

Capicraft Newsletter: Fourth Quarter 2025

In August 2025, Capicraft Investment Partners celebrated its **10th anniversary**. We began managing concentrated local and global equity portfolios in 2015, when a sheep farmer from the Karoo became our first client. His offshore portfolio remains under our management and has grown by 309.63% in rand terms over just more than ten years — a more than fourfold increase in capital.

Our local portfolios, however, struggled alongside the JSE in the early years. It quickly became clear that concentrated portfolios tied to a single asset class would not stand the test of time. We had to refine and reassess our investment philosophy. By 2018, we therefore expanded our strategy to include multi-asset portfolios.

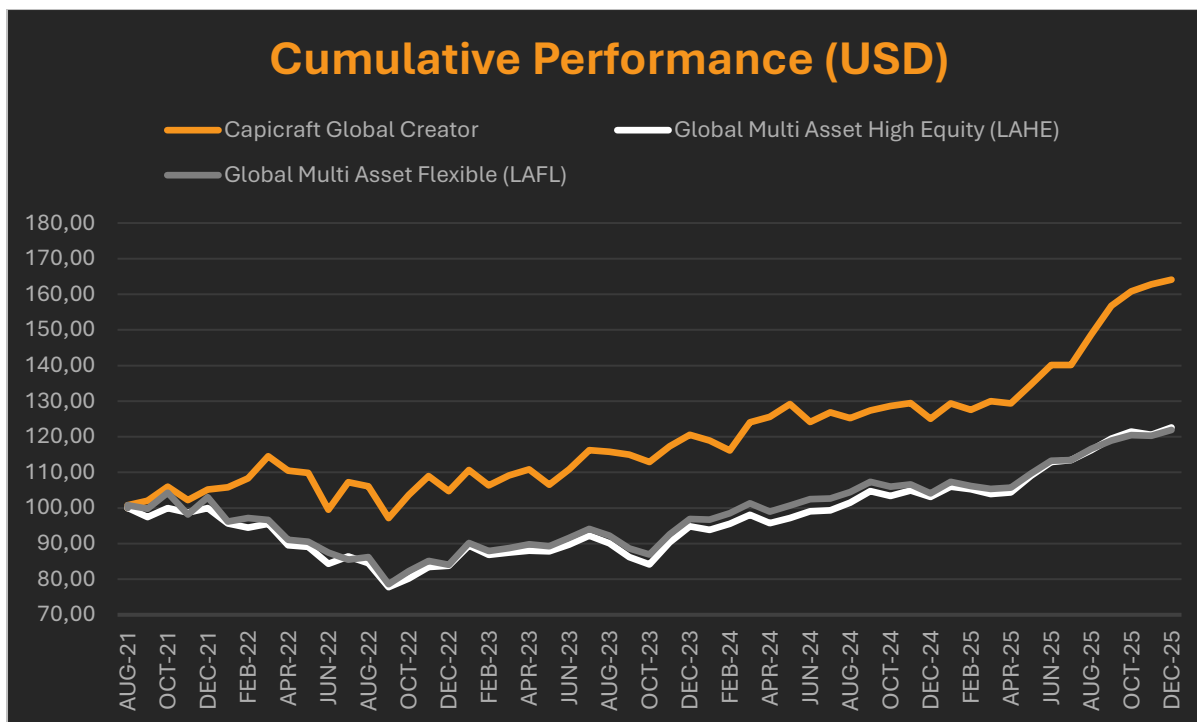
The first client to sign this broader mandate was a sugarcane farmer. That portfolio has since returned 170.61%, equating to close to 15% compound annual growth per annum.

The 2020 market sell-off delivered further important lessons. Although our portfolios recovered quickly, it served as a wake-up call that the world was changing rapidly — and that the events of 2020 significantly accelerated this change. Traditional portfolio management would no longer be sufficient to protect and grow clients' hard-earned capital over the long term.

We had to reassess once again. As a result, we deliberately began incorporating real assets, such as gold, land and commodities, into our portfolios. By 2022 — a year in which the S&P 500 fell by approximately 20%, while US government bonds fared only marginally better — our offshore portfolios declined by just 0.4% in USD terms. By that stage, these portfolios had already taken the shape of the Capicraft Global Creator Fund.

The Global Creator Fund (launched in August 2021) also experienced a particularly strong 2025, delivering a return of 32.66% in USD terms. This places the fund among the top-performing global multi-asset funds in what was generally a strong year for financial markets. The fund therefore protected capital in 2022, while also demonstrating the ability to outperform global equity markets in favourable conditions.

Since inception, the fund has delivered a total return of 64.09% in USD terms, equivalent to 12.07% per annum, compared to the fund category average of 22.59% (or 4.8% per annum).



Experience brings with it the necessary humility to recognise that such absolute or relative performance should not be expected every year. Nevertheless, we remain constructive on current market dynamics and on how our portfolios are positioned.

This is a US election year, and the Trump administration will be keen to head into the election with a strong economy. This is evident in the significant pressure being applied to the Federal Reserve to cut interest rates further. Later this year, a new chair of the central bank will be appointed, and expectations are that this will be someone more inclined toward cooperation with the Treasury.

This points to a less independent central bank, willing to work alongside the Treasury to allow the economy to “run hot.” Such a policy stance may support the labour market in the short term, but an economy that runs too hot typically implies a weaker dollar, stronger precious metals, and longer-term government bonds coming under pressure.

The S&P 500 — and, by extension, global equity indices — is currently dominated by technology giants whose valuations discount earnings growth far into the future. The US economy may perform reasonably well in 2026, but the technology giants, and therefore the indices themselves, could underperform for several reasons.

The AI narrative may suffer a setback; higher long-term interest rates typically hurt growth stocks; and markets may rotate from these shares into cheaper old-economy stocks. An economy that runs too hot

is rarely supportive of broad equity indices or bond markets, but it can be favourable for other asset classes and for markets outside the US.

Precious metals and equity markets outside the US have already performed strongly in 2025, and much of the above has been priced in. Many emerging markets, however, remain relatively inexpensive. A weaker dollar environment and lower interest rates could continue to provide tailwinds for these economies.

China is currently exporting excess capacity into other emerging markets through the dumping of cheap goods, driven by overcapacity and ongoing trade tensions. This is exerting significant deflationary pressure on these economies. At the same time, China is running fiscal deficits of approximately 10% of GDP, while recording monthly trade surpluses of around \$100 billion.

These deficits must be spent somewhere, and these surpluses must be invested somewhere. It is unlikely that this capital will find its way into the S&P 500 or US Treasuries.

The next phase of the cycle is likely to favour industrial metals and commodities. Base metals such as copper, aluminium and nickel have already begun to show strong momentum. One of the lesser-known metals that has also started to move is rhodium, around 90% of global supply of which comes from a handful of mines on the western limb of the Bushveld Complex.

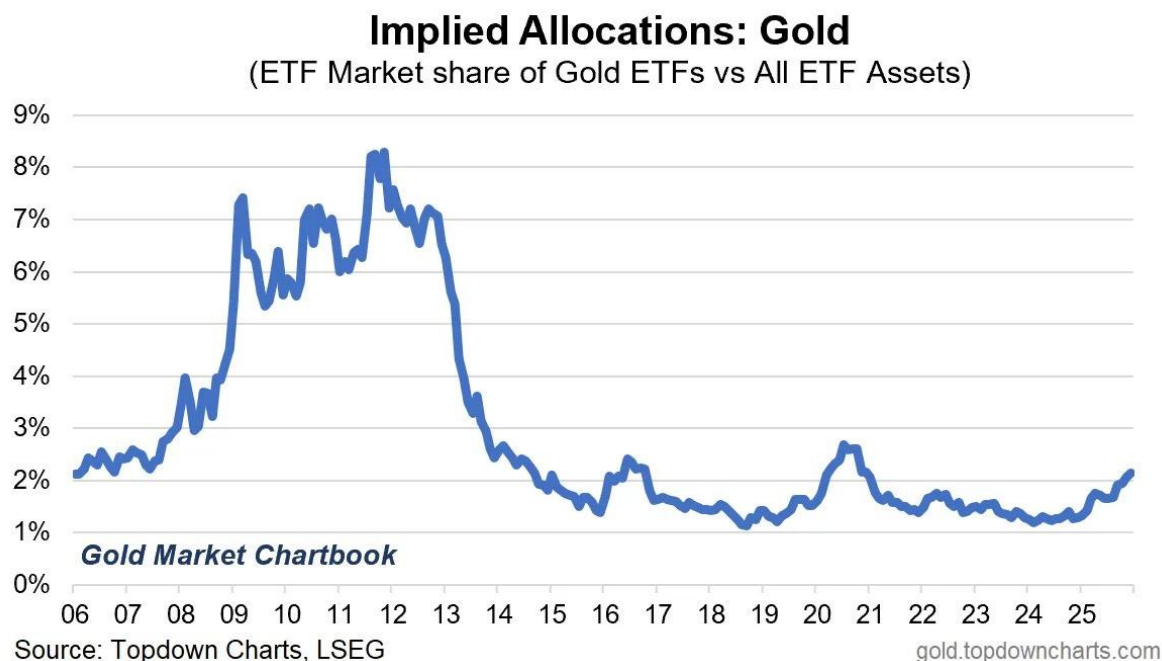
Rhodium is primarily produced as a by-product, and unlike base metals or other PGMs such as palladium and platinum, there are no meaningful above-ground inventories and no liquid futures market. Due to its chemical properties, rhodium is particularly well suited to the growing market for hybrid vehicles, which require catalysts that function efficiently at lower operating temperatures.

The US has classified rhodium as a critical mineral, with an estimated potential GDP impact of \$64.3 billion — by far the highest on the list. Although prices have already begun to recover alongside other PGMs, rhodium still trades approximately 150% below its 2022 levels. Capicraft maintains a small exposure to the metal and expects potential earnings surprises among certain PGM producers.

The year also began with geopolitical risks starting to play out more visibly. These developments reshuffled the geopolitical landscape and delivered a setback to China in particular. As a result, precious metals have once again strengthened.

The question, however, is how much upside potential remains for precious metals — and gold in particular. While a near-term correction cannot be ruled out, the path of least resistance remains higher. This is unlikely to occur in a straight line. Should geopolitical tensions ease, gold may well pause or consolidate.

The primary buyers of gold, however, are central banks, and they are not particularly price-sensitive. Secondly, the average investor remains materially underexposed to gold. Major global investment banks, including JPMorgan, have recently suggested that investors should consider allocations of up to 20% to precious metals.



One of the narratives gaining traction is that Venezuela is being targeted for its oil. First, no one truly knows how much oil the country actually has. Official reserve figures were released during the Hugo Chávez era and are likely overstated.

Second, much of Venezuela's oil is heavy, high-sulphur crude, bordering on bitumen. Third, the geological structure of its oil fields is exceptionally challenging. Fourth, infrastructure across the sector has deteriorated significantly over the past two decades. Fifth, political risk has by no means disappeared.

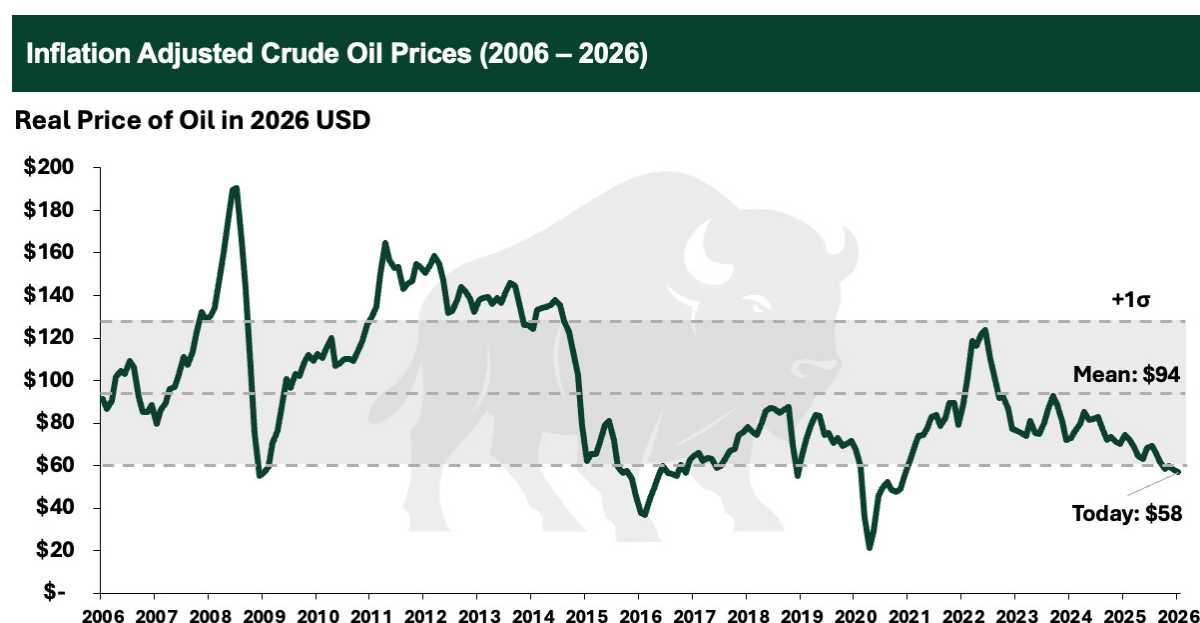
Oil companies will therefore require oil prices well above \$60 per barrel (WTI) before committing meaningful capital to Venezuela again — and even if they do, it would take years before material production increases reach the market.

Oil prices have nevertheless begun to rise since the start of the year, driven by geopolitical developments elsewhere. The Iranian Islamic regime is under increasing internal and external pressure. In 1978–79, the previous regime under Shah Mohammad Reza Pahlavi collapsed following widespread

strikes in critical sectors — particularly oil, gas, energy and transport — which effectively paralysed the Iranian economy.

Today, the Shah's son is calling on Iranians to engage in similar action. At the time, oil prices rose from approximately \$13 per barrel in 1978 to nearly \$39 per barrel by 1980. Iran's share of global production was far greater then than it is today, but history does not need to repeat — it often rhymes.

Few market participants appreciate just how cheap oil prices currently are. In inflation-adjusted terms, oil was cheaper only during the global shutdown of 2020 and during the 2015 OPEC price war.



The year began with record short positions in US oil futures, driven by a narrative that the market is facing a significant oversupply. That oversupply, however, continues to struggle to materialise.

Much of what is classified as inventory today is in fact oil stored at sea — an extremely expensive form of storage and often oil carried by tankers attempting to avoid sanctions rather than genuine commercial supply.

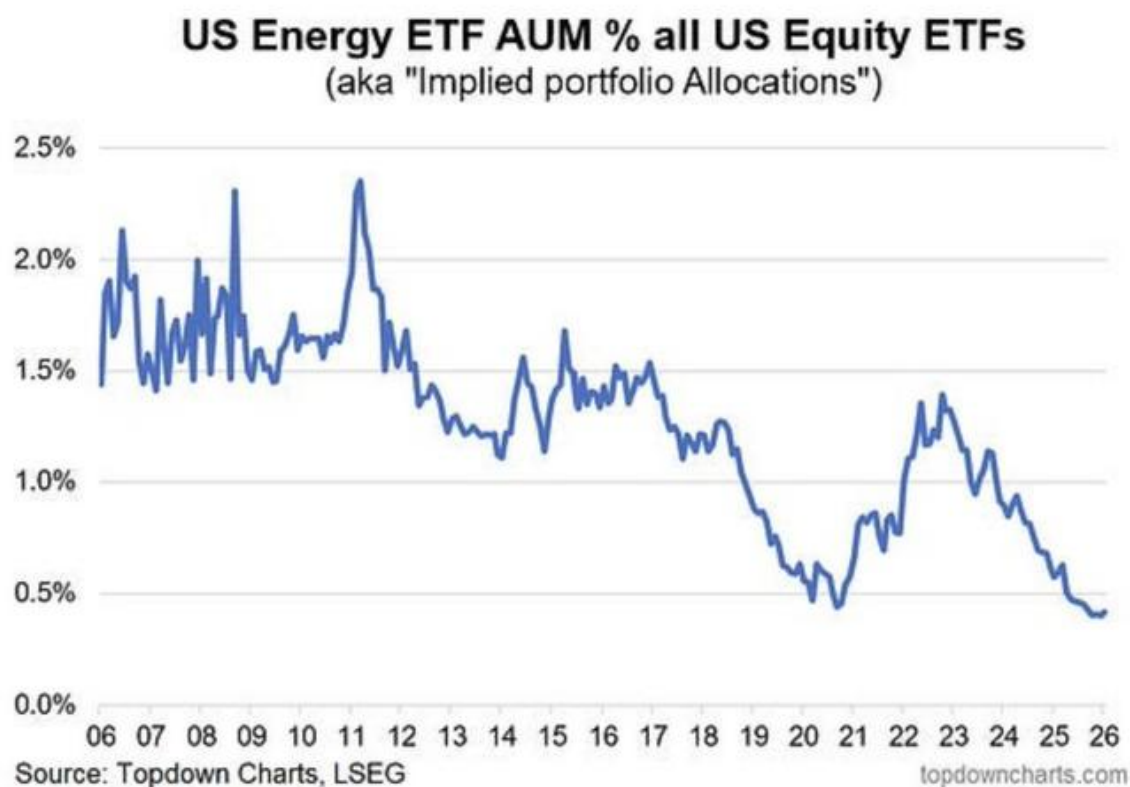
Following last year's decision to increase output, OPEC now has limited spare capacity. At the same time, the number of active US oil rigs has declined from 480 to 409 over the past twelve months.

The natural decline rate of global oil production is approximately 4% per year, meaning that more than 4 million barrels per day of new production must be added annually just to meet existing demand.

Global crude oil demand grew by roughly 1.5 million barrels per day last year, largely driven by emerging markets outside China. Crack spreads remain healthy, pointing to strong end-product demand, while

calendar spreads between spot and longer-dated prices are positive — offering little incentive to store oil.

Despite these dynamics, very few investors currently maintain meaningful exposure to oil and gas.



Few market participants recognise the significant windfall that lower oil prices have delivered to the global economy and how much they have eased the task of central banks. This may well be one of the greatest macro risks for 2026. Should oil prices rise meaningfully, inflation could re-emerge quickly and place monetary policy under renewed pressure.

The irony is that this relative price stability obscures the complexity, capital intensity and risks inherent in the oil industry. Oil does not respond quickly to price signals — as in other capital-intensive industries, sustainable production requires time, capital and expertise.

“Getting oil out of the ground is the most dangerous job in the world.”

Tommy Norris, Landman



Your investment partner,

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