MENTENOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

18 August 2022

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We have decided to keep our tactical asset allocation mostly unchanged for September, except for increasing our overweight position in offshore cash, with SA cash being the balancing figure.

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 have reiterated our prior positions across all asset classes. We have chosen to remain moderately overweight in SA nominal bonds, based on attractive valuations, improving fiscal conditions and better compensation for inflation than that offered by SA inflation-linked bonds. We have kept our moderately underweight position in SA inflation-linked bonds as the breakeven inflations implied by the inflation-linked bonds suggest that this asset class is fairly valued or slightly expensive over the medium- to long-term maturities, despite the upside risk to inflation in the short term. With the SARB front-loading its rate hiking cycle, increasing the repo rate by 75bps in July, we do expect central bank actions to curb the runaway inflation. In growth-dominated regimes, equities and bonds typically tend to have been associated with negative correlations.

Given the weakening growth momentum and our view that the recent rebound is unsustainable as markets are overly optimistic in the Fed policy pivot, we have therefore chosen to remain neutral in offshore equities and offshore bonds so that the portfolio is balanced for growth and inflation. Owing to the leverage inherent in listed property, making this asset class more sensitive to rate hikes than the broader equities, we have therefore remained moderately underweight in local and offshore listed properties.

TAA Overview

Market overview	Risk assets rebounded in the second half of July as markets began to price in a monetary policy pivot on the back of economic data released which indicates a slowing global economy. Global composite and manufacturing PMI indices continued to cool across most countries. Global supply chain pressures also continued to ease but remain elevated. The oil price decreased due to higher supply and lower global demand expectations as per the Federal Reserve Bank of New York's oil price dynamics report. However, the labour market remains tight in the US and across most developed countries, driving up nominal wage growth. Yet inflation remains red hot across the globe, leading to negative real wage growth.

 Mentenova is an authorised financial services provider | FSP No. 43937.

Figure 2: Global Composite PMI

	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Global Composite PMI	51.1	52.5	52.5	53.4	53.1	52.7	52.3	53.2	54.8	56.7	58.5	56.6	55.8	52.5	53	54.5	54.8	54.3	51.4	53.4	52.7	51	51.3	53.5	50.8
Global Services PMI	50.7	52	52	52.9	52.2	51.8	51.6	52.8	54.7	57	59.5	57.5	56.3	52.8	53.4	55.6	55.6	54.6	51.3	53.9	53.4	51.9	51.9	53.9	51.1
Developed Markets	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	54.1	53.8	55.2	55.8	54.8	51.3	54.7	56	55.5	53.7	52.5	49
Emerging Markets	50.9	53	53.7	54.6	54.9	54.1	52.1	52	52.6	53.5	52.7	50.8	52	49.3	52.3	52.8	52.5	53.3	50.8	51.3	46.8	43.4	46.9	55.2	54
Eurozone	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	59	56.2	54.2	55.4	53.3	52.3	55.5	54.9	55.8	54.8	52	49.9
France	57.3	51.6	48.5	47.5	40.6	49.5	47.7	47	50	51.6	57	57.4	56.6	55.9	55.3	54.7	56.1	55.8	52.7	55.5	56.3	57.6	57	52.5	51.7
Germany	55.3	54.4	54.7	55	51.7	52	50.8	51.1	57.3	55.8	56.2	60.1	62.4	60	55.5	52	52.2	49.9	53.8	55.6	55.1	54.3	53.7	51.3	48.1
Italy	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	59.1	56.6	54.2	57.6	54.7	50.1	53.6	52.1	54.5	52.4	51.3	47.7
Spain	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	60.6	57	56.2	58.3	55.4	47.9	56.5	53.1	55.7	55.7	53.6	52.7
Ireland	55.9	54	46.9	49	47.7	53.4	40.3	42.7	54.5	58.1	63.5	63.4	65	62.6	61.5	62.5	59.3	56.5	56.5	59.1	61	59.6	57.5	52.8	52.9
Australia	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	43.3	46	52.1	55.7	54.9	46.7	56.6	55.1	55.9	52.9	52.6	51.1
Sweden	53.8	56.4	55.5	56.5	59.2	59.6	61	62.4	62.8	67.1	70.1	67.2	67.8	63.7	68.2	67	67.1	65.8	66.9	65.3	63.1	64.4	64.2	60.3	57.2
UK	57	59.1	56.5	52.1	49	50.4	41.2	49.6	56.4	60.7	62.9	62.2	59.2	54.8	54.9	57.8	57.6	53.6	54.2	59.9	60.9	58.2	53.1	53.7	52.1
US	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	55.4	55	57.6	57.2	57	51.1	55.9	57.7	56	53.6	52.3	47.7
Japan	44.9	45.2	46.6	48	48.1	48.5	47.1	48.2	49.9	51	48.8	48.9	48.8	45.5	47.9	50.7	53.3	52.5	49.9	45.8	50.3	51.1	52.3	53	50.2
China	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	47.2	51.4	51.5	51.2	53	50.1	50.1	43.9	37.2	42.2	55.3	54
India	37.2	46	54.6	58	56.3	54.9	55.8	57.3	56	55.4	48.1	43.1	49.2	55.4	55.3	58.7	59.2	56.4	53	53.5	54.3	57.6	58.3	58.2	56.6
Brazil	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	54.6	54.7	53.4	52	52	50.9	53.5	56.6	58.5	58	59.4	55.3
Russia	56.8	57.3	53.7	47.1	47.8	48.3	52.3	52.6	54.6	54	56.2	55	51.7	48.2	50.5	49.5	48.4	50.2	50.3	50.8	37.7	44.4	48.2	50.4	52.2

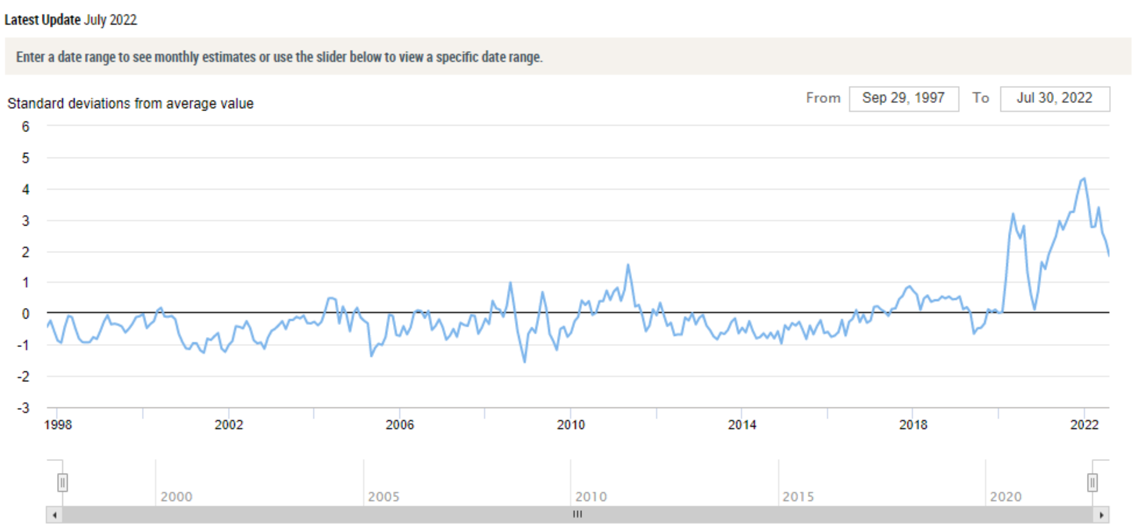
Source: Bloomberg

Figure 3: Global Manufacturing PMI

	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Global Manufacturing PMI	50.6	51.8	52.4	53.1	53.8	53.8	53.6	54	55	55.8	56	55.5	55.4	54.1	54.1	54.3	54.2	54.2	53.2	53.6	53	52.2	52.3	52.2	51.1
Developed Markets	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	58.3	57.1	56.6	56.9	56.6	56.3	56.6	56.5	56.3	55	52.5	51.3
Emerging Markets	51.4	52.5	52.8	53.4	53.9	52.8	52.1	51.5	51.3	52.2	52	51.2	50.6	49.6	50.8	51.6	51.2	51.7	50	50.9	49.2	48.1	49.5	51.7	50.8
Eurozone	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	61.4	58.6	58.3	58.4	58	58.7	58.2	56.5	55.5	54.6	52.1	49.8
France	52.4	49.8	51.2	51.3	49.6	51.1	51.6	56.1	59.3	58.9	59.4	59	58	57.5	55	53.6	55.9	55.6	55.5	57.2	54.7	55.7	54.6	51.4	49.5
Germany	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	62.6	58.4	57.8	57.4	57.4	59.8	58.4	56.9	54.6	54.8	52	49.3
Italy	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	60.9	59.7	61.1	62.8	62	58.3	58.3	55.8	54.5	51.9	50.9	48.5
Spain	53.5	49.9	50.8	52.5	49.8	51	49.3	52.9	56.9	57.7	59.4	60.4	59	59.5	58.1	57.4	57.1	56.2	56.2	56.9	54.2	53.3	53.8	52.6	48.7
Greece	48.6	49.4	50	48.7	42.3	46.9	50	49.4	51.8	54.4	58	58.6	57.4	59.3	58.4	58.9	58.8	59	57.9	57.8	54.6	54.8	53.8	51.1	49.1
Ireland	57.3	52.3	50	50.3	52.2	57.2	51.8	52	57.1	60.8	64.1	64	63.3	62.8	60.3	62.1	59.9	58.3	59.4	57.8	59.4	59.1	56.4	53.1	51.8
Australia	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	52	56.8	58.2	59.2	57.7	55.1	57	57.7	58.8	55.7	56.2	55.7
Sweden	52.2	54.4	56.6	58.9	59.7	64.8	62.6	61.7	64.1	68.7	66.1	65.4	64.5	60.1	64.6	64.4	63.1	62.1	62.4	58.6	57.3	55	54.9	53.7	53.1
Denmark	54.8	51.4	53.6	62.9	46.7	41.6	42.8	46.1	65.6	66.6	65.5	65.5	69.7	67.3	65.2	71.9	68.1	64.4	60.9	50.7	62.1	63	61.2	71.3	38
UK	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	60.3	57.1	57.8	58.1	57.9	57.3	58	55.2	55.8	54.6	52.8	52.1
US	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	61.1	60.7	58.4	58.3	57.7	55.5	57.3	58.8	59.2	57	52.7	52.2
Japan	45.2	47.2	47.7	48.7	49	50	49.8	51.4	52.7	53.6	53	52.4	53	52.7	51.5	53.2	54.5	54.3	55.4	52.7	54.1	53.5	53.3	52.7	52.1
China	52.8	53.1	53	53.6	54.9	53	51.5	50.9	50.6	51.9	52	51.3	50.3	49.2	50	50.6	49.9	50.9	49.1	50.4	48.1	46	48.1	51.7	50.4
Indonesia	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	43.7	52.2	57.2	53.9	53.5	53.7	51.2	51.3	51.9	50.8	50.2	51.3
South Korea	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	51.2	52.4	50.2	50.9	51.9	52.8	53.8	51.2	52.1	51.8	51.3	49.8
Taiwan	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	58.5	54.7	55.2	54.9	55.5	55.1	54.3	54.1	51.7	50	49.8	44.6
India	46	52	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7	55.9	57.6	55.5	54	54.9	54	54.7	54.6	53.9	56.4
Brazil	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	53.6	54.4	51.7	49.8	49.8	47.8	49.6	52.3	51.8	54.2	54.1	54
Mexico	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	47.1	48.6	49.3	49.4	49.4	46.1	48	49.2	49.3	50.6	52.2	48.5
Russia	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	46.5	49.8	51.6	51.7	51.6	51.8	48.6	44.1	48.2	50.8	50.9	50.3
South Africa	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	57.9	56.8	53.6	57.2	54.1	57.1	58.6	60	50.7	54.8	52.2	47.6

Source: Bloomberg

Figure 4: Global Supply Chain pressure Index



Source: Federal Reserve Bank of New York

Figure 5: US nominal wage growth

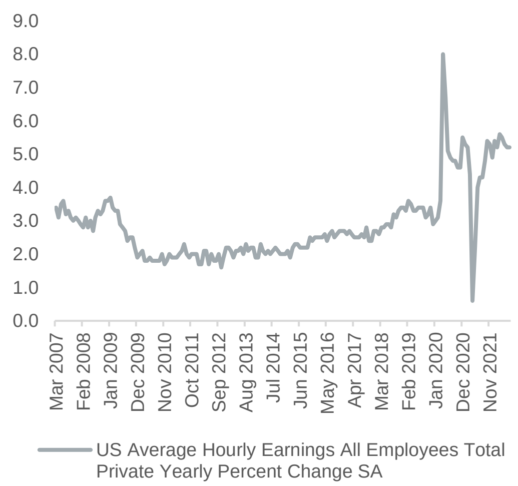
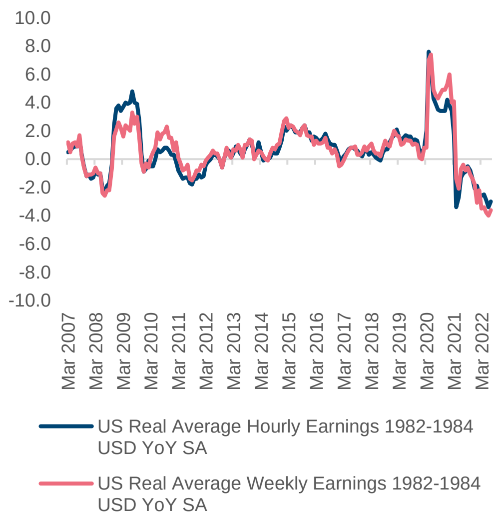


Figure 6: US real wage growth



Source: Bloomberg

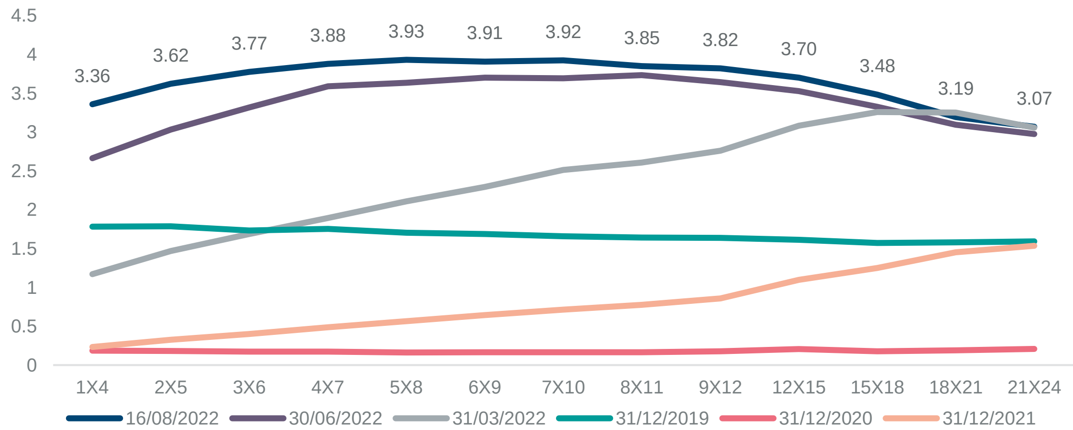
Figure 7: Global inflation

	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 202
Global	2.6	2.3	2.1	2.1	2.2	2.6	3.1	3.6	4.1	4.2	4.2	4.3	4.6	5.2	5.7	6.0	6.4	7.0	8.0	8.8	9.1	9.
Citi Inflation Surprises Index - Global	-3.2	-5.4	0.0	5.3	17.7	15.7	21.6	34.8	38.5	40.5	42.8	47.7	43.9	58.1	82.9	70.5	74.0	80.0	80.8	80.1	68.9	63.
Citi Inflation Surprises Index - Major Economies	1.0	-2.8	6.4	10.6	26.6	19.7	25.3	43.4	48.3	55.3	57.5	62.3	58.8	71.9	107.8	97.6	104.7	113.5	107.4	102.2	89.4	82.
Citi Inflation Surprises Index - Emerging Markets	-9.4	-9.3	-9.5	-2.6	4.3	9.6	16.1	21.9	23.9	18.2	20.7	25.8	21.6	37.3	45.4	29.9	27.9	29.9	40.8	46.9	38.1	34.
France	0.0	0.2	0.0	0.6	0.6	1.1	1.2	1.4	1.5	1.2	1.9	2.2	2.6	2.8	2.8	2.9	3.6	4.5	4.8	5.2	5.8	6.
Germany	-0.2	-0.3	-0.3	1.0	1.3	1.7	2.0	2.5	2.3	3.8	3.9	4.1	4.5	5.2	5.3	4.9	5.1	7.3	7.4	7.9	7.6	7.
Greece	-1.8	-2.1	-2.3	-2.0	-1.3	-1.6	-0.3	0.1	1.0	1.4	1.9	2.2	3.4	4.8	5.1	6.3	7.2	8.9	10.2	11.3	12.1	11.
Ireland	-1.5	-1.1	-1.0	-0.2	-0.4	0.0	1.1	1.7	1.6	2.2	2.8	3.7	5.1	5.3	5.5	5.0	5.6	6.7	7.0	7.8	9.1	9.
Italy	-0.3	-0.2	-0.2	0.4	0.6	0.8	1.1	1.3	1.3	1.9	2.0	2.5	3.0	3.7	3.9	4.8	5.7	6.5	6.0	6.8	8.0	7.
Spain	-0.8	-0.8	-0.5	0.5	0.0	1.3	2.2	2.7	2.7	2.9	3.3	4.0	5.4	5.5	6.5	6.1	7.6	9.8	8.3	8.7	10.2	10.
Sweden	0.3	0.2	0.5	1.6	1.4	1.7	2.2	1.8	1.3	1.4	2.1	2.5	2.8	3.3	3.9	3.7	4.3	6.0	6.4	7.3	8.7	8.
Switzerland	-0.6	-0.7	-0.8	-0.5	-0.5	-0.2	0.3	0.6	0.6	0.7	0.9	0.9	1.2	1.5	1.5	1.6	2.2	2.4	2.5	2.9	3.4	3.
United Kingdom	0.7	0.3	0.6	0.7	0.4	0.7	1.5	2.1	2.5	2.0	3.2	3.1	4.2	5.1	5.4	5.5	6.2	7.0	9.0	9.1	9.4	9.
United States	1.2	1.2	1.4	1.4	1.7	2.6	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0	7.5	7.9	8.5	8.3	8.6	9.1	8.
Australia	0.7	0.7	0.9	0.9	0.9	1.1	1.1	1.1	3.8	3.8	3.8	3.0	3.0	3.0	3.5	3.5	3.5	5.1	5.1	5.1	6.1	6.
Japan	-0.4	-0.9	-1.2	-0.7	-0.5	-0.4	-1.1	-0.8	-0.5	-0.3	-0.4	0.2	0.1	0.6	0.8	0.5	0.9	1.2	2.5	2.5	2.4	2.
Brazil	3.9	4.3	4.5	4.6	5.2	6.1	6.8	8.1	8.4	9.0	9.7	10.3	10.7	10.7	10.1	10.4	10.5	11.3	12.1	11.7	11.9	10.
China	0.5	-0.5	0.2	-0.3	-0.2	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.
India	7.6	6.9	4.6	4.1	5.0	5.5	4.2	6.3	6.3	5.6	5.3	4.4	4.5	4.9	5.7	6.0	6.1	7.0	7.8	7.0	7.0	6.
Indonesia	1.4	1.6	1.7	1.6	1.4	1.4	1.4	1.7	1.3	1.5	1.6	1.6	1.7	1.8	1.9	2.2	2.1	2.6	3.5	3.6	4.4	4.
Mexico	4.1	3.3	3.2	3.5	3.8	4.7	6.1	5.9	5.9	5.8	5.6	6.0	6.2	7.4	7.4	7.1	7.3	7.5	7.7	7.7	8.0	8.
Russia	4.0	4.4	4.9	5.2	5.7	5.8	5.5	6.0	6.5	6.5	6.7	7.4	8.1	8.4	8.4	8.7	9.2	16.7	17.8	17.1	15.9	15.
South Africa	3.3	3.2	3.1	3.2	2.9	3.2	4.4	5.2	4.9	4.6	4.9	5.0	5.0	5.5	5.9	5.7	5.7	5.9	5.9	6.5	7.4	7.
South Korea	0.1	0.6	0.6	0.9	1.4	1.9	2.5	2.6	2.4	2.6	2.6	2.4	3.2	3.8	3.7	3.6	3.7	4.1	4.8	5.4	6.0	6.
Taiwan	-0.3	0.1	0.1	-0.2	1.4	1.2	2.1	2.5	1.8	1.9	2.3	2.6	2.6	2.9	2.6	2.8	2.3	3.3	3.4	3.4	3.6	3.

Source: Bloomberg

Towards the second half of July, the market took its cue from a slowdown in activities and disappointing growth data, and began to price in rate cuts in 2023, which supported the rally of growth assets in late July into August.

Figure 8: US FRA rates



Source: Bloomberg

For the month of July, one of the best-performing equity indices was the MSCI World Growth Index, returning 11.5% in USD terms. The S&P 500 Index returned 9.2%, outperforming other developed market peers. The MSCI World Index returned 8.0%, significantly outperforming the MSCI Emerging Markets Index, which returned -0.2% in July. China, which accounted for 32.04% of the MSCI Emerging Markets Index and the MSCI China Index, returned -9.3% over the period due to the weakness in the real estate sector. Concerns around recession risk, falling yields and compressing spreads also benefited fixed income. The ALBI returned 2.4% in ZAR and the WGBI returned 1.8% in USD terms. US corporate high yield was the best performer, returning 5.9% in July. Local and offshore properties also rallied on the back of rate cut expectations. Commodities, proxied by the Bloomberg Commodity Index, gained 4.3%. However, industrial metals were negatively affected by bearish growth outlooks and a strong dollar. The FX markets were also volatile, with the rand depreciating by 2.1% in July and then appreciating by 2.7% into August. The US dollar strengthened by 3.5% in July, mainly against the Euro. Most of the performance trends persisted into the month of August.

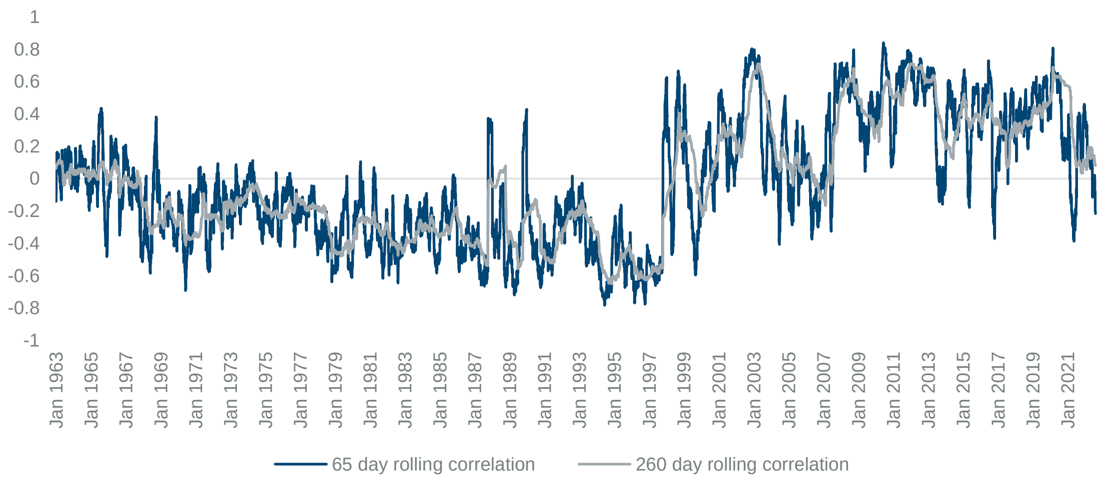
Figure 9: Major indices and asset class returns in local currency

31 July 2022 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)	MTD 14 August 2022
FTSE/JSE ALSI Total Return	4.2%	-4.5%	-4.4%	4.7%	10.6%	8.2%	10.6%	2.6%
FTSE/JSE Capped SWIX Total Return	2.8%	-4.3%	-1.9%	7.2%	8.9%	5.4%	9.1%	3.5%
S&P 500 Total Return	9.2%	0.4%	-12.6%	-4.6%	13.4%	12.8%	13.8%	3.7%
STOXX 600 Total Return	7.7%	-1.8%	-8.4%	-2.6%	6.8%	5.6%	8.1%	0.7%
Nikkei 225 Total Return	5.3%	3.8%	-2.3%	3.9%	11.0%	9.0%	14.5%	2.7%
MSCI World Total Return	8.0%	-1.2%	-13.9%	-8.7%	10.1%	9.4%	10.8%	3.3%
MSCI ACWI Total Return	7.0%	-1.8%	-14.4%	-10.1%	9.0%	8.4%	9.9%	3.2%
MSCI EM Total Return	-0.2%	-6.3%	-17.6%	-19.8%	1.3%	1.3%	3.2%	2.7%
MSCI World Value Index	4.6%	-2.5%	-7.7%	-2.2%	7.0%	6.0%	8.9%	2.6%
MSCI World Growth Index	11.5%	-0.2%	-20.5%	-15.7%	12.3%	12.2%	12.5%	3.8%
MSCI World Small Cap Index	9.1%	-1.9%	-15.3%	-13.9%	7.5%	6.6%	10.3%	4.4%
FTSE UK Series FTSE All Share TR	4.4%	-1.2%	-0.4%	5.5%	3.2%	4.0%	7.2%	1.5%
MSCI AC Asia Ex. Japan Index	-1.1%	-5.1%	-17.2%	-19.7%	2.6%	2.0%	5.4%	1.5%
MSCI Europe Excluding United Kingdom Index	8.1%	-1.6%	-10.2%	-4.9%	7.6%	6.4%	9.6%	0.8%
STEFI	0.4%	1.2%	2.6%	4.3%	4.9%	5.9%	6.1%	0.2%
ALBI	2.4%	0.3%	0.5%	2.9%	6.9%	8.0%	7.0%	2.8%
IGOV	-1.3%	-0.3%	1.8%	8.8%	6.7%	5.1%	5.6%	1.4%
WGBI	1.8%	-1.5%	-13.3%	-16.6%	-3.6%	-1.2%	-0.6%	-0.6%
Bloomberg Global Inflation-Linked Total Return Index	4.5%	-4.3%	-14.1%	-14.7%	0.3%	1.3%	1.5%	-1.8%
Bloomberg US Agg Total Return	2.4%	1.5%	-8.2%	-9.1%	-0.2%	1.3%	1.6%	-0.8%
Bloomberg EuroAgg Total Return Index	4.1%	0.2%	-8.5%	-10.4%	-2.9%	-0.1%	2.1%	-1.0%
Bloomberg Global Agg Corporate Total Return Index	2.8%	-0.4%	-13.2%	-15.3%	-1.4%	0.4%	1.7%	-0.3%
Bloomberg US Corporate High Yield Total Return Index	5.9%	-1.0%	-9.1%	-8.0%	1.9%	3.1%	4.9%	1.6%
Bloomberg Pan-European High Yield Total Return Index	5.1%	-3.4%	-9.9%	-9.8%	-0.4%	1.0%	4.7%	1.5%
J.P. Morgan EMBI Global Core Hedged EUR	3.2%	-3.9%	-19.3%	-20.9%	-6.3%	-2.9%	0.5%	2.3%
SAPY Total Return	8.8%	-2.4%	-5.0%	9.7%	-6.1%	-6.4%	2.7%	1.9%
MSCI US REIT Total Return	9.0%	-5.2%	-13.1%	-2.7%	6.6%	6.9%	8.0%	2.8%
S&P Global Property Total Return	6.8%	-6.1%	-13.9%	-9.4%	1.5%	3.2%	5.8%	1.9%
STOXX 600 Real Estate Total Return	13.4%	-9.8%	-20.6%	-19.2%	-0.3%	0.8%	5.3%	1.1%
FTSE EPRA Nareit Global REITs TR Index	8.4%	-5.4%	-13.3%	-6.5%	3.1%	4.6%	6.3%	2.1%
Crude Oil	-4.2%	0.6%	41.4%	44.1%	19.1%	15.9%	0.5%	-10.8%
Aluminium	1.8%	-18.5%	-11.4%	-3.9%	11.4%	5.3%	2.8%	-2.2%
Copper	-4.1%	-19.0%	-18.5%	-18.6%	10.1%	4.4%	0.5%	2.2%
Gold	-2.3%	-6.9%	-3.5%	-2.7%	7.7%	6.8%	0.9%	2.1%
Platinum	0.3%	-4.3%	-7.2%	-14.5%	1.3%	-0.9%	-4.4%	7.3%
Nickel	4.1%	-25.7%	13.0%	20.7%	17.7%	18.3%	4.1%	0.0%
Palladium	9.8%	-8.4%	11.9%	-20.0%	11.9%	19.2%	13.7%	4.4%
Iron Ore	-9.7%	-21.9%	-8.6%	-41.6%	-3.8%	7.4%	-1.3%	0.7%
Bloomberg Commodity Index Total Return	4.3%	-5.6%	23.5%	27.2%	16.2%	8.8%	-1.0%	1.2%
USDZAR	2.1%	5.3%	4.3%	13.8%	5.0%	4.7%	7.2%	-2.7%
GBPZAR	2.0%	1.8%	-6.3%	-0.4%	5.1%	3.0%	4.6%	-2.9%
EURZAR	-0.4%	1.9%	-6.2%	-1.9%	2.3%	1.7%	5.3%	-2.1%
JPYZAR	3.8%	2.3%	-10.0%	-6.5%	-1.9%	0.8%	1.7%	-2.6%
Dollar Index Spot	1.2%	2.9%	10.7%	14.9%	2.4%	2.7%	2.5%	-0.3%

Source: Bloomberg

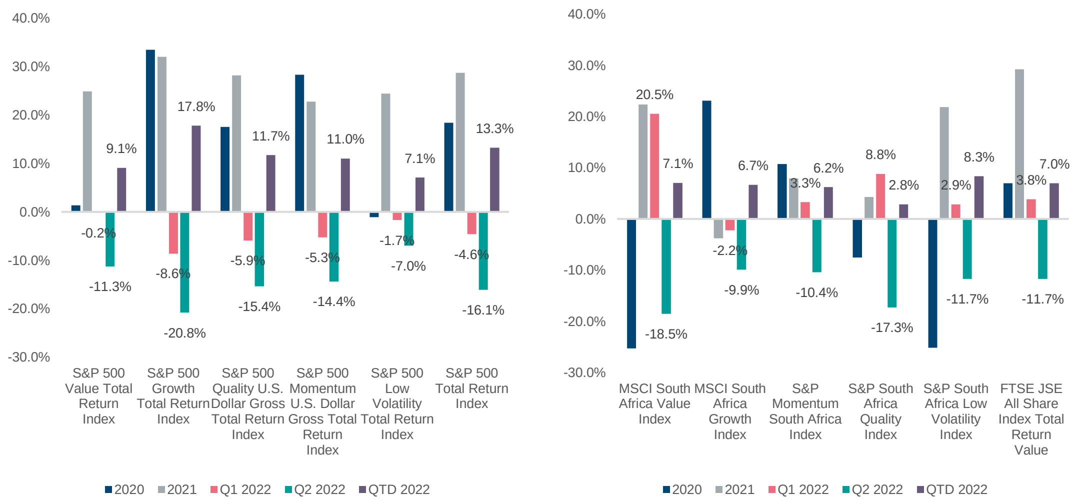
The correlations between US equities and the US 10-year treasury continued to fall as growth concerns dominated the minds of investors. From a style perspective, the growth stocks meaningfully outperformed the S&P 500 Index for the quarter to date, as at 14 August 2022. For SA equities, the low volatility index outperformed the ALSI.

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



Source: Bloomberg

Figure 11: US and SA style indices performance in local currency



Source: Bloomberg

Tactical views

We have chosen to retain our moderate overweight position in SA nominal bonds and moderate underweight position in SA inflation-linked bonds. Despite an improving fiscus and a credible SARB, the dollar story or global risk sentiment has been dominating the performance of SA fixed income. However, we are still of the view that SA nominal bonds are attractive from an implied yield, hedged yield and real yield perspective, amidst uncertainty around inflation. While the 10-year nominal bond was trading at a significant discount to its implied yield, the 10-year inflation-linked bond was trading at a slight premium to its implied yield. The level of breakeven inflation has declined from the peak we saw in mid-July. While we are aware of the upside risk to inflation in the short term, we do expect some reprieve on the inflation front for the foreseeable future, what with oil and food prices coming down and the SARB hiking rates.

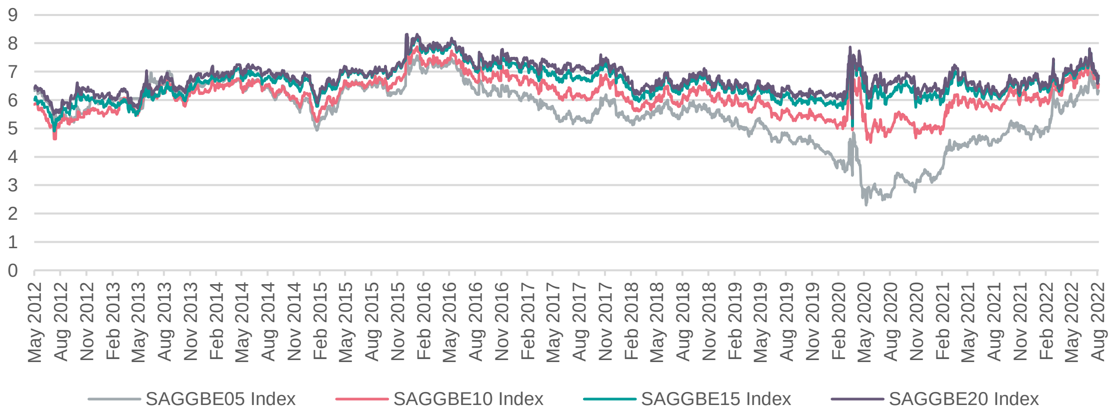
Nevertheless, the resurgent level of core inflation indicates that underlying inflationary pressure remains. The real yield curve has steepened slightly over the past few months. However, the level of breakeven inflation suggests that inflation-linked bonds remain on the expensive side, despite the upside risk to inflation in the short term. The real yield of the 10-year inflation-linked bond remained below that of the implied yield, again suggesting the high cost of SA inflation-linked bonds. We have chosen to maintain our position of moderately underweight in SA inflation-linked bonds, as we prefer SA nominal bonds which provide better compensation for inflation.

Figure 12: SA 10-year nominal bond real yields vs other EM peers as at 14 August 2022

	South Africa	India	Indonesia	Russia	Mexico	Brazil	Turkey
10 Year Yield	**10.47%**	**7.29%**	**7.08%**	**15.99%**	**8.47%**	**11.87%**	**16.90%**
Inflation	7.4%	6.7%	4.94%	15.10%	8.2%	10.1%	79.6%
Inflation Expectation	6.70%	5.40%	4.00%	14.40%	7.60%	9.79%	71.45%
10 Year Real Yield	**3.07%**	**0.58%**	**2.14%**	**0.89%**	**0.32%**	**1.80%**	**-62.70%**
10 Year Real Yield based on inflation expectation	3.77%	1.89%	3.08%	1.59%	0.87%	2.08%	-54.55%
Currency Risk Premium	**4.06%**	**2.68%**	**2.51%**	**13.20%**	**3.45%**	**5.58%**	**7.00%**
Sovereign Risk Premium	**3.63%**	**1.82%**	**1.78%**		**2.23%**	**3.51%**	**7.11%**
US 10 Year Yield	2.79%	2.79%	2.79%	2.79%	2.79%	2.79%	2.79%
S&P Rating - Foreign Currency	**BB-**	**BBB-u**	**BBB**	**NR**	**BBB**	**BB-**	**B+u**
Moody's Rating - Foreign Currency	**Ba2**	**Baa3**	**Baa2**	**NR**	**Baa2**	**Ba2**	**B2**

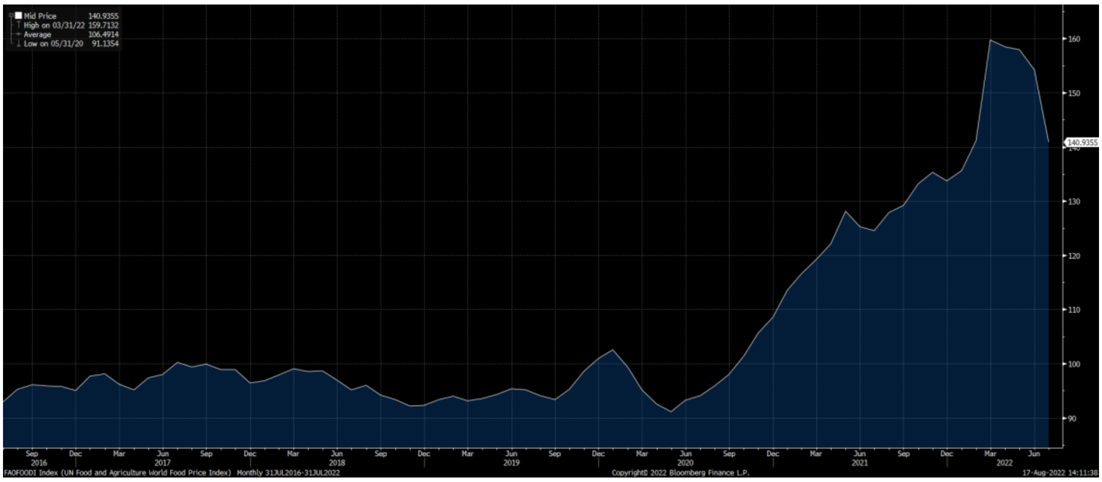
Source: Bloomberg

Figure 13: SA breakeven inflation



Source: Bloomberg

Figure 14: World food prices



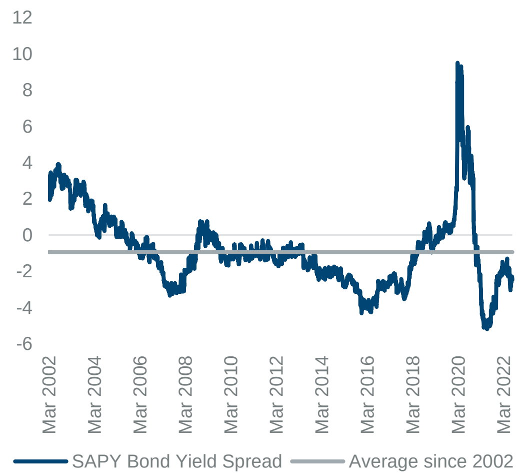
Source: Bloomberg

Following our TAA meeting which took place on 18 August, the July CPI (released on 24 August) stood at 7.8%, in line with the median expectation from the Bloomberg survey of economists. The core inflation for July was 4.6% year on year, slightly higher than the market expectation of 4.5%. The IGOV total return index was up c.0.72% for the month to date in August prior to the data release, after which it gained a further 80bps. These figures suggest that the underlying inflationary pressure remains, and we may have reduced our ILB allocation a bit too early. However, our investment thesis has remained unchanged. We are still of the view that the SARB has acted early enough to curb SA inflation as monetary policy has a lag effect on the economy.

For local and offshore properties, we have chosen to remain moderately underweight. The listed property sector did well in July and performed in line with broader equities into August, as investors began pricing in a more dovish Fed next year. From a valuation perspective, our dashboard suggests that we should go neutral for both asset classes.

Figure 15: SAPY yield spread vs ALSI

Figure 16: SAPY yield spread vs 10-year bonds



Source: Bloomberg

Figure 17: S&P Global Property dividend-yield spread relative to the MSCI World dividend yield

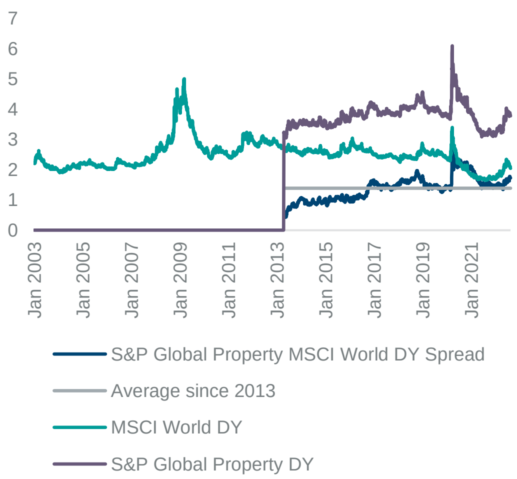
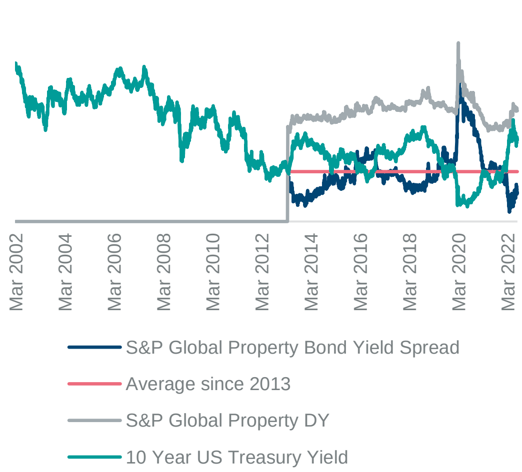


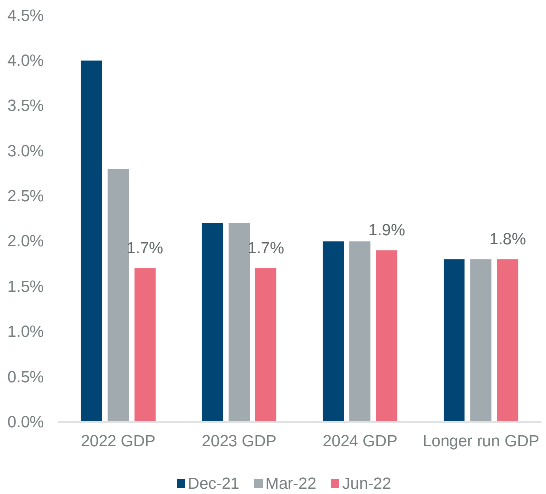
Figure 18: S&P Global Property dividend-yield spread relative to the US 10-year treasury yield

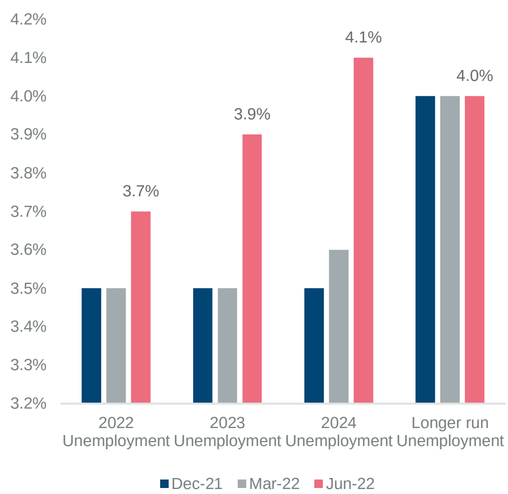


Source: Bloomberg

Whether or not the current US technical recession will turn into a real one, global growth is slowing down amid tightening liquidity conditions. Most major central banks thus far seem to be sufficiently comfortable with the growth outlook to continue to hike rates to curb inflation. The Fed is yet to significantly adjust its GDP projections downwards. While the Fed is unlikely to want to trigger a massive recession to address inflation, given the tight labour market, we do believe that the market expectation of a monetary policy pivot is premature and the bear market rally that we have seen over the past month is unsustainable. There may be some nascent signs that an inflation peak is approaching in the US, with the July CPI of 8.5% better than the market expectation of 8.7% and coming off the 9.1% high seen in June. However, inflation has to soften significantly from its current level of 8.5% before the Fed will meaningfully slow down its rate hiking cycle. Global liquidity conditions will remain tight as the ECB has also kicked off its normalisation cycle, lifting its benchmark rate from a negative base. Together with the leverage inherent in the listed property sector, making it relatively more sensitive to rate hikes than broader equity, we prefer equities in general over this asset class, both local and offshore.

Figure 19: Fed's GDP and unemployment projections





Source: Federal Reserve

We have chosen to remain neutral in SA equities and global equities. Local economic data released over the past month shows that the trade surplus decreased from R28.3bn to R24.2bn from May to June due to softer commodity prices and high oil prices. The PMI number plunged from 52.2 in June to 47.6 in July, with manufacturing production continuing to contract. Retail sales in June were also weaker than market expectations, at -2.5% year on year. The SARB announced a rate hike of 75bps on 21 July, increasing the benchmark rate from 4.75% to 5.50%, in line with FRA rates but higher than the 50bps expected from a survey of economists. The FRA rate curve has flattened in August as investors priced in the dovish pivot of the Fed, which consequently played a role in the SARB's rate decisions. Our investment case has remained unchanged as we prefer to stay neutral in SA equities on the back of slowing global growth, high inflationary pressures, tighter monetary policies and other idiosyncratic issues constraining domestic growth, despite SA equities having relatively more attractive valuations than developed market equities.

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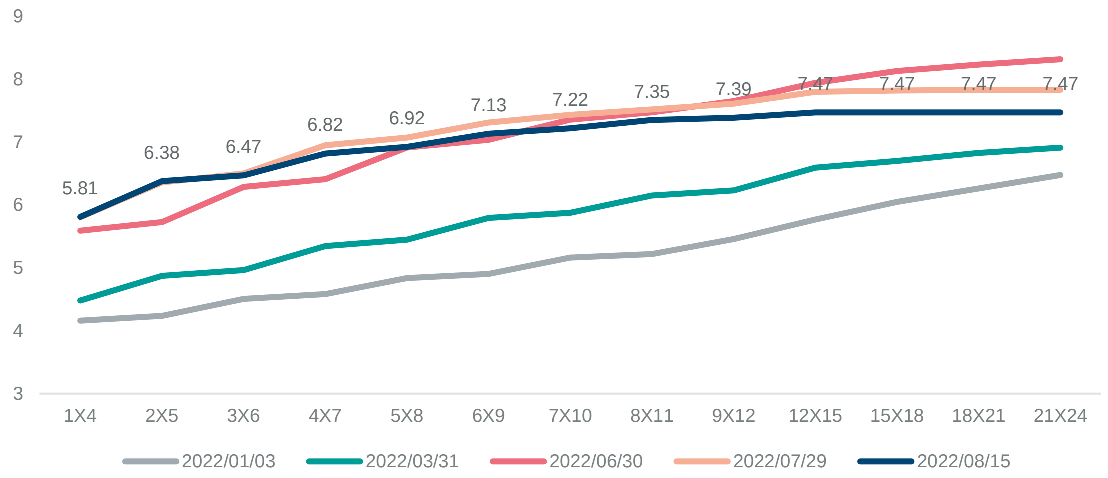
Figure 20: SA FRA rates



Source: Bloomberg

We have also maintained our neutral position in global equities. US consumer sentiment stabilised but remained depressed. Buying conditions for houses and vehicles in the US improved slightly, while buying conditions for large household durables continued to decline. US business leaders survey indices all fell in July, but there are expectations that prices paid in the remainder of this year will remain elevated. The US unemployment rate remained low at 3.5% in July, while non-farm payrolls in July were almost double the market expectations. The ISM manufacturing PMI was roughly flat for July and the ISM services PMI was strong at 56.7 over the same period, as consumers rotated from goods to services. Based on the current ISM New Orders Index, with the latest reading being 48, it is still possible for the S&P 500 to deliver forward EPS growth to the north of 20%. However, the regression analysis is showing a more bearish tilt. US treasury yield spreads are also flashing more warning signs of a recession ahead.

Figure 21: The University of Michigan Consumer Sentiment Index

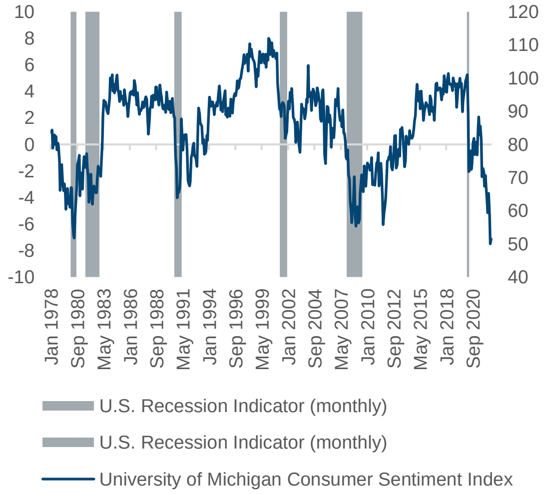
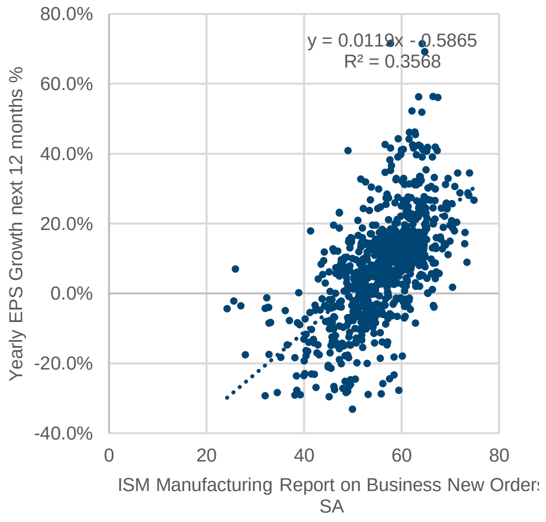


Figure 22: S&P 500 earnings per share vs ISM Manufacturing report on business new orders



Source: Bloomberg

Figure 23: US 10-year vs 2-year treasury yield

Figure 24: US 10-year vs 3-month treasury yield

Source: Bloomberg

The Eurozone manufacturing PMI was also flat for July, in the slightly contractionary zone of 49.8, while the services PMI improved from 50.6 to 51.2 over the month. The Japanese services PMI and composite PMI trended lower towards the neutral level and retail sales in Japan contracted in June by 1.4% year on year. Data from China was also mixed. The China manufacturing PMI tipped from 50.2 in June to 49 in July, while the services PMI remained strong, declining slightly from 54.7 in June to 53.8 in July. Export growth was strong in China, growing by 18.0% in July year on year, while imports were weaker than the market expectation of 2.3%. Retail sales in China were positive, up 2.7% in July year on year, but declining from 3.1% in June and significantly below the market expectation of 4.9%. Inflation rates for Japan and China are very different from those in the rest of the world. National CPI in Japan was 2.4% in June, while CPI in China was 2.7% in July, which gives policymakers in these two countries room for more monetary and fiscal stimulus.

Slowing growth and rising input costs will pose risks to elevated corporate profit margins. We are already starting to see a decreasing number of S&P 500 companies reporting earnings above the Bloomberg estimates and an increasing number of S&P 500 companies reporting earnings below the Bloomberg estimates. The net number of US companies issuing positive financial outlooks also started to falter into 2022. The fact that monetary policy has a lag effect on the economy also means that the risk of overtightening is looming with every 50 or 75bps rate hike by the Fed. The return over the past year for S&P 500 was largely driven by re-rating, but weaker earnings per share growth were also priced in to some degree. We have chosen to remain neutral on the balance of recent market performance, as the dollar tends to strengthen in a rate hiking cycle. With central banks' decisions being data driven nowadays, their policy pivot could change swiftly.

Figure 25: Net number of US companies issuing positive financial outlooks

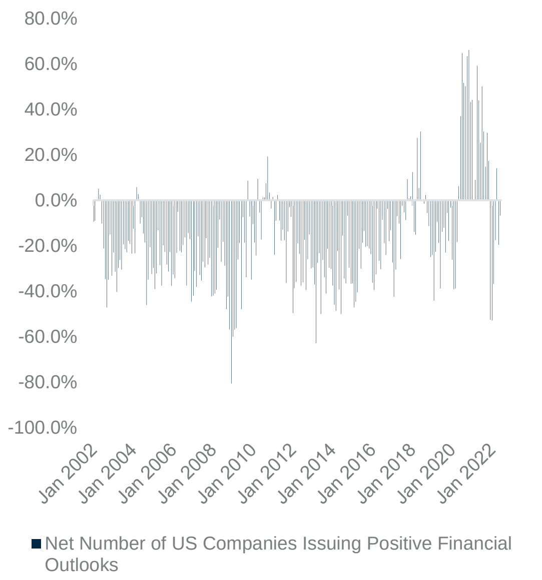
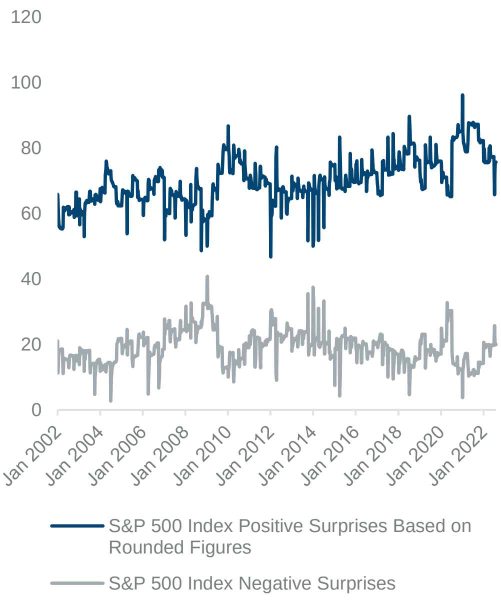
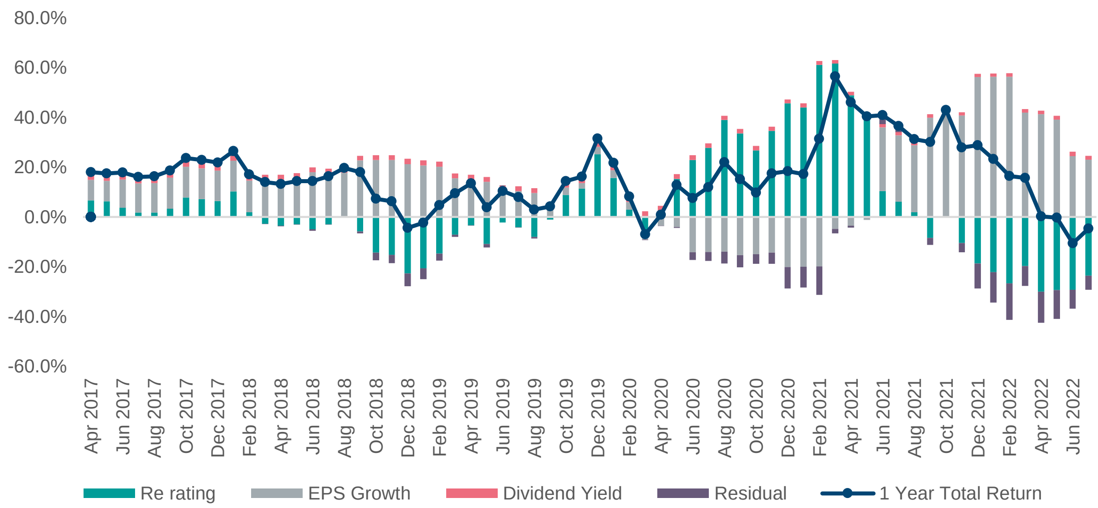


Figure 26: S&P 500 companies reporting positive and negative earnings surprises



Source: Bloomberg

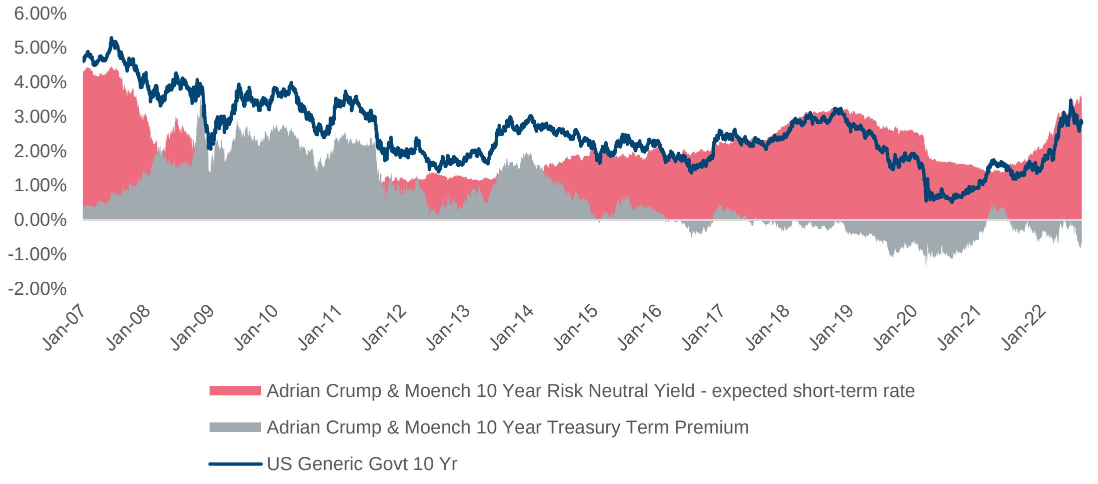
Figure 27: S&P 500 return decomposition



Source: Bloomberg

Lastly, we have also chosen to remain neutral in offshore bonds. The US 10-year bond yield disaggregation indicates that most of the surge in yields was driven by higher-than-expected, short-term rates. Movements in yields in recent months have been driven by retreating term premiums, as investors have become concerned about the looming recession risk. While investors may demand a higher-term premium for holding longer maturity bonds, given the weakening growth outlook and relatively fair valuation, we have therefore chosen to be neutral in offshore bonds so that the portfolio is balanced for growth and inflation. We have also increased our weight in offshore cash to keep relatively neutral offshore exposure, as our base case expectation is for the USD to strengthen further in a volatile and liquidity-tightening environment.

Figure 28: US 10-year bond yield disaggregation



Source: Bloomberg

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