

Capicraft Newsletter: First Quarter 2026

Capicraft portfolios delivered strong absolute and relative returns during the quarter. This performance was supported, among other factors, by our exposure to energy, which benefited from the sharp increase in prices amid rising geopolitical tensions.

The Capicraft Global Creator returned 11.2% in USD terms for the quarter, compared to the All Country World Index (ACWI), which declined by 2.2%. The ASISA category (Global High Equity Balanced) was also lower by approximately 2%.

After starting the year strongly, the JSE All Share Index declined by 11.2% during March to close the quarter 1.5% lower in rand terms. Even the average local balanced fund lost around 5.8% for the month and 1.4% for the quarter. By contrast, the average Capicraft portfolio was nearly 2% higher in March and ended the quarter approximately 11% stronger.

In our previous newsletter, we emphasised energy exposure, given its attractive valuation, a favourable capital cycle, and its ability to provide a form of hedging that few other asset classes can match.

From the newsletter:

“Few market participants appreciate the significant tailwind that lower oil prices have provided to the global economy over the past year, and how this has materially eased the task of central banks. This is likely also one of the largest macro risks for 2026. Should oil prices rise meaningfully, inflation could return quickly and place monetary policy back under pressure.”

When the conflict escalated and the Strait of Hormuz was closed, we already had a clear awareness of the potential shock to the global economy and financial markets. We moved quickly to reduce exposure to various equities and added additional hedges.

It was, however, necessary to look beyond the immediate impact and consider second- and third-order effects. Beyond energy, the Strait of Hormuz is a critical trade route for fertilisers and other chemical products, including sulphates, helium, and aluminium. A significant portion of the liquefied natural gas exported through this route is used in the production of nitrates, while sulphates play an important role in various mining processes, particularly in the processing of phosphates.

The oil price that is quoted daily is also not representative of the ultimate cost of diesel. Firstly, these are futures prices, while physical oil for immediate delivery continues to trade at a meaningful premium. Secondly, refinery margins have increased sharply and, in many cases, more than doubled.

As a result, input costs for farmers globally have increased materially — particularly in the Northern Hemisphere, just ahead of the spring planting season. In some cases, costs have already risen to levels that may influence planting decisions.

We therefore added, among other positions, December wheat contracts and March 2027 sugar contracts to our portfolios. We also hold North American fertiliser producers and initiated a position in a Brazilian sugar and ethanol producer.

Oil and gas producers supported our portfolios during March, but not nearly to the extent one would expect. The sector is simply not pricing in current oil prices.

The market is clearly attempting to look through the current crisis. This is also reflected in the term structure of oil prices. December contracts are currently trading approximately \$15 below June contracts, while contracts one year forward are trading at around \$75 per barrel. The implication is that the market is treating the current price spike as temporary.

In our experience, the greatest risks often lie in this type of timing mismatch between market pricing and physical realities.

Following the ceasefire on 7 April, markets stabilised, and at the time of writing, the S&P 500 has already recovered all post-conflict losses. Agricultural prices have declined as if nothing had happened, while the oil and gas sector has begun to sell off.

The market is therefore pricing in a resolution to the conflict. The damage to the supply chain, however, has already been done.

At present, approximately 13 million barrels per day of production is “shut-in” — a level that is, in all likelihood, unprecedented. These wells will only be brought back online once storage terminals begin to draw down, which in turn will only occur once the Strait reopens. Even then, the normalisation of flows will take time.

When the Strait reopens, most oil tankers will first exit the Gulf before new cargoes are loaded. Many shipping companies are likely to remain cautious about returning immediately, and empty vessels are currently weeks away from the region. In addition, many wells will not be able to resume prior production levels immediately, as system pressure has been lost.

The implication is that it may take months for energy production to return to pre-conflict levels.

The last vessels that left the Gulf at the end of February are only completing their deliveries this week. The bulk of the supply shock to the real economy therefore still lies ahead.

Markets, however, tend to react to expectations, while the real impact moves through the system with a lag.

Should the Strait not reopen soon, and/or should the conflict escalate again, the implications for bond and equity markets could be significant. The market, which is currently pricing in a short and contained conflict, may instead be forced to discount a more prolonged scenario — accompanied by one of the largest supply shocks in decades.

Why then is the market so quick to price in a resolution?

Firstly, the United States is currently doing a very effective (perhaps overly effective) job of reassuring markets through ongoing diplomatic engagement and negotiations. Secondly, the market has developed a strong “muscle memory” when it comes to how the White House responds to crises.

The acronym TACO (“Trump Always Chickens Out”) emerged to describe how policy is often scaled back once a certain pain threshold is reached. For the US, that threshold appears relatively low, given underlying fiscal and economic pressures. The government is burdened with significant debt, a credit cycle is deteriorating, the housing market is weak, Trump’s campaign promise was low inflation, and midterm elections lie ahead.

The most notable “TACO moment” was the tariff announcements of April 2025, after which markets recovered rapidly following a sharp sell-off. Similarly, markets rebounded quickly after the Covid sell-off in 2020. The market also remembers that the Russo-Ukrainian war did not result in the supply shock that was initially feared. As a result, few investors want to be caught offside when the next “TACO moment” arrives.

This relatively low pain threshold is, however, Iran’s greatest advantage. The strategy is simple: keep the Strait of Hormuz closed for long enough and/or disable sufficient infrastructure. US forces may be tactically impressive, but could still suffer a strategic setback if Iran’s pain threshold proves higher.

The market wants to move on quickly. We remain cautiously positioned — not only for a potential escalation, but for a world that will take time to normalise. Markets may move on quickly, but underlying adjustments take time. And even then, it is unlikely that the post-conflict environment will resemble what came before.

Your investment partner,

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