MENTENOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

19 August 2021

HOUSEVIEW TACTICAL ASSET ALLOCATION

We have decided to maintain all of our TAA positions unchanged for the month of September.

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 nominal bonds, 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, with reporting negatively affected by the recent unrest. We remain concerned about socioeconomic instability and the lack of a catalyst to turn around the structural weaknesses impeding local economic growth. Moderated growth or a slowdown in China may lead to lower demand for commodities and erode the local trade surplus. In addition, the increasing reliance on social welfare as a lifeline for millions of South Africans and record levels of unemployment continue to add to the fiscal debt burden. 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, despite the Delta virus risk, as we move closer to the Fed's tapering.

TAA Overview

Offshore bonds	Global economic recovery continued into July, with the vaccine rollout making steady progress. However, the spread of the Delta variant and rising numbers of breakthrough cases raised concerns about the growth rate and the path to normalcy. The US 10-year yield declined by 22bps from early July to 19 August. There were three factors behind such a movement: strong demand for bonds owing to the Fed's purchases and institutional investors rebalancing after strong equity performance; limited supply as the US Treasury chose to use some of its cash pile instead of issuing new debt; and some investors downgrading the growth outlook as the Delta variant-linked infections surged in many parts of the world. While new COVID-19 variants may continue to pose some downside risk to the speed of global economic recovery, current vaccines have so far shown themselves to be effective in preventing severe cases, hospitalisation and death. The current level of yield seems to be inconsistent with the economic data and the strength of the economic recovery, as shown in the PMI charts below. In this regard, PMI numbers for most major economies have remained resilient above the neutral level of 50, despite supply chain bottlenecks capping activity levels in some regions.

Figure 2: Global Composite and Manufacturing PMI indices

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Global Composite PMI	53.4	52.7	52.9	53.1	52.6	52.1	52.6	52.8	52.3	51.2	51.2	51.6	51.3	51	50.8	51.4	51.5	52.2	46.1	39.2	26.2	36.3	47.9	51.1	52.5	52.5	53.4	53.1	52.7	52.3	53.2	54.8	56.7	58.5	56.6	55.7
Global Services PMI	53.5	52.9	53.4	53.7	53	52.6	53.3	53.8	52.9	51.6	51.9	52.5	51.8	51.4	50.9	51.6	51.9	52.7	47.1	36.8	23.7	35.1	48.1	50.7	52	52	52.9	52.2	51.8	51.6	52.8	54.7	57	59.5	57.5	56.3
Developed Markets	54.1	53.2	53.6	53.3	52.7	52.3	52.9	52.7	52.1	51.1	51.3	51.7	51	50.7	50.3	50.8	51.2	52.1	49.5	36.4	22.2	33.1	46.9	51.1	52.2	51.9	52.7	52.2	52	52.4	53.9	55.9	58.2	61.2	59.3	57.5
Emerging Markets	51.8	51.6	51.2	52.6	52.4	51.5	51.6	52.9	52.6	51.4	51	51.4	51.8	51.7	51.7	52.6	52.1	52.2	38.9	44.9	34.6	42.7	49.7	50.9	53	53.7	54.6	54.9	54.1	52.1	52	52.6	53.5	52.7	50.8	52
Eurozone	54.5	54.1	53.1	52.7	51.1	51	51.9	51.6	51.5	51.8	52.2	51.5	51.9	50.1	50.6	50.6	50.9	51.3	51.6	29.7	13.6	31.9	48.5	54.9	51.9	50.4	50	45.3	49.1	47.8	48.8	53.2	53.8	57.1	59.5	60.2
France	54.9	54	54.1	54.2	48.7	48.2	50.4	48.9	50.1	51.2	52.7	51.9	52.9	50.8	52.6	52.1	52	51.1	52	28.9	11.1	32.1	51.7	57.3	51.6	48.5	47.5	40.6	49.5	47.7	47	50	51.6	57	57.4	56.6
Germany	55.6	55	53.4	52.3	51.6	52.1	52.8	51.4	52.2	52.6	52.6	50.9	51.7	48.5	48.9	49.4	50.2	51.2	50.7	35	17.4	32.3	47	55.3	54.4	54.7	55	51.7	52	50.8	51.1	57.3	55.8	56.2	60.1	62.4
Italy	51.7	52.4	49.3	49.3	50	48.8	49.6	51.5	49.5	49.9	50.1	51	50.3	50.6	50.8	49.6	49.3	50.4	50.7	20.2	10.9	33.9	47.6	52.5	49.5	50.4	49.2	42.7	43	47.2	51.4	51.9	51.2	55.7	58.3	58.6
Spain	53	52.5	53.7	53.9	53.4	54.5	53.5	55.4	52.9	52.1	52.1	51.7	52.6	51.7	51.2	51.9	52.7	51.5	51.8	26.7	9.2	29.2	49.7	52.8	48.4	44.3	44.1	41.7	48.7	43.2	45.1	50.1	55.2	59.2	62.4	61.2
Ireland	58.4	58.4	56.1	56.6	55.5	53.3	55.4	54.1	53.4	54.1	54.4	51.8	51.8	51	50.6	52	53	54.7	56.7	37.3	17.3	25.7	44.3	55.9	54	46.9	49	47.7	53.4	40.3	42.7	54.5	58.1	63.5	63.4	65
Australia	52	52.5	52	53.9	52.9	51.3	49.1	49.5	50	51.5	52.5	52.1	49.3	52	50	49.7	49.6	50.2	49	39.4	21.7	28.1	52.7	57.8	49.4	51.1	53.5	54.9	56.6	55.9	53.7	55.5	58.9	58	56.7	45.2
Sweden	57.3	56.9	56.6	59.9	55.7	53.3	53.9	54.1	52.4	53	51.5	51.7	52.4	49.1	49.3	47	48.9	52.3	54.4	45.4	38.5	40.4	50.3	53.8	56.4	55.5	56.5	59.2	59.6	61	62.4	62.8	67.1	70.1	67.2	68
UK	54.2	54.1	52.1	50.8	51.4	50.3	51.5	50	50.9	50.9	49.7	50.7	50.2	49.3	50	49.3	49.3	53.3	53	36	13.8	30	47.7	57	59.1	56.5	52.1	49	50.4	41.2	49.6	56.4	60.7	62.9	62.2	59.2
US	54.7	53.9	54.9	54.7	54.4	54.4	55.5	54.6	53	50.9	51.5	52.6	50.7	51	50.9	52	52.7	53.3	49.6	40.9	27	37	47.9	50.3	54.6	54.3	56.3	58.6	55.3	58.7	59.5	59.7	63.5	68.7	63.7	59.9
Japan	52	50.7	52.5	52.4	52	50.9	50.7	50.4	50.8	50.7	50.8	50.6	51.9	51.5	49.1	49.8	48.6	50.1	47	36.2	25.8	27.8	40.8	44.9	45.2	46.6	48	48.1	48.5	47.1	48.2	49.9	51	48.8	48.9	48.8
China	52	52.1	50.5	51.9	52.2	50.9	50.7	52.9	52.7	51.5	50.6	50.9	51.6	51.9	52	53.2	52.6	51.9	27.5	46.7	47.6	54.5	55.7	54.5	55.1	54.5	55.7	57.5	55.8	52.2	51.7	53.1	54.7	53.8	50.6	53.1
India	51.9	51.6	53	54.5	53.6	53.6	53.8	52.7	51.7	51.7	50.8	53.9	52.6	49.8	49.6	52.7	53.7	56.3	57.6	50.6	7.2	14.8	37.8	37.2	46	54.6	58	56.3	54.9	55.8	57.3	56	55.4	48.1	43.1	49.2
Brazil	47.8	47.3	50.5	51.6	52.4	52.3	52.6	53.1	50.6	48.4	49	51.6	51.9	52.5	51.8	51.8	50.9	52.2	50.9	37.6	26.5	28.1	40.5	47.3	53.9	53.6	55.9	53.8	53.5	48.9	49.6	45.1	44.5	49.2	54.6	55.2
Russia	52.1	53.5	55.8	55	53.9	53.6	54.1	54.6	53	51.5	49.2	50.2	51.5	51.4	53.3	52.9	51.8	52.6	50.9	39.5	13.9	35	48.9	56.8	57.3	53.7	47.1	47.8	48.3	52.3	52.6	54.6	54	56.2	55	51.7

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Global Manufacturing PMI	52.4	52	51.9	51.8	51.4	50.7	50.6	50.5	50.5	49.8	49.4	49.3	49.5	49.7	49.8	50.3	50.1	50.3	47.1	47.3	39.6	42.4	47.9	50.6	51.8	52.4	53.1	53.8	53.8	53.6	54	55	55.8	56	55.5	55.4
Developed Markets	53.8	53.6	53.1	52.8	52.3	51.8	50.4	49.9	50.3	49.2	48.9	48.7	48.7	48.6	48.7	49.5	49.1	49.8	49.6	45.9	36.8	39.5	46.4	49.8	51.2	52.1	52.8	53.8	54.8	55.2	56.5	58.5	59.3	59.8	59.5	59.8
Emerging Markets	50.8	50.3	50.4	50.7	50.2	49.4	50.5	51	50.5	50.4	49.9	50.1	50.4	51	51	51	51	51	44.6	49.1	42.7	45.4	49.6	51.4	52.5	52.8	53.4	53.9	52.8	52.1	51.5	51.3	52.2	52	51.2	50.7
Eurozone	54.6	53.2	52	51.8	51.4	50.5	49.3	47.5	47.9	47.7	47.6	46.5	47	45.7	45.9	46.9	46.3	47.9	49.2	44.5	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9	62.5	62.9	63.1	63.4	62.8
France	53.5	52.5	51.2	50.8	49.7	51.2	51.5	49.7	50	50.6	51.9	49.7	51.1	50.1	50.7	51.7	50.4	51.1	49.8	43.2	31.5	40.6	52.3	52.4	49.8	51.2	51.3	49.6	51.1	51.6	56.1	59.3	58.9	59.4	59	58
Germany	55.9	53.7	52.2	51.8	51.5	49.7	47.6	44.1	44.4	44.3	45	43.2	43.5	41.7	42.1	44.1	43.7	45.3	48	45.4	34.5	36.6	45.2	51	52.2	56.4	58.2	57.8	58.3	57.1	60.7	66.6	66.2	64.4	65.1	65.9
Italy	50.1	50	49.2	48.6	49.2	47.8	47.7	47.4	49.1	49.7	48.4	48.5	48.7	47.8	47.7	47.6	46.2	48.9	48.7	40.3	31.1	45.4	47.5	51.9	53.1	53.2	53.8	51.5	52.8	55.1	56.9	59.8	60.7	62.3	62.2	60.3
Spain	53	51.4	51.8	52.6	51.1	52.4	49.9	50.9	51.8	50.1	47.9	48.2	48.8	47.7	46.8	47.5	47.4	48.5	50.4	45.7	30.8	38.3	49	53.5	49.9	50.8	52.5	49.8	51	49.3	52.9	56.9	57.7	59.4	60.4	59
Greece	53.9	53.6	53.1	54	53.8	53.7	54.2	54.7	56.6	54.2	52.4	54.6	54.9	53.6	53.5	54.1	53.9	54.4	56.2	42.5	29.5	41.1	49.4	48.6	49.4	50	48.7	42.3	46.9	50	49.4	51.8	54.4	58	58.6	57.4
Ireland	57.5	56.3	54.9	55.4	54.5	52.6	54	53.9	52.5	50.4	49.8	48.7	48.6	48.7	50.7	49.7	49.5	51.4	51.2	45.1	36	39.2	51	57.3	52.3	50	50.3	52.2	57.2	51.8	52	57.1	60.8	64.1	64	63.3
Australia	53.2	54	54.5	54.6	54	53.9	52.9	52	50.9	51	52	51.6	50.9	50.3	50	49.9	49.2	49.6	50.2	49.7	44.1	44	51.2	54	53.6	55.4	54.2	55.8	55.7	57.2	56.9	56.8	59.7	60.4	58.6	56.9
Sweden	54.9	56	55.8	56.3	52.1	51.6	51.2	52.3	50.4	52.9	52.6	51.8	52	46.7	46.3	46	46.9	51.5	52.5	43.5	36.1	40.1	48.8	52.2	54.4	56.6	58.9	59.7	64.8	62.6	61.7	64.1	68.7	66.1	65.4	65.3
Denmark	59.9	53.9	67.1	56.7	57.6	47	60.7	55.9	58.8	47.5	46.1	47.7	48.8	50.3	49.4	53.5	52.6	52.8	47.7	46.2	35.5	53	53	54.8	51.4	53.6	62.9	46.7	41.6	42.8	46.1	65.6	66.6	65.5	65.5	69.8
UK	52.9	53.7	51.1	53.3	54.3	52.8	52.1	55.1	53.1	49.4	48	48	47.4	48.3	49.6	48.9	47.5	50	51.7	47.8	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	55.1	58.9	60.9	65.6	63.9	60.4
US	54.7	55.6	55.7	55.3	53.8	54.9	53	52.4	52.6	50.5	50.6	50.4	50.3	51.1	51.3	52.6	52.4	51.9	50.7	48.5	36.1	39.8	49.8	50.9	53.1	53.2	53.4	56.7	57.1	59.2	58.6	59.1	60.5	62.1	62.1	63.4
Japan	52.5	52.5	52.9	52.2	52.6	50.3	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8	47.8	44.8	41.9	38.4	40.1	45.2	47.2	47.7	48.7	49	50	49.8	51.4	52.7	53.6	53	52.4	53
China	50.6	50	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	40.3	50.1	49.4	50.7	51.2	52.8	53.1	53	53.6	54.9	53	51.5	50.9	50.6	51.9	52	51.3	50.3
Indonesia	51.9	50.7	50.5	50.4	51.2	49.9	50.1	51.2	50.4	51.6	50.6	49.6	49	49.1	47.7	48.2	49.5	49.3	51.9	45.3	27.5	28.6	39.1	46.9	50.8	47.2	47.8	50.6	51.3	52.2	50.9	53.2	54.6	55.3	53.5	40.1
South Korea	49.9	51.3	51	48.6	49.8	48.3	47.2	48.8	50.2	48.4	47.5	47.3	49	48	48.4	49.4	50.1	49.8	48.7	44.2	41.6	41.3	43.4	46.9	48.5	49.8	51.2	52.9	52.9	53.2	55.3	55.3	54.6	53.7	53.9	53
Taiwan	53	50.8	48.7	48.4	47.7	47.5	46.3	49	48.2	48.4	45.5	48.1	47.9	50	49.8	49.8	50.8	51.8	49.9	50.4	42.2	41.9	46.2	50.6	52.2	55.2	55.1	56.9	59.4	60.2	60.4	60.8	62.4	62	57.6	59.7
India	51.7	52.2	53.1	54	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46	52	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3
Brazil	51.1	50.9	51.1	52.7	52.6	52.7	53.4	52.8	51.5	50.2	51	49.9	52.5	53.4	52.2	52.9	50.2	51	52.3	48.4	36	38.3	51.6	58.2	64.7	64.9	66.7	64	61.5	56.5	58.4	52.8	52.3	53.7	56.4	56.7
Mexico	50.7	51.7	50.7	49.7	49.7	50.9	52.6	49.8	50.1	50	49.2	49.8	49	49.1	50.4	48	47.1	49	50	47.9	35	38.3	38.6	40.4	41.3	42.1	43.6	43.7	42.4	43	44.2	45.6	48.4	47.6	48.8	49.6
Russia	48.9	50	51.3	52.6	51.7	50.9	50.1	52.8	51.8	49.8	48.6	49.3	49.1	46.3	47.2	45.6	47.5	47.9	48.2	47.5	31.3	36.2	49.4	48.4	51.1	48.9	46.9	46.3	49.7	50.9	51.5	51.1	50.4	51.9	49.2	47.5
South Africa	46.2	46.7	44	48.8	49.8	49.1	47.8	47	47.8	45.7	46.5	49.7	45.3	43.1	45.5	44.1	43.5	43.7	39.7	41.7	30.3	43.7	53.3	49.4	55.8	58.5	60.9	52.6	50.3	50.9	53	57.4	56.2	57.8	57.4	43.5

Source: Bloomberg

Inflation rates in many parts of the world have surged above their respective countries' central bank targets or the median of the target ranges. However, in some countries such as France, the UK, India, South Africa and Taiwan, there are some nascent signs that the price jumps may be more transitory.

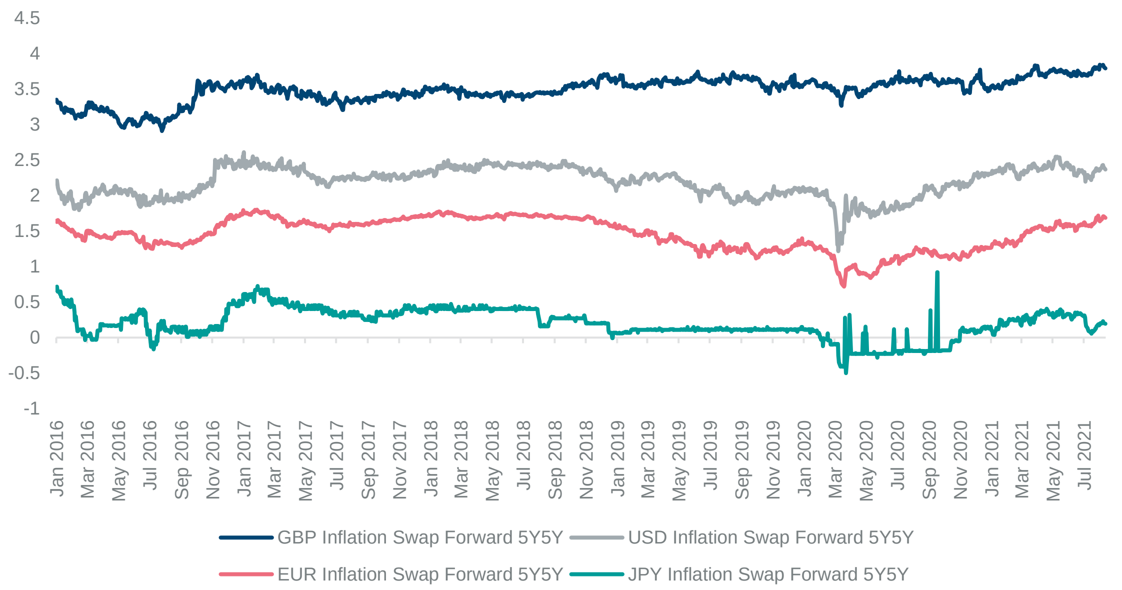
Figure 3: Global CPI year on year

	Jan 18	Feb 18	######	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	######	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	######	Apr 21	May 21	Jun 21	Jul 21
Global	3.6	3.5	3.6	3.6	3.4	3.6	3.8	3.8	3.8	4.0	4.0	3.7	3.3	3.1	3.1	3.2	3.1	3.1	2.9	3.0	2.9	2.8	3.1	3.4	3.9	4.2	3.8	3.3	2.7	2.5	2.7	2.9	2.8	2.6	2.3	2.1	2.1	2.2	2.6	3.1	3.6	4.07	4.23
France	1.3	1.2	1.6	1.6	2.0	2.0	2.3	2.3	2.2	2.2	1.9	1.6	1.2	1.3	1.1	1.3	0.9	1.2	1.1	1.0	0.9	0.8	1.0	1.5	1.5	1.4	0.7	0.3	0.4	0.2	0.8	0.2	0.0	0.0	0.2	0.0	0.6	0.6	1.1	1.2	1.4	1.50	1.20
Germany	1.4	1.1	1.5	1.3	2.1	1.9	1.9	1.9	1.9	2.3	2.1	1.6	1.4	1.5	1.3	2.0	1.4	1.6	1.7	1.4	1.2	1.1	1.1	1.5	1.7	1.7	1.4	0.9	0.6	0.9	-0.1	0.0	-0.2	-0.2	-0.3	-0.3	1.0	1.3	1.7	2.0	2.5	2.30	3.80
Greece	-0.2	0.1	-0.2	0.0	0.6	1.0	0.9	1.0	1.1	1.8	1.0	0.6	0.4	0.6	0.9	1.0	0.2	-0.3	0.0	-0.2	-0.1	-0.7	0.2	0.8	0.9	0.2	0.0	-1.4	-1.1	-1.6	-1.8	-1.9	-2.0	-1.8	-2.1	-2.3	-2.0	-1.3	-1.6	-0.3	0.1	1.03	1.35
Ireland	0.2	0.5	0.2	-0.4	0.4	0.4	0.8	0.7	0.9	0.9	0.6	0.7	0.7	0.6	1.1	1.7	1.0	1.1	0.5	0.7	0.9	0.7	1.1	1.3	1.3	1.1	0.7	-0.1	-0.5	-0.4	-0.4	-1.0	-1.2	-1.5	-1.1	-1.0	-0.2	-0.4	0.0	1.1	1.7	1.60	2.20
Italy	0.9	0.5	0.8	0.5	1.0	1.3	1.5	1.6	1.4	1.6	1.6	1.1	0.9	1.0	1.0	1.1	0.8	0.7	0.4	0.4	0.3	0.2	0.2	0.5	0.5	0.3	0.1	0.0	-0.2	-0.2	-0.4	-0.5	-0.6	-0.3	-0.2	-0.2	0.4	0.6	0.8	1.1	1.3	1.30	1.90
Spain	0.6	1.1	1.2	1.1	2.1	2.3	2.2	2.2	2.3	2.3	1.7	1.2	1.0	1.1	1.3	1.5	0.8	0.4	0.5	0.3	0.1	0.1	0.4	0.8	1.1	0.7	0.0	-0.7	-0.9	-0.3	-0.6	-0.5	-0.4	-0.8	-0.8	-0.5	0.5	0.0	1.3	2.2	2.7	2.70	2.90
Sweden	1.6	1.6	1.9	1.7	1.9	2.1	2.1	2.0	2.3	2.3	2.0	2.0	1.9	1.9	1.9	2.1	2.2	1.8	1.7	1.4	1.5	1.6	1.8	1.8	1.3	1.0	0.6	-0.4	0.0	0.7	0.5	0.8	0.4	0.3	0.2	0.5	1.6	1.4	1.7	2.2	1.8	1.30	1.40
Switzerland	0.7	0.6	0.8	0.8	1.0	1.1	1.2	1.2	1.0	1.1	0.9	0.7	0.6	0.6	0.7	0.7	0.6	0.6	0.3	0.3	0.1	-0.3	-0.1	0.2	0.2	-0.1	-0.5	-1.1	-1.3	-1.3	-0.9	-0.9	-0.8	-0.6	-0.7	-0.8	-0.5	-0.5	-0.2	0.3	0.6	0.60	0.70
United Kingdom	3.0	2.7	2.5	2.4	2.4	2.4	2.5	2.7	2.4	2.4	2.3	2.1	1.8	1.9	1.9	2.1	2.0	2.0	2.1	1.7	1.7	1.5	1.5	1.3	1.8	1.7	1.5	0.8	0.5	0.6	1.0	0.2	0.5	0.7	0.3	0.6	0.7	0.4	0.7	1.5	2.1	2.50	2.00
United States	2.1	2.2	2.4	2.5	2.8	2.9	2.9	2.7	2.3	2.5	2.2	1.9	1.6	1.5	1.9	2.0	1.8	1.6	1.8	1.7	1.7	1.8	2.1	2.3	2.5	2.3	1.5	0.3	0.1	0.6	1.0	1.3	1.4	1.2	1.2	1.4	1.4	1.7	2.6	4.2	5.0	5.40	5.40
Australia	1.9	1.9	1.9	1.9	1.9	2.1	2.1	2.1	1.9	1.9	1.9	1.8	1.8	1.8	1.3	1.3	1.3	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8	2.2	2.2	2.2	-0.3	-0.3	-0.3	0.7	0.7	0.7	0.9	0.9	0.9	1.1	1.1	1.1	3.80	3.80
Japan	1.4	1.5	1.1	0.6	0.7	0.7	0.9	1.3	1.2	1.4	0.8	0.3	0.2	0.2	0.5	0.9	0.7	0.7	0.5	0.3	0.2	0.2	0.5	0.8	0.7	0.4	0.4	0.1	0.1	0.1	0.3	0.2	0.0	-0.4	-0.9	-1.2	-0.7	-0.5	-0.4	-1.1	-0.8	-0.50	-0.30
Brazil	2.9	2.8	2.7	2.8	2.9	4.4	4.5	4.2	4.5	4.6	4.1	3.8	3.8	3.9	4.6	4.9	4.7	3.4	3.2	3.4	2.9	2.5	3.3	4.3	4.2	4.0	3.3	2.4	1.9	2.1	2.3	2.4	3.1	3.9	4.3	4.5	4.6	5.2	6.1	6.8	8.1	8.35	8.99
China	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5	2.2	1.9	1.7	1.5	2.3	2.5	2.7	2.7	2.8	2.8	3.0	3.8	4.5	4.5	5.4	5.2	4.3	3.3	2.4	2.5	2.7	2.4	1.7	0.5	-0.5	0.2	-0.3	-0.2	0.4	0.9	1.3	1.10	1.00
India	5.1	4.4	4.3	4.6	4.9	4.9	4.2	3.7	3.7	3.4	2.3	2.1	2.0	2.6	2.9	3.0	3.1	3.2	3.2	3.3	4.0	4.6	5.5	7.4	7.6	6.6	5.8	7.2	6.3	6.2	6.7	6.7	7.3	7.6	6.9	4.6	4.1	5.0	5.5	4.2	6.3	6.26	5.59
Indonesia	3.3	3.2	3.4	3.4	3.2	3.1	3.2	3.2	2.9	3.2	3.2	3.1	2.8	2.7	2.5	2.8	3.1	2.8	2.8	3.1	3.1	2.9	2.7	2.6	2.7	3.0	3.0	2.7	2.2	2.0	1.5	1.3	1.4	1.4	1.6	1.7	1.6	1.4	1.4	1.4	1.7	1.33	1.52
Mexico	5.6	5.3	5.0	4.6	4.5	4.7	4.8	4.9	5.0	4.9	4.7	4.8	4.4	3.9	4.0	4.4	4.3	4.0	3.8	3.2	3.0	3.0	3.0	2.8	3.2	3.7	3.3	2.2	2.8	3.3	3.6	4.1	4.0	4.1	3.3	3.2	3.5	3.8	4.7	6.1	5.9	5.88	5.81
Russia	2.2	2.2	2.4	2.4	2.4	2.3	2.5	3.1	3.4	3.5	3.8	4.3	5.0	5.2	5.3	5.2	5.1	4.7	4.6	4.3	4.0	3.8	3.5	3.0	2.4	2.3	2.5	3.1	3.0	3.2	3.4	3.6	3.7	4.0	4.4	4.9	5.2	5.7	5.8	5.5	6.0	6.50	6.46
South Africa	4.4	4.0	3.8	4.5	4.4	4.6	5.1	4.9	4.9	5.1	5.2	4.5	4.0	4.1	4.5	4.4	4.5	4.5	4.0	4.3	4.1	3.7	3.6	4.0	4.5	4.6	4.1	3.0	2.1	2.2	3.2	3.1	3.0	3.3	3.2	3.1	3.2	2.9	3.2	4.4	5.2	4.90	4.60
South Korea	0.8	1.3	1.2	1.5	1.5	1.5	1.1	1.4	2.1	2.0	2.0	1.3	0.8	0.5	0.4	0.6	0.7	0.7	0.6	0.0	-0.4	0.0	0.2	0.7	1.5	1.1	1.0	0.1	-0.3	0.0	0.3	0.7	1.0	0.1	0.6	0.5	0.6	1.1	1.5	2.3	2.6	2.40	2.60
Taiwan	0.9	2.2	1.6	2.0	1.8	1.4	1.8	1.5	1.7	1.2	0.3	-0.1	0.2	0.2	0.6	0.7	0.9	0.9	0.4	0.4	0.4	0.4	0.6	1.1	1.9	-0.2	0.0	-1.0	-1.2	-0.8	-0.5	-0.3	-0.6	-0.3	0.1	0.1	-0.2	1.4	1.2	2.1	2.5	1.87	1.95

Source: Bloomberg

We saw the US 30-year treasury yield remaining steady over the past month, declining slightly from 1.92% to 1.87% (between the two TAA meetings over the past month) and the US 2-year treasury yield ticking up from 0.20% to 0.23%. Meanwhile, the US 10-year treasury yield also declined from 1.28% to 1.27% over the same period and, as a result, the 10-year vs 2-year treasury yield spread narrowed from 108bps to 103bps. The US 5-year breakeven inflation rate has since trended lower, from 2.50% to 2.46%. The US 10-year breakeven inflation rate also declined from 2.30% to 2.28%. The inflation expectations implied from inflation swaps also indicated that, despite short-term overshoots, markets are still pricing in moderate increases in inflation rates over the medium term.

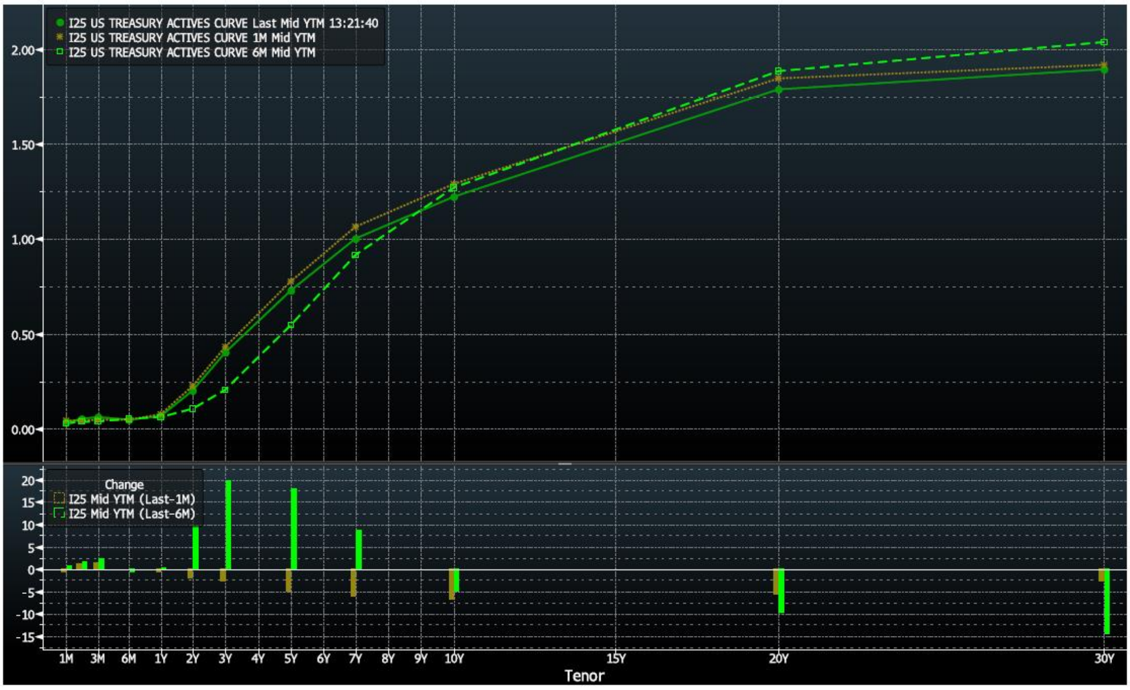
Figure 4: Inflation swap market-based inflation expectation



Source: Bloomberg

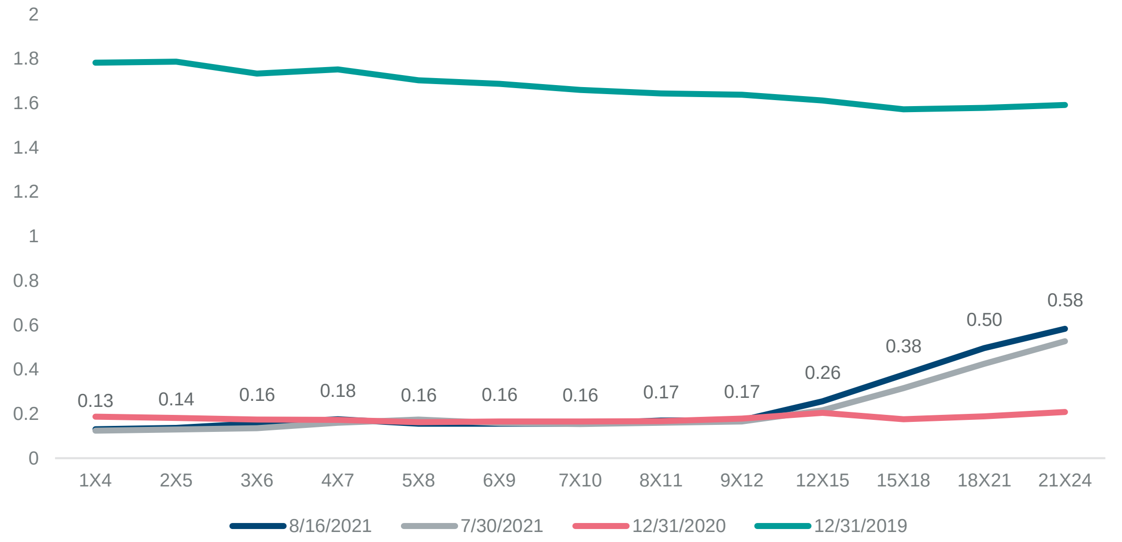
The US yield curve flattened faintly over the past month, with the FRA rates continuing to price in rate hikes in the second half of 2022.

Figure 5: US yield curve as at 16 August 2021



Source: Bloomberg

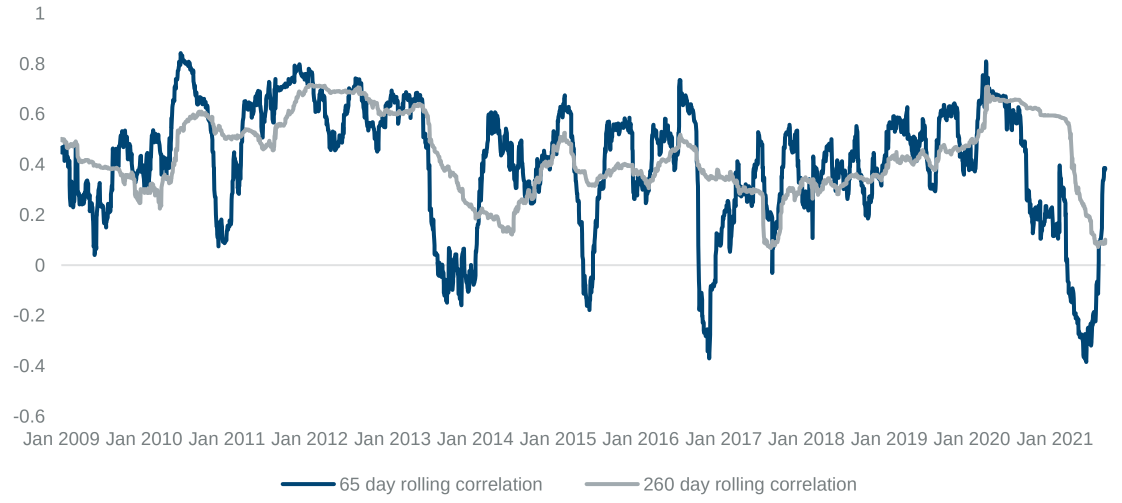
Figure 6: US forward rate agreements (FRAs)



Source: Bloomberg

The elevated short-term correlation between US equities and treasury also reduced the diversification capability of US treasury to provide a cushion against risk asset selloffs.

Figure 7: Correlation between S&P 500 and US 10-year treasury



Source: Bloomberg

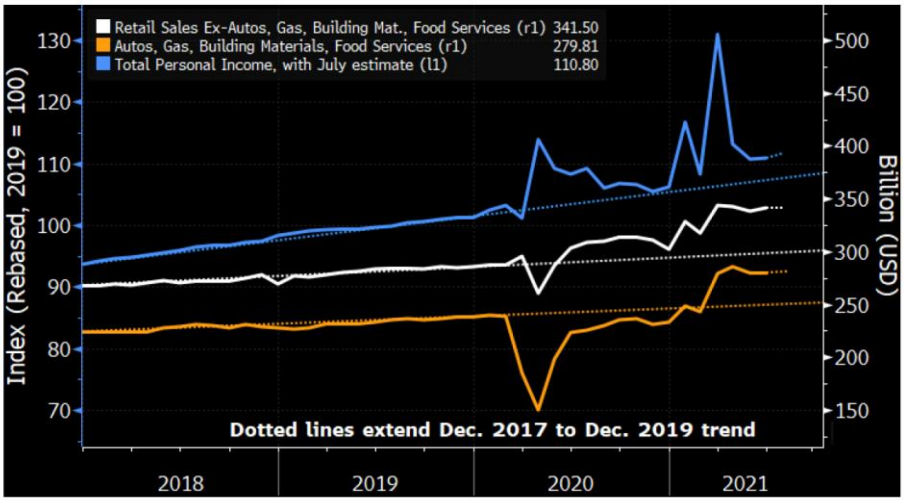
As inflation figures and economic data come through, we expect to see continued volatility ahead as investors weigh on virus risk. However, we reiterate our preference for offshore equities over offshore bonds, with our investment case remaining unchanged. In all, we expect the US labour market to show continued improvement, with further economic momentum likely to produce gradually higher yields as the time for tapering gets closer. Fiscal policies such as US infrastructure spend and the European Union’s Recovery Fund will do the rest of the heavy lifting to drive growth.

| **Offshore equities** | Valuation scores for US and SA equities remained unchanged over the past month, with some valuation upgrades for European and Japanese equities.

Sentiment in the US remained relatively strong despite some mixed signals, with small improvements in business confidence in the EU and Japan. The University of Michigan Consumer Sentiment Index softened from 80.8 in July to 70.2 in August. The Conference Board Consumer Confidence Index and the Bloomberg US Weekly Consumer Comfort Index both remained solid, moving from 128.9 in June to 129.1 in July and from 52.2 in July to 54.6 in August, respectively. Overall, US manufacturing confidence was resilient, with business activity softening slightly from 31.1 in June to 27.3 in July, while the production outlook trended higher from 29.4 to 31 over the same period. EU consumer confidence softened slightly from -3.3 in June to -4.4 in July, but still exceeded the long-term average of -10.0. The region's economic sentiment increased from 117.9 in June to 119 in July, exceeding the long-term average of 100. The Euro Area Business Climate Indicator improved from 1.71 in June to 1.9 in July. Sentiment in Japan remained steady, with consumer confidence nationwide trending slightly lower from 37.6 in June to 37.4 in July. Business confidence based on Japan's SME business survey made some small gains in Q2.

The macro data continued to indicate largely similar trends to the previous month in all three economies. US retail sales were slightly weaker month on month, moving from 1.1% in June to -0.7% in July. Consumers may start to feel some sort of inflation squeeze as, according to the University of Michigan's July survey, the share of participants who said that higher prices made it an undesirable time to buy household durable goods was the biggest since 1980. But the Conference Board survey showed that the number of Americans planning to buy big-ticket items over the next six months increased in July. The mixed survey results were evident in the sentiment data discussed earlier. Despite nominal wage increases, US real wages have declined in most industries since 2019, which may dampen consumer demand going forward. US industrial production month on month, however, improved from 0.4% in June to 0.9% in July, exceeding the market expectation of 0.5%. Following the initial phase of sharp recovery, we are more likely to see moderated growth from here on.

Figure 8: US retail sales and personal income

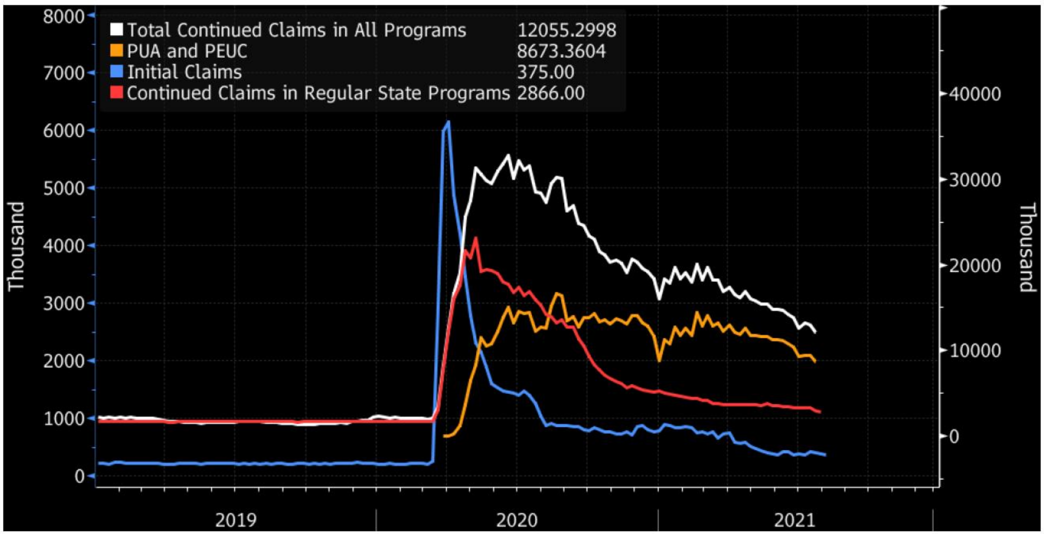


Source: Bloomberg

The US unemployment rate declined from 5.9% in June to 5.4% in July, as initial jobless claims |

fell for a third straight week. As augmented unemployment benefits come to an end, together with labour shortages and employers offering higher wages to fill vacancies, the unemployment rate may decline further in the coming months. US housing activities cooled over the past month as price hikes impacted affordability for some buyers, despite an historical low mortgage rate. The services PMI continued in expansionary mode, increasing from 60.1 in June to 64.1 in July. The probability of a recession in the next 12 months, according to the New York Fed, ticked up from 7.08% to 9.06% over the past month.

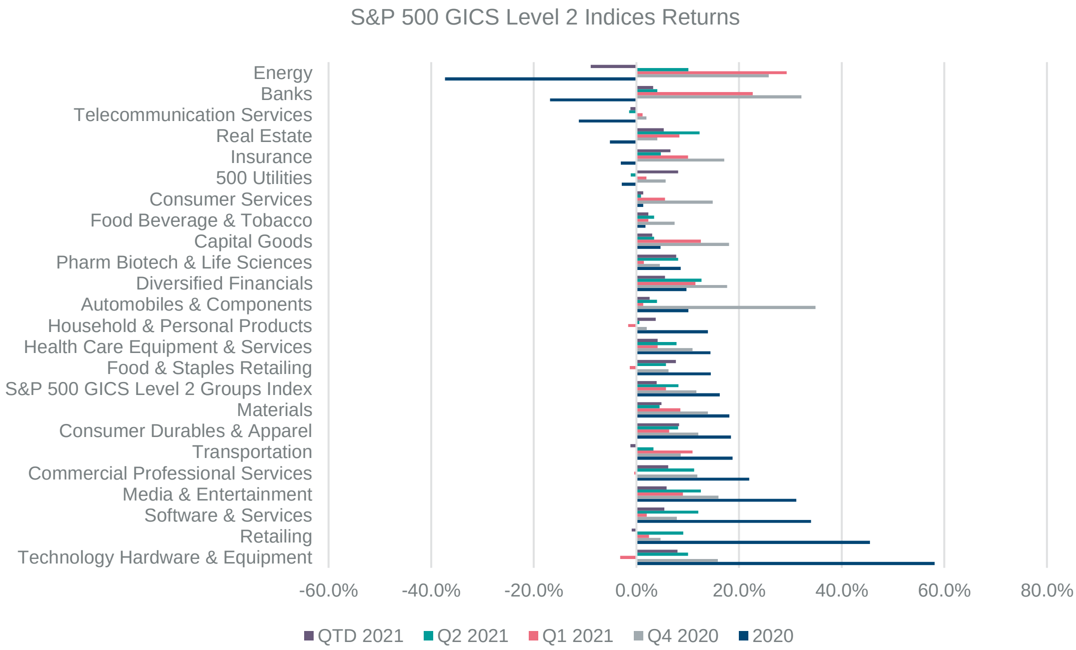
Figure 9: US unemployment claims



Source: Bloomberg

The energy sector took the hardest hit in the quarter to date as rising COVID-19 cases stoked concerns over oil demand.

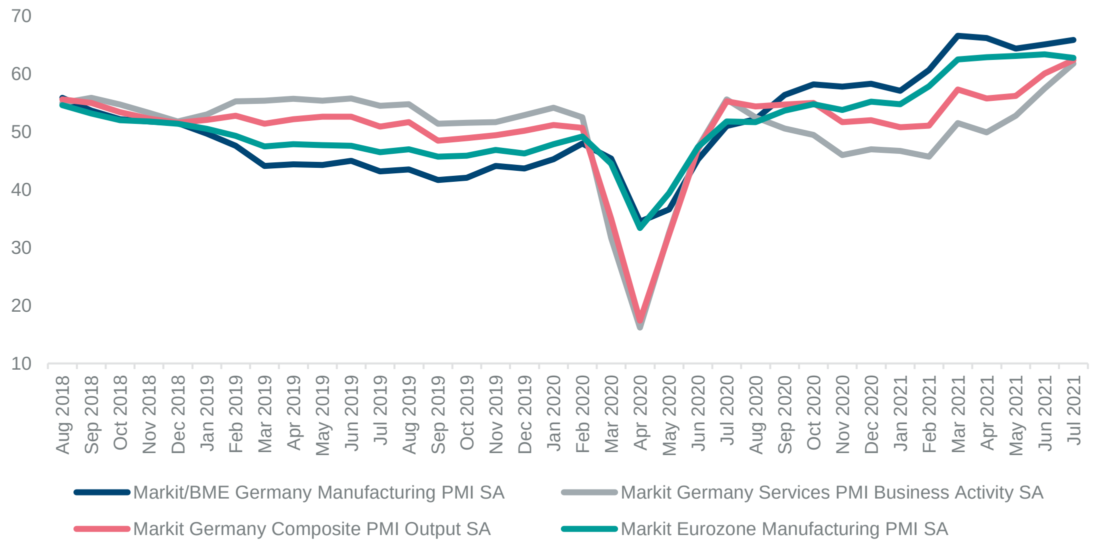
Figure 10: S&P 500 GICS Level 2 indices returns



Source: Bloomberg

Retail sales growth, year on year, in the EU softened from 8.6% in May to 5.0% in June, with retail sales showing a 1.5% gain in June, month on month. The Eurozone and Germany manufacturing PMIs and Germany services PMI remained in strong expansionary territory in July.

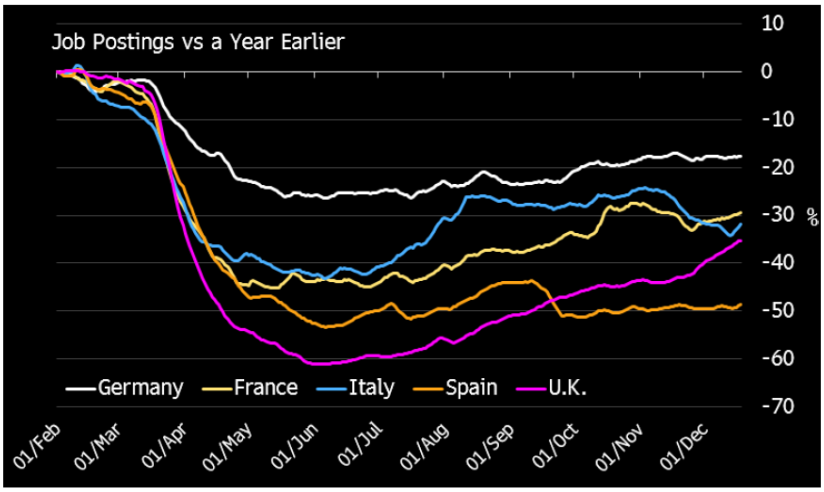
Figure 11: Eurozone and Germany PMIs



Source: Bloomberg

The number of job postings trended higher in Germany and France, with the most significant improvement observed in the UK.

Figure 12: Eurozone job postings



Source: Indeed.com

Source: Indeed.com

Retail sales in Japan turned positive in June, growing by 3.1%, month on month. Industrial production ticked up from 21.1% in May to 23.0% in June, year on year, with month-on-month growth standing at 6.5%. Trade data were less positive, with export growth remaining flat and imports contracting by 1.6%, month on month, in July.

In the Asia-Pacific region, China continued on its steady but moderate path of economic growth and recovery. China's manufacturing and non-manufacturing PMIs remained in expansionary territory, at 50.4 and 53.3 respectively, in July. China's exports and imports also grew by 8.1% and 16.1%, respectively, in July, year on year. Korea's exports and imports followed the same trend, growing by 29.5% and 38.7% respectively, year on year, in July. China's retail sales were up by 8.5% in July, year on year, missing the market expectation of 10.9%. Industrial production year on year was up by 6.4% in July, also shy of the market expectation of 7.9%.

The return on equity for the S&P 500 improved further to 17.08% in July from 16.83% in June. The return on equity for the STOXX 600 and NIKKEI 225 also improved to 11.02% and 11.78% respectively over the same period.

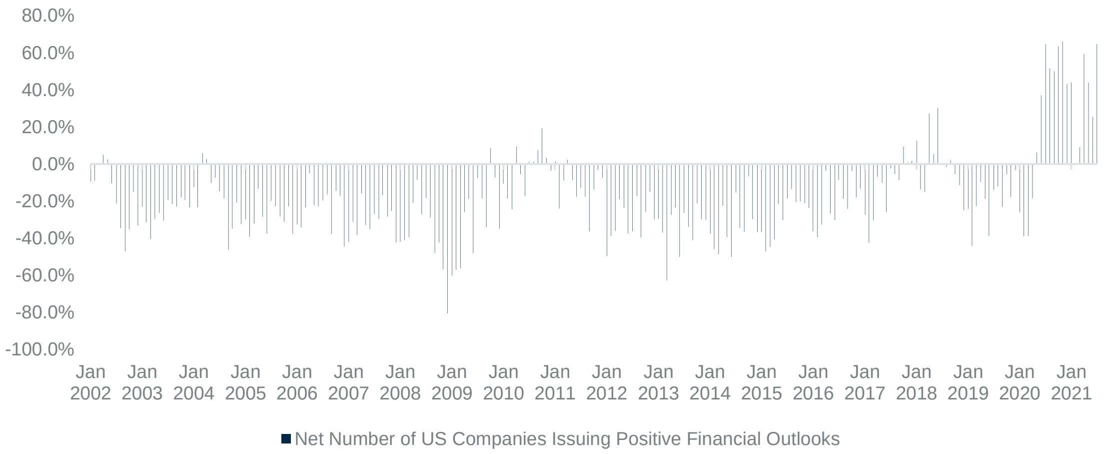
Figure 13: Economic surprise indices

Source: Bloomberg

The economic surprise indices remained in positive territory for EU and emerging markets, but were marginally negative for the US, China and the UK, indicating that the reported economic figures were mixed when measured against market expectations.

Our views on offshore equities have remained unchanged. US earnings growth has been strong, with over half the S&P 500 companies having reported earnings by the end of July. Close to 90% of those reporting earnings had beaten analysts' earnings expectations and 65% of the S&P 500 firms issued positive financial outlooks. We also like European equities and Japanese equities which offer relatively more attractive valuations. A broadening of the economic restart in Europe and the global cyclical rebound should boost earnings growth in both regions.

Figure 14: Number of US companies issuing positive financial outlooks

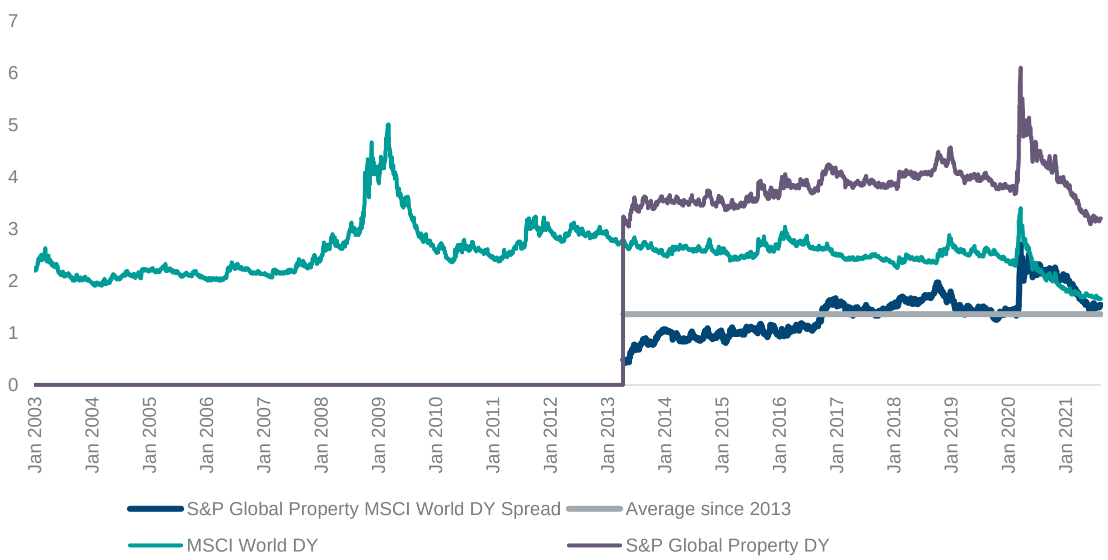


Source: Bloomberg

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 increased to 1.52x in July, indicating a full recovery to the pre-pandemic level, with fundamental measures such as operating margin and return on equity continuing to show some early signs of recovery over the past few months. Given the current valuation and the Delta variant uncertainty in the short term, we are comfortable to stay neutral in offshore property.

Figure 15: S&P Global Property dividend yield spread relative to the MSCI World Index



Source: Bloomberg

SA bonds

Emerging markets saw a net outflow in the week ending 13 August 2021, proxied by the ETF flows. Fiscal woes in Brazil and rising concerns over the Chinese government implementing further crackdowns against monopolies were the two main drivers behind the outflow.

Figure 16: Weekly emerging market net flows

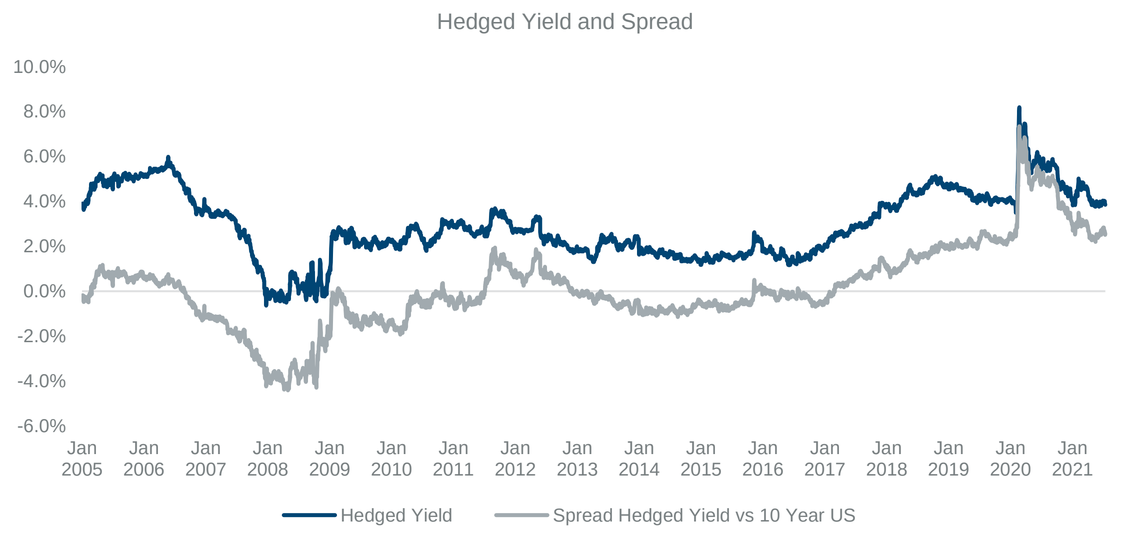
Source: Bloomberg

Turning to domestic markets, net outflows of foreigners' holdings of SA bonds worsened into August as risk sentiment ebbed, with net year-to-date sales of SA bonds as at 13 August 2021 moving (since our previous TAA meeting) from -$3.7bn to -$4.3bn. Furthermore, foreign investors' appetite for local equities waned, with net sales declining from -$3.6n to -$5.0bn over the same period. The implied vs actual yield spread widened from 490bps on 30 June to 520bps on 30 July. The 10-year nominal yield spread over the US 10-year treasury yield widened slightly from 7.41% to 7.60%, exceeding the long-term average by 132bps. The US dollar-hedged 10-year yield continued to offer value, remaining relatively unchanged at 3.9%. At the same time, the hedged yield premium over the US 10-year yield remained at 260bps.

Figure 17: South Africa 10-year nominal yield vs implied yield as at 30 July 2021

Source: Bloomberg

Figure 18: 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.

Figure 19: SA bond yields vs EM peers as at 16 August 2021

	South Africa	India	Indonesia	Russia	Mexico	Brazil	Turkey
10 Year Yield	**9.26%**	**6.24%**	**6.37%**	**6.94%**	**6.97%**	**10.38%**	**17.47%**
Inflation	4.9%	5.6%	1.52%	3.3%	5.8%	9.0%	19.0%
Inflation Expectation	4.10%	6.20%	2.20%	5.10%	4.06%	5.10%	15.00%
10 Year Real Yield	**4.36%**	**0.65%**	**4.85%**	**3.64%**	**1.16%**	**1.39%**	**-1.48%**
10 Year Real Yield based on inflation expectation	5.16%	0.04%	4.17%	1.84%	2.91%	5.28%	2.47%
Currency Risk Premium	**5.12%**	**3.50%**	**3.71%**	**4.25%**	**4.09%**	**6.38%**	**11.89%**
Sovereign Risk Premium	**2.87%**	**1.46%**	**1.38%**	**1.41%**	**1.61%**	**2.73%**	**4.30%**
US 10 Year Yield	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%	1.28%
S&P Rating - Foreign Currency	**BB-**	**BBB-**	**BBB**	**BBB-**	**BBB**	**BB-**	**B+**
Moody's Rating - Foreign Currency	**Ba2**	**Baa3**	**Baa2**	**Baa3**	**Baa1**	**Ba2**	**B2**

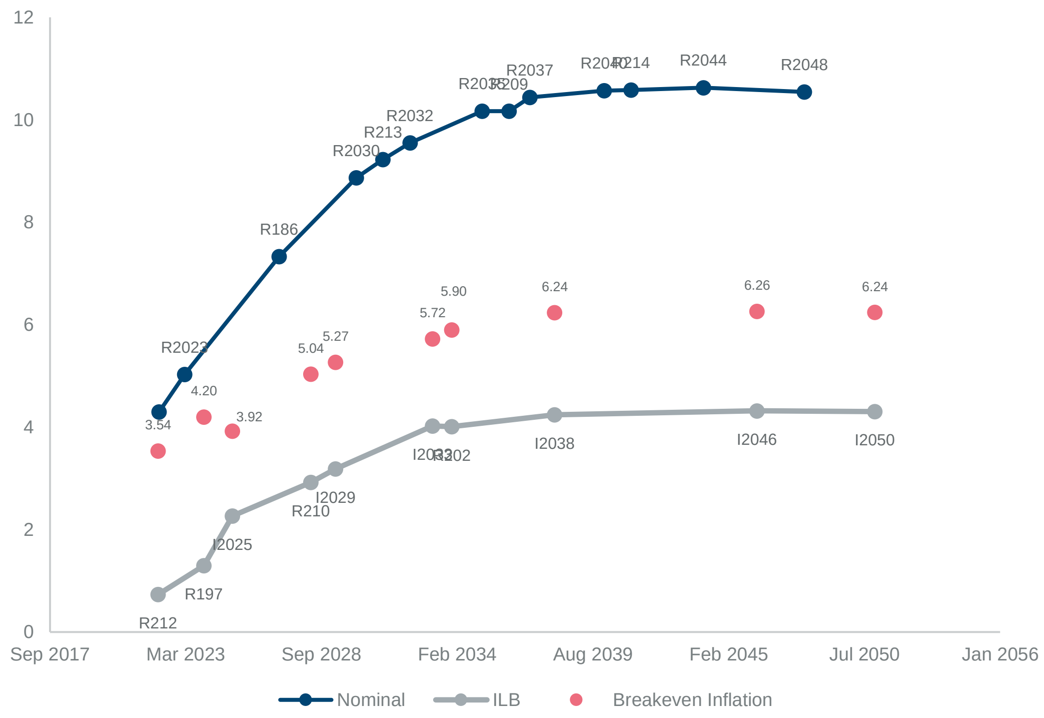
Source: Bloomberg

Local nominal bonds remained attractive from a valuation perspective, with our investment case remaining unchanged – that potential US and SA rate and tapering movements may put some pressure on the hedged yield and dent the rationale for carry trade.

SA inflation-linked bonds

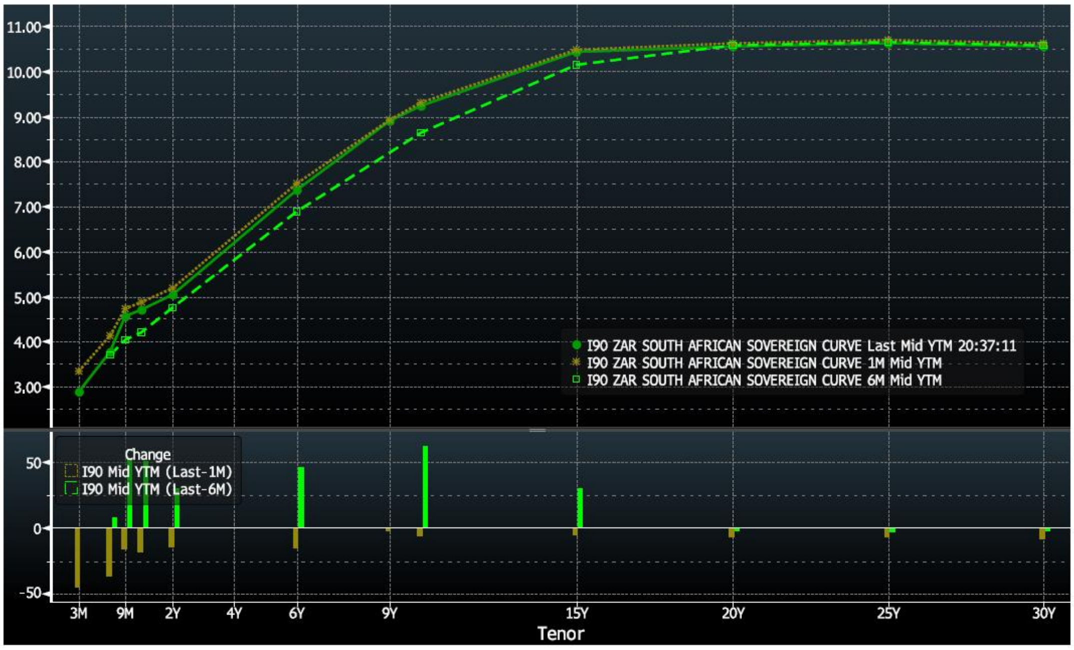
The IGOV Index underperformed against the ALBI in July, returning 0.5% vs 0.8%, but slightly outperformed against the latter for the month to date as at 17 August, returning 0.3% vs 0.1%. Breakeven inflation decreased by about 40bps on the shorter end and decreased by about 20bps on the longer end of maturities, driven by near-term inflation expectations. The nominal yield and the inflation-linked bond yield curves remained unchanged over the past month.

Figure 20: SA nominal and real yields as at 16 August 2021



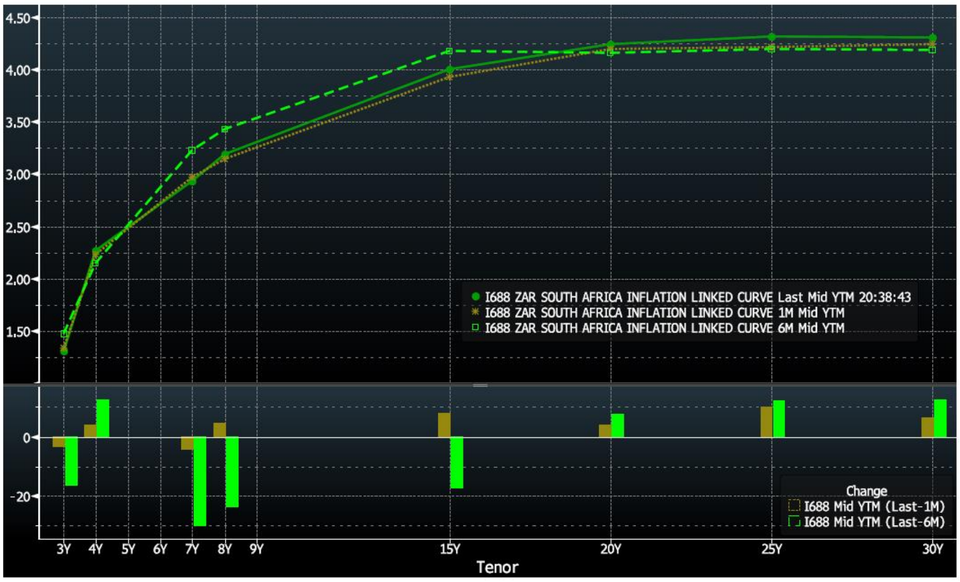
Source: Bloomberg

Figure 21: SA nominal yields as at 16 August 2021



Source: Bloomberg

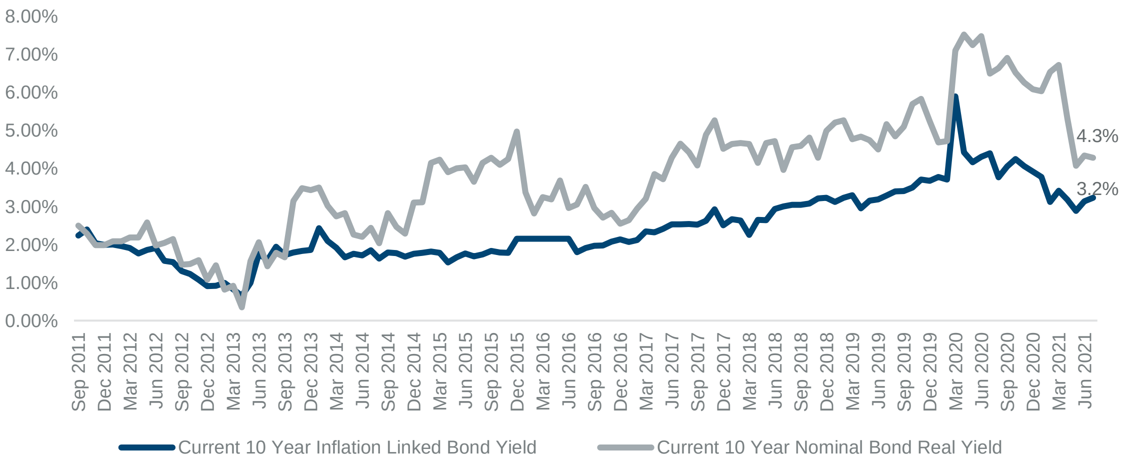
Figure 22: SA inflation-linked yields as at 16 August 2021



Source: Bloomberg

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

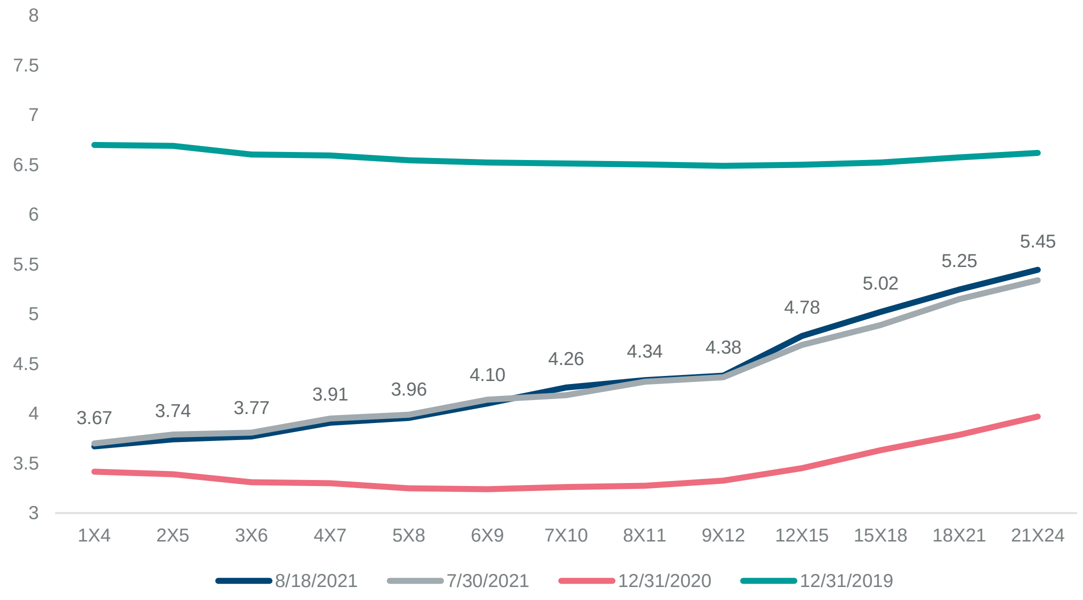
Figure 23: 10-year real yield of nominal bond vs inflation-linked bond as at 30 July 2021



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. 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 July CPI of 4.6% retreated slightly from the 4.9% seen in June, which seems to suggest that inflationary pressure may be peaking. The elevated-level, short-term inflation mainly reflects higher oil and food prices, rather than strengthening demand, as the latest core inflation eased from 3.2% in June to 3.0% in July. We therefore reiterate our neutral stance on inflation-linked bonds.

Figure 24: Forward rate agreement rates



Source: Bloomberg

SA equities

Major equity indices returned positive in July in local currency terms, with the weak ZAR performance evident in amplified offshore-denominated returns. The rand extended its slide by 2.1% for the month to date (as at 17 August) as risk sentiment clouded August.

Figure 25: Major indices and asset class returns in ZAR

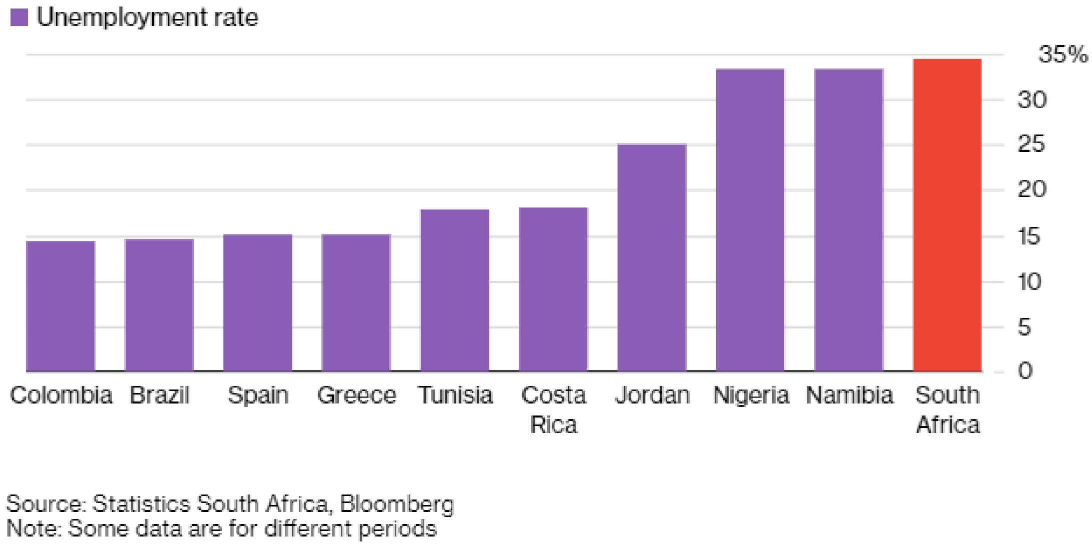
31 July 2021 (ZAR)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)	MTD 17 August 2021
FTSE/JSE ALSI Total Return	4.2%	3.2%	17.9%	27.1%	9.7%	8.8%	11.6%	0.0%
FTSE/JSE Capped SWIX Total Return	2.6%	2.4%	16.2%	27.1%	5.2%	4.4%	10.2%	1.8%
S&P 500 Total Return	4.4%	6.4%	17.4%	17.0%	22.5%	18.5%	24.7%	3.5%
STOXX 600 Total Return	4.2%	5.7%	13.5%	14.2%	12.7%	11.4%	15.2%	3.6%
Nikkei 225 Total Return	-2.2%	-4.8%	-5.8%	5.6%	13.3%	12.2%	17.8%	2.9%
MSCI World Total Return	3.8%	5.8%	14.8%	16.4%	19.3%	16.0%	20.7%	3.3%
MSCI ACWI Total Return	2.7%	4.6%	12.8%	14.7%	18.5%	15.5%	19.7%	3.0%
MSCI EM Total Return	-4.8%	-3.5%	-0.1%	3.8%	12.3%	11.9%	12.4%	0.6%
STEFI	0.3%	0.9%	2.1%	3.9%	5.9%	6.6%	6.2%	0.2%
ALBI	0.8%	5.7%	5.9%	13.9%	8.7%	8.9%	8.5%	0.1%
IGOV	0.5%	2.3%	8.3%	16.7%	5.0%	3.3%	6.4%	0.3%
WGBI	3.7%	2.3%	-3.7%	-15.2%	8.1%	2.9%	9.6%	1.7%
SAPY Total Return	-0.6%	-0.2%	18.5%	28.5%	-8.9%	-7.6%	4.8%	2.8%
MSCI US REIT Total Return	7.0%	9.6%	27.1%	19.3%	15.7%	7.5%	18.6%	2.0%
S&P Global Property Total Return	4.4%	5.9%	16.0%	12.3%	11.3%	6.8%	16.0%	2.4%
STOXX 600 Real Estate Total Return	8.8%	11.7%	11.6%	12.0%	9.8%	6.7%	14.5%	4.4%
Crude Oil	3.6%	14.4%	46.7%	51.2%	4.6%	13.6%	3.6%	-7.6%
Aluminium	4.7%	9.0%	30.2%	29.6%	11.5%	10.6%	8.0%	2.6%
Copper	5.8%	-0.2%	24.7%	30.1%	19.8%	15.7%	8.0%	-2.9%
Gold	2.5%	2.5%	-4.4%	-8.2%	14.0%	6.1%	1.1%	-1.5%
Platinum	-0.3%	-11.9%	-2.4%	-0.4%	11.8%	-0.8%	2.6%	-2.9%
Nickel	0.0%	0.0%	0.0%	0.0%	-0.7%	4.0%	0.8%	0.0%
Palladium	-2.4%	-8.7%	8.2%	9.2%	47.0%	31.5%	21.5%	-4.4%
Iron Ore	-13.7%	-2.2%	16.2%	40.2%	48.5%	26.3%		-9.7%
USDZAR	2.2%	0.7%	-0.6%	-14.5%	3.2%	1.0%	8.1%	2.1%
GBPZAR	2.8%	1.4%	1.1%	-9.0%	5.3%	2.0%	6.3%	0.9%
EURZAR	2.3%	-0.4%	-3.4%	-13.8%	3.8%	2.2%	6.1%	0.7%
JPYZAR	3.7%	0.5%	-6.3%	-17.4%	3.9%	-0.4%	4.3%	2.2%

Source: Bloomberg

SA equity valuations based on price ratios and dividend yields continued to suggest a moderate underweight position. Sentiment weakened, with the Chamber of Commerce and Industry Business Confidence falling from 57.4 in June to 43.5 in July. The SA PMI index plunged from 57.4 in June to 43.5 in July, after the week of riots and looting disrupted supply chains, industrial output and demand for manufactured goods.

Retail sales were up by 0.6% in June, exceeding the market expectation of -0.5%. Total and new car sales, however, contracted by -13.4% and -16.0%, month on month, in July. Exports and imports were up by 2.0% and flat, respectively, in June. Private credit extension remained lacklustre, declining by 0.54% in June, year on year. Overall, the data continued to suggest a lack of significant improvement in local demand, with the official unemployment rate rising to 34.4% in Q2 – the highest on a global list of 82 countries, according to Bloomberg.

Figure 26: Unemployment rate



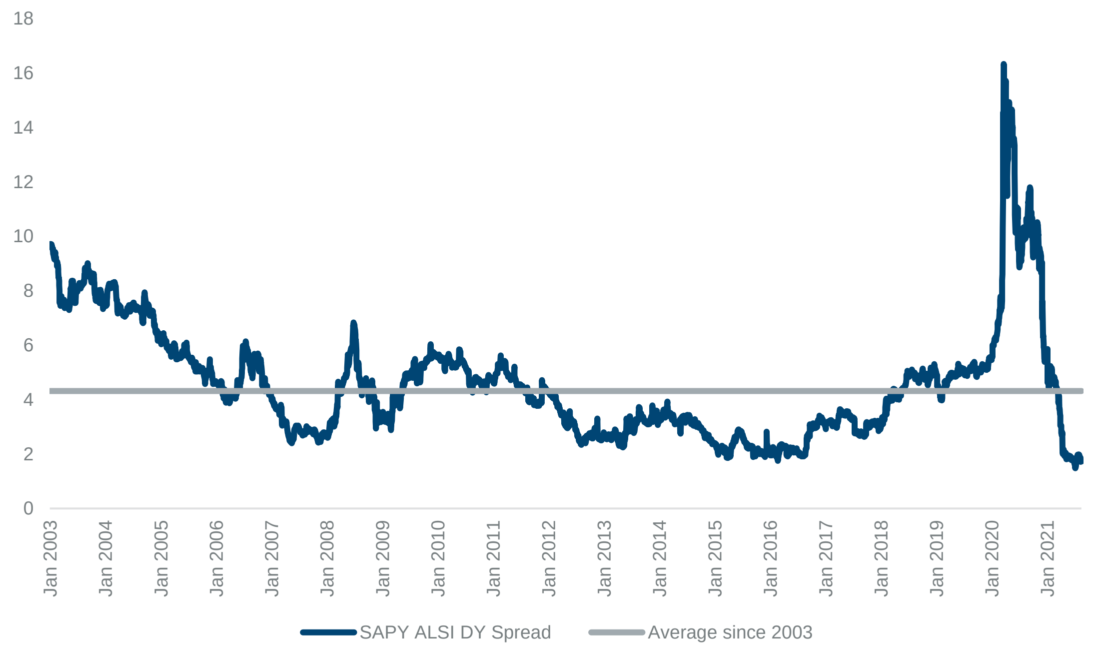
Source: Bloomberg

We reiterate our neutral position in SA equities, with the valuation remaining unchanged, along with sentiment and fundamentals having recently been dented by the riots and looting. Domestic consumption remains weak and vulnerable due to the record-high unemployment rate. With increasing reliance on social grants as a lifeline for many South Africans, fiscal stability remains a huge concern amid structurally weak growth. Commodity price inflation is decelerating on a year-on-year basis, although still at a high level. Should China's slowdown persist, it will translate into weaker demand for global commodities, which may erode South Africa's trade surplus.

SA-listed property

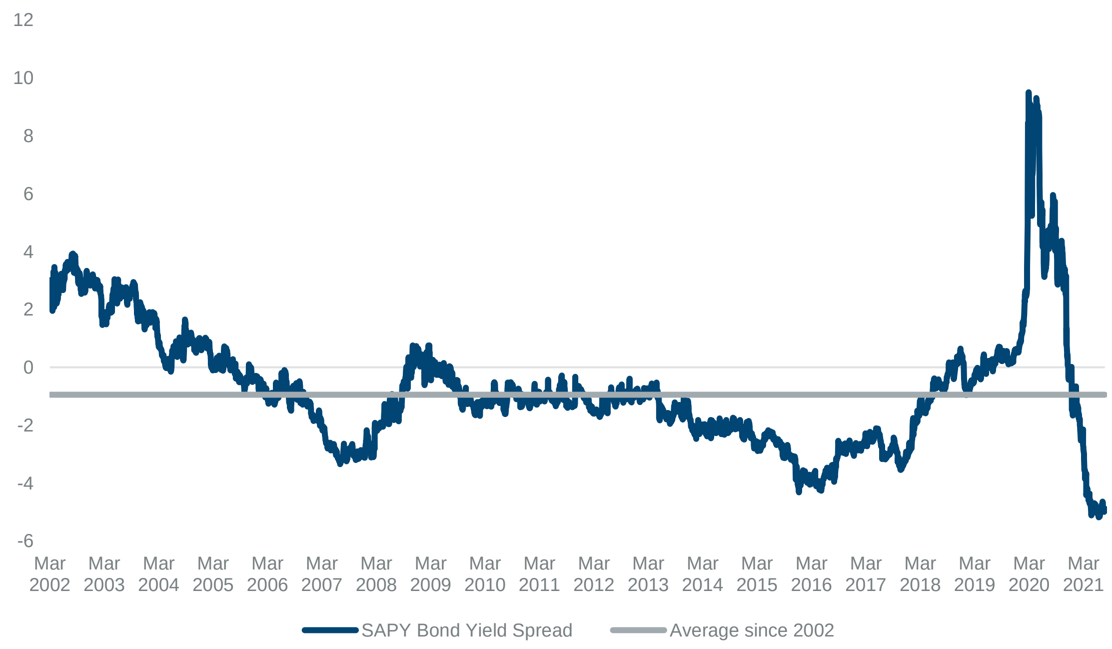
SA-listed property returned -0.8% in July as investors' appetite for listed property was affected by the unrest. For the month to date, as at 17 August, the SAPY index returned 2.8%, buoyed by optimism over the global property sector. The yield spread relative to SA equities and the 10-year bond remained significantly below the 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 0.75 in July.

Figure 27: SAPY yield spread relative to FTSE/JSE All Share Index



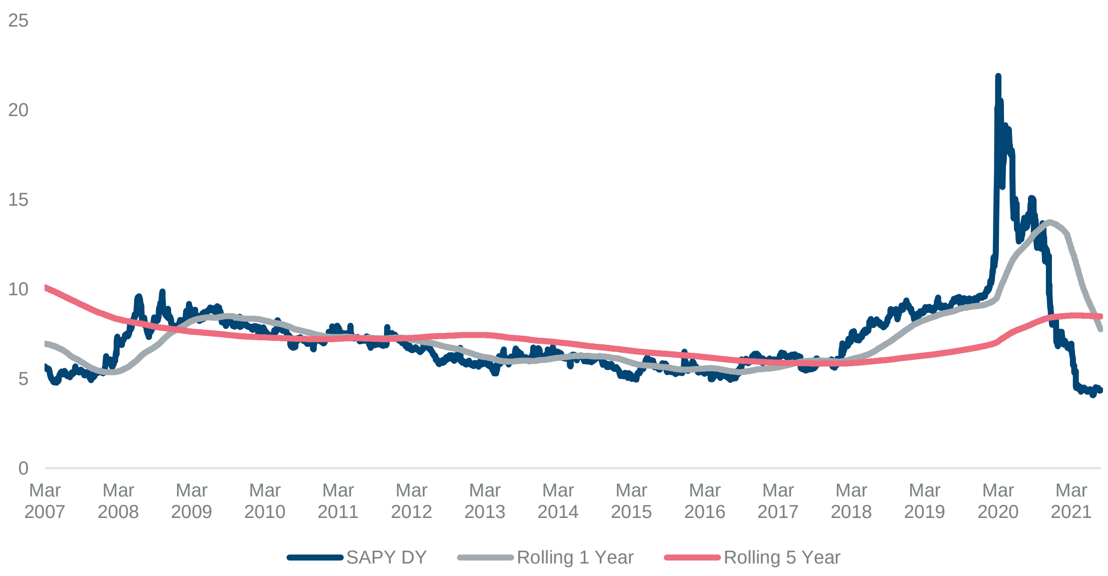
Source: Bloomberg

Figure 28: SAPY yield spread relative to 10-year bond



Source: Bloomberg

Figure 29: SAPY yield relative to 1-year and rolling 5-year rolling averages



Source: Bloomberg

We are comfortable staying in a neutral position as structural and secular challenges facing the local property sector persist. The path to recovery is clearly dependent on further improvements being made in the underlying economy, with offshore exposures benefiting from cyclical uplifts.

MENTENOVA

CONTACT

FRANCOIS VAN DIJK, CFA®
C +27 82 851 0112 **T** +27 11 447 7716
F 086 272 1177 **E** fvandijk@Mentenova.co.za

3rd Floor, Oxford & Glenhove Building 2,
114 Oxford Road, Rosebank, Johannesburg
www.Mentenova.co.za