



MENTANOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

23 May 2024



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We have brought the moderately overweight position of SA bonds to neutral, keeping our TAA at the SAA weights.

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

Here is our investment case for June:

- We have moved our moderately overweight position in SA nominal bonds to neutral to manage the potential tail risk that the market is not pricing in.

Market overview

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Equities and global real estate rallied by c.5% across the board. SA nominal bonds' benchmark, the ALBI, increased by 2.4%, while the WGBI returned only 1.7%. The Bloomberg Commodity Index increased by 5.5% for the month to date as of 21 May. We saw strong commodity performance, except for oil, which fell by 5.7%. The USD also weakened by 1.5% against other major currencies as rate cut options were back on the table. The ZAR benefited from a combination of USD weakness, a strong commodity cycle and an optimistic election outcome, strengthening by 3.7% against the USD over the same period.

Figure 2: Major market indices performance in local currency

30 April 2024 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)	MTD 21 May 2024
FTSE/JSE ALSI Total Return	3.0%	3.7%	0.6%	1.1%	8.8%	9.4%	8.1%	5.0%
FTSE/JSE Capped SWIX Total Return	2.9%	3.5%	0.6%	2.4%	8.2%	7.2%	6.5%	5.0%
S&P 500 Total Return	-4.1%	4.3%	6.0%	22.7%	8.1%	13.2%	12.4%	5.8%
STOXX 600 Total Return	-1.0%	5.1%	6.6%	11.2%	7.6%	7.9%	6.9%	4.1%
Nikkei 225 Total Return	-4.9%	6.6%	15.6%	35.6%	12.3%	13.7%	12.5%	1.4%
MSCI World Total Return	-3.7%	3.7%	5.0%	19.0%	6.1%	11.0%	9.4%	5.5%
MSCI ACWI Total Return	-3.3%	4.2%	4.8%	18.0%	4.8%	10.0%	8.7%	5.4%
MSCI EM Total Return	0.5%	7.9%	2.9%	10.3%	-5.3%	2.3%	3.3%	4.8%
MSCI World Value Index	-3.3%	3.3%	3.3%	11.6%	3.4%	4.7%	3.4%	2.3%
MSCI World Growth Index	-4.0%	3.6%	5.7%	23.7%	4.7%	12.4%	10.4%	6.0%
MSCI World Small Cap Index	-5.1%	1.6%	-1.4%	9.3%	-3.0%	4.7%	5.1%	4.1%
FTSE UK Series FTSE All Share TR	2.5%	7.5%	6.1%	7.5%	7.4%	5.4%	5.8%	3.9%
MSCI AC Asia Ex. Japan Index	1.2%	9.4%	3.2%	5.9%	-9.0%	-0.2%	2.0%	4.3%
MSCI Europe Excluding United Kingdom Index	-1.8%	4.3%	6.3%	10.3%	5.5%	6.5%	5.1%	1.9%
STEFI	0.7%	2.0%	2.8%	8.5%	6.2%	6.0%	6.5%	0.5%
ALBI	1.4%	-1.2%	-0.4%	6.8%	7.2%	7.2%	7.8%	2.4%
IGOV	0.2%	-0.3%	-0.2%	5.4%	6.7%	5.7%	5.2%	-0.1%
WGBI	-2.6%	-3.5%	-5.0%	-3.8%	-7.3%	-2.6%	-1.2%	1.7%
Bloomberg Global Inflation-Linked Total Return Index	-2.6%	-2.4%	-4.3%	-2.9%	-6.5%	-1.2%	-0.1%	2.5%
Bloomberg US Agg Total Return	-2.5%	-3.0%	-3.3%	-1.5%	-3.5%	-0.2%	1.2%	2.0%
Bloomberg EuroAgg Total Return Index	-1.3%	-1.3%	-1.6%	3.2%	-4.5%	-1.8%	0.5%	0.7%
Bloomberg Global Agg Corporate Total Return Index	-2.3%	-2.5%	-3.0%	1.5%	-4.0%	0.2%	1.1%	2.2%
Bloomberg US Corporate High Yield Total Return Index	-0.9%	0.5%	0.5%	9.0%	1.5%	3.7%	4.3%	1.4%
Bloomberg Pan-European High Yield Total Return Index	-0.1%	0.7%	1.7%	11.0%	1.2%	2.5%	3.4%	0.9%
J.P. Morgan EMBI Global Core Hedged EUR	-2.4%	0.4%	-1.0%	5.4%	-5.2%	-2.0%	0.6%	2.6%
SAPY Total Return	-0.6%	-0.8%	3.2%	13.7%	9.6%	0.0%	2.8%	0.5%
MSCI US REIT Total Return	-7.1%	-3.4%	-7.4%	1.7%	-1.1%	2.7%	5.4%	5.9%
S&P Global Property Total Return	-5.1%	-1.8%	-5.5%	2.0%	-4.1%	-0.2%	3.1%	4.9%
STOXX 600 Real Estate Total Return	-1.8%	-2.1%	-4.6%	11.2%	-7.6%	-3.5%	1.4%	5.4%
FTSE EPRA Nareit Global REITs TR Index	-6.3%	-3.8%	-7.7%	-0.8%	-3.4%	0.2%	3.4%	5.4%
Crude Oil	0.4%	7.5%	14.0%	10.5%	9.3%	3.8%	-2.0%	-5.7%
Aluminium	10.9%	13.7%	8.7%	10.0%	2.6%	7.6%	3.7%	5.2%
Copper	12.7%	16.1%	16.7%	16.2%	0.6%	9.3%	4.2%	8.7%
Gold	2.5%	12.1%	10.8%	14.9%	8.9%	12.2%	5.9%	5.9%
Platinum	2.9%	1.7%	-5.5%	-13.0%	-8.0%	1.1%	-4.1%	12.5%
Nickel	15.1%	18.9%	16.2%	-21.2%	2.7%	9.5%	0.4%	10.7%
Palladium	-6.0%	-2.6%	-13.1%	-36.6%	-31.2%	-7.2%	1.7%	7.5%
Iron Ore	14.6%	-14.4%	-17.5%	2.1%	-16.1%	4.3%	0.5%	1.6%
Bloomberg Commodity Index Total Return	2.7%	4.5%	4.9%	2.9%	7.2%	7.0%	-1.5%	5.5%
USDZAR	-0.5%	0.5%	2.3%	2.7%	9.0%	5.6%	6.0%	-3.7%
GBPZAR	-1.6%	-1.0%	0.7%	2.1%	5.4%	4.7%	2.8%	-2.1%
EURZAR	-1.7%	-0.9%	-0.7%	-0.6%	4.8%	4.6%	3.2%	-2.1%
JPYZAR	-4.6%	-6.4%	-8.2%	-11.4%	-3.5%	-1.5%	1.5%	-2.8%
Dollar Index Spot	1.7%	2.9%	4.8%	4.5%	5.2%	1.7%	2.9%	-1.5%

Source: Bloomberg



TAA overview – Adopting a neutral stance amid potential election-induced volatility

SA bonds

Moving to a neutral position in SA bonds amid election uncertainty

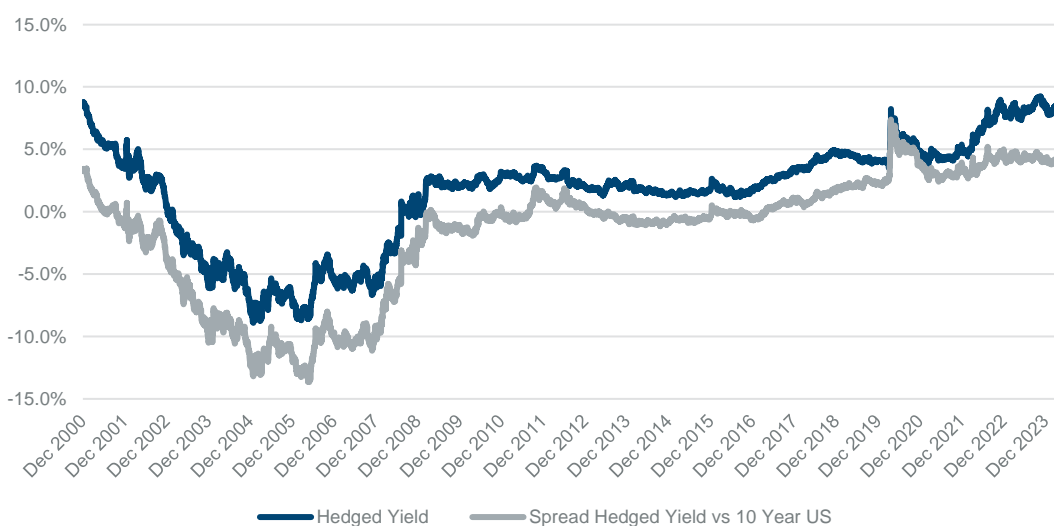
From a valuation perspective, we still favour local nominal bonds. They remain attractive from a real-yield, implied-yield spread and hedged-yield perspective, despite local currency yields having come down for most emerging markets over the past month.

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



Source: Bloomberg

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



Source: Bloomberg

**Figure 5: EM bond yields**

	South Africa	India	Indonesia	Mexico	Brazil	Turkey
10 Year Yield	11.96%	7.08%	6.94%	9.67%	11.64%	27.64%
Inflation	5.3%	4.8%	3.00%	4.7%	3.7%	69.8%
Inflation Expectation	5.90%	6.60%	3.70%	5.50%	4.60%	54.00%
10 Year Real Yield	6.66%	2.25%	3.94%	5.02%	7.95%	-42.16%
10 Year Real Yield based on inflation expectation	6.06%	0.48%	3.24%	4.17%	7.04%	-26.36%
Currency Risk Premium	4.31%	1.77%	1.31%	3.69%	4.87%	19.64%
Sovereign Risk Premium	3.28%	0.93%	1.25%	1.60%	2.40%	3.62%
US 10 Year Yield	4.38%	4.38%	4.38%	4.38%	4.38%	4.38%
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 17 May 2024

From a tactical standpoint, had there been no election, we would have maintained our moderately overweight position in local nominal bonds. While markets will be swayed by economic data releases in the short term, there is more data suggesting that inflation will continue to cool in the coming months than otherwise. The USD should weaken if rate cuts take place earlier or are greater in quantum, which would be supportive of EM assets, on the back of a strong commodity cycle. The market has been pricing in a rather optimistic SA election outcome into May. Our base case is that we expect the ANC's election result to be in the 45%–50% range, which means that the party may not need to form a coalition government; but if it does, it could approach smaller parties or independents. However, we cannot ignore the big tail risk, where ANC loses its majority and forms a coalition with opposition parties such as the EFF and MK. The probability of this happening is very low but its impact would be profound and would be viewed extremely negatively by the market. On the balance of risks, we have therefore decided to move to neutral positions for our TAA until the election overhang dissipates.



MENTENOVA

CONTACT

YANNI YANG, CFA[®], FRM, CAIA

C +27 84 802 3784 **T** +27 11 447 7716

F 086 272 1177 **E** yyang@mentenova.co.za

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