



MENTANOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

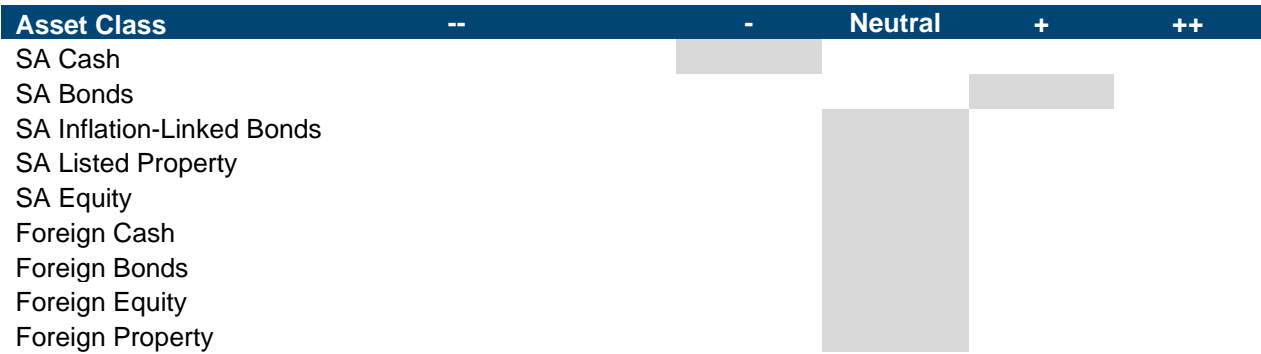
21 January 2025



HOUSEVIEW TACTICAL ASSET ALLOCATION

We have maintained a moderately overweight position in SA bonds, funding the position with SA cash.

Figure 1: Houseview Tactical Asset Allocation



Synopsis

Here is our investment case for February 2025:

- We have maintained a moderately overweight position in SA nominal bonds, preferring it over local cash, supported by valuations and the continued rate-cutting cycle. The latter could be a shallower one than previously expected, however, the market has also been adjusting rate outlook with pricing in fewer rate cuts than the Fed’s guidance.

Monthly Market Overview – December 2024

Market overview	<p>The last month of 2024 was characterised by divergence across asset classes, largely attributed to broad-based weakness in many regions. The announcement of the re-election of Donald Trump as the US president in November unleashed a commotion from numerous quarters, with risk investors finding contentment with the win. On the other side of the coin, there was a major spike in uncertainty over the policy outlook. The US Federal Reserve Bank (Fed) also announced a revision of its rate-cut expectations for 2025, moving from 4 rate cuts in the September FOMC meeting to 2 rate cuts in the December FOMC meeting.</p> <p>In the equities market, emerging markets outperformed developed markets, with the MSCI World Index down 2.6% and the MSCI Emerging Markets Index delivering a muted return of -0.1%. Local equities managed to perform better than global equities. The ALSI Index was down -0.3%, taking YTD performance to 13.4%. Some of the gains made by the S&P 500 Index during the year were reversed in December, with the Total Return Index down 2.4%. However, the YTD performance was up by an impressive 25%, largely attributed to the tech giants, with the Bloomberg Magnificent 7 returning 6.3% in December alone and 67.3% for the YTD.</p> <p>Emerging markets were associated with much volatility. The Chinese equity market made slight gains on the back of the government’s assurances that China would meet its 5% economic growth target, despite the property sector’s woes. The Japanese equity market also performed relatively well; it was up 4.5% in December as a result of the central bank holding interest rates</p>
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steady and a weakening currency. Brazil and India posted notable losses, down 4.3% and 2.0% respectively, dragging down the MSCI Emerging Markets Total Return Index.

The European equity market delivered disappointing returns, with the STOXX 600 Index down 0.5%, despite lower inflation and the European Central Bank cutting interest rates. The waning economic growth rate and geopolitical woes weighed on the region's equity performance.

The style index saw growth stocks outperforming value stocks, with the MSCI World Value Index falling by a significant -5.7% in December, bringing the YTD performance to 12.3%. Meanwhile, the MSCI World Growth Index delivered a muted return of 0.6% in December, taking the YTD return to 26.2%.

The fixed-income markets were broadly lower in the last month of the year, resulting in the YTD performance being a bit shallower. Locally, the ALBI Index delivered a muted return of -0.3%, with the YTD performance being 17.2%. The World Government Bond Index fell -2.3% in December, taking the YTD performance to -2.9%. Even with the Fed reducing borrowing rates in December, the 10-year treasury yields rose by 40bps. The increase in yields was attributed to the announcement of a slower-paced schedule.

Figure 2: Major market indices' performance in local currency

31 December 2024 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)	MTD 15 January 2025
FTSE/JSE ALSI Total Return	-0.3%	-2.1%	13.4%	13.4%	8.7%	12.2%	9.0%	-0.6%
FTSE/JSE Capped SWIX Total Return	-0.3%	-2.1%	13.4%	13.4%	8.5%	10.3%	6.9%	-0.3%
S&P 500 Total Return	-2.4%	2.4%	25.0%	25.0%	8.9%	14.5%	13.1%	1.2%
STOXX 600 Total Return	-0.5%	-2.6%	8.8%	8.8%	4.0%	6.0%	6.8%	1.5%
Nikkei 225 Total Return	4.5%	5.4%	21.3%	21.3%	13.8%	13.2%	10.7%	-3.6%
MSCI World Total Return	-2.6%	-0.1%	19.2%	19.2%	6.9%	11.7%	10.5%	1.0%
MSCI ACWI Total Return	-2.3%	-0.9%	18.0%	18.0%	5.9%	10.6%	9.8%	0.8%
MSCI EM Total Return	-0.1%	-7.8%	8.1%	8.1%	-1.5%	2.1%	4.0%	-1.7%
MSCI World Value Index	-5.7%	-4.1%	12.3%	12.3%	0.0%	7.8%	7.5%	1.5%
MSCI World Growth Index	0.4%	3.8%	26.2%	26.2%	7.1%	14.9%	13.2%	0.6%
MSCI World Small Cap Index	-5.9%	-2.5%	8.6%	8.6%	1.1%	6.9%	8.0%	1.0%
FTSE UK Series FTSE All Share TR	-1.2%	-0.4%	9.5%	9.5%	5.8%	4.8%	6.2%	1.2%
MSCI AC Asia Ex. Japan Index	0.2%	-7.4%	12.5%	12.5%	-1.2%	2.9%	4.9%	-2.7%
MSCI Europe Excluding United Kingdom Index	-0.4%	-3.6%	7.7%	7.7%	4.0%	7.6%	8.0%	2.2%
Shanghai Shenzhen CSI 300 Index	0.6%	-1.7%	18.2%	18.2%	-4.9%	1.5%	3.3%	-3.4%
Korea Stock Exchange KOSPI Index	-2.2%	-7.4%	-8.4%	-8.4%	-5.4%	3.7%	4.2%	4.1%
Taiwan Stock Exchange Weighted Index	3.6%	3.8%	31.7%	31.7%	12.0%	17.7%	13.5%	-2.2%
NSE Nifty 50 Index	-2.0%	-8.2%	10.2%	10.2%	12.4%	15.8%	12.6%	-1.8%
Ibovespa Brasil Sao Paulo Stock Exchange Index	-4.3%	-8.7%	-10.4%	-10.4%	4.7%	0.8%	9.2%	2.0%
Nasdaq-100 Index	0.5%	4.9%	25.9%	25.9%	9.7%	20.2%	18.5%	1.1%
Bloomberg Magnificent 7 Total Return Index	6.3%	15.9%	67.3%	67.3%	23.7%	44.6%		2.1%
Bloomberg US Large Cap ex Magnificent 7 Total Return Index	-5.2%	-0.4%	16.5%	16.5%	5.5%	10.1%		1.5%
Dow Jones Industrial Average TR	-5.1%	0.9%	15.0%	15.0%	7.6%	10.6%	11.6%	1.6%
STEF	0.7%	2.0%	8.5%	8.5%	7.2%	6.2%	6.7%	0.3%
ALBI	-0.3%	0.4%	17.2%	17.2%	10.3%	9.6%	8.7%	-0.6%
IGOV	0.8%	0.8%	7.7%	7.7%	6.3%	7.6%	5.3%	-0.4%
WGBI	-2.3%	-5.4%	-2.9%	-2.9%	-5.8%	-3.1%	-0.6%	-0.8%
Bloomberg Global Inflation-Linked Total Return Index	-3.1%	-6.7%	-3.7%	-3.7%	-7.8%	-1.9%	0.1%	-0.7%
Bloomberg US Agg Total Return	-1.6%	-3.1%	1.3%	1.3%	-2.4%	-0.3%	1.3%	-0.2%
Bloomberg EuroAgg Total Return Index	-1.0%	0.1%	2.6%	2.6%	-3.1%	-1.6%	0.3%	-1.0%
Bloomberg Global Agg Corporate Total Return Index	-2.0%	-4.0%	1.1%	1.1%	-2.6%	-0.2%	1.6%	-0.5%
Bloomberg US Corporate High Yield Total Return Index	-0.4%	0.2%	8.2%	8.2%	2.9%	4.2%	5.2%	0.6%
Bloomberg Pan-European High Yield Total Return Index	0.7%	2.0%	9.1%	9.1%	3.0%	3.0%	3.9%	-0.5%
J.P. Morgan EMBI Global Core Hedged EUR	-1.8%	-2.8%	4.4%	4.4%	-3.7%	-2.1%	1.0%	-0.1%
SAPY Total Return	0.4%	-0.8%	29.0%	29.0%	12.6%	5.1%	3.1%	-2.5%
MSCI US REIT Total Return	-7.4%	-6.1%	8.8%	8.8%	-2.3%	4.3%	5.7%	-1.6%
S&P Global Property Total Return	-5.9%	-8.9%	3.5%	3.5%	-4.3%	-0.1%	3.3%	-1.6%
STOXX 600 Real Estate Total Return	-5.1%	-11.3%	-3.0%	-3.0%	-11.1%	-5.5%	0.3%	-1.0%
FTSE EPRA Nareit Global REITs TR Index	-7.2%	-8.9%	2.8%	2.8%	-4.6%	0.7%	3.5%	-1.2%
Crude Oil	2.3%	4.0%	-3.1%	-3.1%	-1.4%	2.5%	2.7%	9.9%
Aluminium	-1.6%	-2.3%	7.0%	7.0%	-3.1%	7.1%	3.3%	2.0%
Copper	-2.7%	-10.8%	2.4%	2.4%	-3.4%	7.3%	3.4%	4.6%
Gold	-0.7%	-0.4%	27.2%	27.2%	12.8%	11.6%	8.3%	2.7%
Platinum	-4.5%	-7.6%	-8.5%	-8.5%	-2.2%	-1.3%	-2.8%	3.9%
Nickel	-3.7%	-12.6%	-7.9%	-7.9%	-10.2%	1.6%	0.0%	3.8%
Palladium	-7.2%	-9.0%	-17.1%	-17.1%	-21.8%	-14.0%	1.4%	5.6%
Iron Ore	-2.0%	-7.4%	-27.7%	-27.7%	-5.8%	2.1%	3.2%	0.9%
Bloomberg Commodity Index Total Return	1.0%	-0.4%	5.4%	5.4%	4.1%	6.8%	3.2%	5.6%
USDZAR	4.4%	9.1%	2.6%	2.6%	5.7%	6.1%	5.0%	-0.3%
GBPZAR	2.4%	2.0%	1.2%	1.2%	3.0%	4.9%	2.7%	-2.5%
EURZAR	2.1%	1.3%	-3.4%	-3.4%	2.5%	4.4%	3.4%	-0.8%
JPYZAR	-0.6%	-0.3%	-7.6%	-7.6%	-4.7%	-1.5%	2.2%	0.0%
Dollar Index Spot	2.6%	7.6%	7.1%	7.1%	4.3%	2.4%	1.9%	0.6%

Source: Bloomberg



Turning to commodities, the Bloomberg Commodity Index returned 1% for the month, attributed to a mixed performance in the commodity market. For instance, Brent Crude Oil gained 2.3% in December but was still down 3.1% over the 12-month period. Palladium and platinum struggled for the month, delivering negative returns of -7.2% and -4.5% respectively.

Finally, looking at currencies, the re-election of Trump saw the significant strengthening of the US dollar, with the Dollar Spot Index up 2.6%, taking quarterly performance to 7.6%. The SA rand displayed weakness against most major currencies, depreciating by 2.4% against the US dollar for the month and by 9.1% for the quarter. The rand also depreciated by 2.4% against the British pound and by 2.1% against the Euro. The rand appreciated slightly (by 0.6%) against the Japanese yen for the month.

TAA overview

SA bonds

We anticipate that Trump's policies will further stimulate US economic growth in 2025. The combination of robust consumer spending, a healthy labour market, productivity gains, and proposed tax cuts and deregulation could potentially drive the US economy into a period of strong growth, especially in the second half of 2025. We have tried to draw some analogies with the 1981–1989 period, when the US president, Ronald Reagan, implemented several policies, such as tax cuts and reforms, deregulation and the promotion of free trade, with the Plaza Accord of 1985 being an agreement between major developed countries to devalue the USD against their currencies. While the view on reducing trade barriers is a clear differentiator between Reaganomics and Trump's key policy stances, there were some Trump-like nuances in Reagan's trade policy, such as the 100% tariff imposed on US imports of Japanese semi-conductors in 1987. Overall, the US economy during Reagan's term saw significant recovery and controlled inflation, following the recession in the early 1980s.

In the short term, US equities may undergo some correction due to high treasury yields and relative valuation vs other major equity markets. We are more positive about developed market (DM) equities than DM bonds, as real yields and the term premium have both shown upward trends. Emerging market (EM) assets have been under pressure since Trump's sweep to power, with China requiring a more substantial stimulus and the Eurozone grappling with the problem of excess private savings. Consequently, we expect the US dollar to remain strong in the near term, which could weigh on EM assets and increase volatility. Yet a strong USD is an impediment to Trump's goal of promoting onshoring and reducing the country's trade deficit. That said, EM asset valuations appear attractive. Some countries may also benefit from a strong US growth rate, leading us to maintain a more neutral stance on these investments, with a moderately overweight position in SA bonds.

For SA bonds, real yields and hedged yields remain attractive, with cooling inflation and the market pricing in only one rate cut this year. Over the past few months, we have also seen much country-specific risk in the EM baskets, such as fiscal and political concerns in Brazil, the president's impeachment in South Korea and the lack of an economic growth catalyst in China, which needs a stronger policy stimulus. The initial phase of GNU optimism has been priced in by the market. The market now awaits pro-growth policy reforms materialising under the GNU, which could lead to a further re-rating of SA assets.

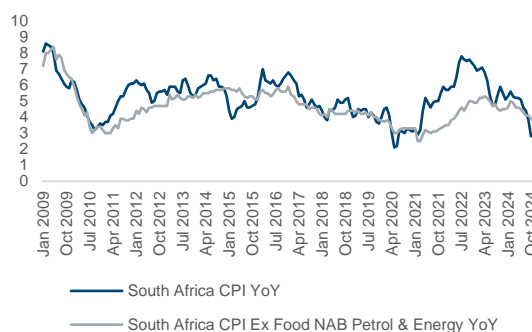


Despite elevated short-term volatility, on the basis of a reasonable expectation of rate cuts for this year being priced in by the market, as well as attractive valuations and prolonged dollar strength, we prefer this asset class over local cash. Hence, we have maintained our moderately overweight position in SA bonds.

Figure 3: Bond yields of selected EM countries

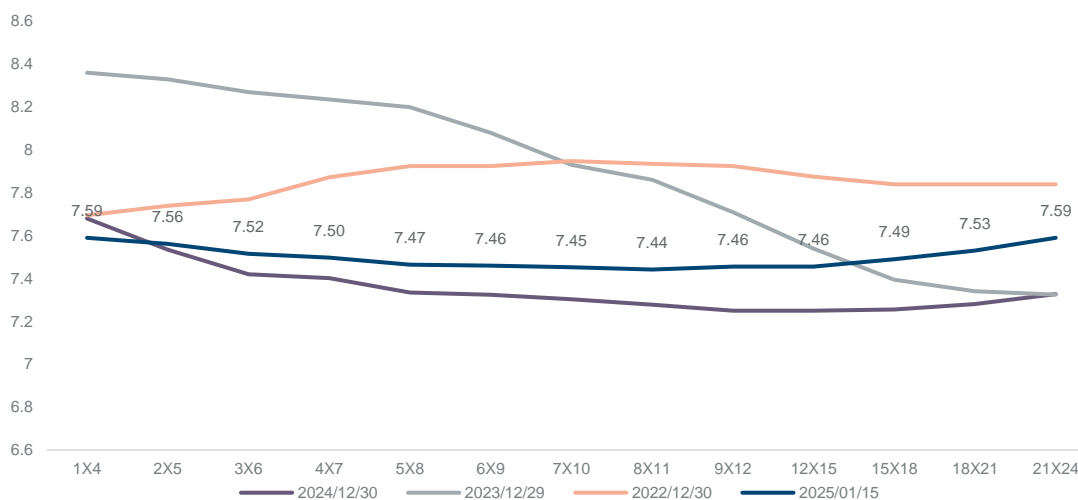
	South Africa	India	Indonesia	Mexico	Brazil	Turkey
10 Year Yield	10.66%	6.82%	7.28%	10.43%	14.84%	28.17%
Inflation	2.9%	5.2%	1.57%	4.2%	4.8%	44.4%
Inflation Expectation	4.50%	4.80%	2.30%	4.73%	4.37%	58.90%
10 Year Real Yield	7.76%	1.60%	5.71%	6.22%	10.01%	-16.21%
10 Year Real Yield based on inflation expectation	6.16%	2.02%	4.98%	5.70%	10.47%	-30.73%
Currency Risk Premium	3.88%	1.45%	1.68%	4.36%	8.15%	20.65%
Sovereign Risk Premium	1.99%	0.58%	0.80%	1.27%	1.89%	2.72%
US 10 Year Yield	4.79%	4.79%	4.79%	4.79%	4.79%	4.79%
S&P Rating - Foreign Currency	BB-	BBB-u	BBB	BBB	BB	BB-u
Moody's Rating - Foreign Currency	Ba2	Baa3	Baa2	Baa2	Ba1	B1

Figure 4: SA CPI and core CPI



Source: Bloomberg

Figure 5: SA FRA's



Source: Bloomberg



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