NORTHSTAR
ASSET MANAGEMENT

Market Report

QUARTER 4, 2026



Closer to the truth

This is Not a Time to be a Fool

WRITTEN ON 19 OCTOBER 2026



Adrian Clayton
CIO

Since 2008, cheap money has fuelled one speculative bubble after another, from meme stocks and SPACs to NFTs. Each followed the same script of hype, frenzy and collapse. We believe the AI trade is next in line, while a wealth of real, cash-generative businesses sits overlooked. This is a time for discipline, not folly.

.....

"The market giveth and the market taketh away, blessed be the market" is well understood by experienced investors; there is a natural pulse and surge through investment cycles.

But then there are rare occasions when darker perils await and this brings to mind a scene from the 1994 thriller Pulp Fiction where Samuel L. Jackson's famously modified version of Ezekiel 25:17 on judgement is expounded, which we modify again as "And you will know my name is the Market when I lay my vengeance upon thee."

Fortunately, such judgement will not await every investor – but it surely will be cast against the doors of the fools. How can we prevent this? What tests should we apply? What should we look out for?

The brevity of this article prevents me sharing our complete toolbox of wealth-saving lessons, but I can address key ones.

If it's too easy, it's going to end in pain! Successful investing demands gathering insights into how a company makes money. For example, Microsoft owns operating systems and its own datacentres. With a degree of accuracy, Microsoft's future cash flows are predictable. Understanding and modelling these allows us to work out what the share is worth today.

Since 2008, due to the Global Financial Crisis, when governments reduced the price of money, speculative bubbles have washed through markets. Assets have become mispriced, completely dislocating from what they are worth. Thematic, momentum trades have run hard.

Since 2008 this cheap capital has fuelled countless speculative pockets within markets; we talk to a few over the past decade.

- Meme stocks – retail communities on a trading platform were driven by media hype to enter a feeding frenzy, piling into certain stocks, for those only later to collapse. GameStop and Bed Bath & Beyond might come to mind. GameStop was $0.70 in April 2020, $81 by January 2021 and then back to $10 by April 2024.

- In 2021, SPACs (Special Purpose Acquisition Companies) arrived. Over 600 SPACs listed in the US, raising $160bn; subsequently most have halved in value. The best-known must be Trump Media & Technology Group. It came into existence in March 2024, rallying to $79 a share at the time and is currently $6.99!
- The cannabis stock mania. In anticipation of legislation and a view that the total addressable market was significantly larger than it turned out to be, marijuana producers actively increased supply from 2018 onwards. Of course, these lofty dreams proved erroneous, and the Global Cannabis Index is 94% lower than it was at its high in February 2021.
- Non-fungible tokens (NFTs) and digital art/collectibles. Not known by many, these are digital certificates of ownership that prove that the bearer of the certificate owns an item on the internet – everything from Bored Apes to digital land. Yet another crazed frenzy of capital poured into this space and guess what? Yup, you guessed right, over 95% of all NFT collections have dropped to a market value of zero since their highs in 2021.
- The same theme is applicable to the electric vehicle and batteries market in 2021. A massive run-up in value, only to fall on its face. The Solactive China Electric Vehicle and Battery Index has declined 41% since its peak.

It is 2026 and for many of us that have been at this for a long time, we can tell you without a shadow of a doubt that the next stinker is the AI trade – it walks, sounds and smells just like the capital expenditure cycles of the past.

We think of the railways that went bust in about 1890. Electrification did the same in 1930, then of course there was the internet bubble of 2000. All characterised by hype, speculation, debt and share prices that were not aligned with reality. Now AI is the talk of the town. We have no problem with the use case for the technology, rather our problem lies with the investment case.

Against this hype, a sea of fantastic businesses across the world have been left for dead by market participants. These businesses just aren't AI sexy! Many of these companies fit into the broadest categories of Maslow's hierarchy of needs – the wide base of physiological and safety needs – that serve our basic requirements for food, water and shelter. Operating tried and tested business models that produce real cash. They cannot be replaced by AI.

Finding and investing in these opportunities requires systems, research, hard work and bravery. There are no headlines to guide the search, no blazing lights. This is the space for craftsmanship, good old reading the annual report, and understanding a cash flow statement and balance sheet. It takes immense courage to apply logic in a world suffused with emotion. To swim against a surging tide.

But the market really never changes; it applies its oldest traditions with clinical detachment. In the long term, it giveth to the wise and those that toil. It encourages the fools, emboldening their greed only to then wash them out with merciless efficacy.

This is not a time to be a fool!

Tencent: Investing for Opportunity, Priced for Disruption



Joshua Reed
Analyst

South African investors are all too familiar with Tencent through years of volatility in Naspers and Prosus. Chinese policy headwinds, consumer weakness, and now concerns over AI disruption and investments have weighed on Tencent's share price. Assessing the current opportunity requires understanding whether China remains investable, where the returns from its AI ambitions may accrue, and how Tencent is positioned. At around 12 times forward earnings, the long-term opportunity is underappreciated.

Is China investable?

While our investment process is grounded in bottom-up analysis, China carries risks beyond the fortunes of individual businesses. Unpredictable policy intervention and geopolitical tensions have led some investors to regard it as uninvestable, while property sector weakness and subdued consumer demand add to the challenges.

However, China's Marxist-Leninist foundations do not imply an outright rejection of private enterprise. Under Deng Xiaoping, China embraced private enterprise and foreign investment as tools for economic development. These reforms reflected the view that China's 'primary stage of socialism' required greater productive capacity to achieve its long-term goals.

Under Xi Jinping, the balance has shifted towards stronger Party control and national security, but private enterprise continues to serve its economic ambitions through innovation, employment, and growth. The Private Sector Promotion Law, adopted in April 2025, reinforces this through provisions supporting fair competition and business rights. While commercial interests remain subordinate to political priorities, China's ongoing need for private-sector development and access to international markets, technology, and investment creates an incentive to uphold these protections.

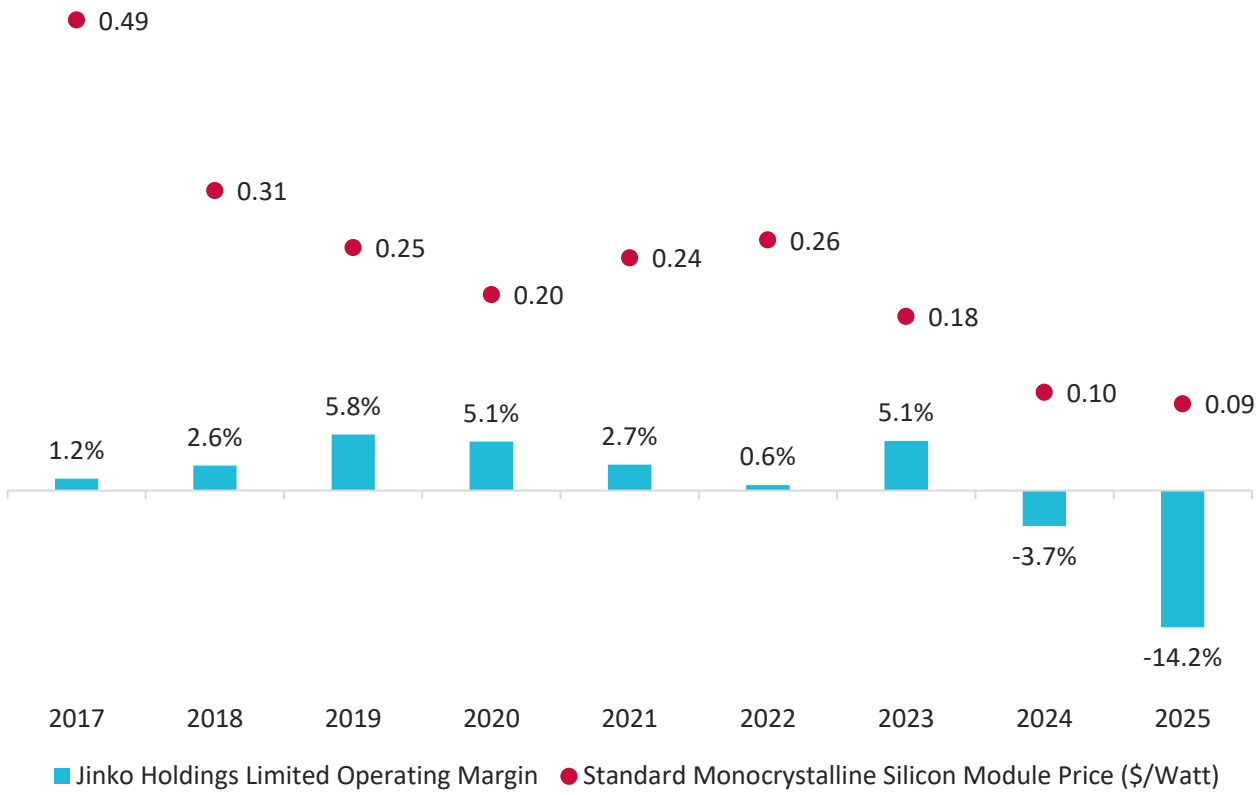
In our view, China remains selectively investable while private-sector contributions remain important to the leadership's development goals. Even with periodic policy setbacks, this alignment gives businesses sufficient runway to invest, earn sustainable profits, and return them to shareholders. Our focus remains on durable competitive advantages, sustainable cash generation, and valuations that adequately compensate for the risks.

AI in China: where will the returns accrue?

China's AI Plus policy supports investment in infrastructure, models, and applications to improve productivity across the economy. Affordable, widely available AI serves this goal, but the benefits may accrue to its users rather than the companies funding its development.

Solar provides a useful comparison. Subsidies and favourable financing helped China build a globally dominant industry, but also encouraged excess capacity that undermined pricing and profitability. As Chart 1 shows, even a market leader such as JinkoSolar struggled to protect margins as module prices fell, with rising input costs adding further pressure in 2025. The industry delivered cheaper energy, but poor returns for shareholders – a reminder that strong demand and scale offer limited protection when products are interchangeable and supply outpaces demand.

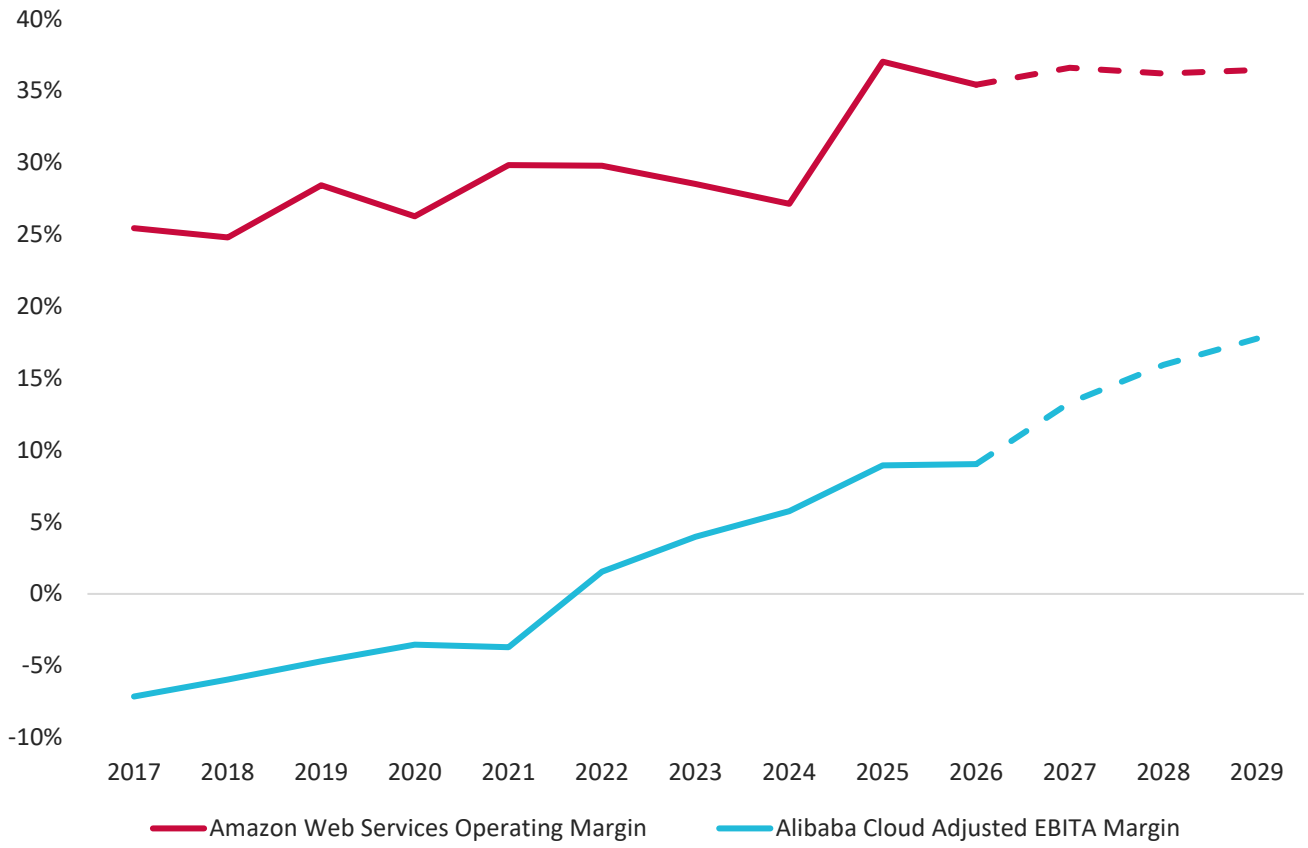
Chart 1: Overcapacity in solar weakened pricing and profitability



Source: Bloomberg, S&P Capital IQ

The implications for AI in China depend on where a business competes. Cloud computing providers are investing heavily to meet demand. Scale and higher utilisation can improve margins, while additional software and database services can strengthen switching costs and pricing power. Nevertheless, Chinese providers such as Alibaba are likely to remain less profitable than US peers as they prioritise growth, with Chart 2 illustrating the gap to AWS. Basic computing capacity remains difficult to differentiate, leaving margins vulnerable as supply expands. As in solar, if supply outpaces demand, competition could drive prices lower and erode returns.

Chart 2: Alibaba's cloud margins are improving, but remain below AWS's



Source: Bloomberg, S&P Capital IQ, Company Reports

Model developers in China face similar challenges. Z.ai, for example, remains heavily loss-making as it invests in development and adoption, in the hope that scale will eventually deliver sustainable profits. The investment burden extends to larger platforms, with consensus forecasts implying over US$30 billion in cumulative adjusted EBITA losses for Alibaba's AI Labs and Applications division over the next five years.

Intense competition and China's support for open models make returns on these investments uncertain, particularly for the smaller labs. Other providers can host publicly released models and charge for access without bearing the original development costs, creating scope to compete on price. In addition, as models become sufficiently capable for everyday tasks, customers have less reason to pay a premium for more advanced alternatives. As in solar, growing adoption may benefit customers without generating adequate returns for the companies funding development.

The question, then, is who is best placed to turn wider AI adoption into sustainable profits. In our view, established platforms offer a more attractive route to returns. Falling model costs can help improve services at a lower cost, while existing users, distribution, and commercial relationships provide ways to earn more from greater engagement, more effective advertising, and increased transactions. Tencent's extensive network positions it well to capture this opportunity.

Tencent: extending the network

Alongside its global gaming leadership, Tencent's investment case has long rested on its ability to deepen engagement and broaden monetisation across its entrenched network of users and businesses within Weixin – its all-in-one communication, content, and payments platform. Management's early emphasis on using AI to improve these businesses is already paying off. Within Weixin, better recommendations and advertising targeting are improving engagement and advertiser returns. In gaming, AI is accelerating content production, improving efficiency, and enhancing virtual characters and gameplay. These improvements reinforce the original investment case by generating more value from Tencent's established platform and franchises.

With this early success and improving model capabilities, management's ambitions have broadened. Tencent is now investing aggressively in computing capacity, models, and new products. This is partly defensive, as competing AI assistants aim to shift users' time and spending away from Weixin. However, Weixin's Mini Programs, merchant relationships, and payment infrastructure give Tencent a strong foundation for developing superior assistants.

Early signs are encouraging. WorkBuddy, its workplace assistant, is gaining traction, while Xiaowei is being tested within Weixin to help users find content, discover products, and complete transactions. Tencent is developing its own models around these applications, leveraging proprietary data to guide training, improve capabilities, and reduce costs. Returns must still be proven, but Tencent's ability to develop and distribute AI across an established network gives it a credible opportunity to strengthen its core businesses and create new sources of income.

Valuation: pricing in permanent headwinds

The current investment cycle is weighing on near-term earnings and cash flow. In the second quarter of 2026, non-IFRS operating profit grew 9% year-on-year, compared to 19% excluding New AI Products, highlighting the underlying strength of the core business. Positively, strong cash generation from established businesses and a substantial investment portfolio help Tencent fund the buildout while sustaining buybacks and limiting the need to dilute shareholders.

At around 12 times forward earnings, investors are paying a low multiple on an earnings base already depressed by investment spending. Adjusting for the investment portfolio and its associated earnings reduces the multiple to roughly 10 times. While investment returns remain uncertain, the valuation reflects considerable scepticism around China, AI investments, and disruption, while underappreciating the durability of Tencent's core business and the potential for current investments to strengthen it.

Weather it Matters: Our Top Picks as El Niño and Higher Fuel Prices Reshape the Soft Commodity Outlook



Palesa Mhlongo
Analyst

Higher fuel prices and a strengthening El Niño have brought an end to a kinder year for South African food producers, and soft commodity prices are already moving higher. In this article, we explain why we still favour Tiger Brands and Premier FMCG, two businesses with self-help levers that do not depend on a good harvest or cheaper oil.

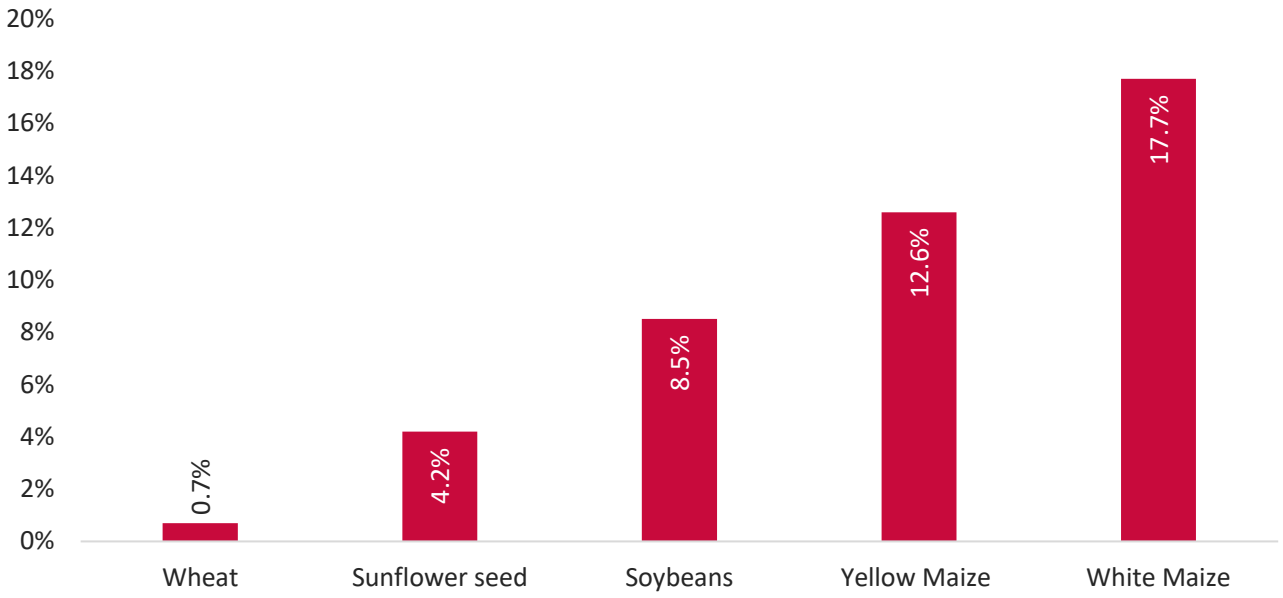
Background

At the start of the year, normalising food and fuel prices shaped a favourable outlook for food producers. For producers, lower input costs supported expectations of earnings recovery and margin expansion. Strong local harvests, including record production in some crops, and favourable La Niña conditions helped ease maize, wheat and soybean prices. Lower fuel prices added to this relief, with Brent crude at US$60 per barrel by the end of 2025. That backdrop has since become more challenging for the food producers.

The tougher commodity environment

Conflict in the Middle East, which broke out in late February 2026, pushed Brent crude to highs of US$117 per barrel on 23 October 2026, raising the cost of producing and transporting food. El Niño adds pressure from the supply side. The warmer counterpart to La Niña, it typically brings hotter, drier conditions to much of southern Africa, which can reduce crop yields and lift soft commodity prices. Together, higher production costs and the risk of weaker harvests could put further upward pressure on food prices. In September 2026, the South African Weather Service (SAWS) confirmed that a strong El Niño event had formed and was intensifying. Its expected strength has prompted descriptions of a potential “Super El Niño”, with SAWS forecasting below average rainfall towards mid-summer and a high likelihood of above average temperatures. A strong event does not guarantee drought, but the risk to agricultural supply deserves attention.

Chart 3: SAFEX commodity price increases (May 2027 futures)



Source: Bloomberg | as of 17 November 2026 versus 17 February 2026 for contracts expiring in May 2027

The increases in Chart 3 show that local commodity prices have already moved higher. Between 17 February and 17 November 2026, SAFEX spot prices rose by 9% for soybeans and 18% for white maize. Several influences lie behind these movements, so they should not be attributed to El Niño alone. Many industries will feel these changes, but food producers sit at their epicentre. We see opportunity in businesses whose operational improvements and competitive strengths can support future earnings, and where share prices offer sufficient value to compensate for the cyclical risks.

Food producers

Our picks: Tiger Brands and Premier, supported by self-help opportunities

For food producers, the challenge is straightforward. Fuel raises manufacturing and distribution costs, while higher grain prices increase the cost of ingredients. Companies can absorb the increases or pass them on to customers. Neither is painless. Absorbing costs reduces profits, while raising prices risks losing sales as households stretch already tight budgets. Manufacturers' selling prices have remained subdued despite these pressures. Stats SA recorded a small annual decline in food manufacturers' selling prices in September 2026. This does not mean their costs are falling. It means we need to look closely at how much they can save internally and how much they must eventually recover from customers.

We have seen these pressures before, although their causes differ. The 2015/16 drought lifted local food prices despite falling international oil prices. In 2022/23, Russia's invasion of Ukraine disrupted both energy and agricultural markets. Today, the timing matters as much as the direction of prices. Existing inventory and purchasing agreements can delay the impact, giving management some time to respond.

Tiger Brands: An experienced operator and scope to improve the cost base

At Tiger, Tjaart Kruger's experience supports our confidence in the turnaround. He led Premier from 2011 to 2021 before returning to Tiger in November 2023. We believe the market may underestimate the relevance of his knowledge of milling and baking. He understands the economics of turning grain into flour and bread, and where better execution can make a difference.

Tiger's Milling and Baking division, which includes wheat milling and Albany bread, has already improved its profitability. However, lower wheat prices and changes in the businesses included in the division also helped. We therefore cannot attribute all the improvement to management's actions. The investment case depends on further progress that can last beyond a favourable commodity cycle.

Its Super Bakery is a new industrial bread production facility for Albany in Pretoria. It is designed to reduce production costs per loaf and provide capacity for growth. Commissioning is expected later into 2027, subject to municipal approvals. Manufacturing consolidation and changes to distribution offer further scope to improve efficiency. Tiger has also targeted another R500 million in savings over two years. For scale, this equals approximately 1.5% of FY2025 annual revenue of R34.4 billion. Some benefits may be absorbed by higher fuel costs or reinvested in competitive pricing. Nevertheless, reducing the cost of producing and delivering food should leave Tiger better placed to compete.

These are improvements within management's control. They do not depend on a good harvest or falling oil prices, although project delays and weaker demand could slow their contribution to earnings. That distinction is important to our investment case.

Premier FMCG: Bakery efficiencies and the RFG opportunity

We like Premier for the efficiencies from its bakery investments and the opportunity to improve the combined business following its acquisition of Rhodes Food Group (RFG). We believe these opportunities offer a runway for earnings improvement over the next three to four years.

Premier is further along with its bakery investment. Its Aeroton bakery in Johannesburg is now in full production. The investment improves efficiency and expands capacity, allowing Premier to consolidate production from smaller, older bakeries. Commissioned in March 2026, it is designed to improve efficiency and expand capacity in the inland market. The focus now is on making full use of the investment, with sales volumes determining how much of that capacity is used.

Rhodes Food Group (RFG), a producer of packaged foods including canned fruit, vegetables and ready meals, adds another opportunity. The acquisition was completed in March 2026. Combining the businesses creates scope to buy ingredients more efficiently, share logistics and distribution infrastructure, and improve operations. Management expects annual savings of R100 million to R150 million once these benefits are fully realised.

The acquisition also broadens Premier beyond milling and baking. RFG now forms its Culinary business within Groceries, which also includes sugar confectionery and personal care products. This gives Premier more ways to grow, although delivering the benefits will require careful integration and continued attention to the underlying businesses.

A bigger business is not automatically a better one. We will look for evidence that the combination is reducing costs and supporting earnings, rather than relying on the acquisition alone to create value.

Conclusion

El Niño and higher fuel prices make the outlook for food producers more difficult. The soft commodity joyride has ended, but the opportunities within these businesses have not. Tiger and Premier have identifiable ways to improve how they manufacture and distribute food.

Higher costs may delay the benefits, and management still needs to deliver. Our conviction rests on improvements that can support earnings beyond this summer, together with the price we pay for them. We are backing businesses with the scope to become more competitive through the cycle.

NORTHSTAR

CIS DISCLOSURES

Boutique Collective Investments (RF) (Pty) Ltd ("BCI") is a registered Manager of the Boutique Collective Investments Scheme, approved in terms of the Collective Investments Schemes Control Act, No 45 of 2002 and is a full member of the Association for Savings and Investment SA.

Collective Investment Schemes in securities are generally medium to long term investments. The value of participatory interests may go up or down and past performance is not necessarily an indication of future performance. The Manager does not guarantee the capital or the return of a portfolio. Collective Investments are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees, charges and maximum commissions is available on request. BCI reserves the right to close the portfolio to new investors and reopen certain portfolios from time to time in order to manage them more efficiently. Additional information, including application forms, annual or quarterly reports can be obtained from BCI, free of charge. Performance fees will be calculated and accrued on a daily basis based upon the daily outperformance, in excess of the benchmark, multiplied by the share rate and paid over to the manager monthly.

Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax.

Boutique Collective Investments (RF) Pty Ltd retains full legal responsibility for the third party named portfolio.

Although reasonable steps have been taken to ensure the validity and accuracy of the information in this document, BCI does not accept any responsibility for any claim, damages, loss or expense, however it arises, out of or in connection with the information in this document, whether by a client, investor or intermediary. This document should not be seen as an offer to purchase any specific product and is not to be construed as advice or guidance in any form whatsoever. Investors are encouraged to obtain independent professional investment and taxation advice before investing with or in any of BCI/the Manager's products.

Income funds derive their income from interest-bearing instruments in accordance with Section 100(2) of the Act. The yield is a current yield and is calculated daily.

A feeder fund is a portfolio that invests in a single portfolio of collective investment schemes, which levies its own charges and which could result in a higher fee structure for the feeder fund.

THE FINANCIAL ADVISORY AND INTERMEDIARY SERVICES ACT, 2002

Northstar Asset Management Proprietary Limited is an authorised financial services provider in terms of the Financial Advisory and Intermediary Services Act 2002. All information contained in this document should not be construed, or relied upon, as advice. If you require financial and/or investment advice, please engage the services of an independent financial adviser.

INFORMATION AND CONTENT

The information and content (collectively 'information') accessible in this document are provided by Northstar as general information about the company and its products and services. Northstar does not guarantee the suitability or potential value of any information or particular investment source. Any information in this document is not intended nor does it constitute financial, tax, legal, investment, or other advice. Nothing contained in any service or any other content in this document constitutes a solicitation, recommendation, endorsement or offer by Northstar. Illustrations, forecasts or hypothetical data are not guaranteed and are provided for illustrative purposes only; returns or benefits are dependent on the performance of underlying assets or other variable market factors; there are risks involved in buying or selling a financial product; past performances are not necessarily indicative of future performances; and no guarantees are provided.

NORTHSTAR ASSET MANAGEMENT

Northstar Asset Management (Pty) Ltd
Registration No. 1996/001423/07 | FSP number 601
Suite 1A, Madison Place, Alphen Office Park, Constantia Road,
Constantia PostNet Suite #784, Private Bag X16, Constantia 7848
Tel +27 (0)21 810 8400 | Fax +27 (0)21 794 2885
info@northstar.co.za | www.northstar.co.za

DISCLAIMER

The Management of portfolios is outsourced to Northstar Asset Management (Pty) Ltd, (FSP) Licence No. 601, an Authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act, 2002. This information is not advice, as defined in the Financial Advisory and Intermediary Services Act (No. 37 of 2002). Please be advised that there may be representatives acting under supervision. The manager retains full legal responsibility for the co-named portfolios. Legal Information http://northstar.co.za/page/legal-information/