NEWS LETTER

MAY 2026

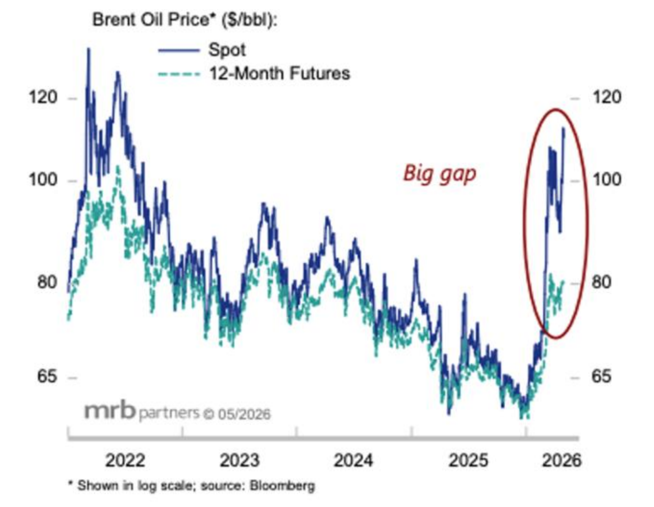
Dragon Wealth

MARKETS RISE THROUGH THE UNCERTAINTY

OIL MARKET DISLOCATION: SPOT VS FUTURES SENDING DIVERGENT SIGNALS

The oil market is currently sending mixed, and increasingly important, signals. The effective shutdown of traffic through the Strait of Hormuz points to a meaningful near-term supply disruption. This is clearly reflected in spot prices, which are pricing in acute scarcity

However, futures markets appear far less concerned. Prices further out on the curve are significantly lower, implying a relatively swift normalisation in supply. This has resulted in an unusually steep phenomenon where the expected future price of an asset is considerably lower than its current spot price), with futures suggesting oil prices could fall back to below $80s per barrel.

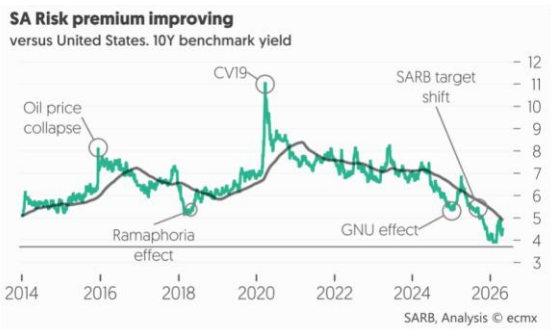


At its core, this reflects a fundamental disagreement: futures markets appear to to geopolitical tensions, while spot markets remain anchored in current physical constraints. The key question is which market is getting it wrong?

Even in the event of a near-term de-escalation, a rapid normalisation in oil supply appears unlikely. The physical realities of the supply chain present meaningful constraints. Tanker logistics alone introduce delays; offloading, cleaning, and redeployment can take up to a month. In addition, a number of large crude carriers have already been diverted toward the US to secure alternative supply, with return timelines measured in months rather than weeks.

Onshore storage capacity in the Middle East is also close to full, limiting incremental production and forcing some facilities to operate below capacity or shut down entirely. Restarting these operations is neither immediate nor seamless. Taken together, these factors suggest that supply-side pressures may persist longer than futures markets currently anticipate.

SOUTH AFRICA RISK PREMIUM: RESILIENT DESPITE GLOBAL PRESSURES



The spread between South African government bond yields and US Treasuries, a key measure of perceived risk, continues to paint a relatively constructive picture. While South Africa naturally trades at a yield premium to compensate investors for higher risk, this differential had compressed to near historical lows ahead of the

HIGHLIGHTS

Markets Rise Through The Uncertainty

- Strong global returns in April
- Developed and emerging markets higher
- Resilience despite geopolitical risk

Oil Market Sending Mixed Signals

- Spot prices reflect supply disruption
- Futures indicate potential normalisation
- Uncertainty remains elevated

Supply Constraints Persist

- Tanker delays and rerouting
- Limited storage capacity
- Supply recovery may take time

South Africa: Resilient Backdrop

- Risk premium remains contained
- Rand relatively stable
- Supportive investor sentiment

US Policy Shift in Focus

- Fed leadership developments
- Rate cut expectations rising
- Short-term yields declining

SOUTH AFRICA RISK PREMIUM: RESILIENT DESPITE GLOBAL PRESSURES - *continued*

Iran conflict, signalling strong underlying confidence in the country's macroeconomic position.

Although the onset of geopolitical tensions led to a modest widening in this spread, the move has been contained and has already begun to partially reverse. In a broader context, the risk premium remains relatively low, suggesting that investor sentiment toward South Africa has held up well. This resilience is further supported by a relatively stable rand.

Overall, South Africa appears to have entered this period of heightened global uncertainty from a position of strength. While the evolving geopolitical backdrop will inevitably have macroeconomic consequences, the country's favourable starting point should help mitigate some of the downside risks, particularly if tensions begin to ease in the near term

US POLICY SHIFT: IMPLICATIONS FOR RATES AND CURRENCY MARKETS

Kevin Warsh's nomination as the next Chair of the Federal Reserve has advanced, following approval by the Senate Banking Committee in a narrow 13–11 vote. The nomination will now proceed to a full Senate vote, expected in the coming days, bringing Warsh closer to replacing Jerome Powell, whose term as Fed chairperson ends on May 15. Warsh's appointment would signal a meaningful shift in direction for the Fed. A former Fed governor, Warsh has outlined plans for significant reforms, including reducing the central bank's balance sheet, refocusing its mandate away from perceived fiscal policy overlap, and overhauling its communication strategy.

This has increased market expectations that US monetary policy may become more accommodative. Warsh is widely perceived as being more aligned with political pressure to lower interest rates, particularly from President Donald Trump.

Following these developments, market-implied expectations for US rate cuts this year rose to approximately 40%. This was reflected in a sharp decline in 2-year Treasury yields, which fell to 3.79%, their lowest level in several weeks.

MARKET PERFORMANCE: RESILIENCE AMID UNCERTAINTY

Despite elevated geopolitical risk and volatility in oil markets, global markets generated strong returns for the month of April, with nearly all major global exchanges ending the month in positive territory.

The US S&P500 Index returned 10.5% for the month, while broad global developed markets, as measured by the MSCI World index, returned 9.6%, both in USD. These returns were supported largely by continued strength in technology and AI-related sectors, underpinned by robust earnings growth.

Emerging markets also performed strongly, with the MSCI Emerging Markets Index rising 14.7% (in USD), despite their general vulnerability as net oil importers.

South African equities lagged somewhat, delivering a 1.6% return in rand terms, weighed down by the resources sector. However, over the past 12 months, the JSE All Share Index has delivered a very robust return of 30.1%.

The past month reinforces the importance of maintaining a disciplined investment approach during periods of uncertainty. Encouragingly, forward-looking indicators remain supportive. Both global and local companies continue to report strong earnings guidance, with the South African market currently reflecting expected earnings growth of approximately 42% over the next 12 months.

While risks, particularly from oil markets and geopolitics, remain elevated, the underlying earnings backdrop continues to provide a constructive foundation for markets.

Source: MRB Partners, Econometrix