MENTENOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

22 July 2021

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We have decided to move all of our local TAA positions to neutral, except we have moved to moderately overweight in offshore equities and underweight in offshore bonds.

Figure 1: Houseview Tactical Asset Allocation

Asset class	--	-	Neutral	+	++
SA cash					
SA bonds					
SA inflation-linked bonds					
SA listed property					
SA equity					
Foreign cash					
Foreign bonds					
Foreign equity					
Foreign property					

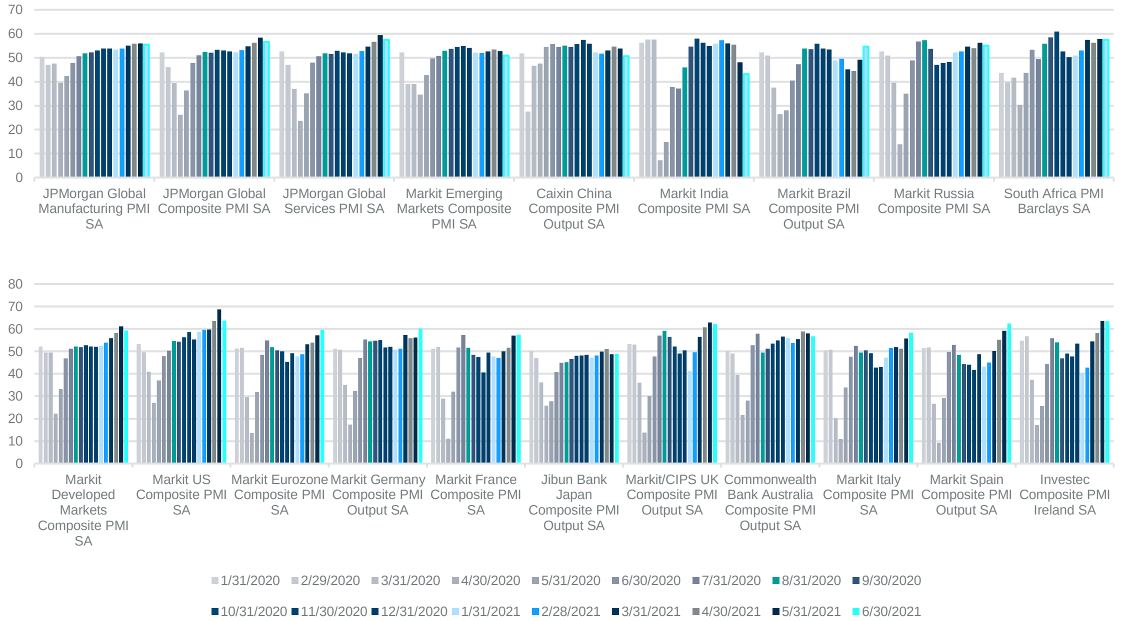
Synopsis

We reiterate our neutral position in SA inflation-linked bonds, SA equity, SA-listed property and offshore property, with our investment cases for these asset classes remaining largely unchanged over the past month. Local sentiment was mixed, but we expect some short-term improvement as COVID-19 restrictions are slowly lifted and unrest subsides. Nevertheless, we remain concerned about socioeconomic instability and the lack of a catalyst to turn around the structural weaknesses impeding local economic growth. Increasing reliance on social welfare has also jeopardised fiscal debt burden stability. We continued to prefer offshore equities to offshore bonds, owing to strong corporate earnings and a positive growth outlook for the remainder of the year. We moved from neutral to moderately overweight in offshore equities and neutral to moderately underweight in offshore bonds, as we believe we have reached the end of the rate-cutting cycle and equities tend to outperform bonds in a rising rate environment based on historical data, while keeping our overall offshore allocation at neutral. We also moved our overweight position in local nominal bonds to neutral as, although they remained attractive from a real and hedged-yield perspective, we are concerned that the potential rate movements and tapering decisions may reduce some of the rationale for carry trade.

TAA Overview

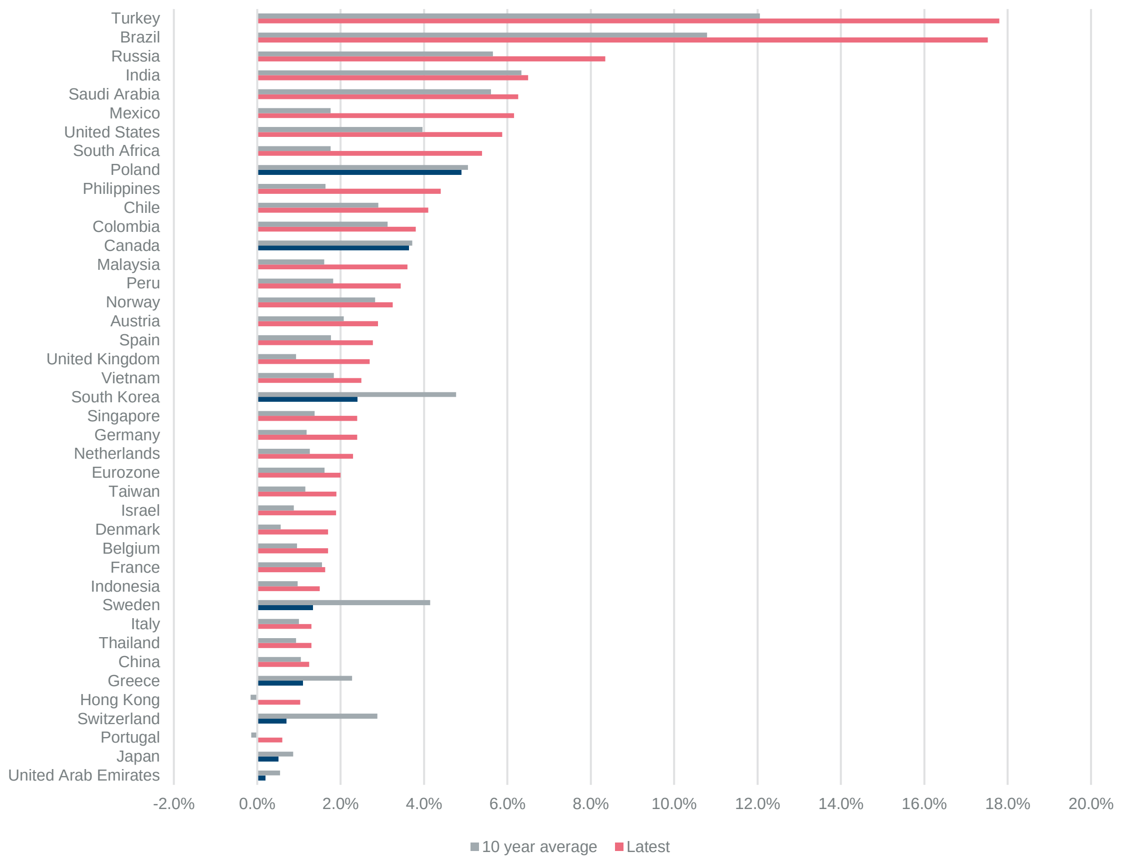
Offshore bonds	Inflation and growth are the two key topics that have been dominating news headlines over the past month. While economic measures have been improving, with consumer and business sentiment remaining relatively upbeat, inflation is heating up across the globe. PMI indices for most countries – both emerging and developed markets – have stayed in a strong expansionary zone, above the neutral level of 50. At the same time, the latest year-on-year inflation rates exceeded 10-year averages in many countries. Raw material prices, wages, and food and supply chain disruptions are some of the main reasons contributing to the price hikes as global economic activity picks up against the backdrop of accelerated vaccination campaigns, which have fuelled growth optimism.

Figure 2: Global PMI indices



Source: Bloomberg

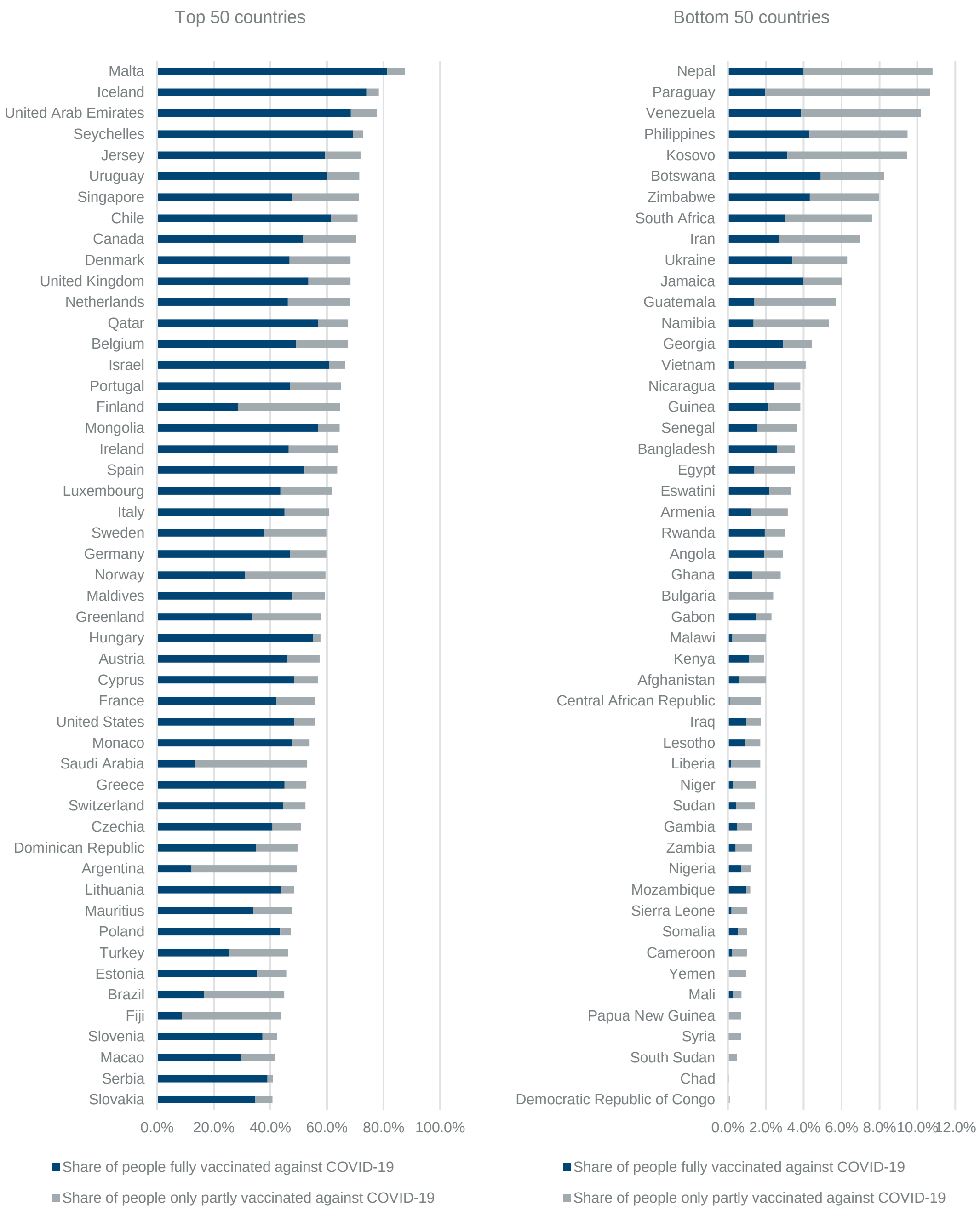
Figure 3: Latest global inflation rates vs 10-year averages



Source: Bloomberg

With regard to COVID-19, we have made two major observations. First, there is a growing vaccination divide between a few rich countries and the rest of the world. As at 20 July, the total share of people who were fully or partly vaccinated against COVID-19 in South Africa stood at about 7.6%. For the world, the share was about 26.7%. For many developed countries, the ratio has passed the 50% to 60% mark. This makes lower-income countries more vulnerable to new waves of infection and therefore they also face a higher risk of disruptions resulting from COVID-19 containment measures and restrictions.

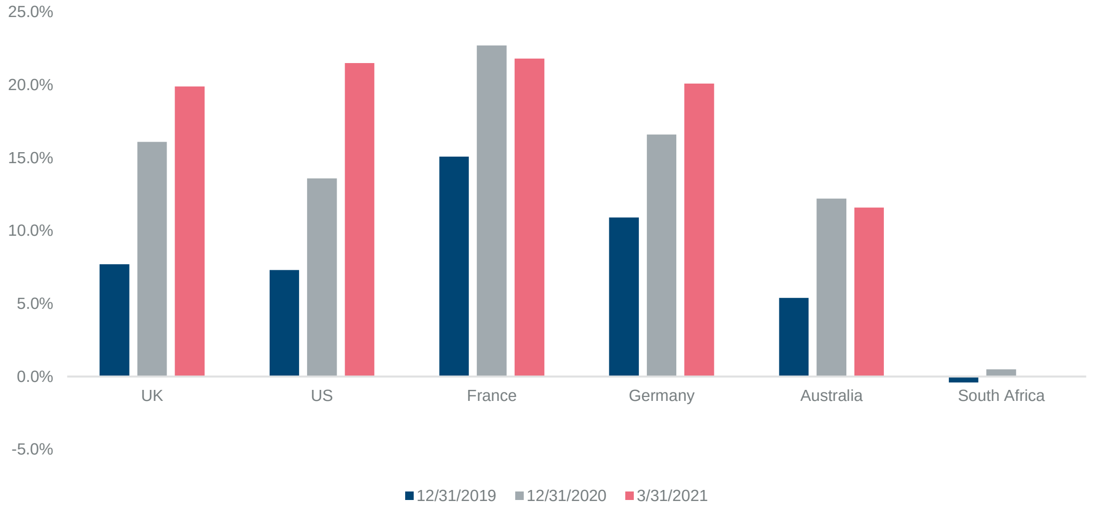
Figure 4: Share of people fully and partly vaccinated against COVID-19



Source: Our World in Data

Second, investors have also lately begun to worry about the surging number of cases in many developed countries of the ultra-infectious Delta variant, which could slow down the pace of economic recovery from the pandemic. While existing vaccines may not completely eradicate this virus and a growing number of breakthrough cases have been observed, especially among the elderly and immunocompromised people, vaccines are effective in preventing almost all severe cases. With a continued vaccination effort, better treatments and reinstated mask mandates, we expect that most economies will stay open, despite uneven recovery in different sectors. Developed countries will also get tailwinds from the extra savings accumulated during the pandemic. Lockdowns preventing people from shopping, asset price rallies supported by ultra-accommodative monetary policies and lucrative fiscal support mechanisms have seen the household savings ratio surge in major developed-market economies, thus potentially boosting their consumer consumption as economic recovery gets under way. However, in countries such as South Africa, fiscal constraints have made it difficult for the government to provide adequate financial support to the population during the pandemic. Moreover, the country's economic and job woes – which were evident long before COVID-19 – have not helped. According to the latest data, around 75% of South African household income goes towards paying down debt, with the long-term average standing at 70%, thus making meeting day-to-day expenses difficult and planning for retirement almost impossible for many.

Figure 5: Household savings ratio % of disposable income

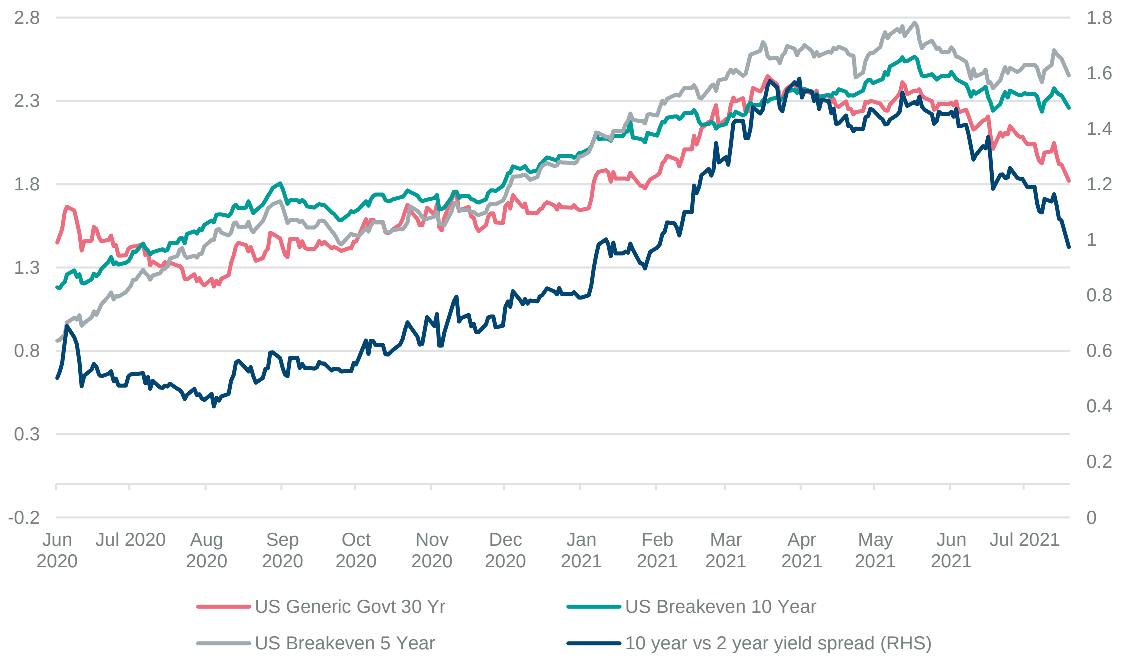


Source: Bloomberg

In the US, the Core PCE deflator is at its highest level since 1992. Its producer price surged past its 10-year average and its headline inflation reached 5% for the first time since the oil price boom of 2008. Higher housing prices also pushed up rent and translated into a higher shelter CPI subindex. The US 5-year breakeven inflation rate topped 2.77% on 17 May and has since trended lower to 2.50%. The US 10-year breakeven inflation rate also dropped to 2.30%, suggesting most bond investors and traders are confident that the Fed will be able to rein in inflation over the medium term, despite short-term overshoots.

We saw the US 30-year treasury yield dropping from 2.09% to 1.82% over the past month and the US 2-year treasury yield not moving much. Meanwhile, the US 10-year treasury yield dropped from 1.50% to 1.19% over the same period and as a result, the 10-year vs 2-year treasury yield spread narrowed from 129bps to 97bps.

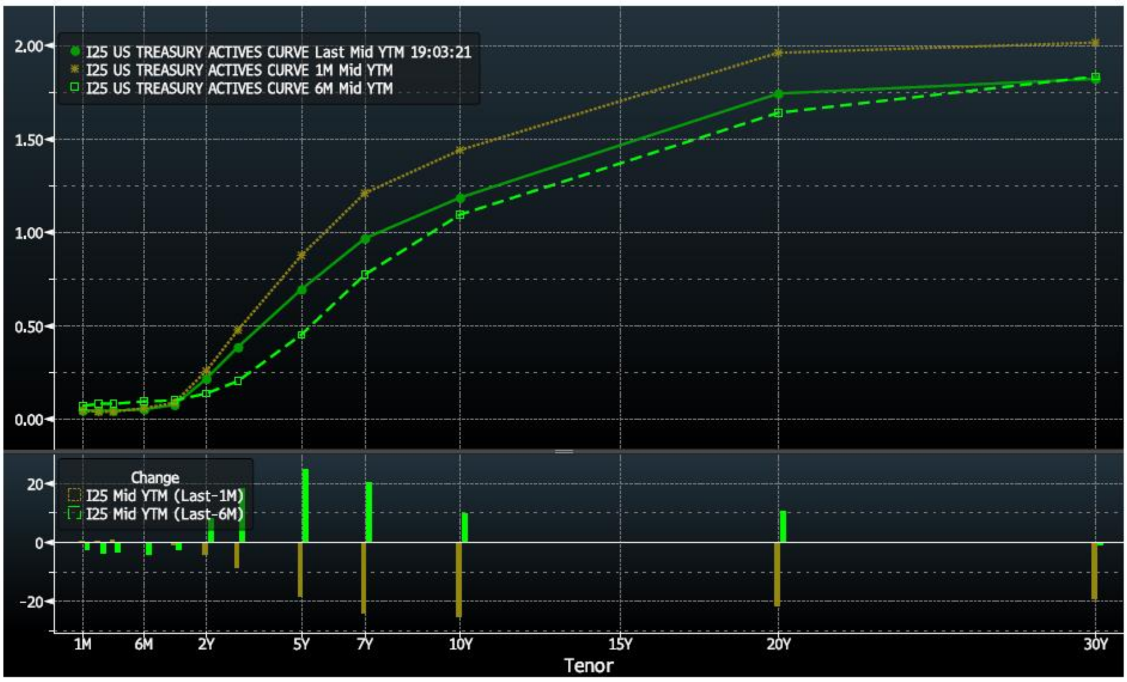
Figure 6: US treasury yields and breakeven inflation rates



Source: Bloomberg

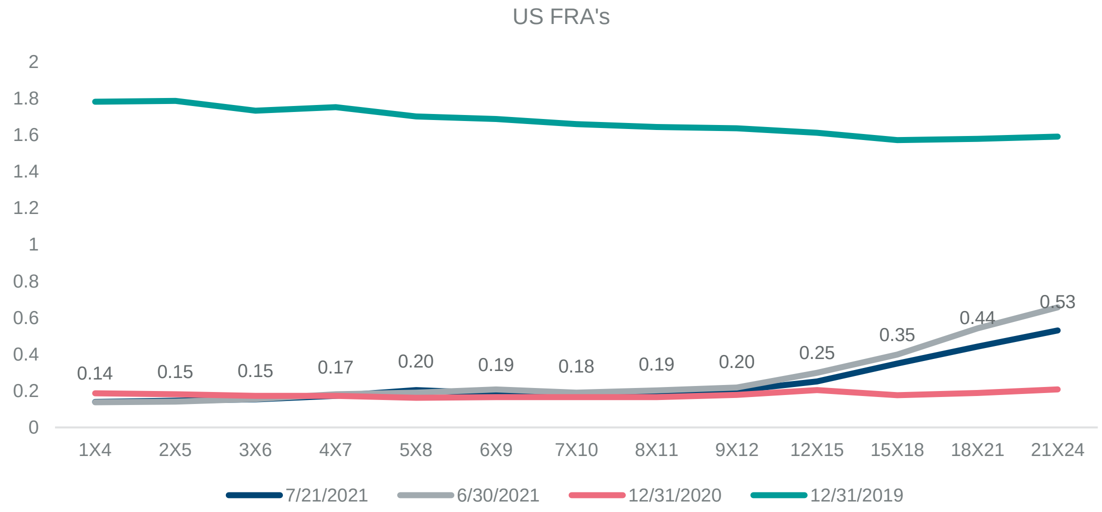
The US yield curve flattened over the past month as investors continued to reprice inflation and growth risk, holding short-term rates steady while reducing the risk that US inflation will remain above 2.0% over the long term. The FRA rates will continue to price in rate hikes over the next 12 months but at a slower pace than previously expected.

Figure 7: US yield curve as at 20 July 2021



Source: Bloomberg

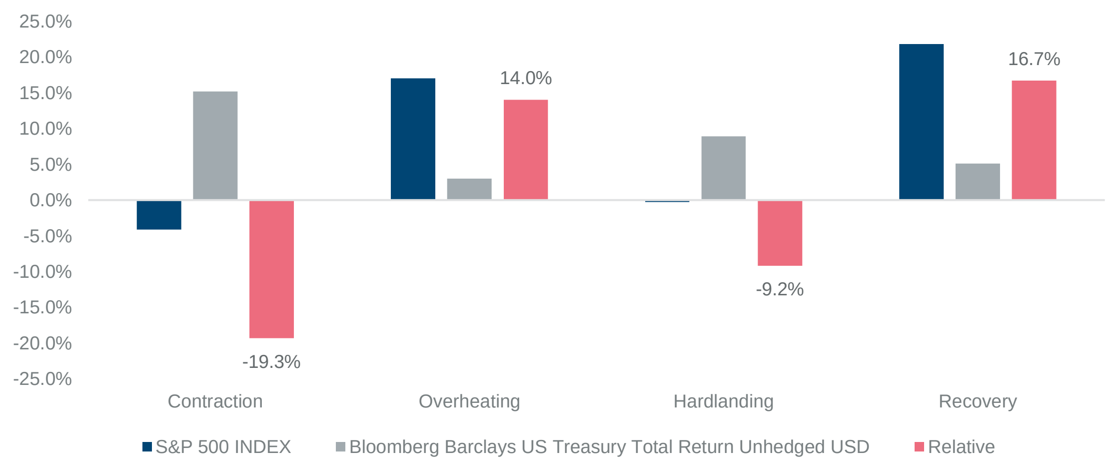
Figure 8: US forward rate agreements rate



Source: Bloomberg

While we do expect volatility ahead as inflation figures and economic data come through amidst rising numbers of COVID-19 infections, we still prefer offshore equities to offshore bonds. First, the recent surge in numbers of cases has prompted governments to accelerate their vaccination rollout programmes, which will enable further reopening down the road. Second, our recent analysis shows that equities tend to outperform bonds in a rising interest-rate environment. We used the US composite PMI index and categorised the business cycles into four phases: contraction (activities and momentum are declining), overheating (both activities and momentum are up), hard-landing (activities are up but momentum is declining) and recovery (activities are declining but momentum is up). As per the latest PMI number, we are currently in the overheating phase, with history suggesting that US equities still have an edge over US bonds. We have most likely reached the end of the rate-cutting cycle and are into the very early stages of the rate-hiking cycle, with real rates at an all-time low.

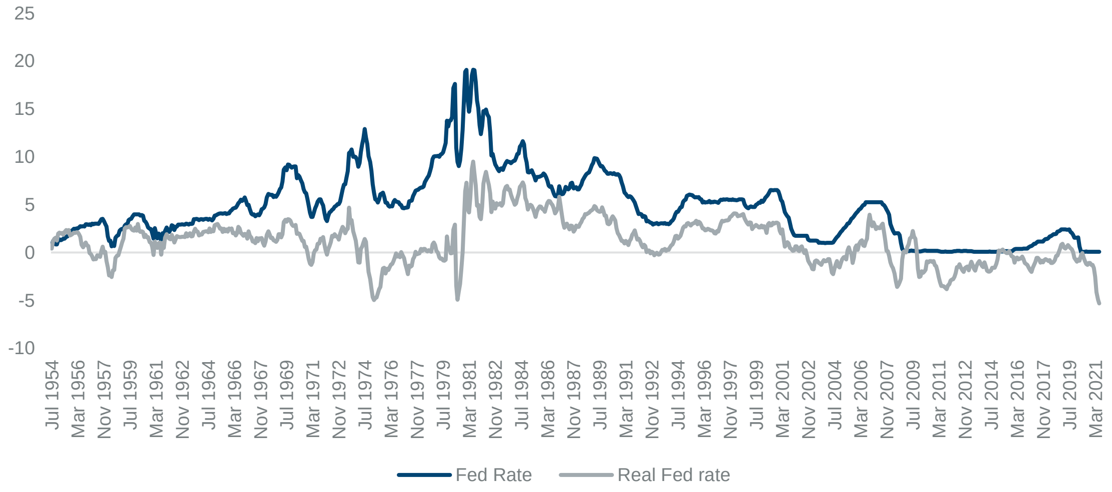
Figure 9: S&P 500 vs US treasury performance



Source: Bloomberg

The ECB has recently said that they will keep rates at present or lower levels until inflation projections get into line with target levels, suggesting more monetary policy easing may still be a possibility. For the US, the economic restart may see yields gradually rising. Overall, we have decided to go moderately underweight in offshore bonds and moderately overweight in offshore equities.

Figure 10: US Fed and real rate



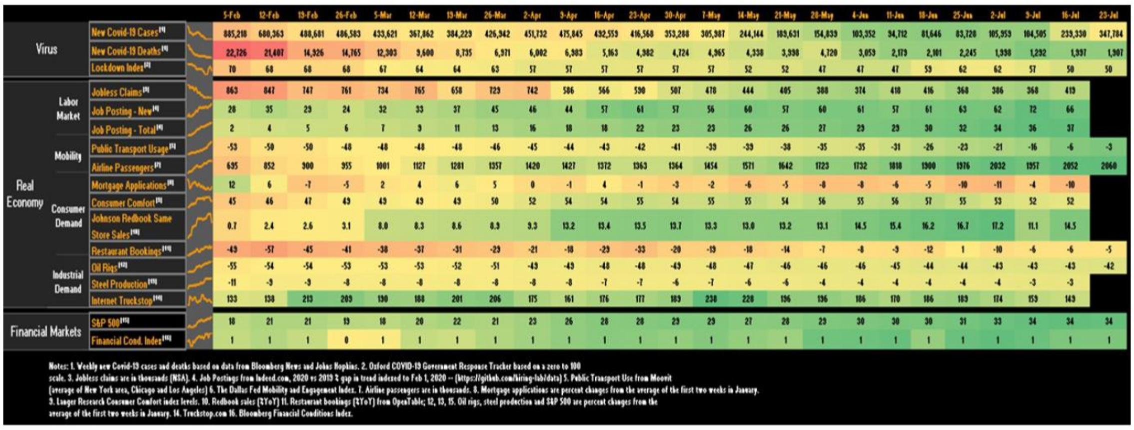
Source: Bloomberg

Offshore equities

Valuation scores for offshore equities remained largely unchanged over the past month, with local equities relatively more attractive than offshore equities. Sentiment in the US remained relatively strong, with notable improvements in the EU and Japan. The University of Michigan Consumer Sentiment Index softened slightly from 85.5 in June to 80.8 in July. The Conference Board Consumer Confidence Index and the Bloomberg US Weekly Consumer Comfort Index both remained solid, moving from 120.0 in May to 127.3 in June and from 55.4 in June to 52.2 in July respectively. Overall, manufacturing confidence was resilient, with business activity softening slightly from 34.9 in May to 31.1 in June, while the production outlook trended higher from 15.7 to 29.4 over the same period. Sentiment in the EU made some material gains. Consumer confidence improved from -5.1 in May to -3.3 in June, exceeding the long-term average of -10.0. The region's economic sentiment jumped from 114.5 in May to 117.9 in June, exceeding the long-term average of 100. The Euro Area Business Climate Indicator improved from 1.49 in May to 1.71 in June. Sentiment in Japan improved, with consumer confidence nationwide trending higher from 34.3 in May to 37.6 in June. Consumer sentiment about present economic conditions also improved from -69.4 in Q1 to -61.6 in Q2 2021, according to the survey conducted by the Bank of Japan.

The macro data continued to indicate largely similar trends from the previous month in all three economies. US retail sales month on month picked up from -1.0% in May to 1.1% in June. US export and import growth were both positive in May, up 0.6% and 1.3.% respectively, with outsized year-on-year growth of 41.0% and 37.9% respectively, due to base effects. The unemployment rate stalled in June at 5.9% from 5.8% in May, but the change in non-farm payroll numbers was surprisingly on the upside, adding 850,000 new jobs in June, which exceeded the market expectation of 720,000. However, initial jobless claims deteriorated into July, partly due to non-standard auto-industry retooling around chip shortages. The services PMI continued in expansionary mode, softening from 64.0 in May to 60.1 in June. The probability of a recession in the next 12 months, according to the New York Fed, ticked up from 6.11% to 7.08% over the past month. Despite the risk to growth and activities caused by the surge in numbers of infections, US consumer demand has so far remained relatively strong and the economic impact of the Delta variant is yet to materialise.

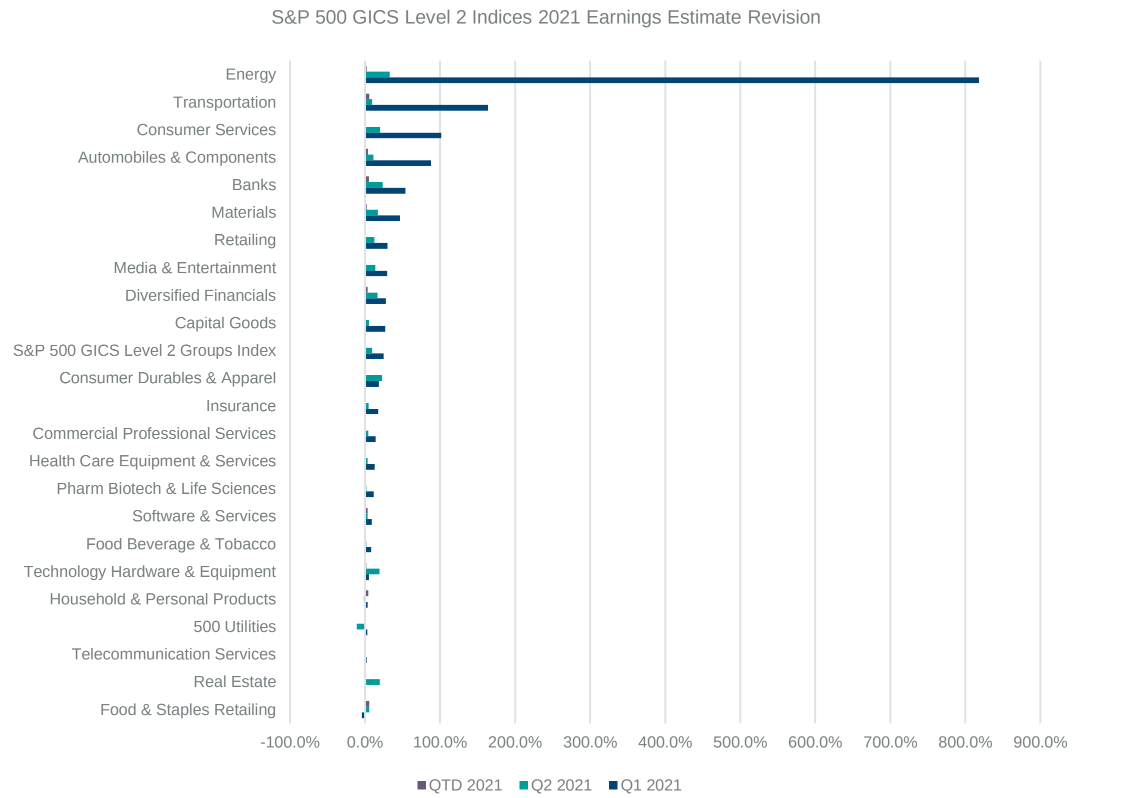
Figure 11: US high frequency data dashboard



Source: Bloomberg

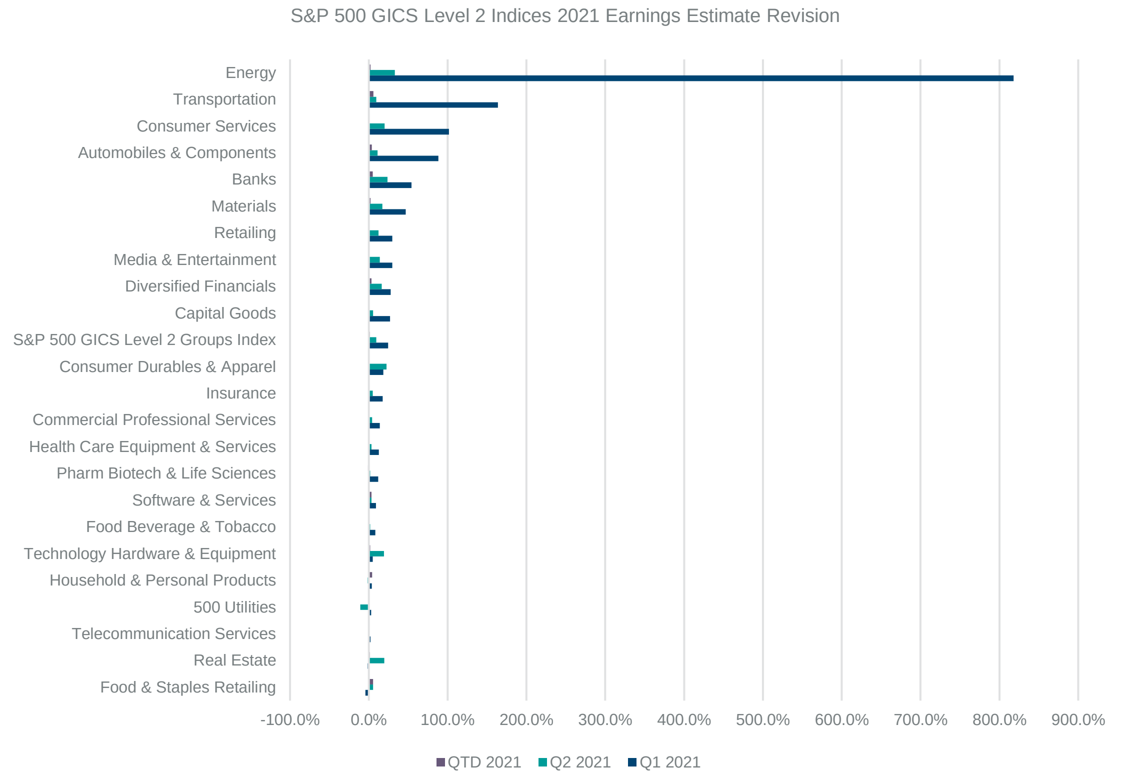
Sector rotations into financials and energy sectors stalled into Q3, despite the earnings outlook remaining positive which is yet to reflect the re-rating.

Figure 12: S&P 500 GICS Level 2 indices QTD 2021 earnings estimate revision



Source: Bloomberg

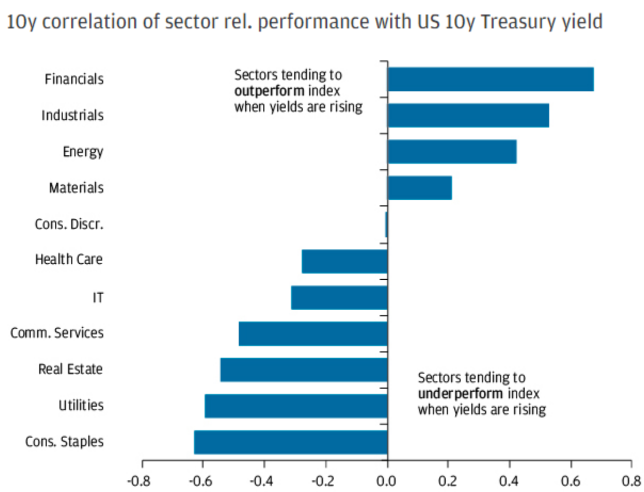
Figure 13: S&P 500 GICS Level 2 indices returns



Source: Bloomberg

According to research conducted by JP Morgan, sectors such as financials, industrials, energy and materials are the ones that tend to outperform the market when yields are rising, based on a correlation of the equity and treasury yield. Our in-house analysis has shown that sectors such as technology, consumer services, retailing and capital goods are the ones that tend to do well in the 6 months and 12 months leading up to the first rate hike in a rate-hiking cycle.

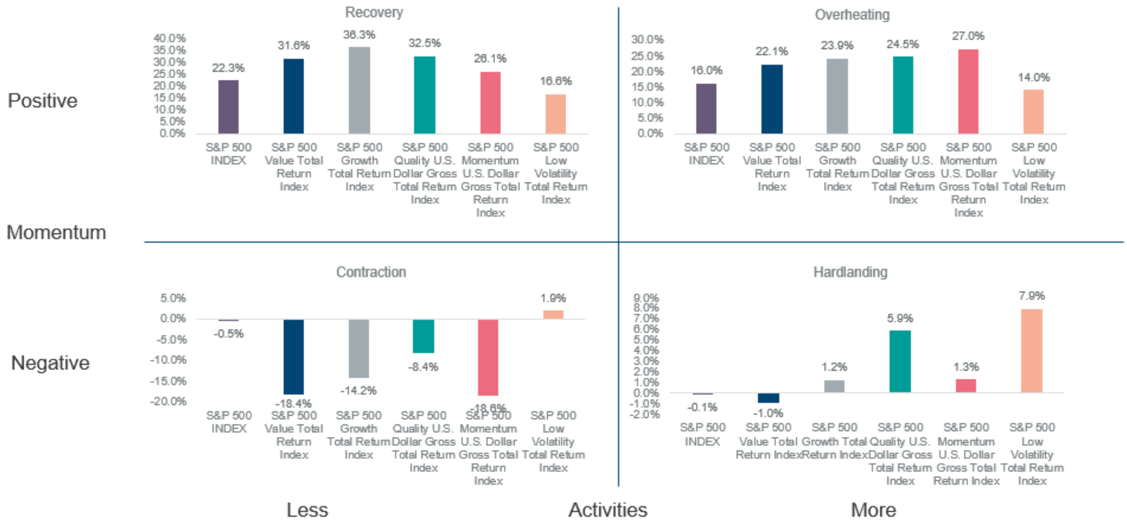
Figure 14: Correlation of S&P 500 sectors to US 10-year treasury yield



Source: JP Morgan

In terms of styles, for investors who are concerned about downside risk, it may be time to rotate some overexposures from momentum to quality and low-vol counters. But the latest PMI numbers suggest that we are still in the overheating phase, which means, on average, that most style indices, except for low vol, have outperformed the market.

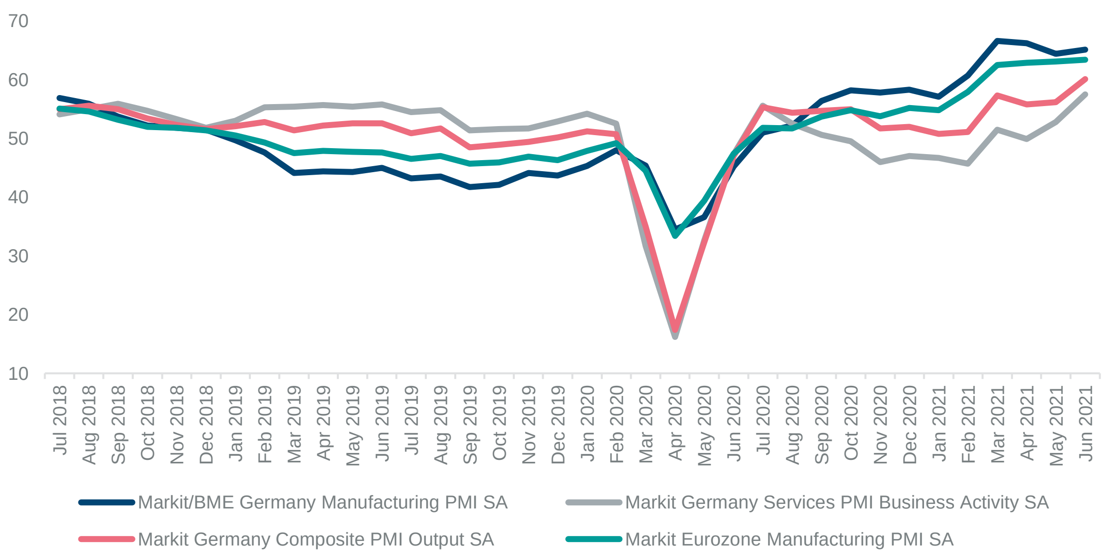
Figure 15: Performance of US style indices over different stages of the business cycle



Source: Bloomberg

Retail sales growth year on year in the EU normalised from 23.9% in April to 9.0% in May, with retail sales showing a reversal from a 3.1% contraction in April to a 4.6% gain in May, month on month. We have seen the unemployment rate ticking lower into 2021 in Germany, France, the UK and the Eurozone. The Eurozone and Germany manufacturing PMIs and Germany services PMI remained in a strong expansionary zone in June.

Figure 16: Eurozone and Germany PMIs



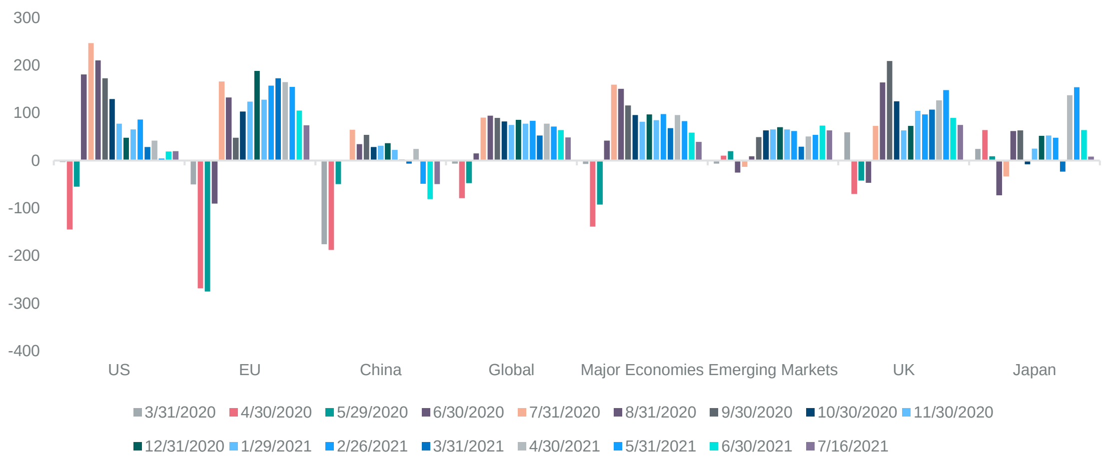
Source: Bloomberg

Retail sales in Japan are still down, contracting by 0.4% in May, which was an improvement from -4.5% in April, month on month. Industrial production ticked up from 15.9% in April to 21.1% in May, year on year, but month-on-month growth declined by 6.5%. Trade data were more positive, with export and import growth up by 2.4% and 4.0% respectively, month on month, in June.

In the Asia-Pacific region, China continued on its steady path of economic growth and recovery. We observed that China's GDP year on year for Q2 2021 was up by 7.9%, slightly missing the consensus figure of 8.0%. China's manufacturing and non-manufacturing PMIs remained in expansionary territory, at 50.9 and 53.5 respectively, in June. China's exports and imports also grew by 20.2% and 24.2% respectively in June, year on year. Korea's exports and imports followed the same trend, up by 39.8% and 40.7% respectively year on year in June. China's retail sales were up by 12.1% in June year on year, beating the market expectation of 10.8%. Industrial production year on year was up by 8.3% in June, exceeding the market expectation of 7.9%.

The return on equity for the S&P 500 improved further from 13.90% in May to 14.54% in June. The return on equity for the STOXX 600 softened slightly and the NIKKEI 225 ticked up marginally over the same period.

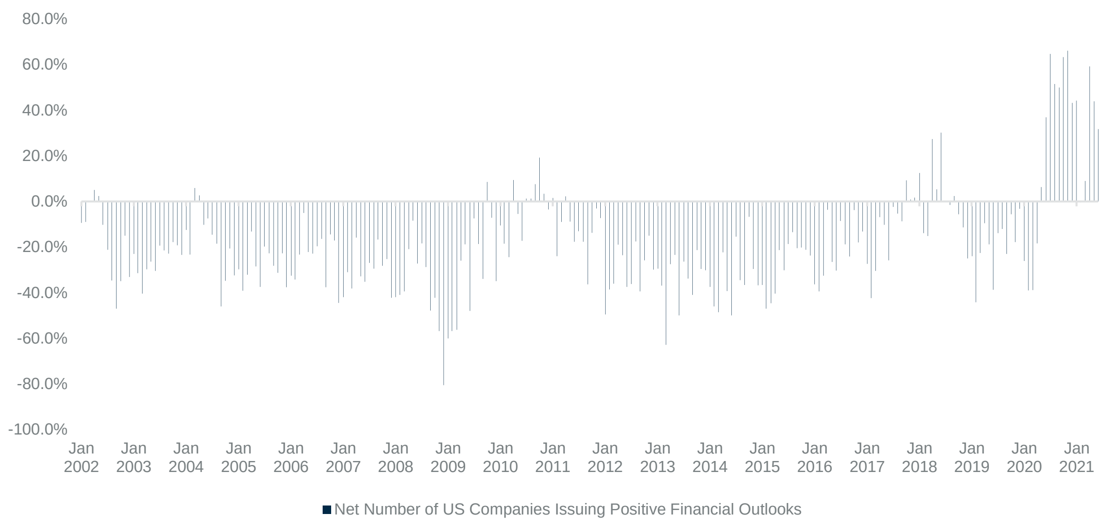
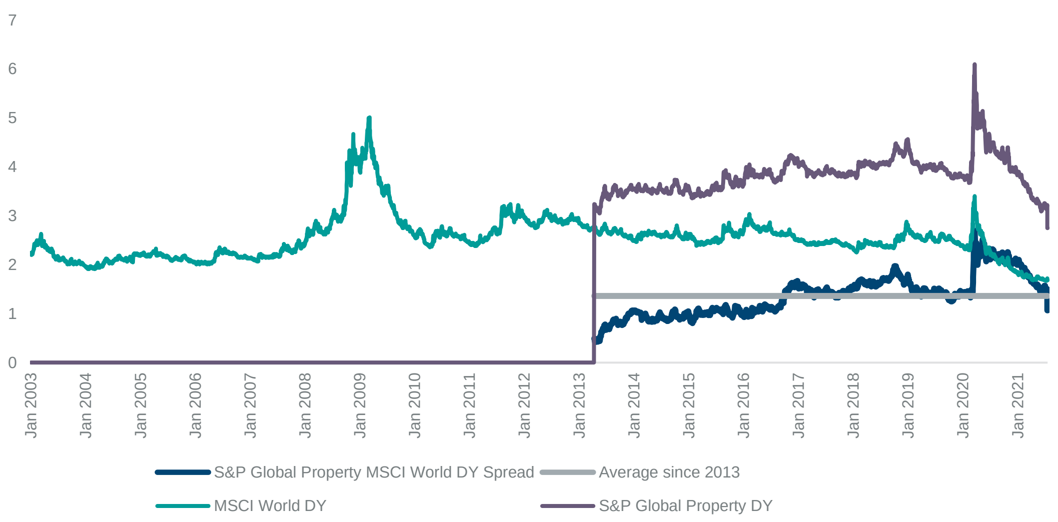
Figure 17: Economic surprise indices



Source: Bloomberg

The economic surprise index remained in positive territory for most major economies, except for China, showing that the reported economic figures largely exceeded market expectations.

Our views on offshore equities have remained unchanged but we have moved from neutral to moderately overweight. Earnings growth has been strong, with more than 85% of the S&P 500 firms reporting results so far that have beaten analysts' forecasts and the majority of companies issuing neutral to positive financial outlooks. Massive household savings accumulated over the pandemic should constitute another tailwind if COVID-19 infections are contained through a global joint vaccine effort that enables the world economy to move closer to a state of normalcy. Lastly, in the face of higher inflation, some subcomponents may be temporary, while others may be more persistent. What is certain is that we have reached the end of the rate-cutting cycle. In

	a rate-hiking environment, equities tend to outperform bonds based on historical data. Therefore, we kept our offshore exposure at neutral but favoured equities over bonds. **Figure 18: Number of US companies issuing positive financial outlooks**  *Source: Bloomberg*
Offshore property	From a valuation perspective, global property is becoming increasingly expensive as restart optimism has resulted in this sector becoming one of the best-performing asset classes for the year to date. The spread between its yield and that of the MSCI World Index dropped below the long-term average. Its price-to-tangible-book value ticked up from 1.48x in May to 1.5x in June, with fundamental measures such as operating margin and return on equity showing some nascent signs of recovery over the past month. However, given the current valuation, the Delta variant uncertainty in the short term and the fact that sizable improvements in the fundamentals are yet to materialise, we therefore chose to stay neutral in offshore property. **Figure 19: S&P Global Property dividend yield spread relative to the MSCI World Index**  *Source: Bloomberg*

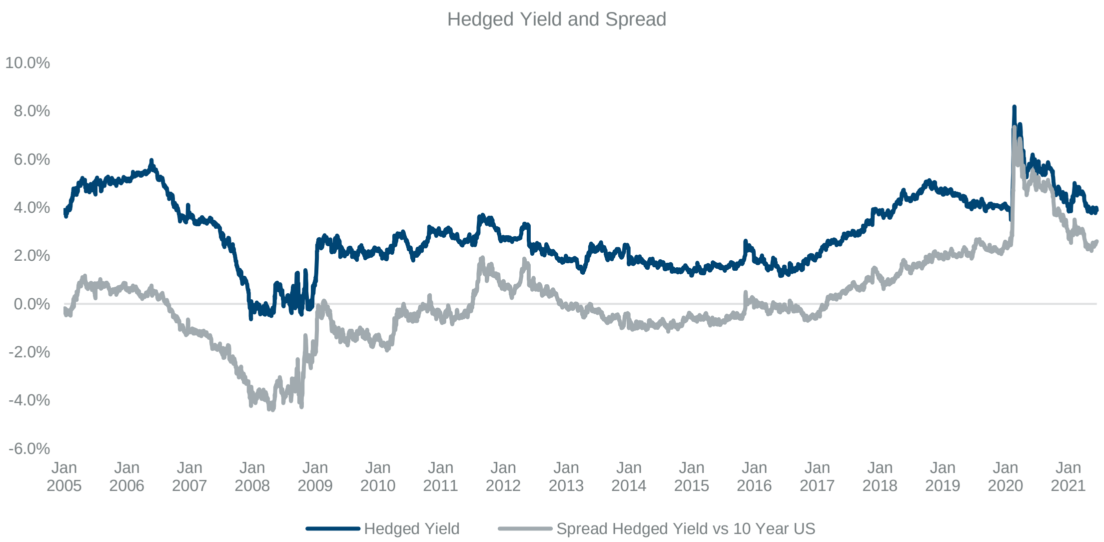
SA bonds

Turning to domestic markets, net outflows of foreigners' holdings of SA bonds worsened into July, with net year-to-date sales of SA bonds as at 16 July 2021 moving (since our previous TAA meeting) from -$2.6bn to -$3.7bn. Furthermore, foreign investors' appetite for local equities waned, with net sales declining from -$1.4bn to -$3.6bn over the same period. The 10-year nominal bond remained attractive as it was trading at 8.9%, above the implied 10-year yield of 4.0%. The implied vs actual yield spread narrowed from 520bps on 31 May to 490bps on 30 June. The 10-year nominal yield spread over the US 10-year treasury yield widened slightly from 7.32% to 7.41%, exceeding the long-term average by 114bps. The US dollar-hedged 10-year yield continued to offer value, widening slightly from 3.8% to 3.9% over the past month. At the same time, the hedged yield premium over the US 10-year yield also widened from 231bps to 260bps.

Figure 20: South Africa 10-year nominal yield vs implied yield as at 30 June 2021

Source: Bloomberg

Figure 21: US$-hedged 10-year bond yield over time



Source: Bloomberg

SA nominal bonds still appeared attractive compared to Brazilian nominal bonds, based on real yield and calculated from reported inflation. In this regard, the real yield spread of SA 10-year over Brazilian 10-year decreased from 337bps to 325bps over the past month. The spread of the 10-year bond yield adjusted for expected inflation, based on the Bloomberg survey of economists, widened from 71bps to 110bps over the same period.

Figure 22: SA bond yields vs EM peers as at 19 July 2021

	South Africa	India	Indonesia	Russia	Mexico	Brazil	Turkey
10 Year Yield	**9.32%**	**6.21%**	**6.37%**	**7.12%**	**6.94%**	**9.22%**	**17.42%**
Inflation	5.2%	6.3%	1.33%	3.3%	5.9%	8.4%	17.5%
Inflation Expectation	4.10%	6.20%	2.20%	5.10%	4.06%	5.10%	15.00%
10 Year Real Yield	**4.12%**	**-0.05%**	**5.04%**	**3.82%**	**1.06%**	**0.87%**	**-0.11%**
10 Year Real Yield based on inflation expectation	5.22%	0.01%	4.17%	2.02%	2.88%	4.12%	2.42%
Currency Risk Premium	**5.18%**	**3.48%**	**3.62%**	**4.40%**	**4.01%**	**5.25%**	**12.03%**
Sovereign Risk Premium	**2.85%**	**1.44%**	**1.46%**	**1.43%**	**1.64%**	**2.68%**	**4.10%**
US 10 Year Yield	1.29%	1.29%	1.29%	1.29%	1.29%	1.29%	1.29%
S&P Rating - Foreign Currency	**BB-**	**BBB-**	**BBB**	**BBB-**	**BBB**	**BB-**	**B+**
Moody's Rating - Foreign Currency	**Ba2**	**Baa3**	**Baa2**	**Baa3**	**Baa1**	**Ba2**	**B2**

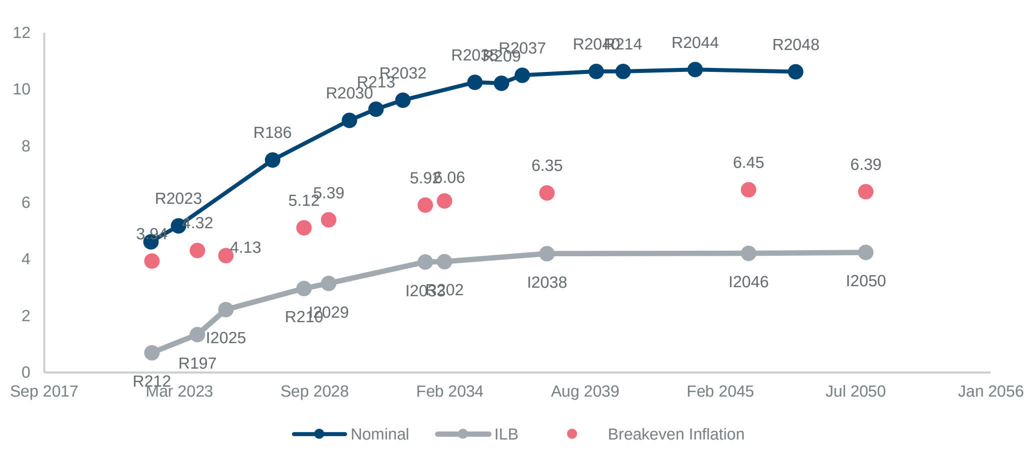
Source: Bloomberg

Local nominal bonds remained attractive from a valuation perspective. However, we moved from moderate overweight to neutral as we were concerned that potential US and SA rate and tapering movements may put a squeeze on the hedged yield and dent the rationale for carry trade.

SA inflation-linked bonds

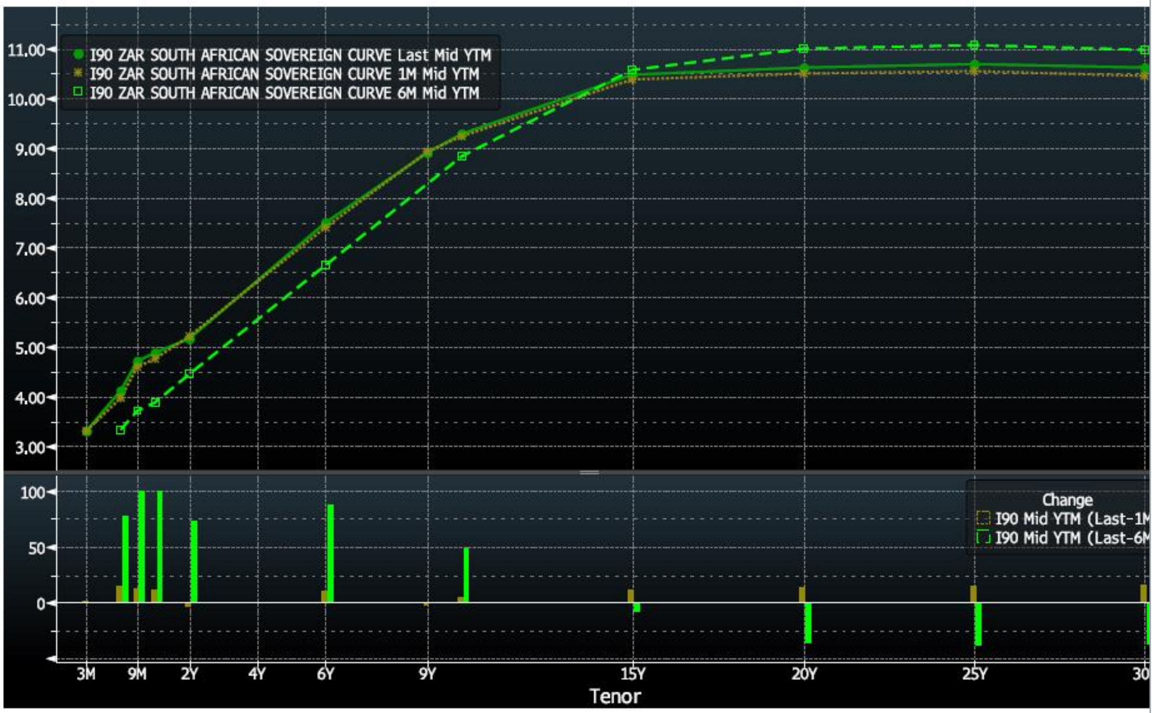
The IGOV Index underperformed against the ALBI in June, returning -1.6% vs 1.1%, and also underperformed against the latter for the month to date, as at 26 July, returning -0.1% vs 0.1%. Breakeven inflation decreased by about 20bps on the shorter end and increased by about 4bps on the longer end of maturities, driven by near-term inflation expectations. The nominal yield curve remained unchanged and the inflation-linked bond yield curve shifted slightly higher over the past month.

Figure 23: SA nominal and real yields as at 19 July 2021



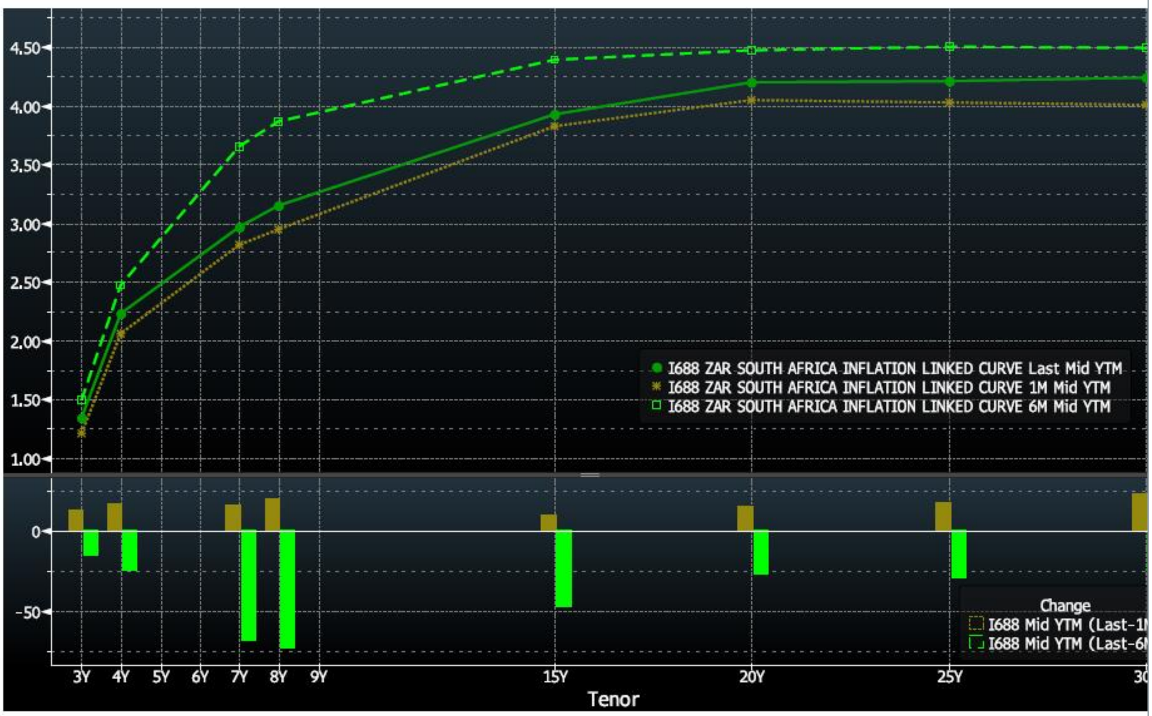
Source: Bloomberg

Figure 24: SA nominal yields as at 19 July 2021



Source: Bloomberg

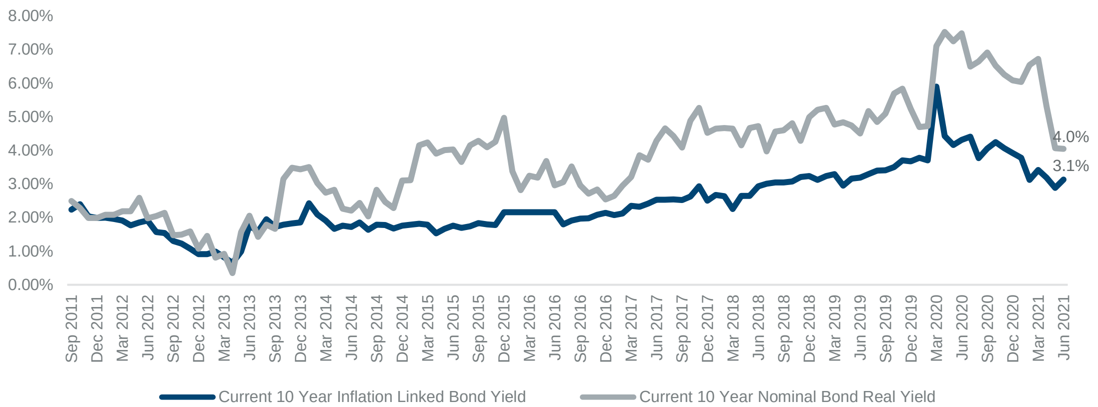
Figure 25: SA inflation-linked yields as at 19 July 2021



Source: Bloomberg

The spread between the 10-year nominal bond real yield and the 10-year inflation-linked bond yield narrowed slightly from 110bps in May to 90bps in June.

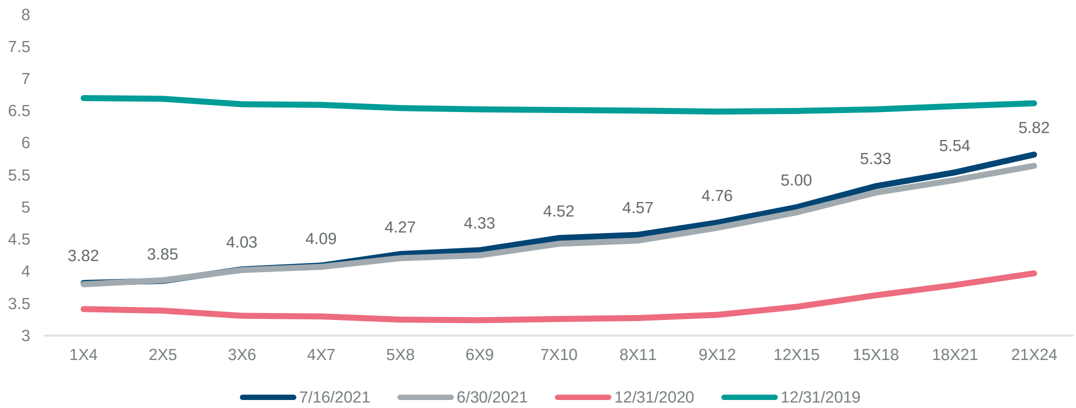
Figure 26: 10-year real yield of nominal bond vs inflation-linked bond as at 30 June 2021



Source: Bloomberg

The forward rate agreement (FRA) rates indicated that the market still expects interest rates to rise by at least 25bps by the end of 2021 but to price in slightly faster rate-hike movements. Although we favour inflation-linked bonds' ability to provide protection against unexpected inflation movements, from a valuation perspective we still lean slightly more towards nominal bonds. The June CPI of 4.9% retreated slightly from 5.2% seen in May. Short-term inflation upside risk factors may be a surging oil price, volatile exchange rates, and higher utility and food costs, but domestic demand continues to be lacklustre as local economic growth remains vulnerable. Therefore, we reiterate our neutral stance on inflation-linked bonds.

Figure 27: Forward rate agreement rates



Source: Bloomberg

SA equities

Major equity indices put in a mixed performance in June in local currency terms as investors unwound bets on higher growth and inflation data, but the weak ZAR performance in June has amplified offshore denominated returns. The rand extended its slide by 3.6% for the month to date (as at 26 July) with the SARB keeping the rate unchanged.

Figure 28: Major indices and asset class returns in ZAR

30 June 2021 (ZAR)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)	MTD 26 July 2021
FTSE/JSE ALSI Total Return	-2.4%	0.0%	13.2%	25.1%	8.1%	8.1%	10.9%	2.8%
FTSE/JSE Capped SWIX Total Return	-3.0%	0.6%	13.3%	27.6%	4.8%	4.3%	9.8%	1.0%
S&P 500 Total Return	6.5%	5.3%	12.5%	16.0%	20.3%	17.0%	23.8%	6.2%
STOXX 600 Total Return	2.4%	4.1%	8.9%	11.5%	10.6%	10.2%	14.2%	4.8%
Nikkei 225 Total Return	2.6%	-4.6%	-3.7%	5.0%	12.4%	13.0%	18.5%	0.4%
MSCI World Total Return	5.7%	4.6%	10.6%	15.1%	17.1%	14.9%	19.9%	5.4%
MSCI ACWI Total Return	5.6%	4.3%	9.8%	15.2%	16.7%	14.6%	19.1%	4.2%
MSCI EM Total Return	4.4%	2.0%	5.0%	16.5%	13.2%	12.8%	12.8%	-3.6%
STEFI	0.3%	0.9%	1.8%	4.0%	6.1%	6.6%	6.3%	0.3%
ALBI	1.1%	6.9%	5.0%	13.7%	9.2%	9.2%	8.5%	0.1%
IGOV	-1.6%	3.0%	7.7%	14.8%	4.9%	3.2%	6.4%	-0.1%
WGBI	3.1%	-2.1%	-7.1%	-17.0%	5.0%	1.1%	9.3%	4.4%
SAPY Total Return	3.4%	12.1%	19.3%	25.2%	-8.9%	-6.9%	5.1%	-0.8%
MSCI US REIT Total Return	7.0%	8.6%	18.9%	13.7%	11.6%	5.8%	17.9%	7.9%
S&P Global Property Total Return	5.0%	4.8%	11.1%	8.6%	8.3%	5.7%	15.6%	5.5%
STOXX 600 Real Estate Total Return	2.4%	8.2%	2.6%	7.1%	5.5%	5.2%	13.1%	8.7%
Crude Oil	12.9%	14.7%	41.5%	50.4%	-0.5%	8.1%	3.5%	2.3%
Aluminium	5.8%	10.6%	24.4%	28.4%	7.2%	8.3%	7.8%	3.0%
Copper	-4.9%	3.5%	17.8%	28.4%	13.8%	13.5%	7.7%	7.9%
Gold	-7.2%	3.7%	-6.8%	-0.6%	12.2%	6.0%	1.7%	1.6%
Platinum	-5.9%	-12.2%	-2.1%	6.8%	9.5%	0.5%	2.8%	2.5%
Nickel	0.0%	0.0%	0.0%	0.0%	-4.9%	5.0%	1.2%	0.0%
Palladium	2.4%	2.7%	10.9%	18.0%	44.7%	35.2%	22.8%	-1.4%
Iron Ore	9.5%	32.8%	34.8%	77.5%	53.8%	30.9%		-3.8%
USDZAR	4.0%	-3.3%	-2.8%	-17.7%	1.3%	-0.6%	7.8%	3.6%
GBPZAR	1.2%	-3.0%	-1.7%	-8.2%	2.9%	0.1%	6.2%	3.5%
EURZAR	0.9%	-2.3%	-5.6%	-13.1%	1.8%	0.7%	5.6%	3.2%
JPYZAR	2.5%	-3.7%	-9.6%	-20.1%	1.2%	-2.1%	4.3%	4.4%

Source: Bloomberg

Strong corporate earnings have lifted US equities, while the easing of restrictions, despite surging infection numbers, has supported global equities into July. At the same time, investors have returned to emerging market ETFs after a one-week pullback and stock funds were the main contributors to the $1.24bn inflow, with Brazil posting the largest outflow. There were also strong inflows into the Chinese internet fund, suggesting that investors expect a rebound in Chinese equities, despite the government's crackdown on big technology firms. Following our TAA meeting, the regulatory overhaul in China dampened risk sentiment to some extent.

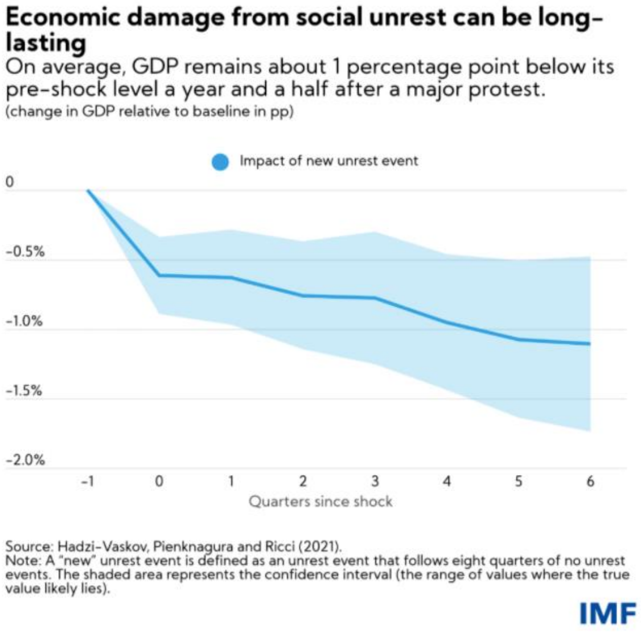
Figure 29: ETF net flows into developed and emerging market ETFs for the week ending 13 June 2021

Source: Bloomberg

SA equity valuations based on price ratios and dividend yields continued to suggest a moderate underweight position. Sentiment was mixed, with the Bureau for Economic Research Consumer Confidence Index dropping from -9 in Q1 to -13 in Q2. The SA PMI index remained in strong expansionary territory, largely unchanged from 57.8 in May to 57.4 in June, with the employment subindex dropping from 49.6 in May to 47.3 in June.

Retail sales were up by 2.1% in May after contracting by 0.5% in April. Total car sales grew by -0.8% but new car sales were up by 1.5% month on month in June. Export and import growth were up by 1.5% and down by 0.9% respectively in May. Private credit extension remained lacklustre, declining by 0.42% in May, year on year. Overall, the data suggest anaemic local demand. The recent protests and looting could cost the country R50bn in lost output while placing 150,000 jobs at risk, according to estimates from the South African Property Owners Association. According to IMP's estimate, it could cost 1 percentage point in GDP growth. The IMP also cites that "countries with weak fundamentals pre-pandemic are expected to suffer the most, should social discontent turn into unrest".

Figure 30: Economic damage from social unrest



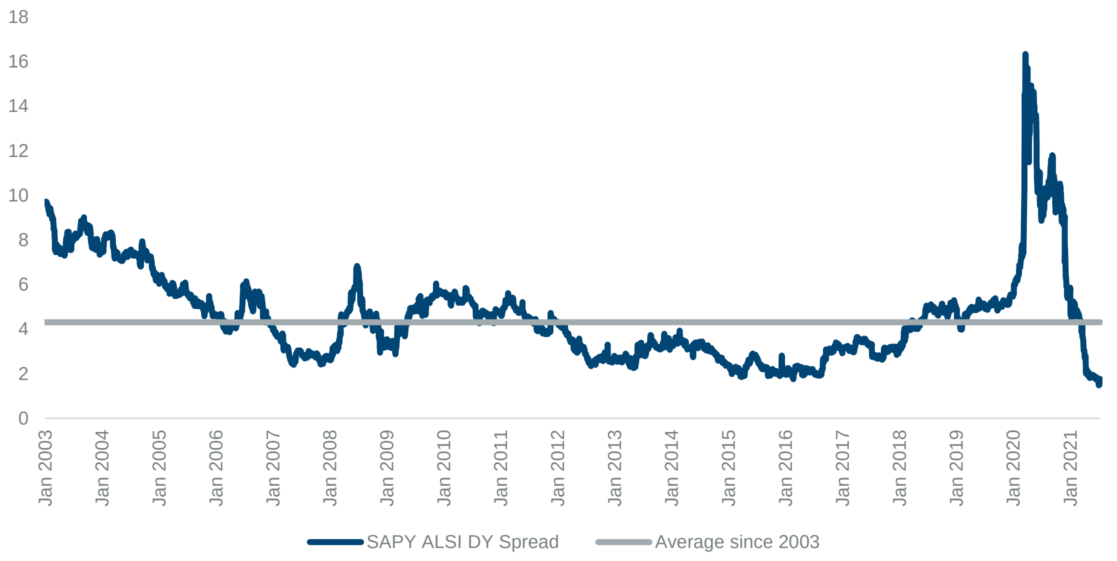
Source: Bloomberg

We reiterate our neutral position in SA equities, with the valuation remaining unchanged, along with mixed sentiment and some improvements in fundamentals performance over the past month. Yet domestic consumption remains weak and vulnerable. We still see improving terms of trade – higher commodity prices and a healthy trade surplus should give the economy some short-term cyclical uplifts, but domestic growth prospects remain highly uncertain, socioeconomic tensions could impede policy reforms and drive political risk, while old woes persist, such as energy constraints, fiscal stability and structurally weak growth.

SA-listed property

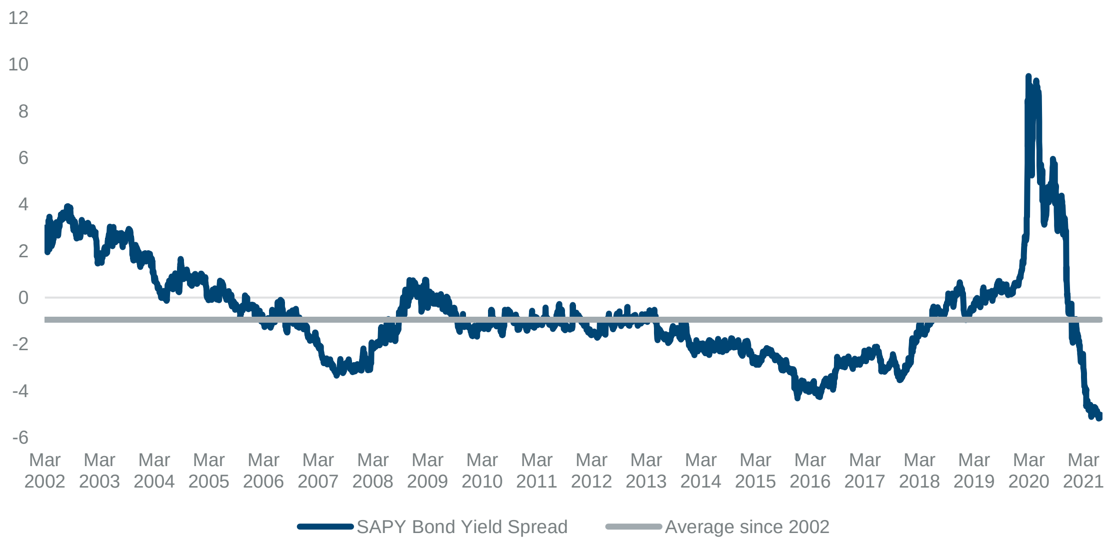
SA-listed property returned 3.4% in June as investors' appetite for listed property grew on restart optimism globally. For the month to date, as at 26 July, the SAPY index had returned -0.8%, partly due to the impact of unrest on domestic retail and industrial properties in KZN and Gauteng. The yield spread relative to SA equities fell significantly below its long-term average, while the yield spread relative to the 10-year bond fell to an all-time low from its long-term average. The SAPY dividend yield continued to trend below its 1-year and 5-year rolling averages. The price-to-tangible-book value remained mostly unchanged at 0.76 in June.

Figure 30: SAPY yield spread relative to FTSE/JSE All Share Index



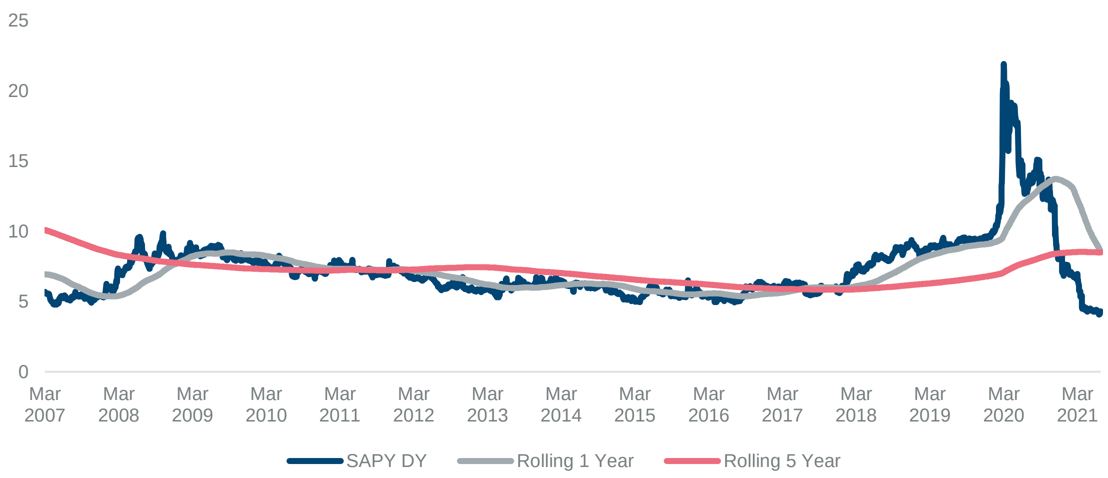
Source: Bloomberg

Figure 31: SAPY yield spread relative to 10-year bond



Source: Bloomberg

Figure 32: SAPY yield relative to 1-year and rolling 5-year rolling averages



Source: Bloomberg

We are comfortable staying in a neutral position as, despite fundamentals such as the debt-to-equity ratio and operating margin having improved over the past few months, structural and secular challenges facing the local property sector persist. Nevertheless, the sector is benefiting from an upturn in consumer and business sentiment as pandemic-related restrictions are relaxed. The path to recovery is clearly dependent on further improvements in the underlying economy.

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