



MENTANOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

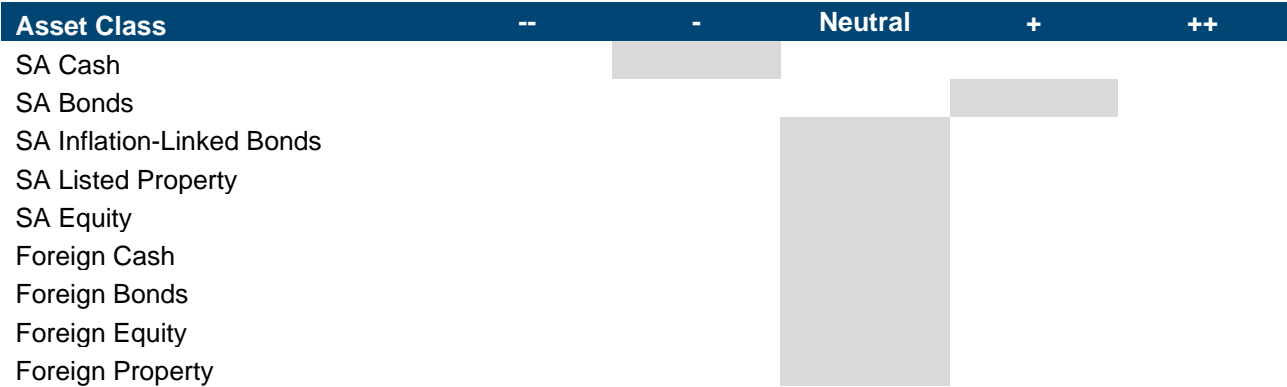
18 April 2024



HOUSEVIEW TACTICAL ASSET ALLOCATION

We have left our TAA views unchanged – moderately overweight in SA bonds, with SA cash being the balancing figure.

Figure 1: Houseview Tactical Asset Allocation



Synopsis

Here is our investment case for May:

- We have maintained our overweight position in SA nominal bonds as this asset class has become increasingly attractive at the current level of yield.

Market overview

Market overview	<p>Resilient economic activity, stickier inflation prints and central banks back-peddling on their dovish monetary policy stance buoyed equity markets and dented fixed income during Q1 2024. The S&P 500 gained 10.6%, outperforming most of its peers except for Japanese equities, which rose by 21.5% over the same period. The Magnificent Seven stocks delivered another quarter of stellar performance due to strong Q4 2023 earnings growth. Japanese equities were fuelled by a combination of increasing optimism over Japan's economic cycle, AI and the semiconductor boom, better-than-expected corporate earnings and ongoing corporate governance reforms. The STOXX 600 also rose by 7.7% in Q1, with the region looking increasingly attractive for investors who are concerned about the concentration of risks in US markets, favouring cheaper valuations, and a potential narrowing of the gap in the economic growth trajectory. Despite some early signs of rotation from growth stocks into value stocks in March as the MSCI World Value Index outperformed the MSCI World Growth Index, MSCI World Growth outperformed for the quarter and for the month to date in April. EM equities significantly lagged their developed market peers over the quarter due to the continued lack of certainty surrounding China's economic growth prospects – this despite strong equity market performance in Taiwan and India.</p> <p>SA equities had a weak start to the year, with a short-lived, partial recovery in March. Financial and resources were the laggards, and the domestic economy narrowly missed a technical recession with quarter-on-quarter GDP growth of only 0.1% for Q4 2023. A lack of growth catalysts and election uncertainty weighed further on sentiment. Commodities saw strong performance from the beginning of March into April, which lifted the local equity markets, until</p>
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the strong USD weighed on SA and other EM assets. Government bonds saw negative returns in Q1 as the market outlook was for a trimmed rate cut. However, high-yield credits managed to deliver positive returns for the quarter, as the credit spread remained very narrow.

Concerns about potential oil price shocks, triggered by the apparent escalation of conflicts in the Middle East, which could send the global economy into a recession, prompted a spike in volatility and dented risk sentiment in April. Rate-sensitive sectors such as real estate bear most of the brunt, but equities and fixed income all plunged into the red. Commodities and the USD have been the best performers so far this month, which is unsurprising given the upside inflationary risk and heightened geopolitical tensions which could put a damper on global economic growth.

The ZAR weakened by 2.8% against the USD in Q1 after a 1.7% recovery in March but weakened by a further 0.9% into April, while the USD strengthened by almost 2.0% against other major currencies over the same period.

Figure 2: Major market indices performance in local currency

29 March 2024 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)	MTD 16 April 2024
FTSE/JSE ALSI Total Return	3.2%	-2.2%	-2.2%	1.5%	8.1%	9.7%	8.1%	-1.5%
FTSE/JSE Capped SWIX Total Return	2.9%	-2.3%	-2.3%	2.9%	7.5%	7.6%	6.4%	-1.5%
S&P 500 Total Return	3.2%	10.6%	10.6%	29.9%	11.5%	15.0%	13.0%	-3.8%
STOXX 600 Total Return	4.0%	7.7%	7.7%	15.0%	8.7%	8.9%	7.1%	-2.7%
Nikkei 225 Total Return	3.8%	21.5%	21.5%	46.6%	13.7%	16.0%	12.7%	-4.7%
MSCI World Total Return	3.3%	9.0%	9.0%	25.7%	9.1%	12.6%	10.0%	-4.0%
MSCI ACWI Total Return	3.2%	8.3%	8.3%	23.8%	7.5%	11.5%	9.2%	-3.9%
MSCI EM Total Return	2.5%	2.4%	2.4%	8.6%	-4.7%	2.6%	3.3%	-3.1%
MSCI World Value Index	4.8%	7.0%	7.0%	17.5%	5.6%	6.0%	3.9%	-6.2%
MSCI World Growth Index	1.9%	10.1%	10.1%	30.8%	8.3%	14.3%	10.9%	-3.7%
MSCI World Small Cap Index	4.0%	4.0%	4.0%	15.0%	0.0%	6.5%	5.4%	-7.0%
FTSE UK Series FTSE All Share TR	4.8%	3.6%	3.6%	8.4%	8.0%	5.4%	5.8%	-1.6%
MSCI AC Asia Ex. Japan Index	2.6%	2.0%	2.0%	2.3%	-8.6%	-0.1%	1.9%	-3.9%
MSCI Europe Excluding United Kingdom Index	3.9%	8.3%	8.3%	14.2%	6.8%	7.7%	5.3%	-4.0%
STEFI	0.6%	2.0%	2.0%	8.3%	6.1%	6.0%	6.5%	0.4%
ALBI	-1.9%	-1.8%	-1.8%	4.2%	7.4%	7.0%	7.7%	-0.8%
IGOV	0.2%	-0.5%	-0.5%	5.6%	7.0%	6.3%	5.4%	-0.3%
WGBI	0.4%	-2.4%	-2.4%	-0.8%	-6.1%	-2.2%	-0.8%	-2.6%
Bloomberg Global Inflation-Linked Total Return Index	1.1%	-1.8%	-1.8%	-0.6%	-5.2%	-0.8%	0.3%	-2.5%
Bloomberg US Agg Total Return	0.9%	-0.8%	-0.8%	1.7%	-2.5%	0.4%	1.5%	-2.7%
Bloomberg EuroAgg Total Return Index	1.1%	-0.3%	-0.3%	4.7%	-4.3%	-1.6%	0.7%	-1.1%
Bloomberg Global Agg Corporate Total Return Index	1.2%	-0.8%	-0.8%	5.1%	-2.8%	0.8%	1.4%	-1.7%
Bloomberg US Corporate High Yield Total Return Index	1.2%	1.5%	1.5%	11.2%	2.2%	4.2%	4.4%	-1.7%
Bloomberg Pan-European High Yield Total Return Index	0.4%	1.8%	1.8%	11.6%	1.3%	2.8%	3.5%	-0.5%
J.P. Morgan EMBI Global Core Hedged EUR	2.0%	1.4%	1.4%	8.3%	-3.8%	-1.5%	1.0%	-3.0%
SAPY Total Return	-1.0%	3.8%	3.8%	20.5%	13.9%	0.7%	3.1%	-3.0%
MSCI US REIT Total Return	2.0%	-0.3%	-0.3%	10.4%	4.0%	4.1%	6.5%	-7.6%
S&P Global Property Total Return	3.3%	-0.5%	-0.5%	9.5%	-0.7%	0.6%	3.9%	-6.7%
STOXX 600 Real Estate Total Return	8.0%	-2.8%	-2.8%	19.7%	-5.5%	-3.3%	2.0%	-5.8%
FTSE EPRA Nareit Global REITs TR Index	2.8%	-1.5%	-1.5%	7.4%	0.9%	1.4%	4.5%	-7.2%
Crude Oil	4.6%	13.6%	13.6%	9.7%	11.2%	5.0%	-2.1%	2.9%
Aluminium	4.9%	-2.0%	-2.0%	-3.1%	1.8%	4.1%	2.7%	9.6%
Copper	4.4%	3.6%	3.6%	-1.4%	0.3%	6.5%	2.9%	6.8%
Gold	9.1%	8.1%	8.1%	13.2%	9.3%	11.5%	5.7%	6.9%
Platinum	3.5%	-8.1%	-8.1%	-8.4%	-8.4%	1.4%	-4.3%	5.3%
Nickel	-6.3%	1.0%	1.0%	-29.9%	1.2%	5.1%	0.4%	6.0%
Palladium	7.4%	-7.6%	-7.6%	-30.6%	-27.1%	-6.0%	2.7%	0.1%
Iron Ore	-17.6%	-28.0%	-28.0%	-22.1%	-15.0%	2.9%	-1.3%	11.4%
Bloomberg Commodity Index Total Return	3.3%	2.2%	2.2%	-0.6%	9.1%	6.4%	-1.6%	3.6%
USDZAR	-1.7%	2.8%	2.8%	6.1%	8.5%	5.4%	6.0%	0.9%
GBPZAR	-1.6%	2.3%	2.3%	8.6%	5.4%	4.8%	3.1%	-0.6%
EURZAR	-1.8%	0.9%	0.9%	5.6%	5.5%	4.6%	3.5%	-0.7%
JPYZAR	-2.4%	-3.9%	-3.9%	-6.9%	-2.2%	-0.9%	2.0%	-1.4%
Dollar Index Spot	0.3%	3.1%	3.1%	1.9%	3.9%	1.4%	2.7%	1.7%

Source: Bloomberg



TAA overview – no changes in positions

SA bonds

Maintaining a moderately overweight position in SA bonds

We have maintained our preference for local nominal bonds, as the relative attractiveness of local nominal bonds remains intact after the recent month's movement. The spread between the current and implied yield has remained slightly above 200bps over the past month. Meanwhile, SA nominal bonds continued to offer close to a 190bps real yield spread over the inflation-linked equivalents.

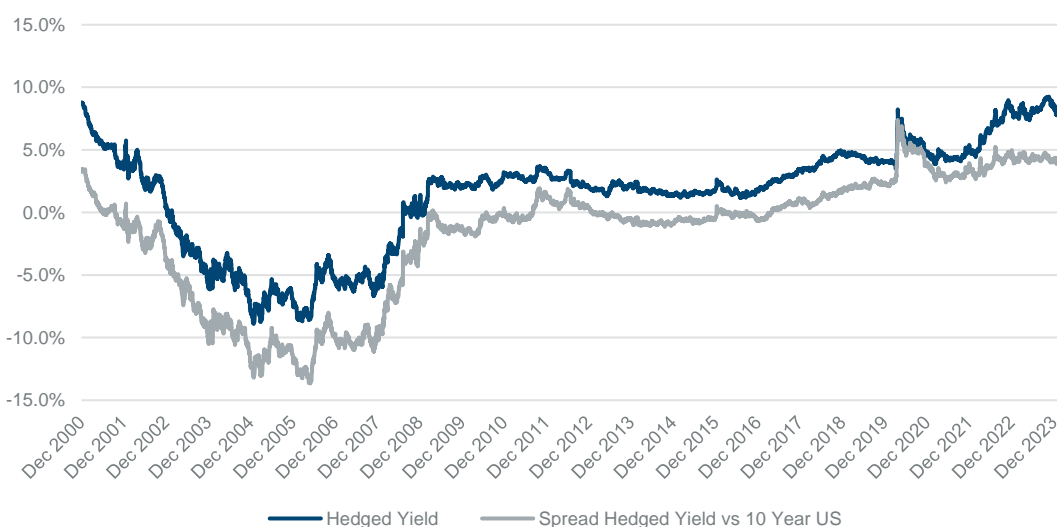
Figure 3: SA 10-year nominal bond vs ILB real yield



Source: Bloomberg

At the same time, foreign investors, by hedging their currency exposure, can earn a spread of c. 450bps over US treasury with SA 10-year nominal bonds.

Figure 4: SA 10-year nominal bond hedged yield and hedged yield spread



Source: Bloomberg



However, Brazilian 10-year bonds are trading at very attractive real yields with a better S&P credit rating against a strong macro landscape, with less political uncertainty. This suggests that offshore investors would prefer the latter over SA government bonds if they had to be selective within the confines of EM local currency debt.

Figure 5: EM bond yields

	South Africa	India	Indonesia	Mexico	Brazil	Turkey
10 Year Yield	12.54%	7.19%	6.92%	10.09%	12.00%	27.44%
Inflation	5.6%	5.1%	3.05%	4.4%	3.9%	68.5%
Inflation Expectation	5.90%	6.60%	3.70%	5.50%	4.60%	54.00%
10 Year Real Yield	6.94%	2.10%	3.87%	5.67%	8.07%	-41.06%
10 Year Real Yield based on inflation expectation	6.64%	0.59%	3.22%	4.59%	7.40%	-26.56%
Currency Risk Premium	4.17%	1.44%	0.92%	3.70%	4.83%	18.67%
Sovereign Risk Premium	3.70%	1.08%	1.33%	1.72%	2.50%	4.10%
US 10 Year Yield	4.67%	4.67%	4.67%	4.67%	4.67%	4.67%
S&P Rating - Foreign Currency	BB-	BBB-u	BBB	BBB	BB	Bu
Moody's Rating - Foreign Currency	Ba2	Baa3	Baa2	Baa2	Ba2	B3

Source: Bloomberg, as at 16 April 2024

From a tactical standpoint, given the current yield levels, we have chosen to remain moderately overweight in this asset class. The short-term performance of South African bonds may continue to exhibit volatility, influenced by persistent inflation, election sentiment and uncertain rate outlooks. However, should inflation prints cool and rate cuts take place (as was suggested by the Fed in their guidance), the USD would possibly weaken. This would support EM assets, including SA bonds.



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