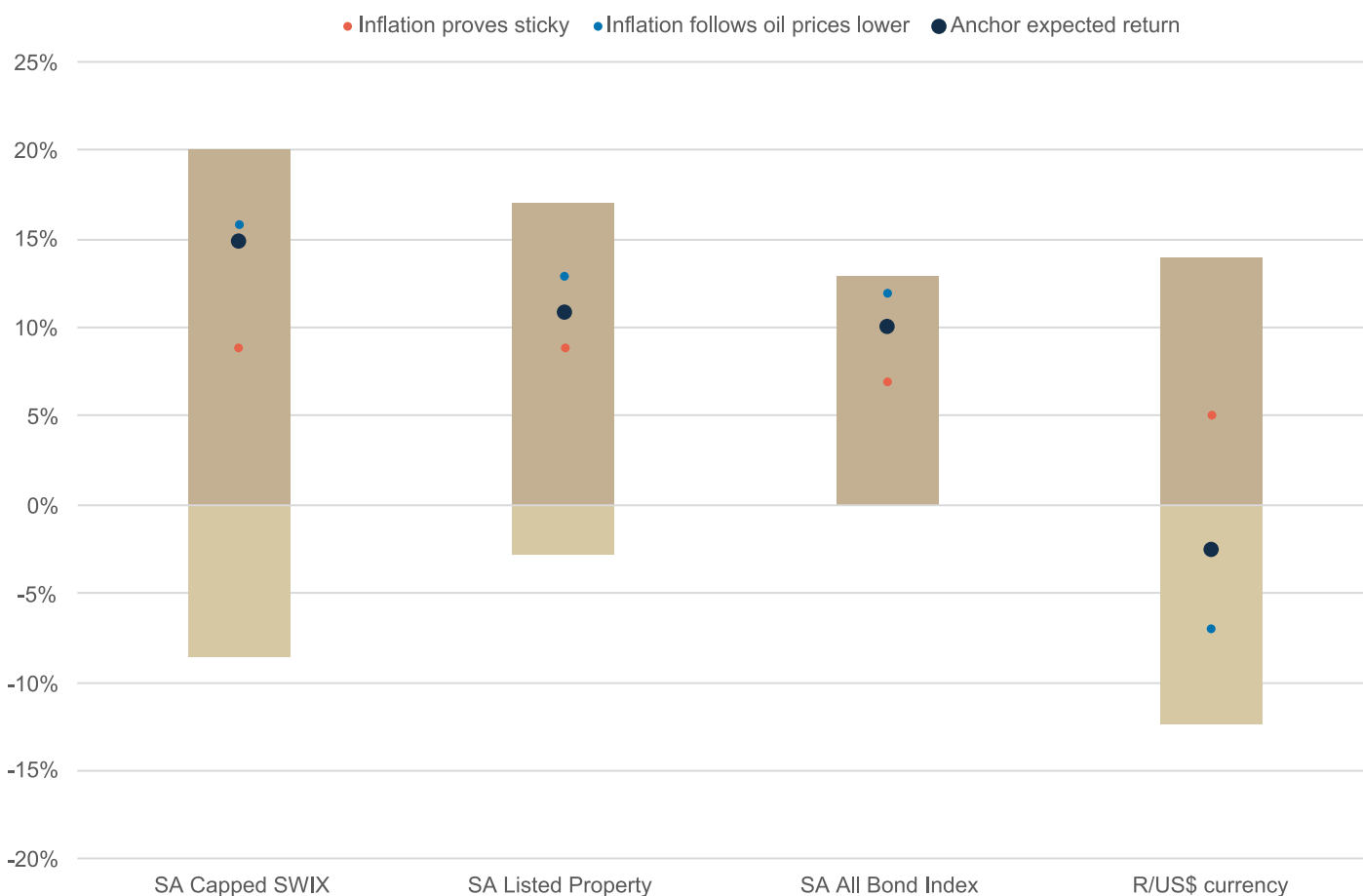


Figure 2: Anchor expected return by offshore asset class*Source: Anchor Capital*

	Global equity	Global bonds	Global property
Anchor expected return (in US dollar)	10%	7%	7%

Figure 3 below outlines our rand return outlook for selected domestic asset classes. The bar represents the reasonable range of possible outcomes, with the dots indicating our estimate of the outcome under various scenarios.

From a domestic perspective, we remain positive on alternatives and equities given the superior returns on offer. We are neutral on bonds and listed property, while higher yields mean that we have become neutral on cash.

Figure 3: 12M return scenarios for various asset classes in rand terms*Source: Anchor Capital***Figure 4: Anchor expected return for domestic asset classes***Source: Anchor Capital*

	Domestic equity	Domestic bonds	Domestic property	US\$/rand
Anchor expected return (in rand)	15%	10%	11%	2.5% (stronger)

Navigator Strategy and Asset Allocation, 4Q26

ECONOMICS

GLOBAL OVERVIEW

Geopolitics remained the dominant driver of global macroeconomic developments in 3Q26. A 60-day US–Iran ceasefire framework, announced late in 2Q26, initially eased energy-supply concerns, with Brent crude briefly falling towards US\$70/bbl. Renewed tensions subsequently pushed oil back above US\$100/bbl, bringing energy prices firmly back into focus as the main source of upside inflation risk.

OIL: A VOLATILE, EVENT-DRIVEN MARKET

Brent crude has traded in an unusually wide range since mid-year, moving from around US\$70/bbl to more than US\$100/bbl. Prices spiked to c. US\$107/bbl on 15 September after drone strikes forced Saudi Arabia to shut its East-West pipeline, the main export route bypassing the Strait of Hormuz. Brent subsequently retreated at the end of 3Q26 as Saudi Arabia restored some export flows

and signs of progress emerged in US–Iran discussions.

However, the outlook remains unusually uncertain. A durable diplomatic settlement could see the geopolitical premium unwind quickly, while renewed escalation in the Gulf or further disruption to Red Sea shipping could push oil prices higher.

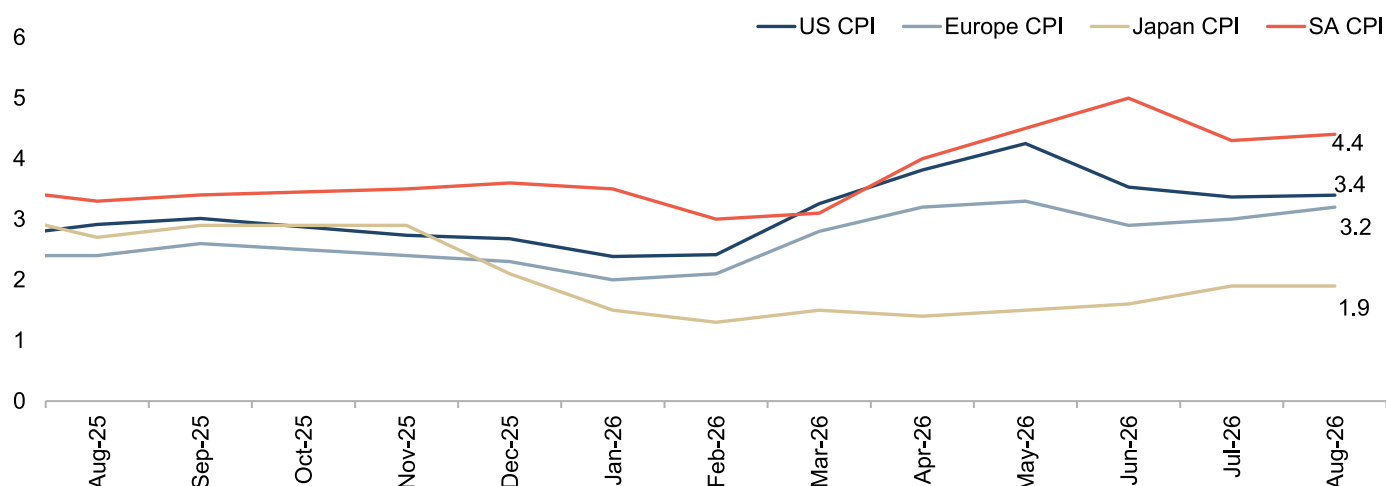
GLOBAL INFLATION: ENERGY IS FEEDING THROUGH

In the euro area, headline inflation rose to 3.2% YoY in August, matching May's two-and-a-half-year high. Energy inflation jumped to 14.3%, the highest level since January 2023. US headline CPI held at 3.4% YoY in August, driven by elevated gasoline and fuel prices. Gasoline inflation rose 27.4% YoY (July: 24.6%), while fuel-oil inflation increased to 52% (July: 39.1%).

Japan's annual inflation remained steady at 1.9% in August, up from 1.4% in April, as transport costs increased. The key risk is that a temporary energy shock develops into broader second-round effects through wages, services and inflation expectations.

Figure 1: Headline CPI data for various countries, YoY % change

Source: Anchor Capital, Bloomberg

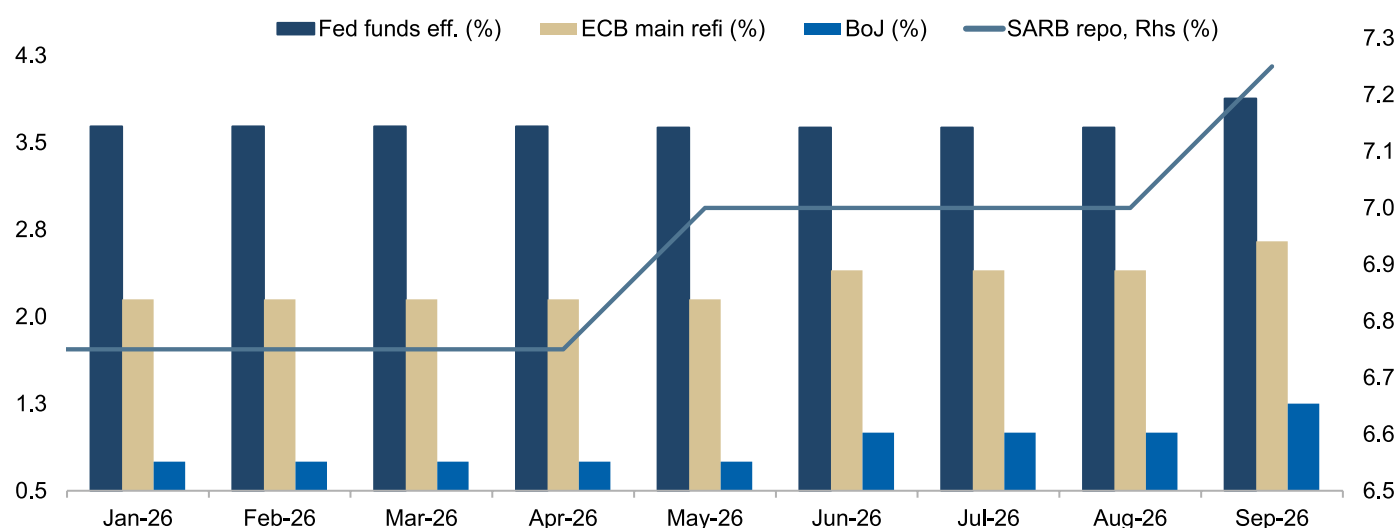


CENTRAL BANKS: FROM LOOKING THROUGH TO TIGHTENING

In September, the European Central Bank (ECB) raised its key interest rate by 25 bps to 2.65%, while the Bank of Japan (BoJ) increased its key short-term rate by 25 bps to 1.25%.

Figure 2: Various global policy rates, %

Source: Anchor Capital, Bloomberg



The US Federal Reserve (Fed) also delivered a widely anticipated 25-bpt hike at its September meeting, lifting the federal funds target range to 3.75%–4.00%. It was the first increase since July 2023 and the first policy move under newly appointed Fed Chair Kevin Warsh. The Fed no longer views the energy shock as something it can look through and is now concerned about second-round effects on underlying inflation. Markets currently assign an 81% probability to the Fed holding rates at 3.75%–4.00% on 28 October, following softer-than-expected labour market and PCE inflation data. However, expectations of a further 25-bpt hike in December and additional increases in 2027 remain.

The key issue for markets is the direction of rates. Higher energy prices, renewed inflation pressure and increased government borrowing have pushed global bond yields higher, making the path towards monetary easing more uncertain.

SA: WEAKER GROWTH, HIGHER RATES

SA real GDP contracted 0.2% QoQ in 2Q26, against a consensus forecast of a 0.1% decline. It was the first quarterly contraction since 3Q24. Several sectors still expanded, but weakness in some of the largest sectors, including mining,

manufacturing, and trade, catering and accommodation, drove the decline. The oil shock has raised input and transport costs across the domestic economy, and the longer prices remain elevated, the harder it will become for firms to absorb them.



INFLATION IS CONTAINED FOR NOW, BUT ABOVE TARGET.

SA August headline CPI eased to 4.4% YoY from 5% in June, while core inflation has remained sticky at 4.1% YoY in August, unchanged from June. However, the outlook has deteriorated as higher oil prices and fuel pass-through are projected to lift inflation in coming prints.

Against this backdrop, the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) unanimously raised the repo rate by 25 bps to 7.25% on 23 September. The MPC statement retained its reference to persistent oil price pressure, reflecting the view that the oil shock poses a more durable risk to inflation.

The SARB now expects headline inflation to peak at 5.4% in 4Q26, compared with 4.3% in its July forecast, and to remain

at 5.3% in 1Q27. Fuel CPI is expected to rise by 40.0% YoY in 4Q26, compared with the previous forecast of 10.3%. Inflation is then expected to decline relatively quickly as the fuel shock unwinds, easing to 3.9% by 2Q27 and 3.1% by 4Q27, when base effects take fuel inflation to -18.1% YoY.

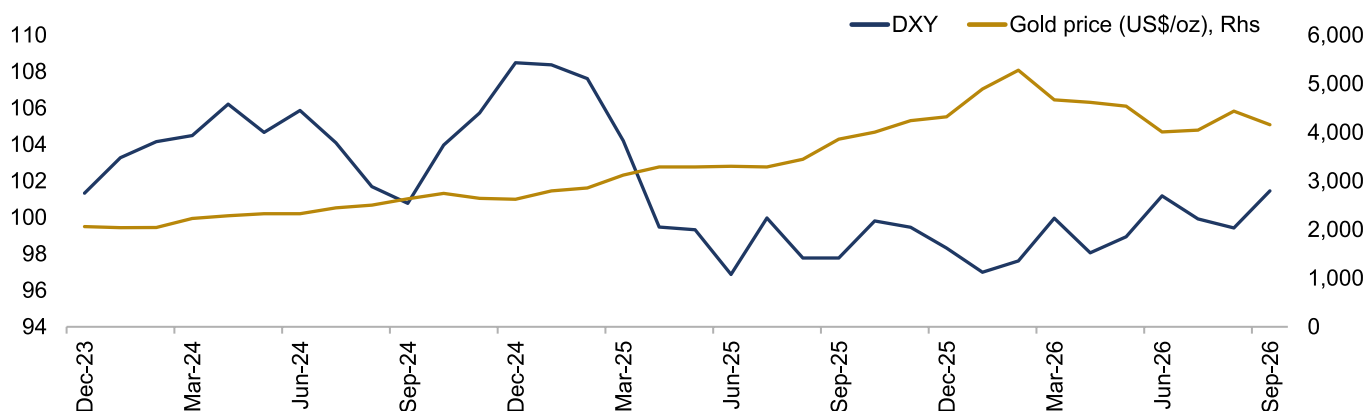
The key risk is that elevated oil prices generate second-round effects, particularly through higher transport, logistics and food costs. If these pressures become embedded in broader inflation dynamics, core inflation could remain sticky or accelerate further, reducing the scope for the SARB to remain on hold.

EXTERNAL PRESSURES ON THE RAND

The US dollar strengthened towards the end of 3Q26, with the US Dollar Index (DXY) moving above 100, while gold retreated sharply as higher US Treasury yields and a stronger US dollar weighed on non-yielding assets.

Figure 3: US Dollar Index level and the gold price

Source: Anchor Capital, JSE



Towards the end of 3Q26, the rand weakened to around R16.39/US\$1 from about R15.9/US\$1 a month earlier. A more hawkish Fed is supportive of the US dollar, leaving the rand vulnerable and raising the risk of imported inflation. With the repo rate at 7.25% and the upper bound of the Fed funds target range at 4.00%, the nominal policy-rate differential is 325 bps.

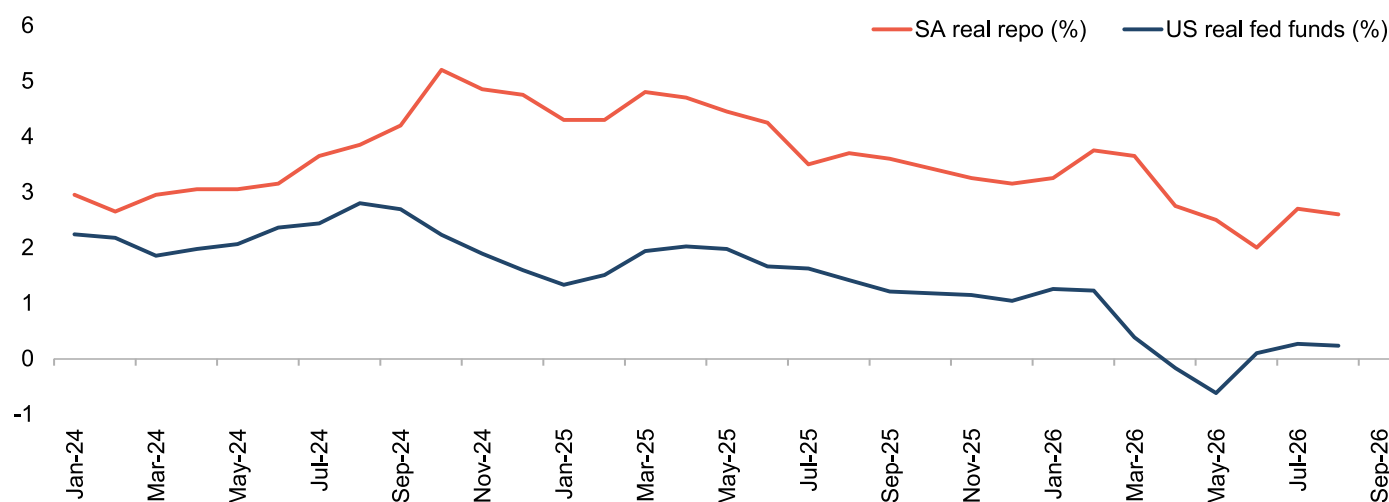
In real terms, however, SA's interest rate cushion remains relatively strong. The real repo rate is around 2.9% on headline CPI, compared with roughly 0.6% in the US. This remains supportive of carry demand for rand-denominated assets. However, the combination of a stronger US dollar, elevated oil

prices, softer precious-metal prices and persistent domestic inflation increases the risk of sustained rand weakness.



Figure 4: Real policy rates (policy rate less headline CPI), %

Source: Anchor Capital, Bloomberg



SA EQUITIES

SA equities were broadly flat in 3Q26, with the **FTSE/JSE Capped All Share Index declining 0.3%**, taking its YTD total return to -3.1%. The relatively benign headline number, however, masked significant dispersion beneath the surface. In 3Q26, basic materials gained 15.6%, supported by precious metals (+16.7%) and diversified miners (+6.7%), while telecoms (-17.9%), general retailers (-16.7%), technology (-12.0%) and financials (-3.7%) came under pressure. The FTSE/JSE SA Banks Index (FTJS3011) declined 4.3%, giving back some of its strong 2Q26 gains, while Naspers fell 14.7%. Consumer-facing businesses were particularly weak, with Woolworths, Truworths, The Foschini Group (TFG) and Pepkor all declining by around 20% or more during the quarter.

These moves occurred against an increasingly challenging global backdrop. Oil prices rose sharply as the Middle East conflict continued, global interest-rate expectations moved higher, and pressure spread beyond crude oil into refined products such as diesel. Despite these headwinds, we believe the recent weakness is creating an attractive 12-month opportunity. **We remain overweight SA equities and expect a total return of approximately 15% over the next 12 months.** Importantly, this is not a call for a broad-based recovery in the domestic consumer. Rather, valuations have become increasingly attractive, pockets of strong earnings growth remain, and we believe JSE-listed equities are among the markets most geared to a positive resolution of the Middle East conflict.

The domestic consumer is the area where we remain most cautious. The combination of higher interest rates, elevated fuel prices and a still-weak economic environment

is increasingly evident in the operating performance of several larger consumer-facing businesses. Real GDP contracted by 0.2% in 2Q26, ending six consecutive quarters of expansion, while the SARB raised rates by 25 bps in September as higher energy prices increased inflation risks.

More importantly, the energy problem has evolved beyond simply the price of crude oil. Global refining capacity remains constrained, meaning diesel prices may remain elevated even if crude prices moderate from current levels. For SA households and businesses, this is particularly significant: diesel is embedded throughout the economy, from transport and logistics to agriculture and food production. Sustained higher diesel prices ultimately reduce disposable income and place pressure on corporate margins. We therefore remain cautious about extrapolating a broad-based consumer recovery over the next year.

The opportunity within consumer-facing shares is instead becoming increasingly stock-specific. **Shoprite and Boxer remain the operational standouts**, while we continue to see attractive opportunities in businesses such as **Premier Foods, Advtech, and Southern Sun**. The extraordinary dispersion in retail share-price performance also reflects a market that is becoming less forgiving of weak execution and poor capital allocation. Over time, we would not be surprised to see further consolidation in parts of the local retail industry, particularly within discretionary retail.

Resources provide an important counterweight to this cautious view on the domestic consumer. The sector rebounded strongly during 3Q26 after a very difficult 2Q, although our preference remains to differentiate between individual commodities rather than making a broad call on the mining sector.

Gold remains particularly difficult to forecast using its traditional relationships with real interest rates and the US dollar. One explanation for its continued resilience has been ongoing diversification by global central banks into gold. We view this as a structural source of demand that is likely to persist and therefore retain modest exposure to SA gold producers.

From a fundamental perspective, however, **copper remains our preferred commodity exposure**. The combination of accelerating AI-related capital expenditure, rising electricity demand and the global energy transition is likely to require substantial investment in electricity generation and transmission infrastructure over many years. We continue to favour **Anglo American and Glencore** as our preferred diversified mining exposures.

Elsewhere, one of the biggest frustrations for local investors this year has been the performance of Tencent and, more acutely, Naspers and Prosus. The local technology sector declined a further 12% during 3Q26 and is now down 34.5% YTD.

We have been disappointed by some of Prosus management's capital-allocation decisions, but valuation is increasingly becoming an important consideration. With Naspers trading at a discount of around 50% to its underlying assets and Tencent trading at what we believe to be close to a trough valuation multiple, we see an increasingly asymmetric opportunity for patient investors. The timing of the recovery is uncertain, but Tencent's investment in AI provides an important potential source of future value creation that we believe is receiving relatively little recognition at current prices.

Looking ahead, our **15% expected total return** needs to be considered against a wide range of possible outcomes. The JSE is not expensive: the FTSE JSE Capped All Share currently trades on approximately **10.2x forward earnings**, while earnings expectations point to meaningful growth over the coming year. Valuation alone, however, is never sufficient reason to own equities. The more important consideration is what could cause earnings and market expectations to change.

Here we believe the risk/reward has become increasingly attractive. A resolution or meaningful de-escalation in the Middle East conflict could reduce energy prices and global inflation concerns, ease pressure on interest rates and provide welcome support to the local consumer. Given the sensitivity of both the local economy and the JSE to energy prices and global interest rates, SA equities could benefit materially from such an outcome. Conversely, a prolonged conflict, persistently elevated diesel prices and further monetary tightening would place additional pressure on domestic earnings and represent the key risks to our view.

Against this uncertain backdrop, portfolio construction is more important than making a single call on "South Africa". The universe of high-quality, dependable earnings compounders on the JSE continues to narrow, a phenomenon that is increasingly evident across global markets as index concentration rises. We believe investors should therefore focus on companies where earnings visibility, management quality and capital allocation support a strong investment case, while remaining selective elsewhere. **We remain overweight SA equities, but expect stock selection rather than simply owning the index to be the primary determinant of returns over the next 12 months.**



DOMESTIC BONDS

The sharp rise in global bond yields was a defining feature of fixed-income markets during 3Q26. US 10-year Treasury yields rose by c. 90 bps, while French OATs and German Bunds sold off by around 110 bps and 70 bps, respectively. Against this backdrop, SA government bonds (SAGBs) proved resilient, with the 10-year yield rising by only around 40 bps over the quarter, as the FTSE/JSE All Bond Index (ALBI) total return declined by 66 bps. Elevated commodity prices, a resilient rand and an improving domestic macroeconomic backdrop helped insulate the local bond market from the full extent of the global bond rout.

The Iran war has undoubtedly interrupted the rally in SAGBs seen through 2025 and early 2026 and is likely to keep volatility elevated in the near term. However, we do not believe it has fundamentally altered the bull case for local bonds. The resilience of SAGBs through an exceptionally challenging global rates environment reinforces our constructive view. SA's fiscal and external position continues to improve, while nominal yields remain attractive. We therefore continue to

see value in SAGBs, particularly at the long end of the curve.

The improvement in SA's macroeconomic backdrop remains a key driver of local bond yields. National Treasury's latest budget data point to a growing primary surplus, while a broader tax base, improved tax collection, and continued fiscal consolidation are supporting the government's debt trajectory. Elevated commodity prices are also benefitting SA's external position through stronger trade and current-account balances, providing an additional buffer against global market volatility.

On the growth side, long-standing structural constraints related to electricity and logistics have also eased. These improvements are increasingly being recognised by credit rating agencies. S&P Global upgraded SA's sovereign rating in November 2025, while Moody's revised its outlook to positive in May 2026, citing improvements in fiscal management and structural reforms. The prospect of further upgrades in 2027 remains. Collectively, these developments strengthen the fundamental case for a gradual reduction in the risk premium embedded in SAGBs. However, low economic growth and the still-high government debt burden remain important constraints.

Figure 5: The 10-year breakeven inflation rate (BEIR)

Source: Anchor Capital, JSE



Despite these improving fundamentals, market pricing continues to reflect a significant degree of caution. *Figure 5* shows that the 10-year breakeven inflation rate is currently around 4.7%, back near levels reached at the peak of the Iran war and about 70 bps above pre-conflict levels. At the same time, the SARB policy rate is expected to peak at 7.75%. With the SARB currently expecting inflation to return to around 3% in late 2027, we believe a meaningful risk premium remains

embedded in the local nominal yield curve. The SARB has, however, highlighted upside risks to inflation, particularly from higher fuel prices and elevated services inflation, and market-based inflation expectations have recently increased.

The global rates environment has been a major headwind for SAGBs, but it could also become an important source of upside. Markets continue to price a relatively hawkish

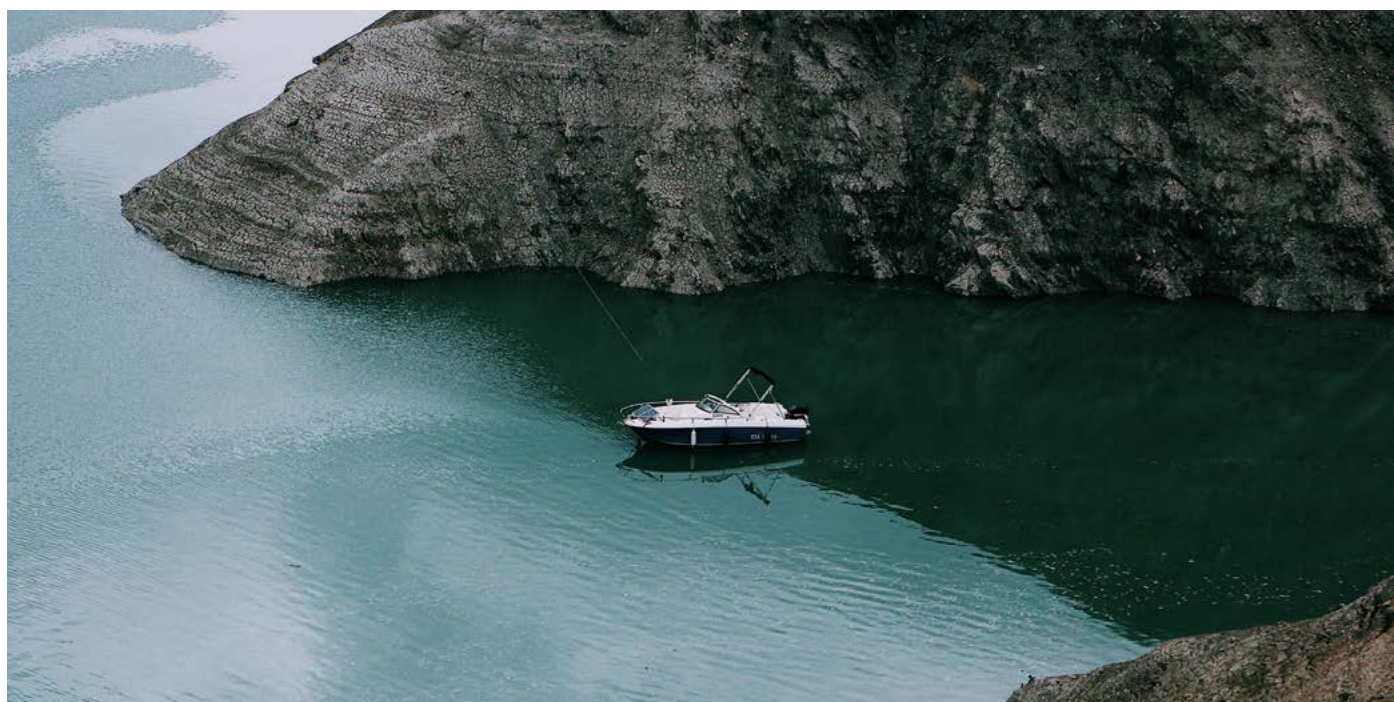
path for US monetary policy, which we believe overstates the persistence of US inflation and the extent of further tightening ultimately required. In our view, recent firmness in US inflation has largely reflected temporary supply-side shocks rather than a renewed acceleration in underlying demand. US wage growth is moderating, services inflation is cooling, tariff effects are fading, and broader demand-driven inflationary pressures continue to ease. Importantly, we see limited evidence that recent supply shocks are generating meaningful second-round inflationary effects that would require a materially more restrictive monetary policy response.

As these temporary pressures fade, we expect US disinflation to re-emerge more clearly. This should progressively remove some of the rate hikes currently embedded in the US yield curve and place downward pressure on Treasury yields. Given the sensitivity of EM duration to global risk-free rates, lower US Treasury yields would provide an important capital-gain catalyst for SAGBs. A moderation in oil prices would reinforce this through both the inflation and external-balance channels.

Against this backdrop, we continue to favour the 10-25-year segment of the SAGB curve. The pronounced hump in the zero-coupon curve means this area offers an attractive combination of carry and rolldown. In our view, investors are being well compensated for taking duration risk, particularly given the improvement in local macroeconomic fundamentals.

The war has disrupted, rather than derailed, our constructive views on SAGBs. Domestic fundamentals continue to improve, while current yields retain a meaningful risk premium and the long end of the curve offers attractive carry and rolldown. With scope for global rate expectations to become less hawkish, we believe SAGBs offer an attractive combination of income and capital-appreciation potential.

We therefore continue to favour the 10-25-year segment of the curve and expect a 12-month total return of around 10%, translating into a real return of about 6%.



THE RAND

The rand started 2026 at R16.54/US\$1, and on 1 October 2026 the local unit was trading at the same level. Given the cascade of geopolitical shocks seen across developed markets (DMs), particularly in the US, the rand's resilience is notable. A decade ago, events as we have witnessed in 2026 could have easily

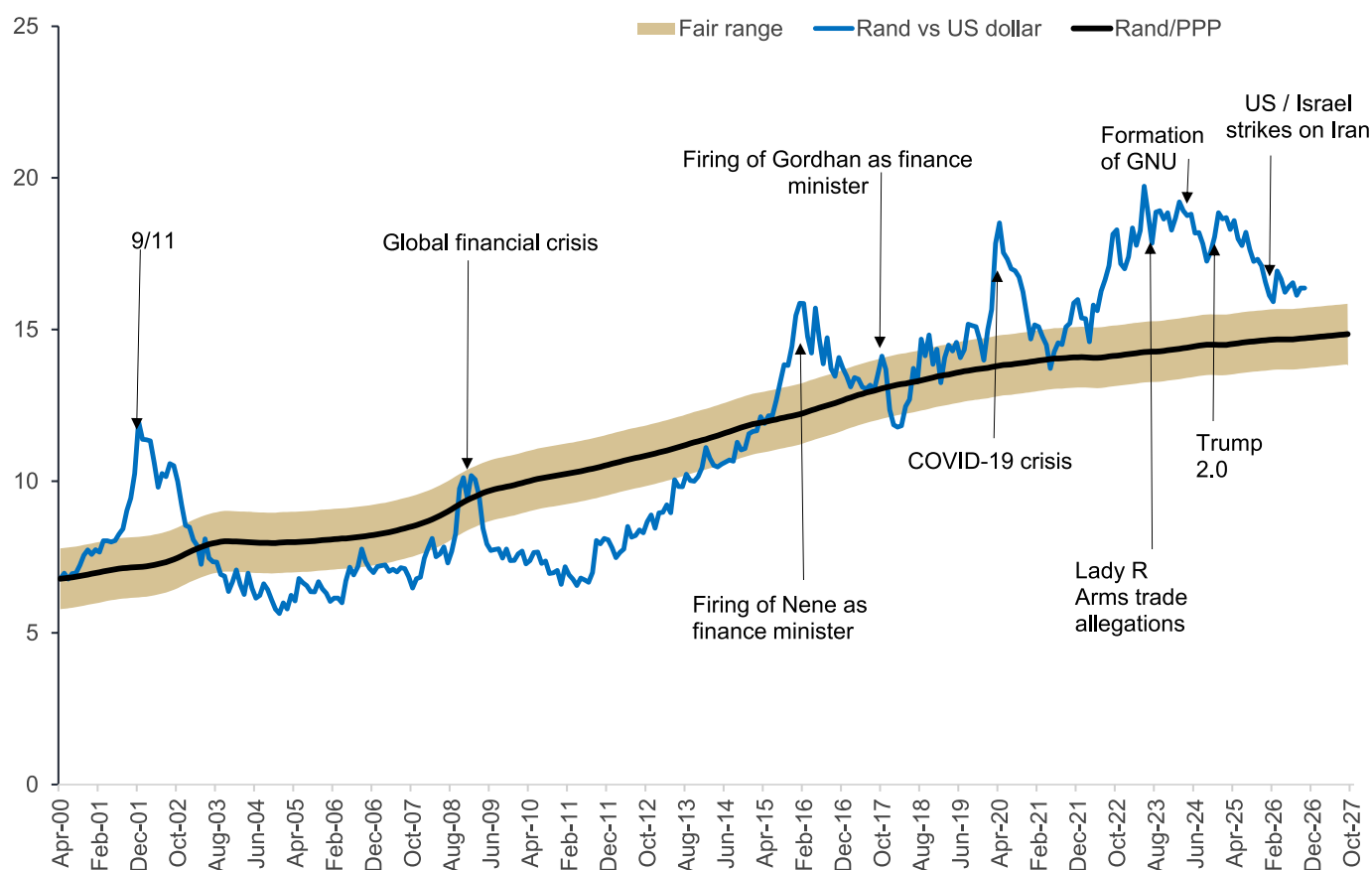
resulted in the local currency depreciating by 10% or more. We believe that the rand's resilience bears testament to the improvement in SA's domestic fundamentals. No doubt higher gold, platinum and export commodity prices have provided meaningful support to both the currency and the fiscus. Overall, this has been a remarkably resilient year for the rand.

At Anchor Capital, we subscribe to a purchasing power parity (PPP) model to assess the long-term value of the rand. Over the past three years, the rand has been on a gradual recovery path from significantly oversold levels. This has been supported by a combination of a gradually weaker US dollar vs other currencies, improved terms of trade as the value of domestic exports increased globally, and a steady improvement in SA's political and economic fundamentals. While this overall

positive trend remains intact, the near-term environment is considerably more challenging due to heightened global geopolitical uncertainty, as can be seen in *Figure 6*. We also note that rising US interest rates, a stronger dollar and weaker prices for some of our key export commodities could put further pressure on the currency. The gradual deterioration in SA's terms of trade is an important risk to the rand's near-term outlook.

Figure 6: Actual rand/US dollar exchange rate vs rand PPP model

Source: Thomson Reuters, Anchor Capital



Forecasting the value of the rand in a year is a fool's errand, as the local unit usually trades within a R2.00 range against the US dollar over 12 months. The risk of negative surprises to one's view is particularly high in the current environment, and the rand could quite easily be weaker than R18.00/US\$1 this time next year.

That said, if we look at this rationally and consider a scenario where the Iran war will probably end within the next year and some recovery is likely, we think that a level of around R16.00/US\$1 appears reasonable. This scenario reflects a combination of continued improving domestic fundamentals, a potential rally as inflation declines and the likely higher risk premium applied to emerging markets (EMs) for some time after the eventual cessation of hostilities in the Middle East.



GLOBAL EQUITIES

We remain positive on global equities, although the investment case has become more nuanced over recent weeks as the range of potentially negative macro factors has amassed. Geopolitical instability, US domestic political questions, trade tensions, inflation, higher interest rates, elevated energy prices and the highest DM bond yields in 20 years have created a significantly more challenging macroeconomic backdrop. More than countering this, however, is that the AI growth story remains intact, US earnings growth expectations continue to rise, and the US economy is experiencing a once-in-a-generation economic boom.

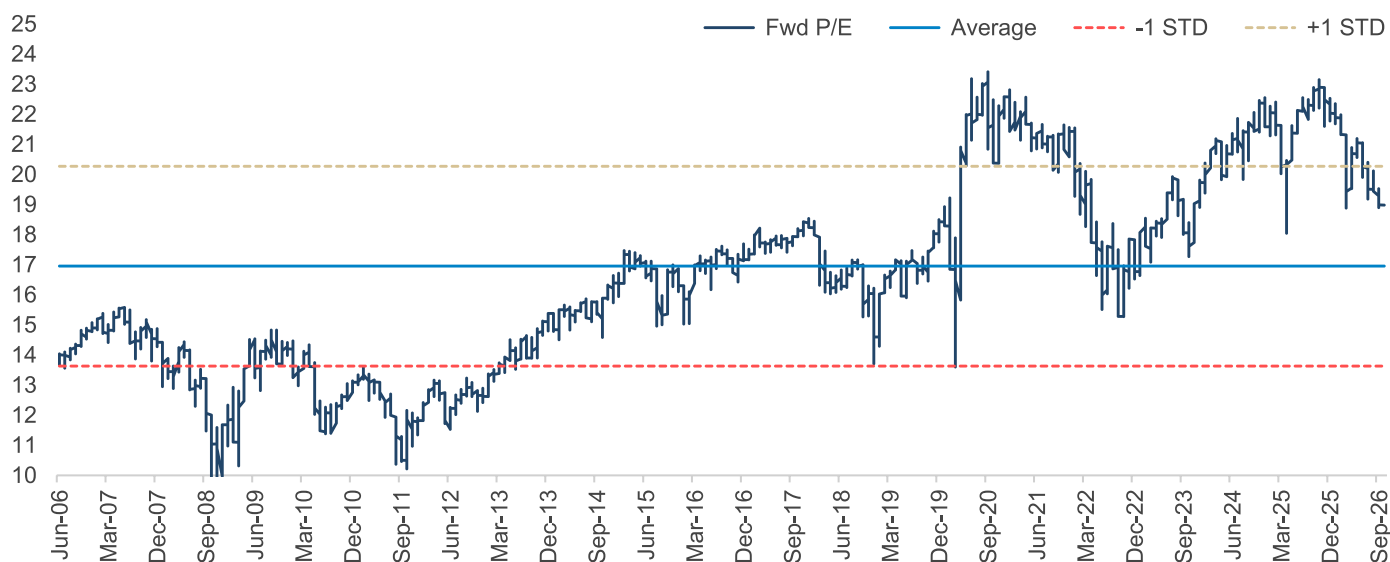
The market has also remained resilient. With global equities having trended broadly sideways for several months, valuations have become cheaper. We expect global equities to deliver a 10% return over the next 12 months, as the bull market that began in 2023 continues.

While the US S&P 500 return was positive in 3Q26, underlying share prices were under pressure in September, and the average share price was down a few percent. Shares driven by strong AI spend have done the heavy lifting this year, with a top 10 share like Meta, for example, up 27% in September as the market has become increasingly confident in the earnings potential of its AI investments. Perhaps more importantly, however, earnings growth and consumer spending remain supportive, while earnings expectations have continued to rise following a strong 2Q26 earnings season. At the beginning of 2026, earnings per share expectations for the S&P 500 for 2027 were US\$350. These have since risen to US\$420; a phenomenal increase giving rise to a 2027 forward P/E multiple of 18.5x (7750/420).

The graph below illustrates how the one-year forward P/E of the S&P 500 has declined from 23x to 19x, as earnings have grown by over 25% while the market has risen by just over 10%. The market remains expensive relative to its historical averages, but the earnings outlook remains powerful.

Figure 7: US S&P 500 Index forward P/E, x

Source: Anchor Capital, Bloomberg



This is shown in tabular format below. Year-2 earnings growth prospects look strong across the board, while the equal-weighted forward P/E of 15.9x is now below the 20-year mean (this basically excludes the impact of the higher P/E, bigger-cap, largely AI shares).



Figure 8: Various major global indices' EPS growth and forward P/E forecasts*Source: Anchor Capital, Bloomberg*

Name	Earnings growth		FWD P/E	
	YR1	YR2	YR1	YR2
MSCI World Index	18.6%	14.5%	18.0	15.7
MSCI EM Index	75.9%	17.9%	8.4	7.2
MSCI All Country World Index (10% EM)	27.9%	15.2%	15.9	13.8
Nasdaq 100	42.1%	22.6%	21.5	17.6
S&P 500 Index	21.1%	17.3%	19.2	16.4
S&P 500 Equal Weight Index	11.0%	10.4%	15.9	14.4

The principal risk to this outlook is the continuation and escalation of the Middle East war and its impact on oil prices and inflation. The rise in energy prices has not flowed through materially into core inflation (still around 2.5% in the US), but the longer the disruption continues, the greater the risk that secondary inflationary effects emerge. This has started to reflect in surging bond yields, which have been exacerbated by the demand for credit from governments and companies (particularly AI financing) and growing concerns about the balance sheets of developed countries. Sustained higher interest rates and inflation make future cash flows worth less, and the risk of this starting to suppress equity valuations is increasing.

We think it is significant that when the US Fed announced a 25-bpt hike in interest rates at its September meeting, it also upgraded GDP forecasts to 2.4% for this year and next. This expressed confidence that the US economy could stomach interest rate rises and higher input costs and still thrive. It is worth reflecting on the potential bull case for a moment. If somehow the Iran war subsides, oil prices normalise towards US\$60/bbl, inflation moderates, and interest rates peak and eventually decline towards 3.5%, the combination of macroeconomic stabilisation and AI-driven productivity

gains materialising from the mammoth spend could provide renewed support for equity markets. Importantly, the current oil shock is primarily a logistical and geopolitical disruption rather than an underlying supply/demand imbalance.

The graph below shows why the market is looking through the dark clouds – 16% earnings growth in 2027 and 2028 following this year's massive 32% rise. On these forecasts, the average US company will have doubled its earnings from 2023 to 2028, and the resultant equity market performance and dividend flows have added further fuel to the sustained rally. Some scepticism has started to creep into markets in recent months, and consequently we are able to compile a portfolio of shares which offer excellent value relative to their earnings.

We are therefore diversifying our exposure beyond the popular AI drivers into companies that benefit from the positive climate or are being overlooked. It is worth noting that the AI-related capital expenditure in the US (now projected to exceed US\$1trn in 2027) is mostly impacting the builders and related industries (chips, energy, infrastructure, etc.). The second-order effects of AI (productivity, technological advances and medical discoveries) will only be materially felt 12 months out and beyond.

Figure 9: S&P 500 EPS growth (annualised)*Source: Anchor Capital, Bloomberg*

A critical scenario to monitor over the next six months is whether the buyers of AI capacity (dominated by Anthropic and OpenAI) will be able to afford to pay the builders of AI capacity (dominated by Microsoft, Amazon, Alphabet and SpaceX). AI data centres have been built on the back of long-term contracts, and to deliver on these, the revenues of Anthropic and OpenAI have to continue to rise on their current explosive trajectory. This will enable them to list and access further funding from capital markets (debt and equity). If this pans out, there is still plenty of upside in the AI complex whose valuations are far from crazy.

Next up is the anticipated Anthropic US\$2trn listing in November. Second-quarter earnings announcements

also showed positive indications for the return on investment for the hyperscalers. Computing capacity is lagging increasing demand, and clearly they can charge prices which translate into attractive incremental returns.

EMs remain where some of the most compelling valuations can be found. Still, these markets have flattered to deceive for the past two decades, and we prefer to take our exposures through compelling individual company stories, of which there are many we have identified. EM indices are also increasingly concentrated in a small number of AI builders (TSMC, SK Hynix, Samsung, etc.).

The graph below shows the steady pace of world economic growth, which is the stage on which equity markets perform.

Figure 10: Global GDP growth

Source: Anchor Capital, IMF



Growth outside of the US is more challenging. The euro region appears particularly vulnerable, given its reliance on imported energy and the potential for persistently higher energy prices to weigh on both inflation and economic

activity. EMs were gaining favour in the more supportive pre-war, risk-on global mood before the escalation of the Middle East conflict, but this is likely to be somewhat moderated, and a higher risk premium demanded.



GLOBAL BONDS

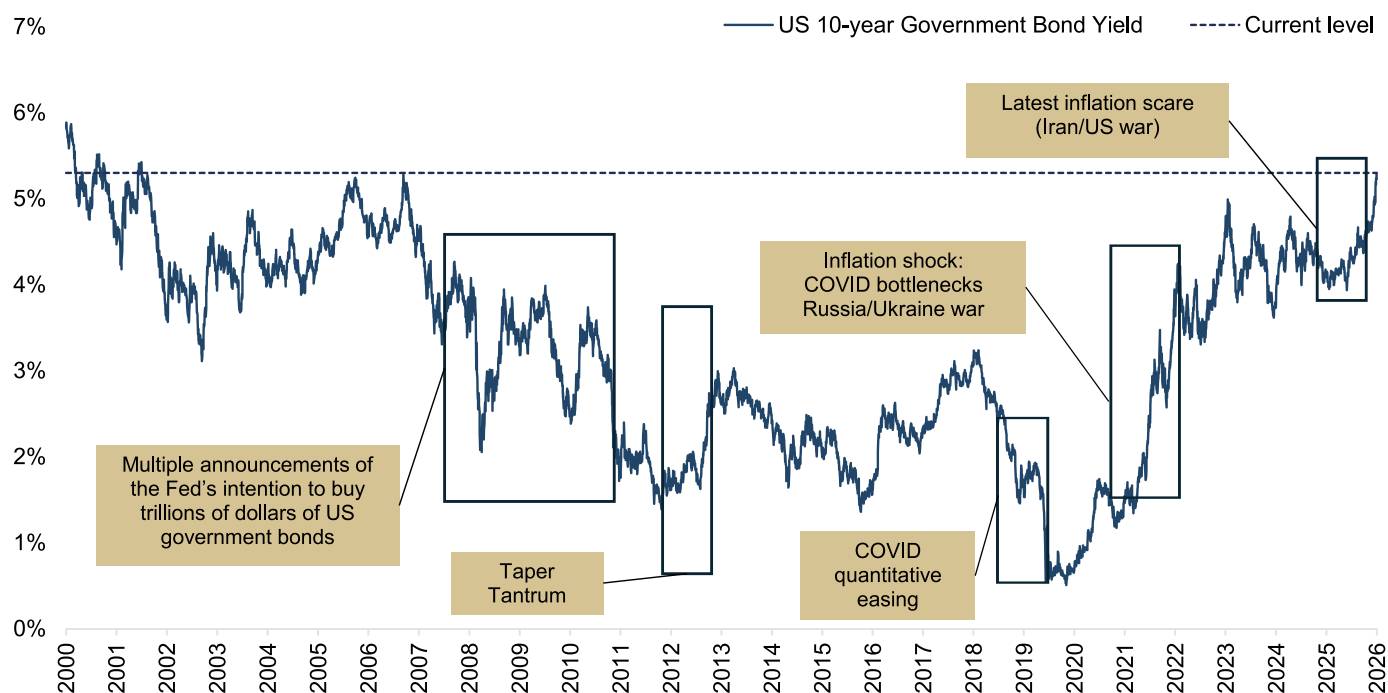
Equity investors rarely pay close attention to bond markets, but occasionally large movements in bond yields have caught their attention. The most notable examples of the past two decades include announcements from then-Fed Chair Ben Bernanke between 2008 and 2011 around quantitative easing (QE) that saw the Fed buy US\$2trn of US government debt. This helped cut the US government's 10-year borrowing rate in half (from 4% p.a. to 2% p.a.) and made equity investors pay attention. Then there was the "Taper Tantrum" in May 2013, when Bernanke signalled that the Fed was considering selling some of the trillions of dollars of US government bonds it bought. That spiked the US 10-year borrowing rate from 2% to 3% (albeit that it did not stay there long, falling back to c. 2% over the months that followed).

The bond market again became a key focus for equity investors in 2022, when US inflation, which had been hovering around 2% for the better part of the previous two or three decades, sparked to life, climbing above 6%. COVID-19-induced supply chain bottlenecks, together with spiking energy and food prices caused by Russia's war on Ukraine, drove a rapid repricing of interest-rate expectations. The US government's 10-year borrowing rate had started that year at 1.5% p.a. and ended the year close to 4% p.a., resulting in the worst bond market performance in at least 40 years.

Since then, the US 10-year yield has generally traded within a relatively narrow range of 4% to 4.5% p.a. This changed in recent months, however, with the yield rising from around 4% p.a. to 5.3%. This is the highest level since 2002 and has once again brought the bond market firmly into focus for equity investors.

Figure 11: Instances where even equity investors were paying attention to the bond market

Source: Anchor Capital, Bloomberg

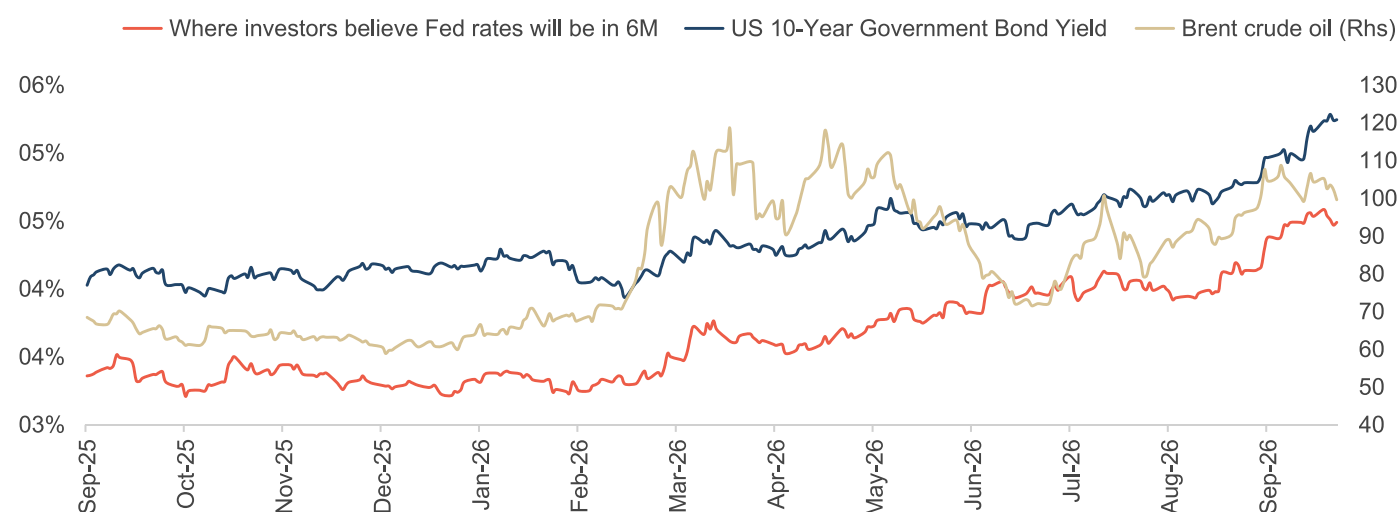


We believe that most of the recent spike higher in bond yields can be traced back to higher oil prices and investors' expectations that the Fed will need to step in with multiple rate hikes.



Figure 12: Expectations of higher-for-longer oil prices are increasing expectations of further Fed rate hikes, pushing long-term borrowing rates higher

Source: Anchor Capital, Bloomberg



In fact, as it stands, investors are pricing in that the Fed will need to hike cash rates to 4.6% p.a. by the middle of next year.

Figure 13: Investors believe the Fed will deliver three hikes of 0.25% each over the next six meetings

Source: Anchor Capital, Bloomberg

THIS YEAR		NEXT YEAR		NEXT YEAR	
FED MEETING	CHANCE OF <i>ONE</i> 0.25% RATE HIKE	FED MEETING	CHANCE OF A <i>SECOND</i> 0.25% RATE HIKE	FED MEETING	CHANCE OF A <i>THIRD</i> 0.25% RATE HIKE
28-Oct-26	25%	27-Jan-27	40%	28-Apr-27	40%
09-Dec-26	100%	17-Mar-27	100%	09-Jun-27	90%

We believe that energy prices will remain elevated (and probably volatile) over the next few months. However, there is every chance we will get a meaningful resumption of oil flows through the Strait of Hormuz, or at the very least some material workarounds within our twelve-month forecast horizon. Even if this proves overly optimistic, for energy prices to remain an inflationary force beyond March next year (the one-year anniversary of the start of the war), oil prices would need to continue climbing from current levels, which we believe is unlikely.

Consequently, even if the three currently anticipated Fed rate hikes materialise by the middle of next year, it is likely that a year from now investors will begin pricing in some rate cuts. This would relieve some of the pressure on bond yields.

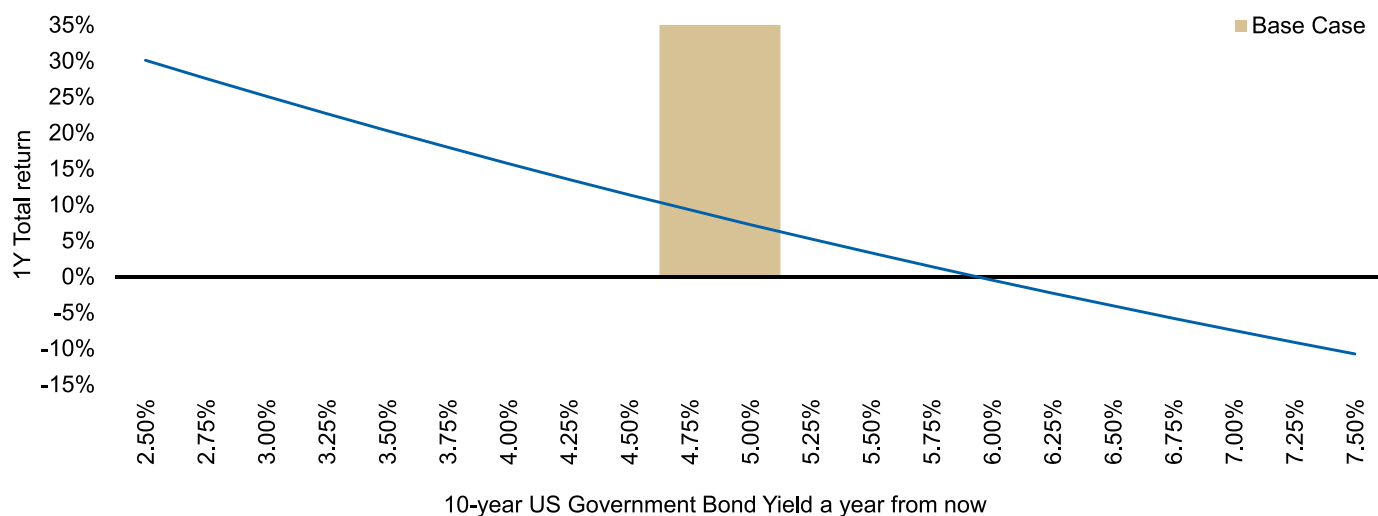
With current bond yields already elevated, the math behind bond returns sets investors up for an asymmetrical return

outcome over the next twelve months (skewed towards positive outcomes). In fact, even in an almost inconceivably bearish scenario where the US government's 10-year borrowing rate is 7% p.a. a year from now, an investor holding that 10-year US government bond over the 12-month period would only experience a loss of slightly more than 5% on their investment. If US government bond yields are back at 2.5% p.a. twelve months hence (where they spent most of their time hovering around for the decade before 2022), investors in that bond would earn a total return of over 30% over the next year.



Figure 14: Currently elevated bond yields set investors up for an asymmetrical 12-month total return profile, with outcomes skewed to a positive result

Source: Anchor Capital, Bloomberg

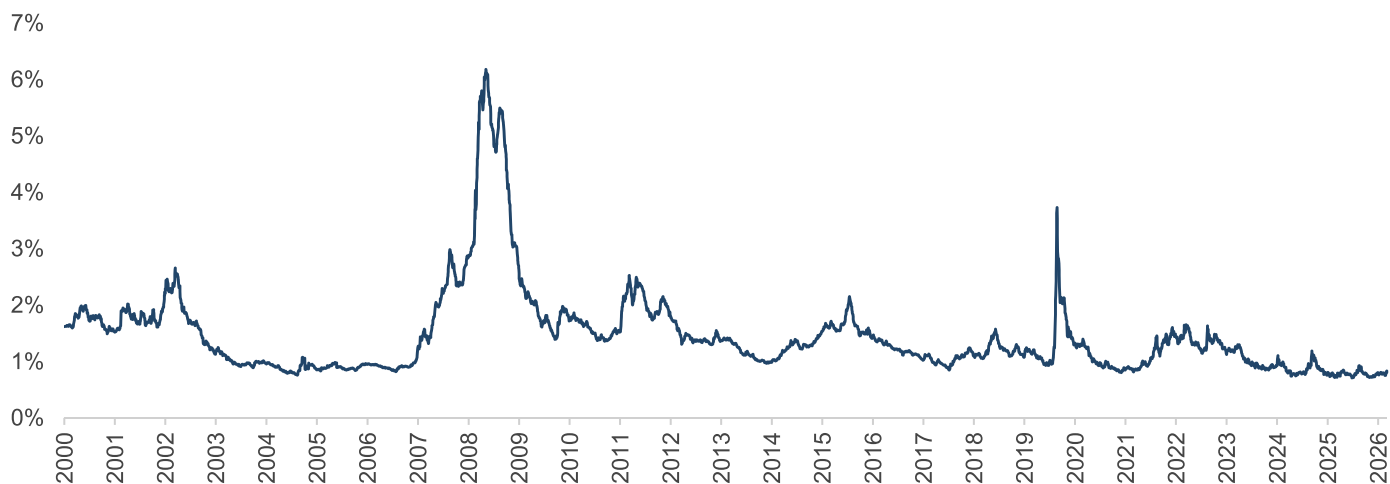


Our base case outcome is that the US government's 10-year borrowing rate will be around 5% p.a. a year from now, delivering investors a 7% total return over the next twelve months.

Investors in US investment-grade corporate bonds are starting with an even more compelling yield of c. 6% p.a., though the premium they earn for the additional credit risk is still at very depressed levels.

Figure 15: The premium that investors earn for taking on credit risk associated with lending to US investment-grade borrowers remains historically low

Source: Anchor Capital, Bloomberg



We expect credit spreads to drift higher as lenders demand greater compensation for the increased risk of defaults as borrowing rates rise. That widening credit spread is likely to offset the impact of falling government bond yields to leave investors in high-grade corporate bonds with a similar outcome to that of US government bond investors (a 7% total return over the next twelve months).



GLOBAL PROPERTY

DM real estate investment trusts (REITs) have delivered a lacklustre performance in 2026, with the FTSE/EPRA/NAREIT DM Property Index up 3.8% YTD, following a particularly tough 3Q26, when the index declined 6% QoQ. Rising bond yields ushered in the prospect of increased finance costs, while simultaneously making the asset class's dividend yields appear relatively less attractive.

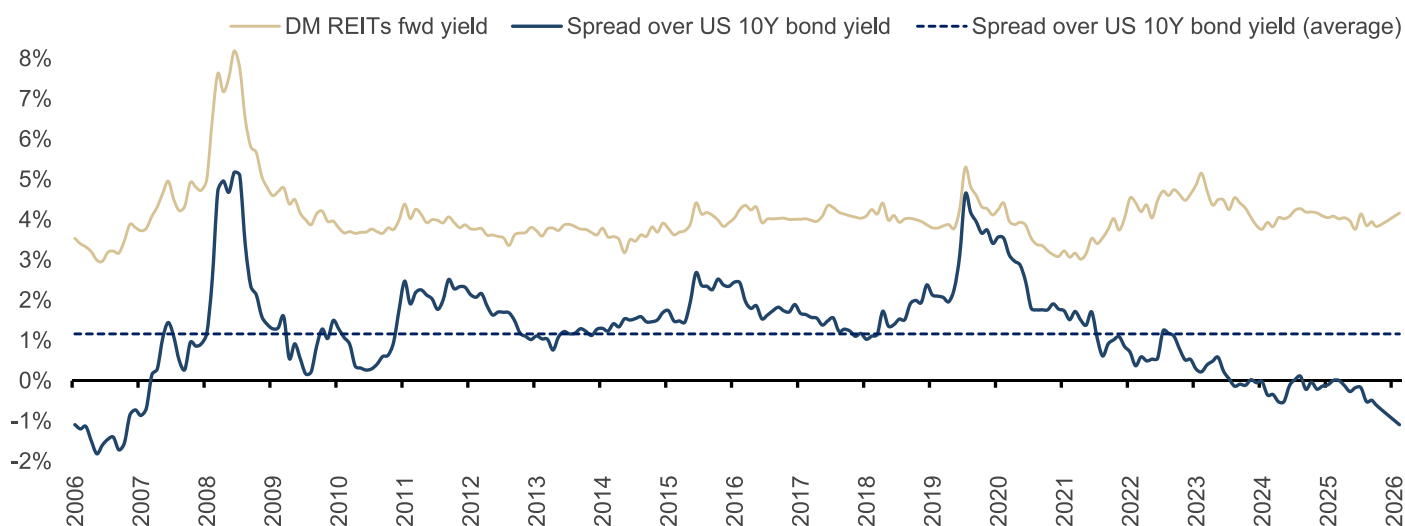
The recent mediocre performance of REITs is part of a much longer period of underperformance, extending back well before 2026. Over the past 15 years, covering most of the post-global financial crisis (GFC) period, global REITs have delivered only half the annualised return of global equities (MSCI World +13.1% p.a. compared with the FTSE/EPRA/NAREIT DM Property Index return of 6.6% p.a.). Equity markets have been boosted by material growth tailwinds,

many from technological innovation, which have created structural headwinds for some of the major commercial property sectors. Importantly, over that extended period of relative underperformance, investors have not been rewarded with lower volatility. In fact, for the past 15 years, REIT volatility exceeded that of global equities (MSCI World +14.2% p.a., FTSE/EPRA/NAREIT DM Property Index +15.1%p.a.).

REIT bulls had perhaps hoped that the step change in rates in 2022, when bond yields more than doubled, was perhaps the last stage of the de-rating for the sector, which has been battling various structural headwinds from shifts in shopping behaviour to trend towards work-from-home. Unfortunately, the latest spike higher in rates has catalysed another period of tough performance for listed property. Despite this most recent underperformance, REITs have not yet become sufficiently attractive on a yield basis relative to other asset classes.

Figure 16: Despite recent REIT underperformance, the asset class remains relatively unattractive given the recent spike in bond yields

Source: Anchor Capital, Bloomberg

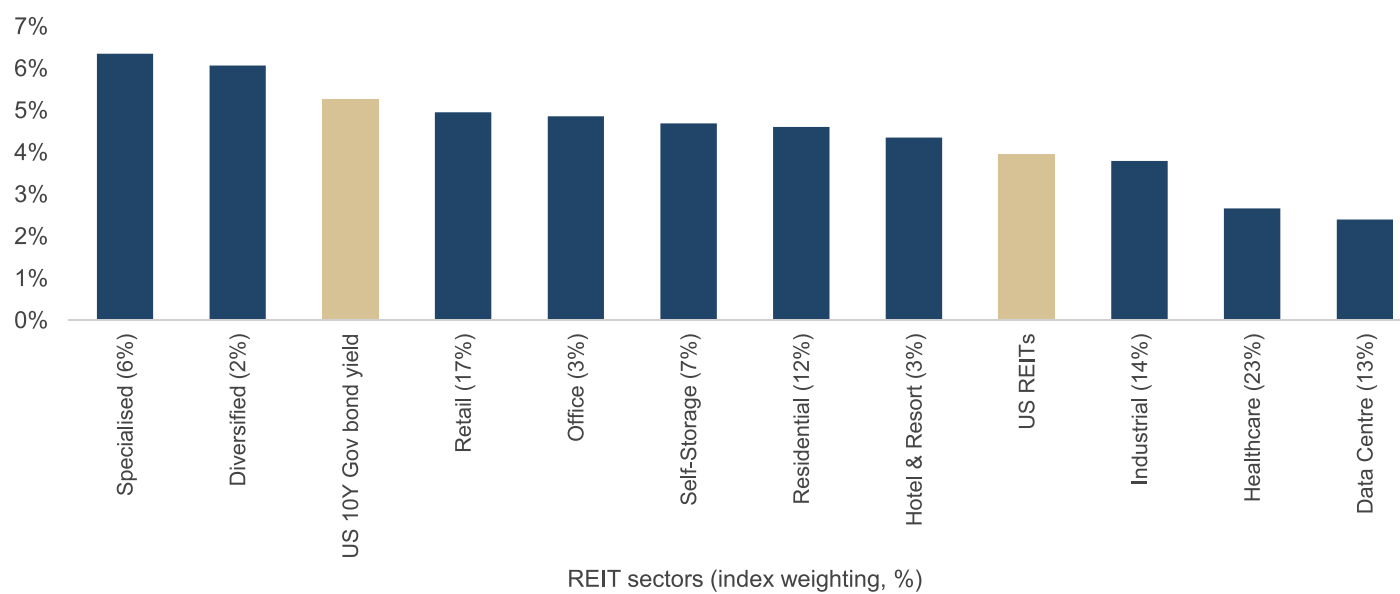


Two factors are skewing the aggregate yield of the asset class at the index level. The first is index heavyweight Welltower, the healthcare REIT that now represents 10% of the US REIT index. It is trading on a depressed forward dividend yield of only 1.5% p.a., reflecting the phenomenal growth achieved by management following investments made at the height of COVID-19 pessimism, when everyone else was dumping assets in the sector.

The second is the data-centre sector, which now accounts for around one-eighth of US REIT market cap and is trading on a 2.4% forward yield based on expectations for exceptional growth related to AI.

Together, these two factors are shaving around 0.6% p.a. off the overall index yield. However, even after adjusting for that, REIT forward yields are still trading comfortably below bond yields.

Figure 17: Depressed forward dividend yields on healthcare REITs (as a function of Welltower) and data-centre REITs are weighing on REIT Index yields, though even the remaining sectors have unappealing yields in the context of what is available on bonds
Source: Anchor Capital, Bloomberg



Considering our expectation that US 10-year bond yields are likely to find a new level of around 5% p.a., we think there is scope for further de-rating in the asset class to make the forward dividend yields more attractive on a relative basis. Nevertheless,

combining that de-rating with the current dividend yield and growth expectations, we anticipate the combination should deliver a 7% p.a. total return over the next twelve months.



Anchor Insights

In this section of the Navigator, contributors from across Anchor Capital share their perspectives on investment themes and ideas shaping markets, portfolios and client outcomes. From navigating the opportunities and uncertainties created by AI to understanding inflation, market valuations and the human side of financial advice, these insights offer different perspectives on the issues that matter to investors. This quarter:

- **Ross McConnochie** examines why the US market has become unusually narrow, with AI beneficiaries and AI-resistant businesses driving most of the S&P 500's gains. As hyperscaler capital expenditure reaches unprecedented levels, the key question for investors is where value is accruing across the AI cycle and whether spending will translate into commensurate returns.
- **James Bennett** looks beyond the AI winners to consider quality companies that have been overlooked or penalised by fears of disruption. He examines Booking Holdings, Uber and Netflix, asking whether their share-price declines reflect genuine fundamental risks or whether the market has become too focused on the potential impact of AI
- **Lelethu Poswa** explores the rise in US inflation and why its composition matters. With recent increases appearing to be driven primarily by supply shocks rather than stronger demand, while wages, unit labour costs and inflation expectations remain contained, the outlook for underlying inflation remains constructive.
- **Heidi Brown** considers the human side of financial advice, particularly when clients experience major life transitions. She explores how deep listening, understanding a client's readiness to make decisions and creating a "Decision-Free Zone" can help advisors support clients in the midst of major life and financial changes.
- **Di Haiden** examines the often-misunderstood attribution rules governing the taxation of trusts. The analysis explains how sections 7 and 25B determine whether trust income and capital gains are taxed in the trust, in the hands of a beneficiary or in the hands of the donor. It highlights the implications of the 2025 and 2026 amendments, particularly for offshore trusts and non-resident beneficiaries.

THE AI DIVIDE:

The narrow road to outperforming the S&P 500

WRITTEN BY:

Ross McConnochie

Offshore Analyst | Portfolio Management

In a conventional bull market, a rising tide tends to lift most boats, and we see that performance across most market sectors. However, we are currently experiencing one of the narrowest-performing markets in recent history, where only a handful of sectors are outperforming the S&P 500 Index, which has risen by an incredible 18% over the past 12 months (*note that this article uses data to 25 August 2026*). The market is rewarding AI beneficiaries at one extreme and AI-resistant businesses at the other. This unusual dispersion helps explain why active management has found the current environment so difficult.

The Wall Street Journal, in an article published on 15 August, highlighted the challenge, noting that only 27% of actively managed US large-cap equity funds had outperformed their passive benchmarks over the 12 months to 30 June 2026. The author captured the dilemma neatly: *“Investment pros say AI disruption has created a stock picker’s market, but they still seem to be struggling to pick the right ones”*.

So, what exactly did you have to pick to beat the market?

Over the past 12 months, only 38% of S&P 500 constituents have outperformed the market as a whole. This is an unusually low proportion given the strength of the overall market. A quarter of those companies, or 10% of the S&P 500, were direct or indirect beneficiaries of the AI investment cycle. These include semiconductor manufacturers or companies involved in the enormous infrastructure build-out required to support AI data centres.

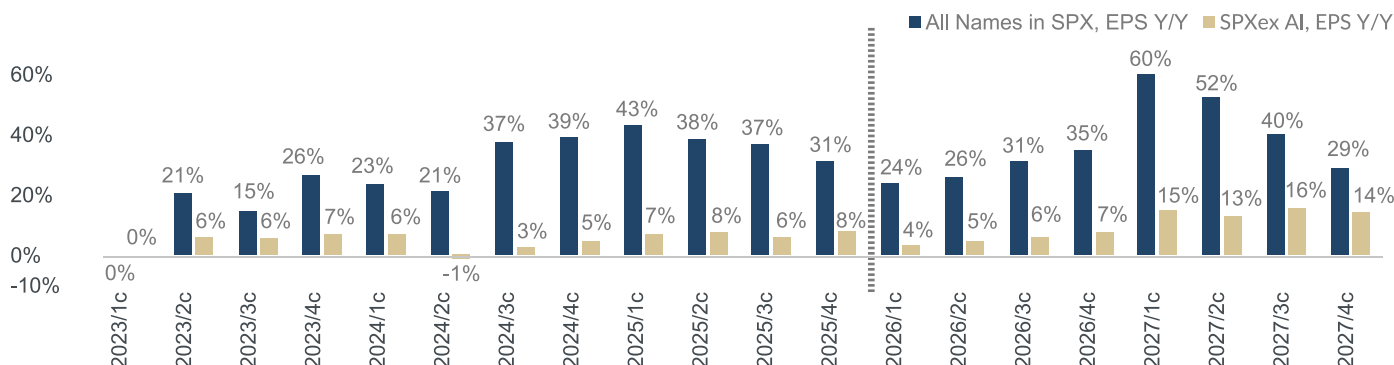
Another group benefitted from elevated energy prices following the war in Iran, with twenty companies, or 4% of the S&P 500, exposed to energy and related themes. The interesting part was that among the rest of the outperformers, or 25% of the S&P 500, the common theme was that they were the opposite of the AI beneficiaries. These are businesses that the market considers very unlikely to be disrupted by AI but are not necessarily making more money in this environment. They included smokestack businesses like Philip Morris, Coca-Cola, Ross Stores, Monster Beverages, and Union Pacific, as well as defence companies like Lockheed Martin. Their common characteristic was not necessarily exceptional earnings growth. Rather, investors viewed their business models as relatively difficult for AI to disrupt.

Ironically, the market has put the tech giant Apple in this category as well. Unlike the major technology companies funding the AI infrastructure boom, Apple’s strategy remains predominantly personal hardware-focused, and it has not committed anything approaching the same level of capital to AI data centres. Investors appear to have rewarded that relative restraint.

The result is an unusual market dynamic: investors have been buying both the companies expected to benefit most from AI and those expected to be least affected by it. Very little in between has been rewarded. It is not just the AI companies’ share prices that are doing well; the AI beneficiaries are also expected to generate the biggest chunk of the S&P 500’s earnings growth over the next few years:

Figure 1: The performance of AI vs non-AI-related names within the S&P 500

Source: FactSet, Morgan Stanley Research



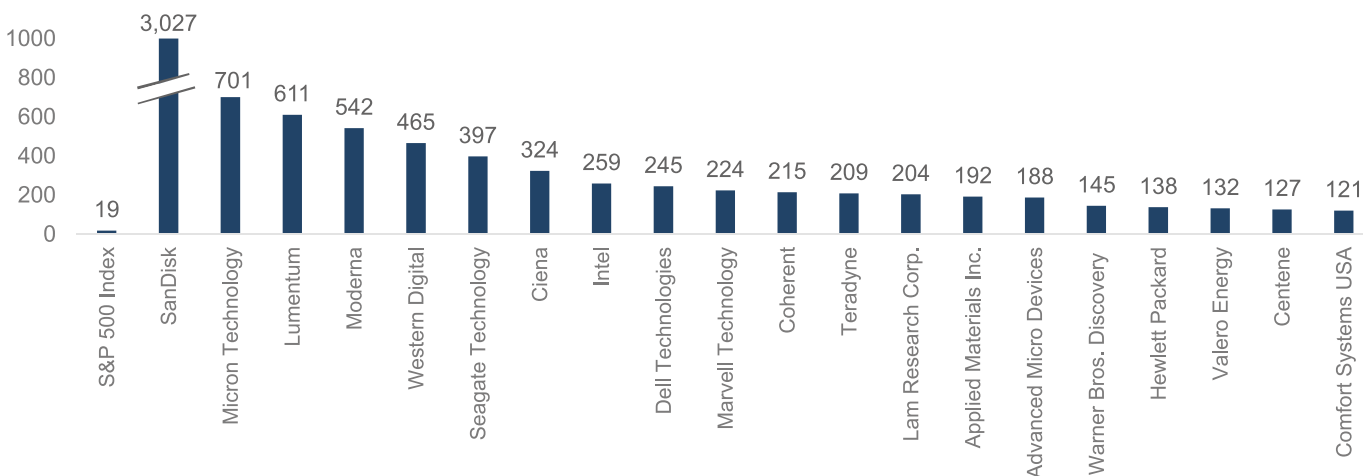
The chart above shows AI beneficiaries in the S&P 500 in blue vs the rest of the S&P 500 in yellow. For 1Q27, consensus expectations suggest that EPS growth among AI beneficiaries could peak at 60%, far greater than the rest of the market, which is growing at 15%. This helps explain why investors have been willing to pay increasingly high valuations for

companies directly exposed to the AI investment cycle. The market is not simply buying the AI narrative; it is increasingly pricing in a meaningful earnings advantage.

The concentration becomes even more obvious when looking at individual share-price performances.

Figure 2: The top 20 performing shares in the S&P 500, one-year % change (axis truncated at 1,000%)

Source: Anchor Capital, Bloomberg



SanDisk	Technology Hardware, Storage & Peripherals
Micron Technology	Semiconductors
Lumentum	Communications Equipment
Moderna	Biotechnology
Western Digital	Technology Hardware, Storage & Peripherals
Seagate Technology	Technology Hardware, Storage & Peripherals
Ciena	Communications Equipment
Intel	Semiconductors
Dell Technologies	Technology Hardware, Storage & Peripherals
Marvell Technology	Semiconductors
Coherent	Electronic Components
Teradyne	Semiconductor Materials & Equipment
Lam Research Corp.	Semiconductor Materials & Equipment
Applied Materials Inc.	Semiconductor Materials & Equipment
Advanced Micro Devices	Semiconductors
Warner Bros. Discovery	Movies & Entertainment
Hewlett Packard	Technology Hardware, Storage & Peripherals
Valero Energy	Oil & Gas Refining & Marketing
Centene	Managed Health Care
Comfort Systems USA	Construction & Engineering

3027%
701%
611%
542%
465%
397%
324%
259%
245%
224%
215%
209%
204%
192%
188%
145%
138%
132%
127%
121%
19%

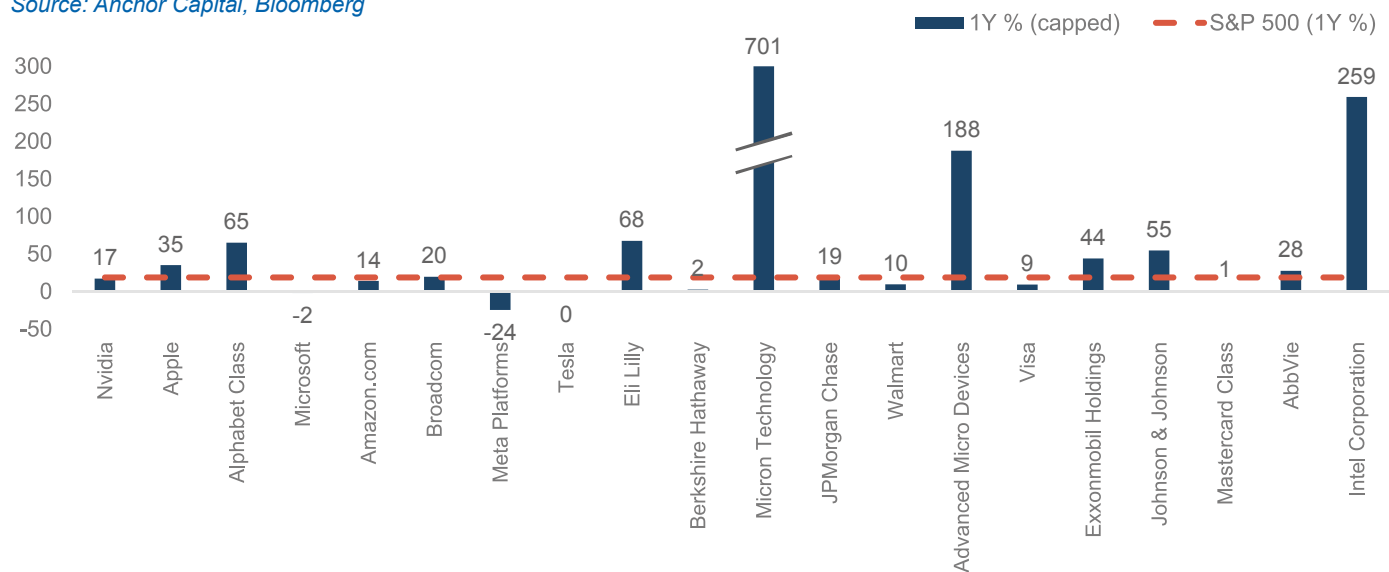
Over the past 12 months, 15 of the 20 best-performing S&P 500 shares have come from the information technology sector, and virtually all these businesses are considered beneficiaries of the AI build-out. The standout performer has been SanDisk, the memory chip manufacturer. Memory prices have surged because of insatiable demand for data centres. The one particularly striking exception is Moderna, which rose 150% on the day it announced a

possible cure for melanoma using its mRNA technology, which was famous for its use in COVID-19 vaccines.

A small company whose share price rises significantly still cannot materially impact the index on its own. Because the index is market-capitalisation weighted, the performance of the largest US companies matters more, as they have the biggest influence on the S&P 500.

Figure 3: Top 20 mega-cap performers, one-year % change (axis truncated at 300%)

Source: Anchor Capital, Bloomberg



		Weight in index	12-month performance
Nvidia	Semiconductors	7.5%	17%
Apple	Technology Hardware, Storage & Peripherals	6.6%	35%
Alphabet Class	Interactive Media & Services	6.2%	65%
Microsoft	Systems Software	5.3%	-2%
Amazon.com	Broadline Retail	4.1%	14%
Broadcom	Semiconductors	2.5%	20%
Meta Platforms	Interactive Media & Services	2.1%	-24%
Tesla	Automobile Manufacturers	2.0%	0%
Eli Lilly	Pharmaceuticals	1.7%	68%
Berkshire Hathaway	Multi-Sector Holdings	1.6%	2%
Micron Technology	Semiconductors	1.5%	701%
JPMorgan Chase	Diversified Banks	1.4%	19%
Walmart	Consumer Staples Merchandise R	1.2%	10%
Advanced Micro Devices	Semiconductors	1.1%	188%
Visa	Transaction & Payment Processing	1.0%	9%
Exxonmobil Holdings	Integrated Oil & Gas	1.0%	44%
Johnson & Johnson	Pharmaceuticals	1.0%	55%
Mastercard Class	Transaction & Payment Processing	0.8%	1%
AbbVie	Biotechnology	0.7%	28%
Intel Corporation	Semiconductors	0.7%	259%
S&P 500 INDEX			19%

Among the twenty largest US companies, 11 have outperformed the market over the past twelve months. Almost all of these are tech companies and direct beneficiaries of the AI investment cycle. The other winners were again related to industries that are difficult to disrupt (the AI-resistant category).

Perhaps the most interesting observation is Nvidia. Despite being one of the clearest beneficiaries of AI and one of the

largest shares on the market, Nvidia has not outperformed the S&P 500 over the past year. There are numerous explanations for this, but most of it is related to uncertainty around the long-term revenue generation of the AI theme, combined with already having performed so strongly over the past 3 years and perhaps needing to catch its breath. Nvidia is a US\$5trn company, after all, and as the old market saying goes: *"trees don't grow to the sky"*.

Alphabet provides another interesting example. After a phenomenal 2025, it has underperformed in 2026. The same is true of several other members of the tech-heavy Magnificent Seven, including Microsoft, Meta, Tesla and Amazon. The

common theme across these businesses is that they are spending unprecedented amounts of money funding the AI capex cycle and consequently no longer have positive free cash flow and are taking on debt to finance their investments.

Figure 4: Level of capex investment by the five largest AI hyperscalers

Source: Edmond de Rothschild

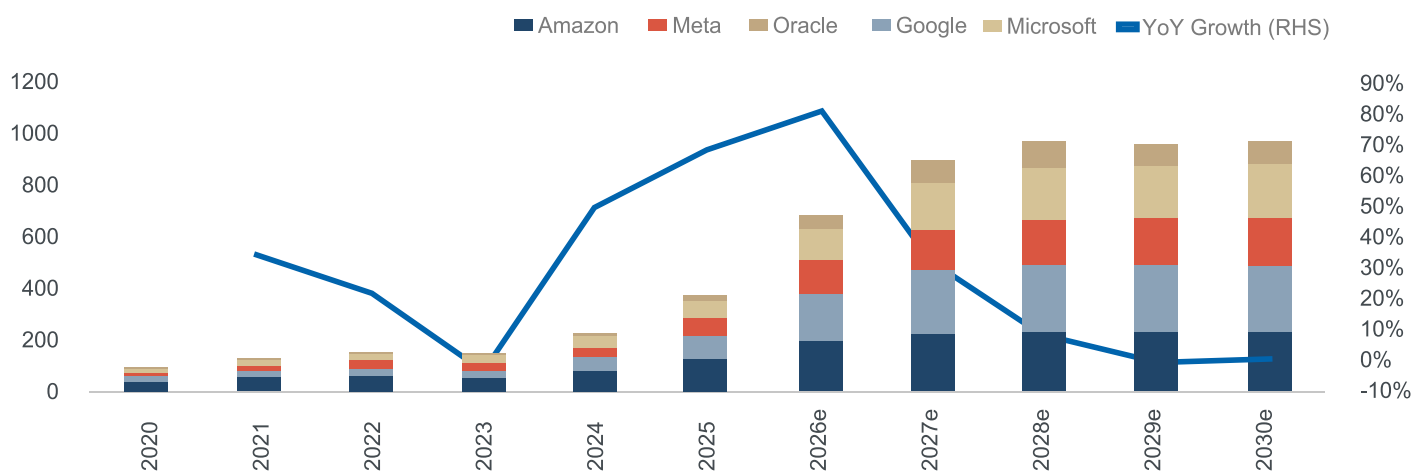
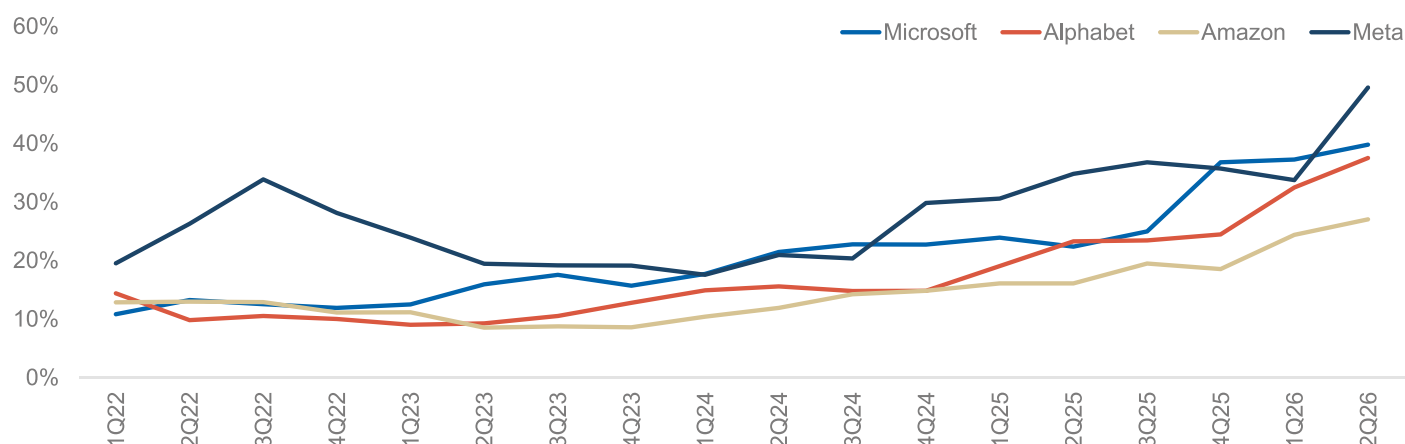


Figure 4 shows the consensus expectation for capex between 2020 and 2030 and the annual expected growth rate. At present, the market expects the five largest hyperscalers to spend US\$700bn-US\$750bn on AI data centres in 2026, an increase of around 85% from an already massive level of expenditure in 2025. This is where the current market dynamic becomes particularly interesting. Those companies selling the picks and shovels into the AI gold rush can generate immediate revenue from the investment. The hyperscalers, by contrast, must spend billions today in the hope of generating sufficiently attractive returns from AI-related services over many years. When this level of capex is measured against the companies' overall revenue generation (i.e. not just their AI revenue), the scale becomes extraordinary.

Figure 5 below shows that capital expenditure as a percentage of sales for these businesses was often closer to 15% of revenue in the past. Today, that figure is approaching 50%. This is an extraordinary increase that has started to worry the market and is the main reason the hyperscalers have underperformed the AI beneficiaries this year. The market is communicating that it does not believe they can make a meaningful enough return on this investment (at least over the medium term). It places considerable pressure on management teams to demonstrate that today's capital expenditure will translate into tomorrow's earnings, especially while their share prices remain under pressure.



Figure 5: Annual capex of the four largest spenders on AI infrastructure as a percentage of their total revenue (2022 to 2026)*Source: Anchor Capital, Bloomberg*

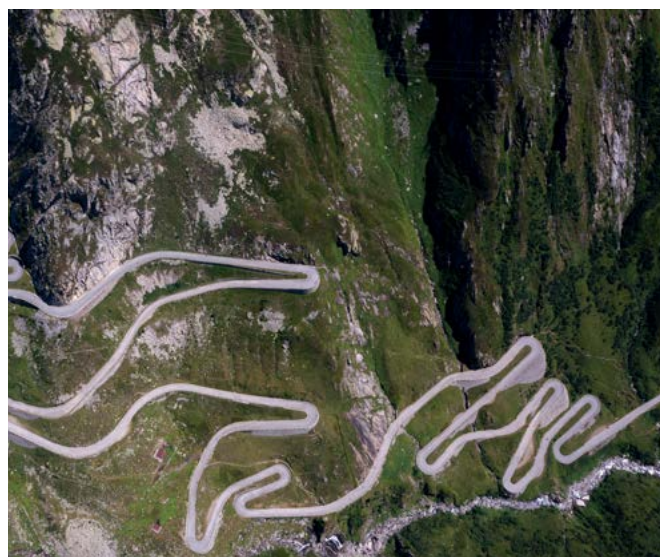
The above dynamic explains the extraordinary performance of large caps such as Micron, Advanced Micro Devices (AMD), and Intel, which have been the biggest beneficiaries of the current environment and the single largest contributors to the market's performance. If you did not own these big companies that went up hundreds of percent then it was extremely difficult to outperform the overall index. For investors, the challenge has not simply been to recognise that AI is transforming the economy but to identify exactly where in the AI value chain economic value is accruing.

Owning the companies spending hundreds of billions of dollars on AI infrastructure has not necessarily produced the best returns. Owning the companies selling the infrastructure to those hyperscalers has often been much more rewarding.

The same dynamic extends beyond semiconductors. Just outside the top 20 performers, Caterpillar has returned about 88%, benefitting from data-centre construction: its reciprocating engines provide backup and increasingly primary power for facilities straining local electrical grids. The AI investment cycle is therefore creating winners well beyond the obvious technology names.

So, what did you have to own to outperform the S&P 500 over the past year? The uncomfortable answer is that investors needed meaningful exposure to a small cluster of AI beneficiaries, particularly the memory and chip makers like SanDisk, Micron and AMD, while largely sidestepping the hyperscalers carrying the enormous capex burden. At the same time, it helped round out the rest of your portfolio with the "undisruptable" smokestack names the market ran to for safety.

That is an extraordinarily narrow needle to thread, which is exactly why active managers have struggled to outperform. The deeper lesson is that this market has effectively split into two camps. On the one side, companies that investors believe will win from AI. On the other, companies they believe AI cannot touch. Very little in between has been rewarded. The important question for investors now is whether this divide can persist. At some point, the hyperscalers will have to demonstrate that the three-quarters of a trillion dollars they are pouring into data centres and AI infrastructure can generate attractive returns. If the answer turns out to be yes, today's underperforming giants may become tomorrow's leaders. If it is no, the narrowness that defined the past twelve months could unwind just as quickly as it formed. Either way, the tide is no longer lifting all boats, and investors would do well to know which side of the AI divide they are standing on.



BEYOND AI:

Finding opportunity in overlooked stocks

WRITTEN BY:

James Bennett

Global Equity Analyst

When the stock market becomes preoccupied with a powerful investment theme, good companies in other sectors of the market can easily be overlooked. The current AI boom is a prime example. These ignored shares can sometimes present great buying opportunities. However, it is equally important not to attribute every underperforming share to the theme-of-the-day. Some companies are struggling for reasons that have little to do with AI, while others may ultimately benefit from the technology in ways the market does not yet fully appreciate.

In the context of the current AI debate, we can broadly position shares into one of three categories. The first comprises AI winners. Companies such as NVIDIA, Taiwan Semiconductor Manufacturing Company (TSMC) and ASML are clear beneficiaries of the enormous investment being made in AI infrastructure. This has been reflected in their share price performance.

The second comprises perceived AI losers such as Booking Holdings, Uber and Adobe. These companies are viewed by some investors as being vulnerable to disruption from AI. However, the eventual AI landscape remains highly uncertain

and may end up looking completely different to how the world perceives it.

Indeed, some companies that the market currently thinks will be AI losers may ultimately emerge as AI winners. Recent examples of this have been the dramatic positive turnarounds in the share prices of Alphabet (Google parent), Snowflake, Datadog, Palo Alto, Fortinet and CrowdStrike. For all these companies, the AI narrative shifted from being viewed as a headwind to becoming a tailwind.

The third broad category is what we call AI-agnostic shares. These are companies where there is no obvious material impact from AI in either direction. We cannot say with certainty that the AI impact will be zero. However, owning these shares gives investors some breathing space without having to fret every other day about what the AI impact might be. Some of the shares in this category can offer opportunities simply because the market is so preoccupied with the AI theme that it is overlooking these shares. Examples in this AI-agnostic category include Netflix, Ferrari and Costco.

Figure 1: Positioning shares in the AI boom

Source: Anchor Capital. The shares listed here are examples among many.

AI WINNER	PERCEIVED AI LOSER	AI AGNOSTIC
<i>AI helps</i>	<i>AI hurts (but will it?)</i>	<i>AI impact is more limited</i>
Nvidia TSMC ASML	Booking Holdings Uber Adobe	Netflix Ferrari Costco

In this article, we focus on three interesting global stocks whose share prices have struggled YTD in 2026 for different reasons. These are Booking Holdings, Uber and Netflix.

Booking’s share price has declined 24% YTD (to 25 September 2026). The overwhelming negative driver has been concerns that AI agents will bypass the Booking platform over time for holiday bookings such as hotels. There are other more minor drivers such as concerns about higher oil prices pushing up travel costs, safety concerns about travelling around the Middle East and higher US interest rates putting further pressure on US consumers.

Concerns about AI agents had started to abate but resurfaced following the recent launch of Meta’s Muse app, which offers users a range of AI agentic services, including travel bookings. The worry is that instead of consumers booking their holidays directly on the Booking platform, these AI agents might book directly on hotel websites or use competitor travel platforms. Interestingly, Muse currently uses Expedia sites for hotel bookings, and Expedia has subsequently announced a formal partnership with Muse. This is partly due to an existing relationship between Meta and Expedia. Booking has not blocked Muse (unlike Amazon), but currently it has no formal agreement in place. The threat to Booking may therefore be lower than feared if these AI agents ultimately continue to use travel platforms over time rather than dealing directly with hotels.

We believe the market is underestimating the complexity of booking travel experiences and the depth of Booking’s offerings in this regard. Humans typically take their travel experiences extremely seriously, especially when travelling to

foreign countries. It is unlikely that most people will be happy to delegate this responsibility to an AI agent operating in isolation. It would be a disaster if something went wrong.

Travellers want to know whether their accommodation is clean, safe, suitably located and has their required amenities. They want to be able to speak to someone with the power to rectify things quickly if something goes wrong. Once a suitable venue has been decided on, the actual process of booking the venue is quick and painless on a travel platform like Booking. Therefore, the actual value an AI travel agent offers is debatable.

At the end of 2Q26, Booking employed 25,550 people. Behind its website sits a substantial infrastructure that would be difficult for an AI agent to replicate by visiting a multitude of external hotel websites and placing the booking on behalf of travellers. Some small European hotels might not even have websites. About 60% of Booking’s hotel room nights occur in Europe, where the hotel market is considerably more fragmented than in the US. We suspect that in time, many AI agentic travel bookings might end up going through the Booking platform anyway because of the services and safety net it offers travellers.

The table below illustrates some of the range of functions performed by Booking staff. A key one is that c. 73% of Booking’s gross bookings are paid through its own merchant payments platform. This gives the company control over payments, cancellations and refunds across the majority of its bookings. An AI agent acting in isolation would not have access to this kind of infrastructure without trying to replicate what Booking has built over many years. Booking also has its own loyalty programme, which is worth something to its customers.

Figure 2: The services performed by the Booking staff
Source: Anchor Capital

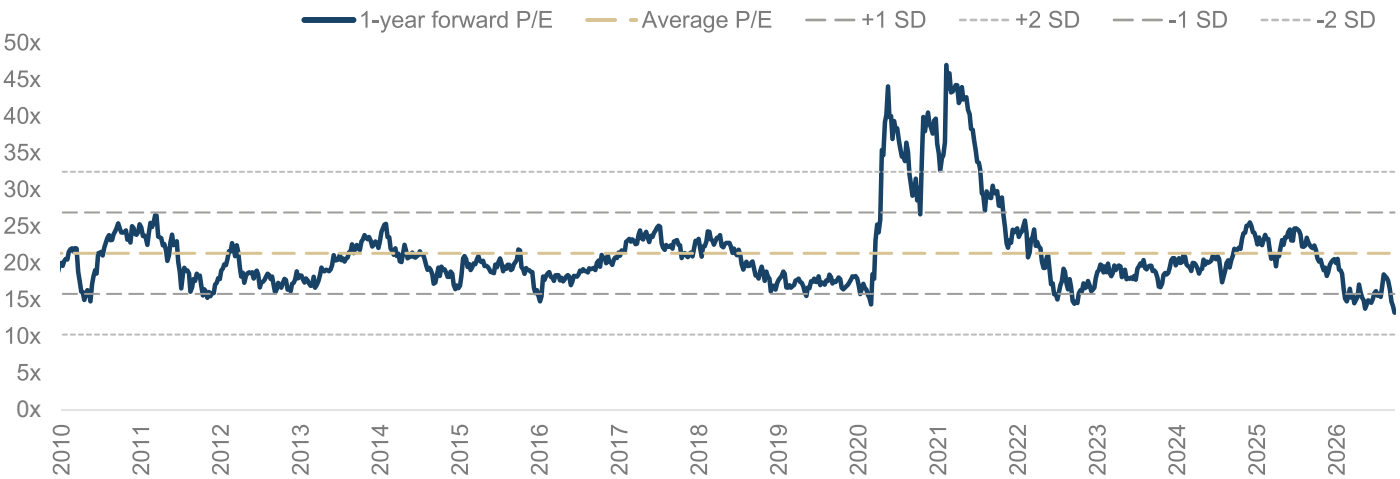
• Booking sells over 1bn room nights p.a. If just 0.1% go wrong, that is 1mn incidents p.a. to fix.
• Customer service 24/7 in >40 languages.
• Training hotel staff how to use the Booking system.
• Payment processing in >100 different currencies.
• Regulatory compliance in every city, in every country.
• Ensuring cybersecurity of the Booking website.
• Building personal relationships with hotel owners.
• Thorough physical checking of venues for location, safety, amenities, etc.
• Processing and holding traveller payments on most of the bookings.

It is also worth noting that Muse is not a dedicated holiday-booking app and might be spread quite thin, offering a wide range of agentic services. Also, Booking is already using AI itself internally and externally. It will steadily roll out and enhance its agentic offerings over time. This AI battle is Booking's to lose, in our view.

Partly because of the perceived AI risks to Booking's business model, the share has derated to an all-time-low one-year forward P/E of 13.3x. This is well below its long-term average. Since 2014, Booking has reduced its share count at a

compound annual growth rate (CAGR) of 4.4% p.a. through share buybacks. In 2Q26, it reduced its share count by 6% YoY. Based on its current share price and consensus free cash flow (FCF) generation estimates, the company could buy back about 7.6% of its issued share capital over the next 12 months. Assuming its underlying business does not suddenly lose momentum, this means that a low double-digit EPS growth rate is almost assured. There are undoubtedly risks for Booking, but at the current valuation, it seems these risks are mostly priced into the share.

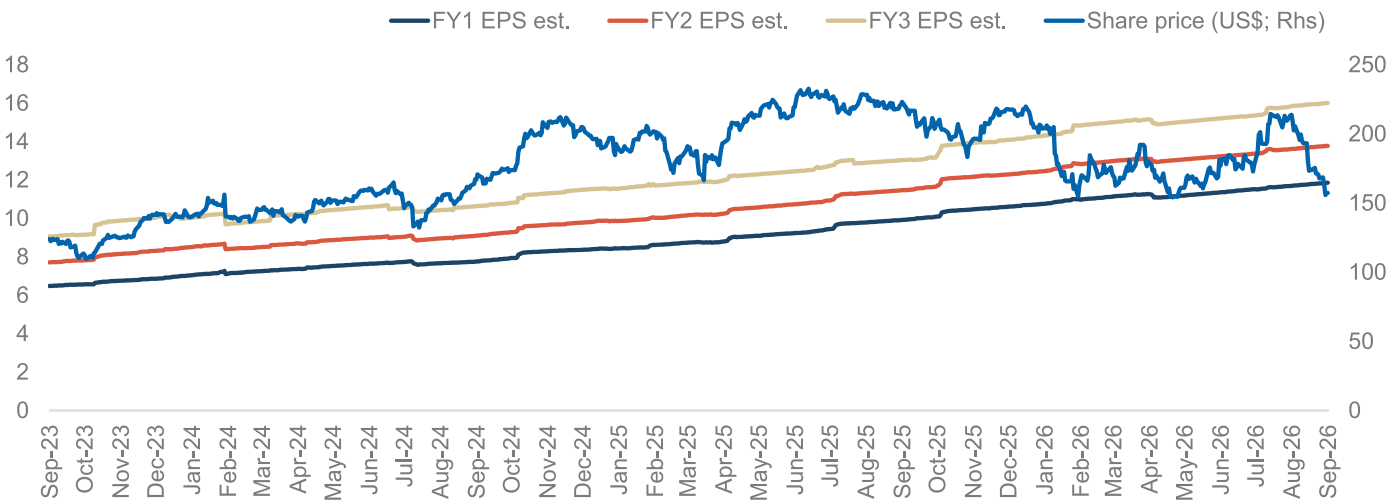
Figure 3: Booking Holdings P/E multiple
Source: Anchor Capital, Bloomberg consensus



The following chart tracks rolling one-, two- and three-year forward consensus EPS estimates for Booking, with the share price overlaid. This demonstrates that despite concerns about the potential threat from AI over the past few years, there has

not yet been a demonstrable impact on the Booking business. Consensus EPS estimates have, in fact, continued to tick up over time.

Figure 4: Booking Holdings rolling 12-month forward consensus EPS estimates (US\$) and share price (daily) over time
Source: Anchor Capital, Bloomberg EPS consensus



Uber's share price is down 15% YTD (to 25 September 2026). Although it is viewed by the market as a potential AI loser, the arguments around this are more nuanced than in Booking's case. The potential AI headwind for Uber is the vast strides being made at the onset of autonomous ride-hailing. Led by Tesla and Waymo, but with other smaller entrants as well, the bear argument goes, autonomous ride-hailing companies will develop their own ride-hailing apps and platforms, thereby bypassing the Uber platform. The current human-driven taxi market is highly fragmented, and Uber has aggregated it into a single app. The autonomous ride-hailing market could look very different, comprising larger fleets with single owners.

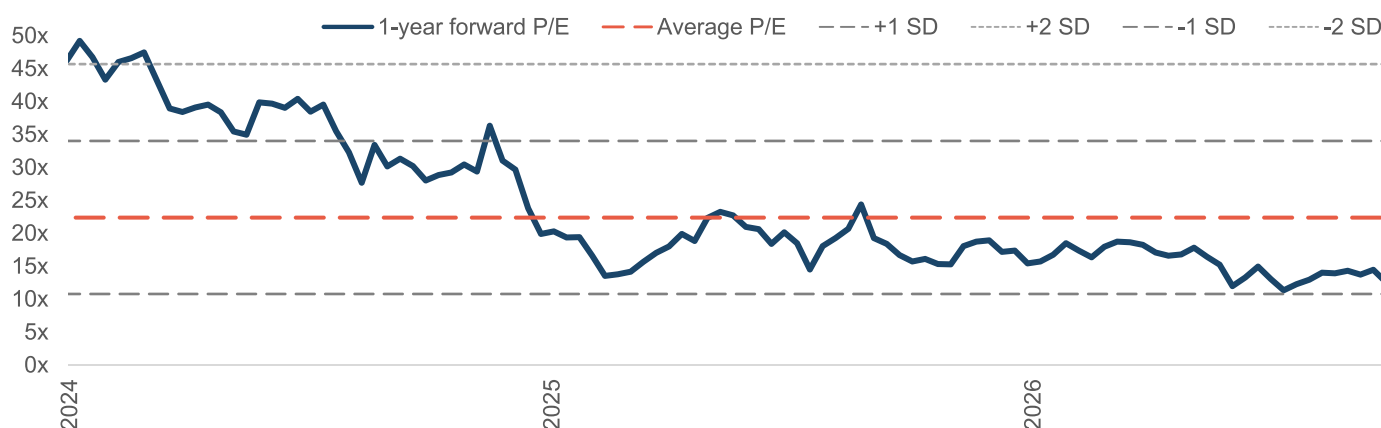
However, our view is that it is not an either/or between Uber and companies such as Tesla, for example. The scale and reach of the Uber platform is so immense that autonomous ride-hailing services are likely to want to be part of the Uber platform as well. In our view, Tesla will be mostly focused on manufacturing

its Cybercabs and licensing its Full Self-Driving (FSD) software rather than managing large physical fleets of vehicles day to day, even though it is initially running the Robotaxi fleet itself. Tapping into the Uber platform is likely to offer significant value to the autonomous ride-hailing companies.

As with any investment thesis, however, there is considerable uncertainty. Things might turn out very differently in the autonomous ride-hailing market than we currently envisage. However, from an investor perspective, there is a large level of risk already priced into Uber's valuation. As a growth company, its P/E multiple history is arguably not that meaningful. That said, the one-year forward P/E multiple on consensus earnings is optically low at 16.8x. Based on its current share price and consensus FCF generation estimates, Uber could buy back about 6.9% of its issued share capital over the next 12 months.

Figure 5: Uber 1-year blended forward P/E multiple

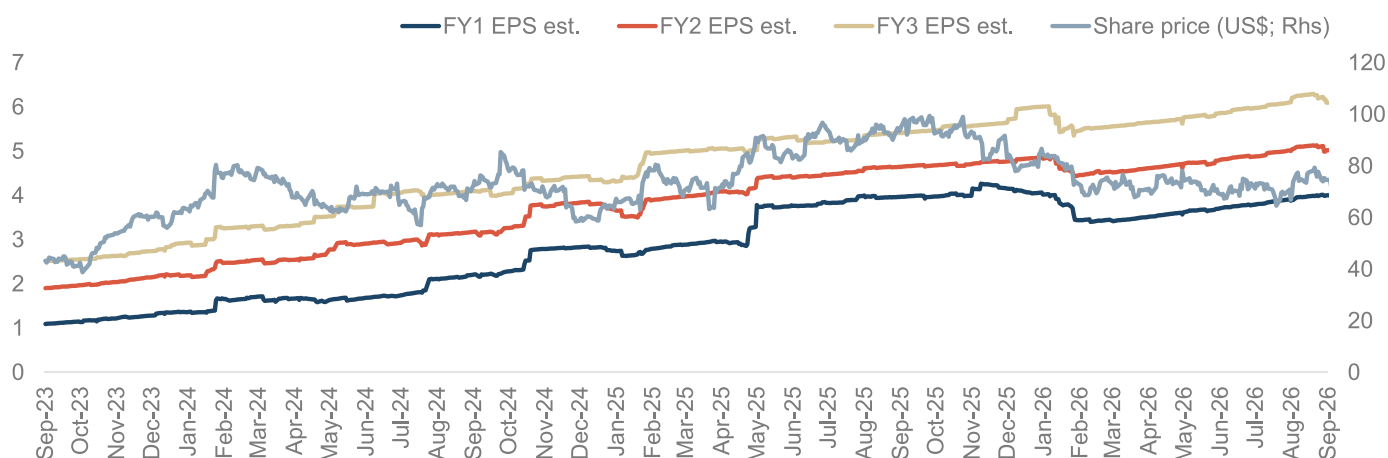
Source: Anchor Capital, Bloomberg consensus



Uber's rolling consensus EPS forecasts for the next three years have held up relatively well considering the narrative around the threat of autonomous ride-hailing to its business.

This is another example of a stock where the market worries about its future while there has not been any demonstrably negative effect on its business so far.



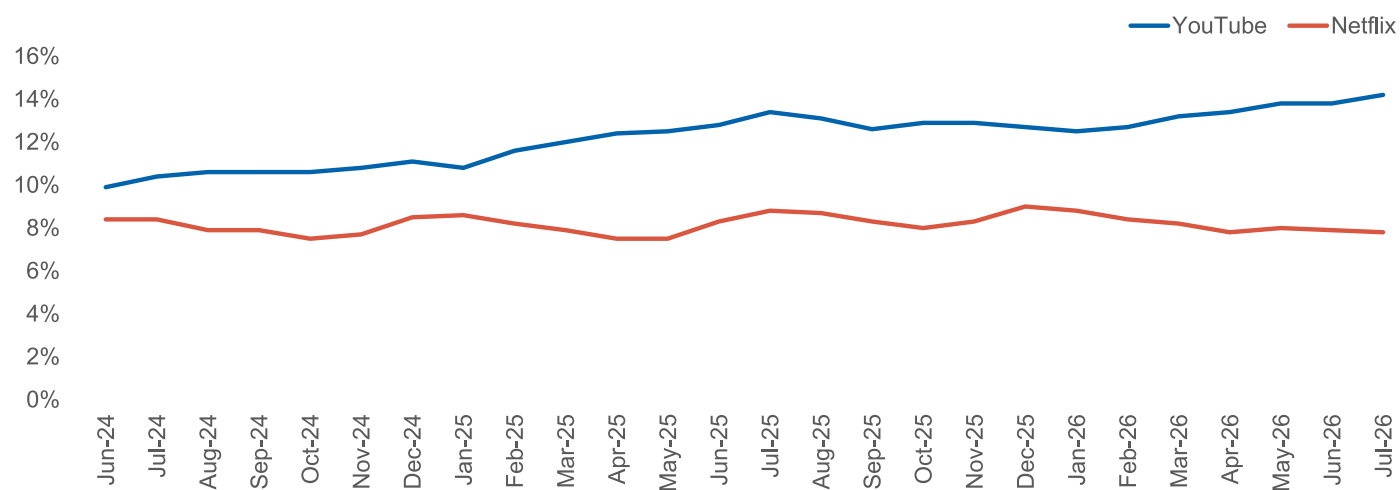
Figure 6: Uber rolling 12-month forward consensus EPS estimates (US\$) and share price (daily) over time*Source: Anchor Capital, Bloomberg EPS consensus*

The Netflix share price is down 24% YTD (to 25 September 2026). We have placed Netflix in the AI-agnostic category because, while AI-created content could eventually pose a small threat, this is unlikely to create a meaningful headwind to Netflix's vast repository of visual content. On the creative side, AI will probably be a tailwind for Netflix's own content in the future. The moves up and down in Netflix's share price over the past couple of years seem more related to its own idiosyncratic drivers than to a gyrating AI narrative.

Netflix continues to deliver low-double-digit EPS growth, although the pace of its earnings growth may have slowed slightly recently. Also, the market is concerned about the immense competition for eyeballs from the powerhouse

YouTube, other streaming competitors, Facebook, Instagram, TikTok and even gaming. There are only 24 hours in a day to watch content. Furthermore, Netflix's recent slate of content has been in a bit of a lull. The fact that the bid for Warner Bros. Discovery failed in 2026 was perceived as a positive by the market at the time. However, investors worry that Netflix might pursue acquisitions elsewhere.

In the US, Netflix's total TV market share has been holding its own, although YouTube has become the dominant streaming platform. YouTube's user-created content is proving to be an astounding business model where content creators are only paid according to the actual success of their content.

Figure 7: Netflix vs YouTube total US TV market share*Source: Anchor Capital, Nielsen*

However, Netflix has been here before. Periodically since its IPO in 2002, it has experienced severe drawdowns on concerns about its future, only to bounce back strongly. We continue to view Netflix as a quality business that we should give the benefit of the doubt given its strong long-term track record. In reality, none of the current concerns seems overly serious. Netflix is not a turnaround story in the traditional sense. Rather, it is a high-calibre company,

executing well, but the market is asking some questions.

At 19.4x one-year forward consensus earnings, Netflix's P/E multiple is close to an all-time low set in 2022 during the massive global tech sell-off. Based on its current share price and consensus FCF generation estimates, Netflix can buy back about 4.2% of its issued share capital over the next 12 months. The company also has an active share buyback programme.

Figure 8: Netflix 1-year blended forward P/E multiple

Source: Anchor Capital, Bloomberg consensus

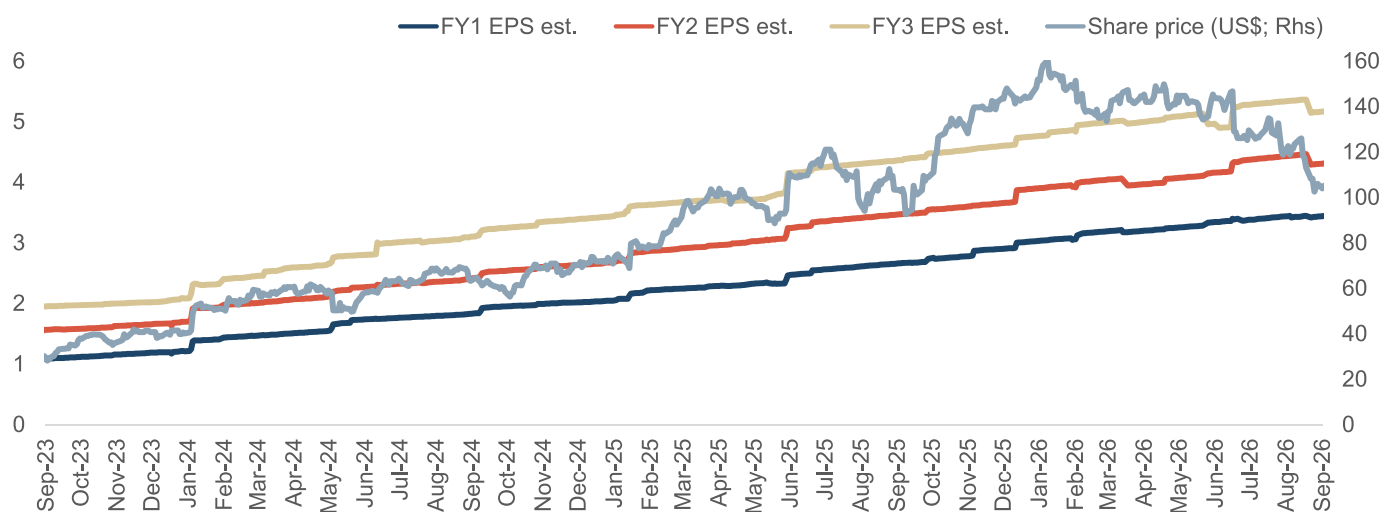


While consensus earnings upgrade momentum has slowed slightly in recent months, Netflix's share price appears to have been hit by a softening narrative rather

than a meaningful business slowdown for now. Netflix's share price is pricing in a significant degree of risk about its future. We think these concerns are overblown.

Figure 9: Netflix rolling 12-month forward consensus EPS estimates (US\$) and share price (daily) over time

Source: Anchor Capital, Bloomberg EPS consensus



US INFLATION:

More supply shock than demand pressure

WRITTEN BY:

Lelethu Poswa

Fund Management

US inflation has moved back into uncomfortable territory. July personal consumption expenditure (PCE) inflation has risen to 3.7% YoY, reviving debate over a renewed Fed tightening cycle. The headline numbers warrant caution, but the composition of inflation matters. Our assessment is that the recent rebound has been driven primarily by a series of adverse supply shocks rather than a renewed acceleration in domestic demand. More importantly, there is little evidence that these shocks are generating the second-round effects required to sustain inflation.

This distinction is critical for monetary policy. Higher policy rates cannot produce more oil, reverse tariffs or restore lost labour supply. They can, however, prevent a temporary supply shock from becoming embedded by containing demand and keeping inflation expectations anchored. The case for a prolonged tightening cycle therefore depends less on the initial price shock and more on whether it spills over into wages, services inflation and longer-term inflation expectations. So far, that transmission is notably absent.

Figure 1: Cyclical and acyclical core PCE inflation, YoY % change

Source: Anchor Capital, Federal Reserve Bank of San Francisco

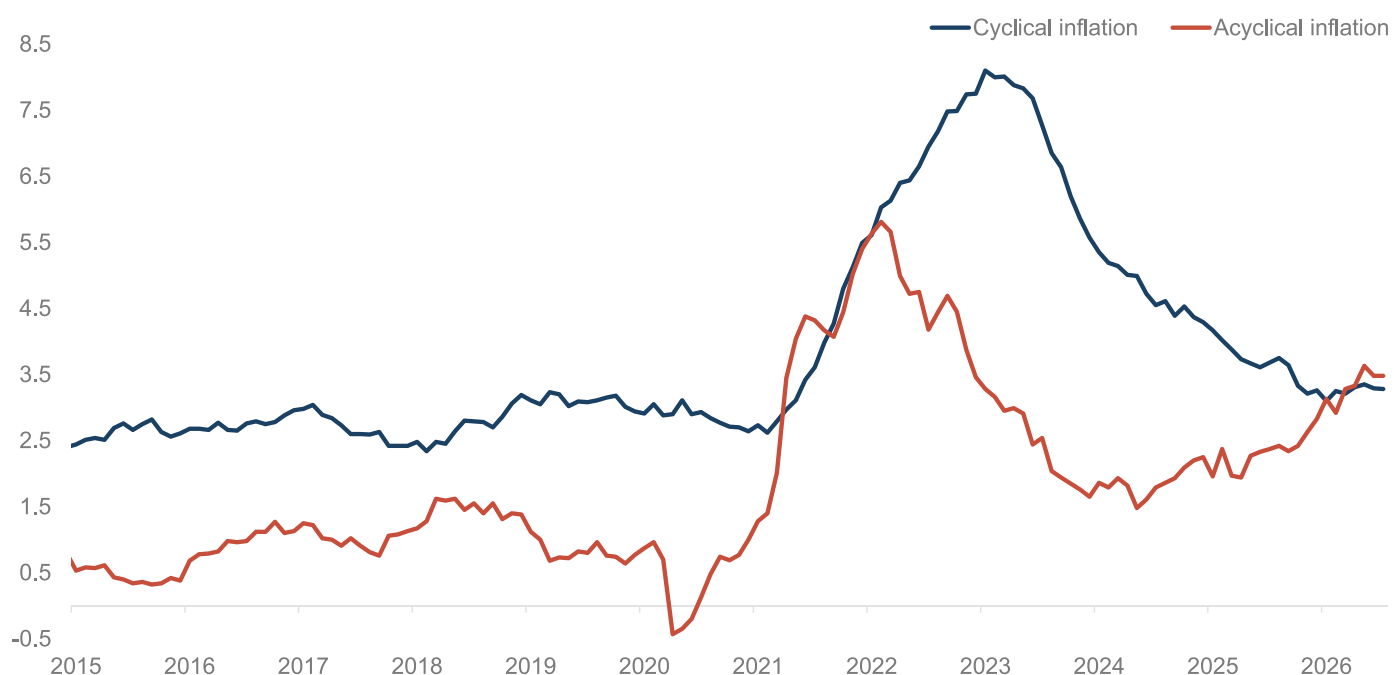
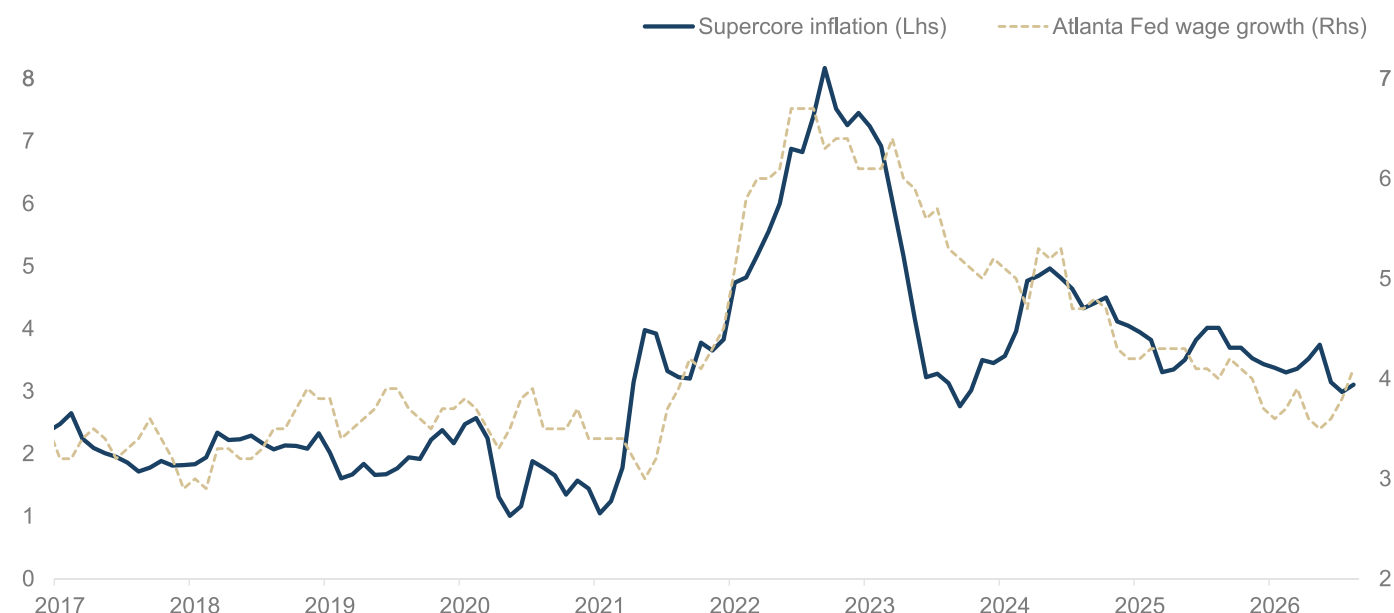


Figure 1 shows the San Francisco Fed's decomposition of core PCE into cyclical and acyclical components and illustrates the point. The framework helps illustrate the distinction between inflation that is more sensitive to economic conditions and inflation driven by industry-specific or supply-side factors.

Recent firmness has been concentrated in acyclical inflation, which captures price movements less sensitive to monetary policy and more closely associated with supply-side influences. Over the past two years, the US economy has absorbed three negative supply shocks - tariffs, tighter immigration policy and the oil shock - yet cyclical, or demand-driven, inflation has continued to ease.

Figure 2: US supercore (core services excl shelter) inflation, YoY, %

Source: Anchor Capital, FRED



Productivity is another important consideration when assessing wage pressures. The US economy is experiencing strong productivity growth, supported in part by investment in AI and technology, reminiscent of the internet boom in the 1990s. This creates an important distinction: wage growth becomes inflationary when it persistently exceeds productivity growth.

SEARCHING FOR SIGNS OF PERSISTENCE

If higher goods and energy prices were becoming embedded in the broader inflation process, we would expect to see evidence of second-round effects. Workers would seek compensation through faster wage growth, while businesses would increasingly pass those higher labour costs through into services prices.

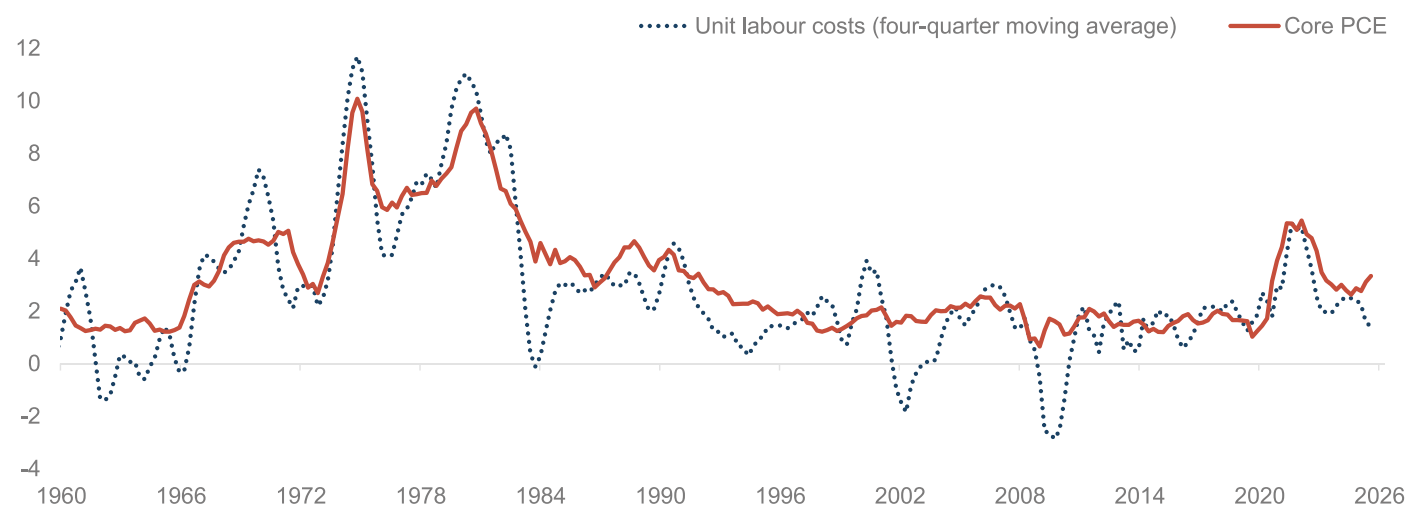
Instead, US wage growth continues to moderate. This matters because supercore inflation (core services excluding shelter, around 35% of core CPI) is closely linked to wage growth, as Figure 2 illustrates. As wage growth cools, the underlying pressure on services inflation should continue to weaken.

Strong productivity gains alongside slower nominal wage growth have pushed unit labour-cost growth down to roughly 1.4% YoY in 2Q26. With labour costs representing a major share of business costs, subdued growth in unit labour costs is inconsistent with a renewed wage-price spiral. It should translate into core PCE moderating, as shown in Figure 3.



Figure 3: Unit labour costs and core PCE, YoY, %

Source: Anchor Capital, FRED

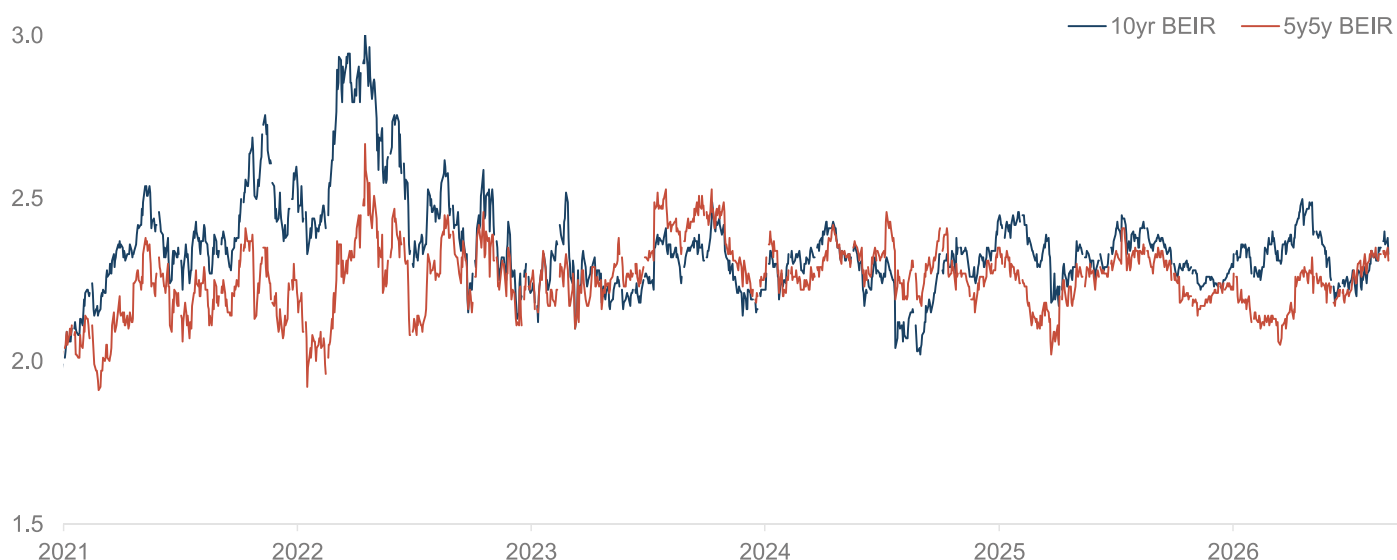


Market-based inflation expectations tell a similar story. Despite repeated adverse supply shocks and higher headline inflation, longer-dated breakeven rates have remained broadly range-bound, as *Figure 4* shows. Stable expectations reduce the risk that households and businesses

adjust wage- and price-setting behaviour in anticipation of permanently higher inflation. The recent shocks appear to have lifted the price level, without materially altering the market's view of the longer-run inflation regime.

Figure 4: 5-year, 5-year and 10-year breakeven inflation rate (BEIR)

Source: Anchor Capital, FRED



Taken together, these indicators provide limited evidence that the recent supply shocks are broadening into persistent inflation. Demand-driven inflation is easing, wages are moderating, unit labour costs are contained, services inflation is cooling and long-term inflation expectations remain anchored. Without meaningful second-round effects, the case for using monetary policy to offset what are primarily first-round supply shocks becomes considerably weaker.

DISINFLATION IN THE REST OF THE CORE BASKET

The remaining components of core inflation are also moving in a favourable direction. Core goods, around 25% of core CPI, were the principal channel through which tariffs lifted inflation. However, tariffs are primarily a price-level shock: unless tariff rates rise again, their YoY contribution to inflation should fade

as the higher price base is absorbed. More than a year after the initial tariff increases, core goods inflation appears to have peaked and is already showing renewed disinflationary pressure.

Shelter inflation, around 40% of core CPI, points in a similar direction. Official shelter inflation remains elevated, but this component responds with a long lag to changes in market rents. Real-time market rental measures such as the Zillow Observed Rent Index are running close to 2%, suggesting further moderation in shelter disinflation as these softer rent increases feed through into CPI.

Together, shelter and supercore services are among the components where inflation persistence matters most. Both are showing signs of losing momentum. With core goods also

disinflating, the underlying inflation impulse appears to be becoming progressively softer.

CONCLUSION

The Fed may need to maintain a restrictive policy bias while near-term inflation remains firm, but the bar for a sustained tightening cycle is high. A durable rate-hiking cycle would require clearer evidence that the initial supply shocks are spilling over into wages, services and longer-term inflation expectations. At present, that evidence is missing. As tariff and energy effects fade, shelter inflation catches down to market rents and labour-cost pressures continue to soften, we expect underlying inflation to resume its downward trend. Our base case is therefore for a shallow and relatively short-lived US tightening cycle, rather than the beginning of a prolonged move to higher policy rates.



BEYOND THE BALANCE SHEET:

The human side of financial advice

WRITTEN BY:

Heidi Brown

Wealth Management/Head of Anchor Stellenbosch

As financial advisors, we spend years learning how to find solutions. We analyse the numbers, consider the risks, understand the tax implications, and ultimately try to answer the question: *What should my client do?*

But after many years of working with people and their money, I have increasingly realised that sometimes the more important question is: *Is my client actually in a place where they can hear me?*

I recently started studying towards my Certified Financial Transitionist® (CeFT®) designation. *The Financial Transitionist Institute (FTI)* focuses on helping financial professionals bridge the gap between the technical complexity of financial planning and the emotional impact of major life-changing events. It has introduced me to an area of financial planning that I find fascinating: what happens to people, and consequently to their money, when their lives change significantly.

These transitions can include retirement, divorce, the death of a spouse or parent, an inheritance, selling a business, relocating, losing a job, and even receiving a large amount of money. Some are happy events; others are devastating. Some are planned, while others arrive unexpectedly and without invitation. But they all have something in common: *life has changed, and the person must adjust to a new reality.*

WHEN LIFE CHANGES, DECISION-MAKING CHANGES TOO.

A major life event can affect far more than a client's financial circumstances. It can change their sense of identity, security,

relationships, routines and even their ability to process information and make decisions.

The FTI uses the term 'transition shock', also referred to as sudden wealth syndrome (SWS), to describe the disruption that can accompany significant life change. This is particularly relevant to financial advisors because we often meet clients at precisely these moments.

A client may suddenly have substantial wealth but far less certainty about what to do with it. They may have lost a spouse and now must manage finances that were previously shared. They may have sold a business that defined their identity for decades. Or they may have received an inheritance and feel an unexpected combination of gratitude, guilt, anxiety and responsibility.

Our instinct as advisors is to solve the problem, but sometimes the first thing a client needs is not a solution but space.



THE DECISION-FREE ZONE

One of the concepts that has particularly resonated with me is the Decision-Free Zone (DFZ). The principle is simple: not every financial decision needs to be made immediately. It is about distinguishing between what genuinely needs to happen now and what can wait until the client has had time to process what has happened. There may be immediate priorities that cannot wait, such as paying debt, ensuring sufficient liquidity, obtaining the necessary documentation following a death, or dealing with pressing tax or legal requirements.

However, there may also be decisions that are important but not urgent and yet potentially irreversible. Should the family home be sold? Should assets be moved or liquidated? Should someone leave their job?

During a period of emotional upheaval, creating a structured pause can be enormously valuable. The objective is to give the client time to process their new circumstances before making decisions that could materially alter their financial future. Sometimes the most valuable financial advice is therefore not *“Here is what we should do”* but rather *“We do not have to decide that today.”*

UNDERSTANDING A LIFE TRANSITION

The FTI's framework describes four broad stages through which people may move during a transition:

- **Anticipation or preparation:** This is the period leading up to a known transition. Someone approaching retirement may have years to prepare financially and emotionally. However, not every transition gives us that luxury. A widow or widower may be forced into a completely new reality without any preparation following the sudden death of a spouse.
- **Ending:** When the event happens, there is often a sense that life, as it was, has fundamentally changed. The familiar pieces of the puzzle can feel as though they have been scattered. Relationships with money, cash flow, routines, responsibilities and even identity may all need to be reconsidered. The technical financial issues still need to be dealt with, but the person dealing with them may be overwhelmed, exhausted or struggling to process what has happened. There is no universal timetable, and the more complex the circumstances, the more difficult the transition may be.
- **Passage:** This is perhaps the stage people overlook

most often. There can be a tendency to think that once the money has been dealt with, the estate administered, the cash flow established, or the investment portfolio restructured, the transition is complete. But the person may not yet have adjusted to their new reality. With appropriate support, this period can become an opportunity to shape the next chapter of their life consciously.

- **Making the new normal:** Eventually, new patterns and routines begin to emerge. Expectations settle, and a new sense of normality develops. It is then possible to look back and ask: *What worked? What did not work? What do I wish I had known?*

These stages are not neat boxes, nor do people necessarily move through them in a fixed sequence or according to a particular timetable. Two people experiencing the same event may have completely different reactions.

Consider retirement. One person may have spent years looking forward to it. They know where they want to live, what they want to do and what they want their money to provide. Another person, with the same financial resources, may experience retirement as an enormous loss. For 40 years, their career has helped define who they are. Suddenly the title, routine, colleagues and sense of purpose are gone.

THE FINANCIAL EVENT MAY BE IDENTICAL. THE HUMAN EXPERIENCE IS NOT.

That distinction matters when we give financial advice. A client going through a significant transition may be overwhelmed, uncertain or exhausted. They may struggle to concentrate, ask the same question several times, or agree with everything we say in a meeting only to remember very little afterwards.

Our instinct as advisors may be to explain it again. Perhaps more slowly. Maybe with another spreadsheet. But perhaps the problem is not our explanation. Perhaps we have not asked the right question yet.

THE VALUE OF DEEP LISTENING

Another concept that has struck a chord with me during my FTI studies is deep listening. Not listening while formulating my next answer, but listening with genuine curiosity to understand what the person in front of me is experiencing. That sounds simple, but it is not. As financial advisors, we are trained to solve problems. We are comfortable with numbers, decisions and action plans. Silence can therefore feel unproductive. Yet

filling every silence with another question can unintentionally interrupt the very thought a client is trying to formulate. Sometimes the most valuable thing we can do is simply give someone enough space to think.

This becomes particularly important when clients are dealing with grief, loss, guilt or anxiety. A widow may be adjusting not only to the loss of a partner, but to managing financial decisions alone for the first time. Someone receiving a substantial inheritance may feel uncomfortable about their newfound wealth or uncertain about how to respond when family members ask for financial assistance.

These are not simple investment questions but human questions that happen to have financial consequences.

MATCHING ADVICE TO TRANSITION READINESS

One of the most useful ideas I have taken from the course is that people are not equally ready to make decisions at every point in a transition. The technical answer may be clear. The client may not yet be ready to implement it.

Good advice is therefore not necessarily about presenting the entire financial plan at once. It is about understanding what the client can process at that point in their transition and pacing the advice accordingly. That may mean simplifying information, revisiting conversations, checking understanding or allowing more time before proceeding.

It also means ensuring that the client genuinely understands and is comfortable with a decision, rather than simply agreeing with the advisor because they are overwhelmed or uncertain.

The objective is not to make decisions for clients but to create the conditions in which they can make informed decisions themselves.

PROTECTING CLIENTS FROM COSTLY MISTAKES

This approach can also help protect clients from some of the most damaging financial mistakes made during periods of emotional upheaval. A sudden inheritance, for example, can create an impulse to make large purchases or radically restructure a portfolio. A client may be tempted to liquidate assets without fully considering the tax consequences, or make an irreversible financial commitment simply because they feel they need to “do something”.

A financial transitionist’s role is not to make these decisions for the client. Instead, we provide a rational anchor when emotions are running high, help the client distinguish between urgent and non-urgent decisions, and ensure that any financial and tax implications are properly understood before action is taken.

Sometimes the most important word an advisor can help a client say is simply: “No. Not yet.”

ADVICE IS ONLY VALUABLE IF IT CAN BE HEARD

The technical side of financial planning does not become less important during a major life transition. If anything, it becomes more important. However, even the best technical advice has limited value if it arrives at the wrong time, in the wrong way, or before we understand the person who has to live with the consequences.

After almost three decades in this profession, perhaps that is what I find most interesting about this next part of my own learning. Financial planning has always been about money. But money does not make decisions. People do! At times, our most valuable role as advisors is not to have the answer first but instead to ask the right question, create enough space for the client to think, and then be quiet long enough to hear the answer.



Understanding attribution

WRITTEN BY:

Di Haiden

CEO: Robert Cowen Investments/Head of Anchor Succession

There is parlance often bandied about regarding trusts and tax rules, which, although understood by specialists, is confusing and difficult to follow. Attribution is one such term that is often used and little understood. In simple terms, attribution refers to giving credit or assigning responsibility for something to a particular person, source, or cause.

So, how does that apply to the world of trusts?

Trust income and capital gains are not always taxed in the trust itself. Depending on the circumstances, the tax liability may arise in the hands of the trust, a beneficiary, or the person who contributed the assets or value to the trust (the donor or settlor). The rules governing this outcome are called the **attribution rules**. They are particularly important when trusts involve South African (SA) and non-resident donors, beneficiaries or assets.

The principal provisions are contained in sections **7 and 25B of the Income Tax Act 58 of 1962**, while the attribution of capital gains is dealt with principally in **paragraphs 68 to 72 and paragraph 80 of the Eighth Schedule**. In March 2026, changes were made which are especially important when a beneficiary lives outside SA.

It is also important to distinguish between loans to trusts and donations to trusts (this is not covered in this article, which relates primarily to the attribution rules and their impact on trusts).

1. THE BASIC PRINCIPLE: SECTION 25B

Section 25B provides the starting framework for determining

the taxation of income received by or accrued to a trust.

As a starting rule, if the trustees give a beneficiary an unconditional right to income during the same tax year, that income may, subject to the provisions of section 7, be taxed in that beneficiary's hands. If no beneficiary receives that right, the trust will usually pay the tax.

This is called the **conduit or flow-through principle**, under which the income "flows through" the trust to a beneficiary for tax purposes.

However, section 25B must be read together with section 7. The vesting of income in a beneficiary does not, by itself, determine who is liable for the tax. Where the requirements of **Section 7** are met, the relevant income may instead be attributed to the person who funded the trust (the donor).

In short, the tax may be paid by the donor, a beneficiary, or the trust. If an ordinary trust is taxed directly, it is currently taxed at a flat rate of 45%.

2. ATTRIBUTION BACK TO THE DONOR: SECTION 7

Section 7 is an anti-avoidance rule. The provisions are designed, among other things, to prevent a taxpayer from transferring assets or income-producing capacity to another person while retaining the financial benefit or otherwise using the transaction to shift the associated tax liability.

It may apply when income arises because someone made a **donation, settlement or other transfer of value**, e.g. a loan to a trust.

For example, where a person transfers an investment to a trust and that investment subsequently generates income. If section 7 applies, that person may still have to pay tax on the income, even if the trustees subsequently vest the income in a beneficiary.

Particularly relevant are sections 7(2) to 7(8).

These rules cover several situations, including transfers that benefit a spouse or minor child, transfers that can be reversed or are subject to conditions, and transfers involving **people or trusts outside SA**.

The term “donation, settlement or other disposition” is broad because it extends beyond a conventional cash or asset donation. Depending on the circumstances, it can include more than a simple gift. For example, an arrangement that moves value or the ability to earn income without the trust paying a proper market price.

3. OFFSHORE TRUSTS: SECTION 7(8)

Section 7(8) is particularly relevant where a SA resident donor makes a donation, settlement or other disposition to a non-resident (offshore) trust.

Broadly, if a SA tax resident transfers assets or value to an offshore trust and that transfer produces income for a non-resident trust, section 7(8) may treat some or all of that income as received by or accrued to the SA resident donor.

The rule is intended to stop SA residents from moving income-producing assets into foreign trusts simply to keep the income outside the SA tax system. The South African Revenue Service (SARS) has specifically described section 7(8) as an anti-avoidance measure aimed at preventing SA taxpayers from artificially shifting assets offshore through foreign trusts.

This rule can therefore produce a very different result from the ordinary trust flow-through principle.

For example, assume a SA resident contributes R10mn to a discretionary trust established in Guernsey. If the trust earns R1mn in interest and the requirements of section 7(8) apply, the relevant part of that interest may be taxed in the SA donor's hands even though the donor did not receive it.

4. THE INTERACTION BETWEEN SECTIONS 7(8) AND 25B

The position becomes more complex when an offshore trust earns income because of a SA resident's contribution and then allocates that income to a SA beneficiary.

SARS Interpretation Note 114 addresses the interaction between section 25B(1) and section 7(8). It concludes that, where the provisions conflict, section 7(8) takes priority over section 25B(1) in the situations covered by the note. The result may be that the donor pays the tax instead of the beneficiary.

The residence of the donor, trust and beneficiary must consequently be considered separately.

5. THE MAJOR RECENT CHANGE: NON-RESIDENT BENEFICIARIES

A particularly significant change occurred from **1 March 2025**. Section 25B was amended to limit the flow-through principle only to **SA resident beneficiaries**. As a result, income and capital gains vested in non-resident beneficiaries are generally taxed in the trust rather than flowing through to those beneficiaries.

This has important consequences for SA trusts with beneficiaries who live outside SA.

Before the amendment, income could sometimes flow through a SA trust to a non-resident beneficiary for tax purposes. That option is now much more limited. For example, where a SA trust earns income and allocates it to a non-resident beneficiary, the trust may still remain liable for the SA tax on that income, subject to the application of the legislation.

This is particularly relevant to family structures involving beneficiaries who have emigrated from SA.



6. FURTHER CLARIFICATION FROM 1 MARCH 2026

The **2026 amendments go further**. From **1 March 2026**, the law makes the order of the rules clearer: income allocated to a SA resident beneficiary may be taxed in that beneficiary's hands; income allocated to a non-resident beneficiary is taxed in the trust; and where section 7 applies, the relevant income may instead be taxed in the donor's hands.

An important related amendment concerns **section 7(5)**.

From 1 March 2026, section 7(5) recognises a donor's change of tax residence as an event that may stop income from continuing to be treated as the donor's income. Where a donor ceases to be a SA tax resident, income will no longer be deemed to have accrued to that donor under the relevant section 7(5) attribution mechanism, even if the underlying condition or event has not otherwise occurred.

This is potentially significant in emigration and offshore restructuring situations, although the precise tax consequences will depend on the facts and the provisions applicable to the trust and its assets.

7. CAPITAL GAINS HAVE A SEPARATE ATTRIBUTION REGIME

The attribution rules of ordinary income and capital gains are dealt with under separate provisions. A capital gain usually arises when an asset is sold or otherwise disposed of for more than its base cost.

Paragraphs **68 to 72 of the Eighth Schedule** contain provisions that can attribute capital gain back to a SA resident donor in certain cases. Paragraph 72 is especially important where a capital gain arising in a trust is connected to a donation, settlement or other disposition by a SA resident and the gain accrues to a non-resident.

SARS's trust guidance expressly identifies paragraph 72 as the rule dealing with capital gains vesting in non-residents.

Paragraph 80 generally deals with SA resident beneficiaries. If a trust sells an asset and gives a resident beneficiary a fixed right to an amount from the gain, the gain may be taxed in that beneficiary's hands.

Thus, SA capital gains tax (CGT) consequences may apply even where the underlying asset is situated outside SA, particularly where the attribution provisions apply.

8. WHY THE DISTINCTION BETWEEN LOCAL AND OFFSHORE TRUSTS MATTERS

The residence of the trust is an important component of the analysis, but it is not determinative on its own. A SA resident trust is generally subject to SA tax on its worldwide income and capital gains.

An offshore trust is usually treated as a non-resident for SA tax. However, this can change depending on where the trust is actually managed and whether a double-tax agreement applies.

However, the non-resident status of the trust does not necessarily prevent SA taxation.

Even if the trust is offshore, SA tax can still arise in three main ways:

1. **The offshore trust itself may be subject to SA tax** on SA-source income or SA assets.
2. **The SA donor may be taxed under section 7**, including section 7(8).
3. **A resident beneficiary may be taxed under section 25B or paragraph 80**, subject to the specific attribution provisions.

The residence of the trust is therefore only one component of the overall tax analysis.

9. PRACTICAL IMPLICATIONS OF ATTRIBUTION

For SA families with offshore trusts, each contribution, investment return, sale and distribution should be reviewed separately. Simply establishing that a trust is "offshore" does not determine who will ultimately bear the SA tax liability. The 2025 amendments, together with the further 2026 amendments, make this transaction-by-transaction analysis particularly important.

CONCLUSION

The attribution rules are designed to stop people from using trusts, especially offshore trusts, to separate ownership of an asset from the tax on the income or profit that the asset produces.

The key principle is that **the person who legally owns the asset is not always the person who must pay the tax.** The tax outcome depends on where the trust, donor and beneficiaries are tax resident, how the trust was funded, and who receives the income or gain.

The **1 March 2026 changes are important** because they clarify which rule applies first and what happens when a donor stops being a SA tax resident. SARS's 2026 guidance reflects these changes in the trust tax return process.

The practical question when analysing a trust structure is

therefore: **Who does SA tax law treat as having earned the income or capital gain—the trust, the donor or the beneficiary?**

Attribution can have a significant impact and does need to be taken into account. Answering that question correctly is essential when considering trust structures, estate planning, offshore investments and the investment of assets held within a trust.

If you wish to discuss this further, please contact Di Haiden – di@rcinv.co.za

Disclaimer: *The contents of this article are for information purposes only and the accuracy, completeness, timeliness, or correct sequencing of any of the information contained herein cannot be guaranteed and should thus not be construed as investment advice. Readers should thus only act thereon after having consulted their financial advisor.*



Performance Summary

	FUND PERFORMANCE									BENCHMARK PERFORMANCE							
	Start date	Annualised p.a.	Since inception	5 Year	3 Year	12-month	6-month	3-month	Sep-26	Annualised p.a.	Since inception	5 Year	3 Year	12-month	6-month	3-month	Sep-26
UNIT TRUSTS																	
Anchor FR Equity Fund	Apr-13	10.4%	280.8%	11.4%	17.1%	0.0%	3.1%	1.6%	-4.7%	10.5%	282.9%	13.9%	19.3%	5.6%	-2.6%	-0.3%	-5.8%
Anchor FR SA Equity	Aug-21	12.3%	79.4%	N/A	14.9%	-2.2%	-1.8%	-1.7%	-5.9%	14.1%	93.7%	N/A	19.3%	5.6%	-2.6%	-0.3%	-5.8%
Anchor FR Flexible Income Fund	Jun-15	7.8%	134.3%	8.4%	10.4%	8.5%	4.4%	0.7%	0.2%	7.3%	121.9%	7.8%	8.5%	7.8%	3.8%	1.9%	0.6%
Anchor FR Managed Fund	Jan-15	7.1%	122.4%	9.4%	13.0%	2.2%	2.8%	-0.4%	-2.9%	7.8%	141.5%	10.5%	13.3%	6.3%	3.1%	0.3%	-2.5%
Anchor FR Worldwide Flexible Fund	May-13	10.8%	295.6%	10.5%	13.9%	-8.3%	-1.7%	-0.1%	-4.7%	8.9%	211.5%	8.9%	8.0%	8.4%	5.3%	1.9%	0.3%
Anchor FR Property Fund	Nov-15	2.1%	25.0%	9.5%	17.7%	14.7%	7.6%	-1.4%	-0.2%	4.3%	58.8%	15.9%	26.5%	20.2%	8.8%	-1.1%	0.5%
Anchor FR Global Equity Feeder	Nov-15	10.6%	199.2%	2.5%	7.1%	-19.0%	-2.6%	-7.3%	-3.1%	13.2%	285.7%	12.8%	15.1%	9.5%	11.8%	1.4%	0.6%
Anchor FR Bond Fund	Feb-16	10.8%	198.0%	12.3%	18,5%	13.9%	7.6%	-1.0%	0.0%	10.6%	193.4%	12.1%	17.7%	12.8%	7.1%	-0.7%	0.0%
Anchor FR Diversified Stable Fund	Feb-16	8.8%	146.4%	10.9%	13.5%	7.3%	3.3%	-0.5%	-1.6%	7.8%	122.9%	9.5%	12.0%	7.2%	3.8%	0.3%	-1.2%
Anchor FR Diversified Moderate Fund	Feb-16	8.6%	141.7%	11.3%	13.5%	6.4%	2.7%	-0.6%	-2.3%	8.0%	127.4%	10.1%	12.8%	6.9%	3.5%	0.4%	-2.0%
Anchor FR Diversified Growth Fund	Feb-16	8,6%	140.4%	12.0%	14.4%	5.6%	2.0%	-0.7%	-2.9%	8.3%	133.8%	10.5%	13.3%	6.3%	3.1%	0.3%	-2.5%
Anchor FR Africa Flexible Income	Mar-16	6.1%	87.1%	4.8%	6.7%	-2.0%	-0.3%	-2.8%	-2.0%	8.8%	144.0%	9.1%	9.8%	9.0%	4.4%	2.2%	0.7%
Anchor FR Global Technology Fund	Jun-19	9.6%	95.4%	2.7%	13,6%	-8.0%	15.7%	5.6%	-2.0%	24.1%	385.8%	18.9%	23.9%	12.8%	20.2%	2.6%	3.9%
Anchor FR Core Income Fund	Sep-20	8.0%	59.3%	8.5%	9.3%	8.5%	4.2%	2.1%	0.6%	6.5%	46.6%	7.1%	7.8%	7.0%	3.4%	1.7%	0.6%
Anchor FR Global Flexible Income Fund	Sep-20	1.7%	10.8%	3.2%	-0.4%	-5.4%	-5.3%	-3.0%	-1.0%	3.3%	21.3%	6.1%	0.3%	-1.0%	-2.3%	1.1%	2.0%
EQUITY NOTES & SEGREGATED MANDATES																	
Anchor Equity	Jul-13	9.5%	232.4%	11.3%	13.5%	0.1%	2.4%	-1.6%	-2.9%	10.4%	269.9%	14.1%	19.5%	6.2%	-2.6%	-0.3%	-5.8%
HEDGE FUNDS																	
Anchor Stable SNN RIHF	Jul-03	12.0%	1304.1%	12.5%	10.5%	5.4%	1.3%	-0.6%	-2.2%	7.0%	384.8%	6.4%	6.6%	4.4%	3.4%	0.9%	0.0%
Anchor Accelerator	Feb-16	7.0%	104.7%	2.7%	10.1%	3.7%	1.8%	-0.5%	-5.0%	8.1%	129.6%	7.1%	7.8%	7.0%	3.4%	1.7%	0.6%
OFFSHORE																	
High Street Equity - dollar	Jun-12	11.0%	341.8%	6.9%	19.4%	7.4%	16.6%	2.8%	-1.5%	12.6%	446.1%	12.4%	21.9%	15.7%	16.1%	2.0%	-1.2%
High Street Equity - rand	Jun-12	16.6%	790.2%	8.8%	14.1%	2.0%	11.7%	2.8%	0.0%	18.3%	995.3%	14.3%	16.3%	10.0%	12.2%	2.1%	0.8%
Offshore Balanced - dollar	Jun-12	8.2%	206.6%	4.4%	13.6%	1.8%	7.8%	0.1%	-3.1%	7.5%	180.1%	6.3%	14.2%	8.0%	8.7%	0.1%	-1.7%
Offshore Balanced - rand	Jun-12	13.7%	521.1%	6.5%	8.6%	-3.4%	3.2%	0.2%	-1.5%	12.8%	460.5%	8.1%	9.3%	2.8%	5.1%	0.3%	0.3%
Global Dividend - dollar	Jan-14	9.0%	196.4%	9.4%	16.6%	10.3%	8.4%	2.0%	-4.9%	11.7%	306.0%	12.4%	21.9%	15.7%	16.1%	2.0%	-1.2%
Global Dividend - rand	Jan-14	12.3%	337.0%	11.3%	11,4%	4.8%	3.8%	2.0%	-3.4%	15.2%	499.4%	14.3%	16.3%	10.0%	12.2%	2.1%	0.8%
Anchor Global Stable Fund - dollar	May-15	2.4%	31.1%	2.2%	6.8%	1.2%	0.2%	-1.7%	-2.7%	3.6%	48.9%	4.7%	4.2%	3.9%	1.9%	1.0%	0.3%
Anchor Global Stable Fund - rand	May-15	5.2%	77.1%	3.9%	2.0%	-3.7%	-3.2%	-1.5%	-0.8%	6.4%	101.4%	6.5%	-0.6%	-1.2%	-1.2%	1.2%	2.2%
Anchor Global Equity - dollar	May-15	10.6%	214.8%	1.9%	13.5%	-14.6%	0.1%	-10.0%	-3.9%	10.7%	216.0%	11.6%	21.7%	16.8%	16.8%	1.6%	-1.1%
Anchor Global Equity - rand	May-15	13.6%	325.3%	3.6%	8.4%	-18.8%	-3.3%	-9.9%	-2.0%	13.6%	327.0%	13.4%	16.2%	11.1%	12.8%	1.8%	0.8%
RCI UNIT TRUSTS																	
RCI FR Flexible Growth Fund	Sep-16	9.9%	158.4%	6,1%	16.8%	-12.8%	20.2%	0.1%	1.1%	9.7%	152.0%	9.9%	9.0%	9.4%	5.8%	2.1%	0.4%
RCI FR Worldwide Flexible Fund	Dec-16	7.1%	96.6%	2,3%	6.2%	-13.1%	7.0%	2.4%	-3.9%	8.7%	126.3%	8.9%	8.0%	8.4%	5.3%	1.9%	0.3%

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