MENTENOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

20 February 2025

HOUSEVIEW TACTICAL ASSET ALLOCATION

We have maintained a moderately overweight position in SA bonds and engaged a moderately overweight position in foreign equity, funding the positions with SA cash.

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 March 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.
- Despite short term volatility, we are keen on U.S. equities over bonds, driven by resilient consumer demand, household re-leveraging potential, and continued productivity gains, particularly from AI. While growth may slow, it is expected to stay above trend, supported by expansionary PMI readings, declining bankruptcies, and strong business activity. Additionally, firms' pricing power and moderating wage growth provide a favourable backdrop for earnings despite inflation concerns.

Monthly Market Overview – January 2025

Market overview	The economic and financial markets were faced with imbalanced market performance globally as volatility continued to heighten in January with the macroeconomic landscape painted for this year. According to the IMF, growth is projected to be 3.2%. A key sector that experienced much attention in the month was the tech sector, with the announcement of DeepSeek that triggered a plunge in the S&P 500 index's largest constituent Nvidia (with the market value falling by $1 billion in just one day). This attributed to concerns raised regarding cost efficiency and capital expenditure. S&P 500 saw 2.8% growth. In reference to major asset class performance, many regions delivered positive returns in the first month of the year, although the equity market globally experienced tremors as concerns of potential trade conflicts arising with U.S. tariffs proposed by Donald Trump. The MSCI Emerging market returning 1.8% underperformed, while the MSCI World Index was up 3.6%. It was attributed to developed markets' performance. The FTSE UK Series FTSE All Share was up 5.5%, STOXX 600 up 6.4%, as well as US strength enforced by Trump's administration with the

policy agenda of "Make America Great Again". In contrast, Asian markets delivered sluggish returns with the Shanghai Shenzhen CSI 300 Index down 2.8% and the Nikkei 225 Index a muted return of -0.8%, notably laggard, while the Bank of Japan (BoJ) hiked rates by 25 basis points. Locally the FTSE/JSE All Share Index was up 2.3%, as the resource sector benefited from the geopolitical uncertainty. The SARB continued its rate-cutting cycle with the repo rate down 25 bps on the 30th of January 2025 meeting.

Emerging markets came under pressure amid these tensions, with Trump's administration announcing tariffs on imports from Canada, Mexico, and China, weighing on sentiment. China's more pleasant economic data drove performance, but volatility arose from the aggressive tariff threats from Trump's initial campaigning season.

On a style aspect, we saw value stocks outperforming growth stocks, with the MSCI World Value Index rising 4.6% in January. Meanwhile, the MSCI World Growth Index delivered 2.6%, taking the 3-month return to 8.6%.

Figure 2: Major market indices' performance in local currency

31 January 2025 (Local Currency)	1M	3M	YTD	1 Year	3 Year (annualised)	5 Year (annualised)	10 Year (annualised)	MTD 13 February 2025
FTSE/JSE ALSI Total Return	2.3%	1.1%	2.3%	19.6%	9.2%	13.1%	8.9%	2.2%
FTSE/JSE Capped SWIX Total Return	2.6%	1.3%	2.6%	19.7%	8.6%	11.4%	6.8%	2.0%
S&P 500 Total Return	2.8%	6.2%	2.8%	26.4%	11.9%	15.2%	13.8%	1.3%
STOXX 600 Total Return	6.4%	7.1%	6.4%	14.0%	7.6%	8.2%	6.7%	2.7%
Nikkei 225 Total Return	-0.8%	1.4%	-0.8%	11.0%	15.9%	13.4%	10.5%	-0.3%
MSCI World Total Return	3.6%	5.6%	3.6%	21.9%	10.1%	12.6%	11.1%	1.5%
MSCI ACWI Total Return	3.4%	4.8%	3.4%	21.3%	8.9%	11.6%	10.3%	1.6%
MSCI EM Total Return	1.8%	-1.9%	1.8%	15.3%	-0.3%	3.5%	4.2%	1.9%
MSCI World Value Index	4.6%	2.5%	4.6%	17.1%	8.0%	9.4%	8.3%	1.2%
MSCI World Growth Index	2.6%	8.6%	2.6%	26.8%	11.6%	15.1%	13.6%	1.9%
MSCI World Small Cap Index	3.5%	3.7%	3.5%	15.6%	4.9%	8.3%	8.5%	0.3%
FTSE UK Series FTSE All Share TR	5.5%	6.9%	5.5%	17.1%	7.9%	6.6%	6.5%	1.0%
MSCI AC Asia Ex. Japan Index	0.8%	-2.3%	0.8%	19.9%	0.1%	4.0%	4.7%	1.8%
MSCI Europe Excluding United Kingdom Index	7.0%	6.8%	7.0%	13.0%	8.1%	9.3%	7.9%	3.2%
Shanghai Shenzhen CSI 300 Index	-2.8%	-1.5%	-2.8%	22.7%	-3.2%	1.4%	3.3%	2.3%
Korea Stock Exchange KOSPI Index	4.9%	-1.2%	4.9%	2.5%	-0.1%	5.5%	4.6%	2.6%
Taiwan Stock Exchange Weighted Index	2.2%	3.3%	2.2%	34.8%	13.9%	19.3%	13.7%	-0.5%
NSE Nifty 50 Index	-0.4%	-2.6%	-0.4%	9.7%	12.3%	16.1%	11.9%	-1.9%
Ibovespa Brasil Sao Paulo Stock Exchange Index	4.9%	-2.8%	4.9%	-1.3%	4.0%	2.1%	10.4%	-1.0%
Nasdaq-100 Index	2.3%	8.2%	2.3%	26.3%	13.8%	20.0%	19.0%	2.6%
Bloomberg Magnificent 7 Total Return Index	2.5%	19.2%	2.5%	68.4%	28.5%	42.0%		-1.2%
Bloomberg US Large Cap ex Magnificent 7 Total Return Index	4.6%	5.4%	4.6%	20.3%	9.0%	11.4%		1.6%
Dow Jones Industrial Average TR	4.8%	7.1%	4.8%	18.9%	10.5%	11.8%	12.5%	0.4%
STEFI	0.7%	2.0%	0.7%	8.4%	7.3%	6.2%	6.7%	0.3%
ALBI	0.4%	3.1%	0.4%	16.9%	10.1%	9.4%	8.0%	-0.6%
IGOV	-0.3%	1.6%	-0.3%	7.3%	6.6%	7.6%	5.2%	0.0%
WGBI	0.5%	-1.6%	0.5%	-0.9%	-5.0%	-3.3%	-0.5%	0.5%
Bloomberg Global Inflation-Linked Total Return Index	1.0%	-2.4%	1.0%	-0.8%	-6.7%	-2.2%	0.1%	0.6%
Bloomberg US Agg Total Return	0.5%	-0.1%	0.5%	2.1%	-1.5%	-0.6%	1.2%	0.3%
Bloomberg EuroAgg Total Return Index	0.0%	0.9%	0.0%	2.9%	-2.7%	-2.0%	0.1%	0.4%
Bloomberg Global Agg Corporate Total Return Index	0.6%	-0.8%	0.6%	2.3%	-1.4%	-0.4%	1.6%	0.5%
Bloomberg US Corporate High Yield Total Return Index	1.4%	2.1%	1.4%	9.7%	4.3%	4.5%	5.2%	0.0%
Bloomberg Pan-European High Yield Total Return Index	0.5%	2.0%	0.5%	8.5%	3.7%	3.0%	3.7%	0.6%
J.P. Morgan EMBI Global Core Hedged EUR	1.2%	0.6%	1.2%	7.1%	-2.3%	-2.1%	1.0%	0.1%
SAPY Total Return	-2.3%	-0.3%	-2.3%	21.0%	12.8%	5.2%	2.1%	0.7%
MSCI US REIT Total Return	1.0%	-2.3%	1.0%	14.6%	0.5%	4.3%	5.1%	2.0%
S&P Global Property Total Return	1.3%	-2.8%	1.3%	9.1%	-2.3%	0.3%	3.1%	1.4%
STOXX 600 Real Estate Total Return	3.1%	-0.8%	3.1%	2.5%	-9.0%	-5.2%	-0.7%	1.3%
FTSE EPRA Nareit Global REITs TR Index	1.6%	-3.0%	1.6%	8.8%	-1.9%	0.8%	3.1%	1.7%
Crude Oil	2.8%	4.9%	2.8%	-6.1%	-5.6%	5.7%	3.8%	-2.3%
Aluminium	1.7%	-0.9%	1.7%	13.8%	-5.0%	8.5%	3.4%	0.4%
Copper	3.2%	-4.8%	3.2%	5.1%	-1.6%	10.2%	5.1%	4.8%
Gold	6.6%	2.0%	6.6%	37.2%	15.9%	12.0%	8.1%	4.6%
Platinum	8.3%	-1.2%	8.3%	6.5%	-1.3%	0.4%	-2.3%	1.8%
Nickel	-0.6%	-3.0%	-0.6%	-6.4%	-12.9%	3.3%	0.0%	0.8%
Palladium	11.4%	-9.2%	11.4%	3.5%	-24.4%	-15.0%	2.8%	-1.9%
Iron Ore	4.8%	3.6%	4.8%	-21.3%	-9.0%	2.3%	4.5%	-0.5%
Bloomberg Commodity Index Total Return	4.0%	5.4%	4.0%	9.1%	2.5%	9.3%	2.0%	3.7%
USDZAR	-0.9%	6.1%	-0.9%	-0.1%	6.7%	4.4%	4.8%	-1.0%
GBPZAR	-1.8%	1.9%	-1.8%	-2.4%	3.8%	3.1%	2.8%	0.4%
EURZAR	-0.8%	0.8%	-0.8%	-4.3%	3.8%	3.0%	3.9%	0.1%
JPYZAR	0.3%	3.9%	0.3%	-5.5%	-3.5%	-2.8%	1.9%	0.7%
Dollar Index Spot	-0.1%	4.2%	-0.1%	4.9%	3.9%	2.2%	1.3%	-1.0%

Source: Bloomberg

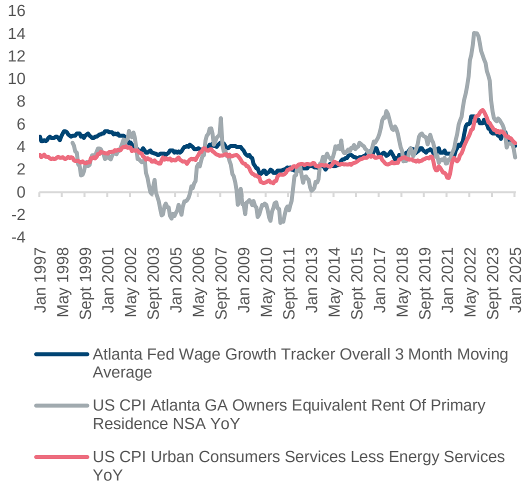
In the bond market, bond yields continue to experience volatility resulting from the nondirectional policy stance of tax cuts, immigration curbs and tariffs fuelled expectations of higher US inflation. Muted returns were delivered on the Bloomberg Global Aggregated Bond Index which was up 0.6% for the month as credit spreads continued to tighten and a softer than market-expected December inflation print continued.

	The commodity market came out strong in the first month of the year with the Bloomberg Commodity Index up 4%. Prices of precious metals rose amid concerns over the impact of Trump's tariffs. Gold and platinum benefited from the uncertainty and were up 6.6% and 8.3% respectively. Lastly, in the currency markets there was a slight weakness of the dollar. With muted returns of the dollar spot index of -0.1%, the rand appreciated against major currencies: 0.9% against the US dollar, 1.8% against the British pound and 0.8% against the Euro, with a slight depreciation of 0.3% against the Japanese yen.

TAA overview

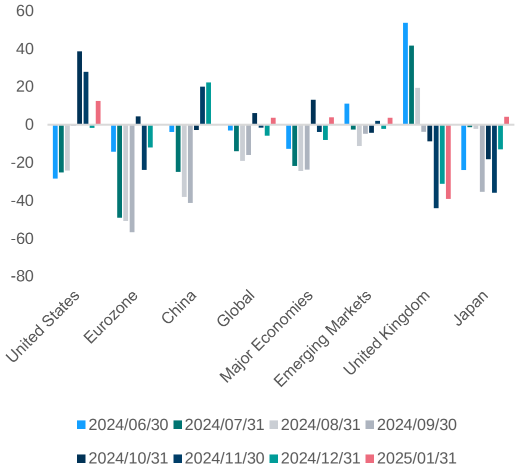
Foreign Equity	Into the month of February, market backdrops remain highly fluid. Investors' concerns about Trumpnomics increasingly shifted from upside inflation risk towards the risk of stagflation. Based on the latest global PMI data, the global manufacturing sector saw some improvement with emerging markets faring better. US have both manufacturing and services PMI numbers above 50, suggesting expansions, despite a slowdown in services sector expansion. Global liquidity conditions are turning more restrictive, but US high yield spreads remain very tight, reflective of the market's bullishness on US macro conditions. Globally, inflation is showing signs of stickiness. As a result, the forward rate agreements are pricing in one more rate cut for the US and SA this year. Given slowing wage and rental growth in the US as shown in Figure 3, there is room for services inflation to further slow this year. In addition, goods deflation has slowed, but with Eurozone manufacturing still in contraction and China PPI -2.3% yoy, goods inflation shouldn't be a big threat to headline inflation. The problem, however, is complicated by Trump's policies. Tax cuts are good for growth. DOGE may improve government efficiency, but it is also a form of fiscal spending cuts. Trump aimed to save $1 trillion from DOGE, essentially reduce budget deficit by half, but to date, it claims to have saved $37.7 billion only. Even if they cut the federal government work force by half, that will only translate into saving $75 billion, disregarding the short-term chaos it will generate. Overall, Trump and Musk still have long way to go. Tariffs are income reducing and generally negative for growth, however, its net impact is dependent on how it gets absorbed. Trump's pro-oil production stance (3m barrel oil production per day) should also keep oil price at the $70 level, if not lower. The net impact on growth and inflation is very difficult to determine at this stage but will certainly have an uneven impact on different sectors. The Citigroup Economic Surprise Indices indicated some modest improvement in global growth with US still considerably outperforming the other major economies. If we examine the US economy closer, we see its Q4 GDP growth slowed due to destocking despite strong consumer consumption and steady government spending. US consumer sentiment and confidence in business and jobs are also solid despite some initial softening after Trump's election induced rebound, with inflation rate outlook showing some stickiness around the 4.0% level. The US labour market continued to see some positive payroll gains with jobless claims relatively calm. Real yields have increased due to the upbeat US growth outlook, but term premium also increased on inflation uncertainty and increasing US debt issuance.

Figure 3: US services inflation, wage growth and rental inflation



Source: Bloomberg

Figure 4: Citigroup Economic Surprise Indices



We are relatively positive on US equities over US bonds for this year, despite valuations, due to:

1. **Positive real wage growth should support aggregate demands (Fig. 5)**
   - 70% of US GDP comes from consumer spending.
   - Despite signs of plateauing, positive real wage growth should still support demand in the short to medium run.

2. **US household can re-leverage (Fig. 6 – 8)**
   - We have seen the US households have been deleveraging.
   - Given the average household net worth has been making consistent growth since 2022 and debt delinquencies trends are flattening, there is room for re-leveraging to fund spending.

3. **Productivity gains in the US continued (Fig. 9)**
   - AI may boost productivity across many industries in truly staggering ways, although its ultimate impact on the economy remains highly uncertain.

4. **Growth may slow in the US but remain above trend in the short term (Fig. 10)**
   - Both US manufacturing and services PMI are in the expansionary zone, new bankruptcies numbers fell, small business sentiment is upbeat and the US leading indicator is still signalling expansion. With the significant rebound in business activity and new orders, US corporate earnings should be supported over the next 12 months.

5. **Businesses confident in passing on cost increases (Fig. 11 – 12)**
   - Underlying demand remains steady for now as reflected in pricing power outlook from business surveys which, together with softening wage growth, again will be supportive of earnings amid inflationary worries.

Figure 5: US real wage growth

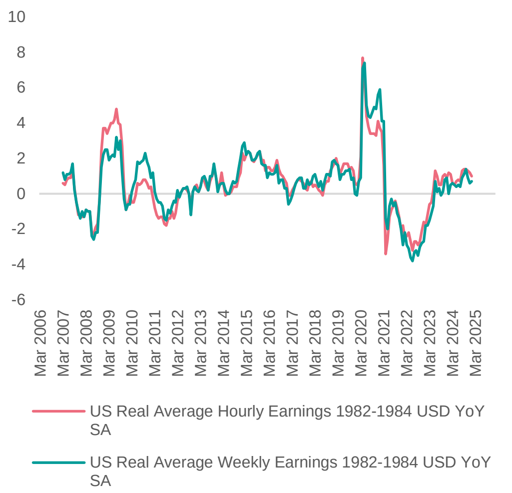


Figure 6: US household debt

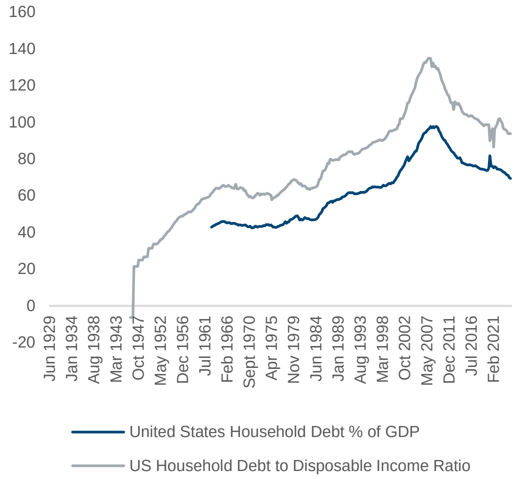


Figure 7: US household net worth

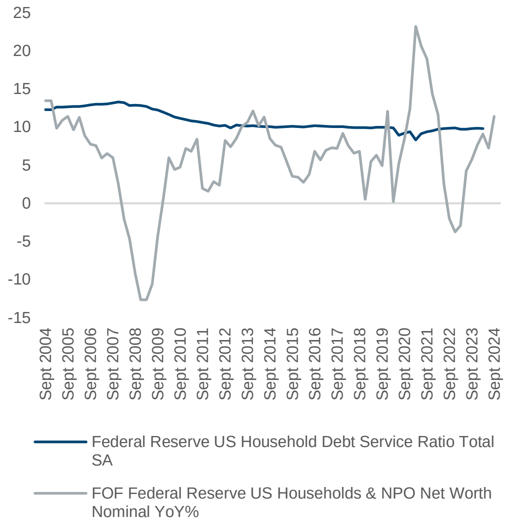


Figure 8: US household debt delinquencies

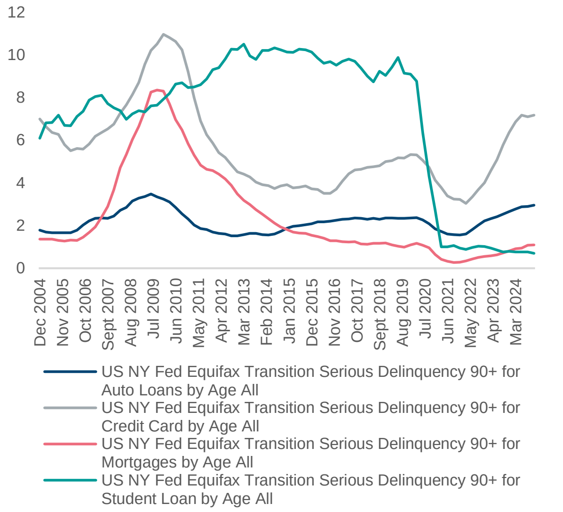


Figure 9: US productivity growth

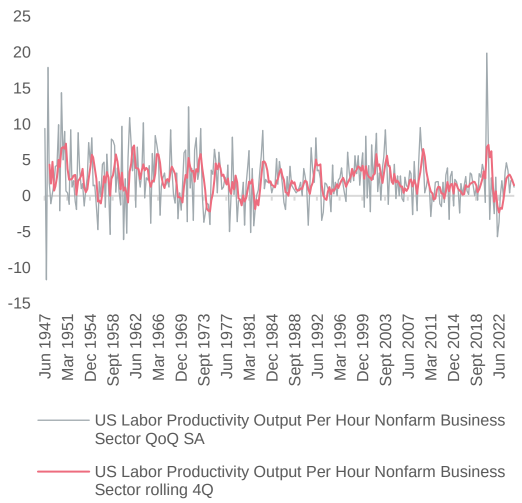


Figure 10: US business new orders and Forward 12 months EPS growth

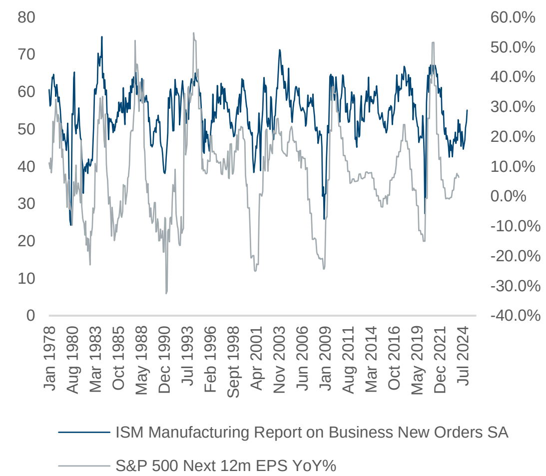


Figure 11: US business leaders survey

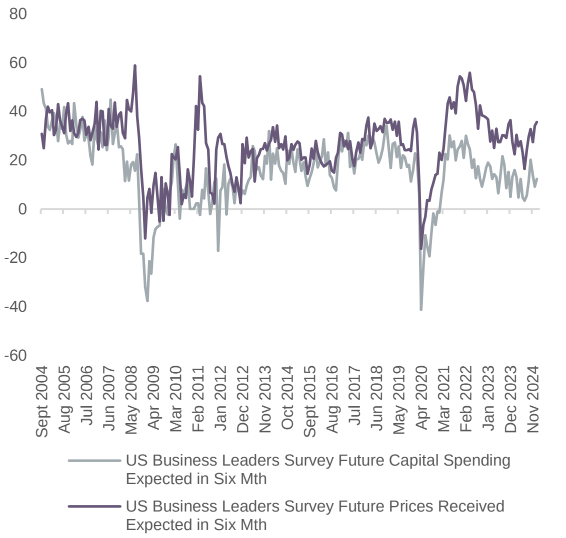
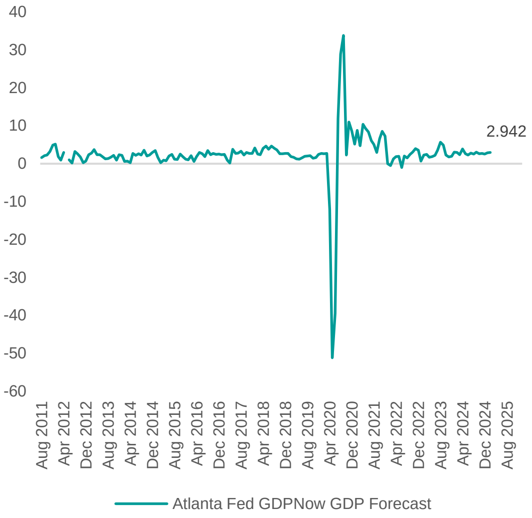


Figure 12: Atlanta Fed GDP forecast



Source: Bloomberg

Therefore, given the low risk of US recession and that the US economy remains in a good state, with near term corporate earnings getting supported, the overall environment is leaning towards more risk on than risk off. In terms of foreign bonds, relative valuation vs foreign equity is at a very attractive level, last seen in 2003, as shown in Figure 13. However, historical analysis shows that, just because bond yields are trading at a very big spread vs earnings yields, bond outperformance may only come at a late stage. Taking the period from January 1991 to December 2002 for instance, the WGBI outperformed the MSCI World by 52% for the full period, but excluding 2002, the MSCI World would've outperformed the WGBI by 350%. Ultimately, growth must fall sharply for WGBI to outperform the MSCI World.

Figure 13: S&P 500 earnings yield vs 10-year treasury yield spread

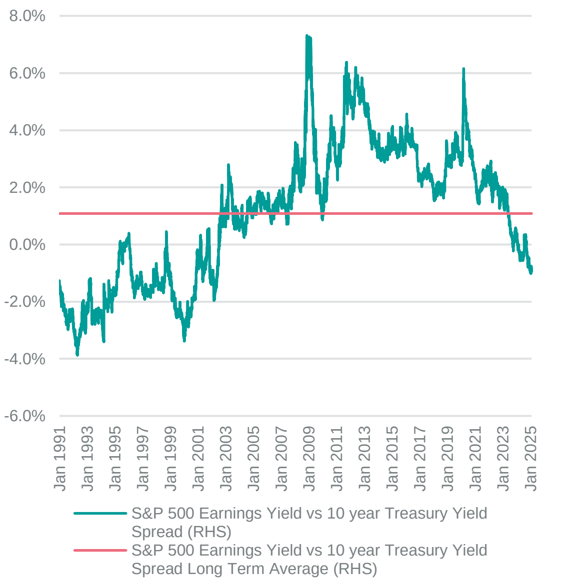
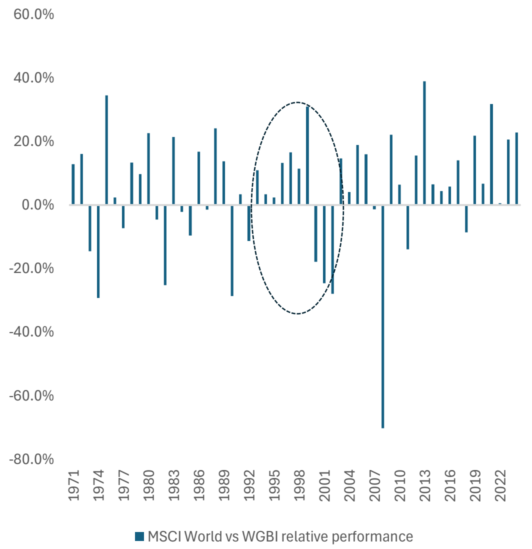


Figure 14: MSCI World vs WGBI relative performance



Source: Bloomberg

We have seen that the short-term correlation between global equities and global fixed income has turned very positive due to upside inflation risk. Should investors become increasingly concerned about growth, bonds will provide diversification benefits. Together with attractive relative valuation, we, therefore, maintain neutral in foreign bonds, while moderately overweight in foreign equity. In addition, while momentum has been very supportive of the US equity rally for much of 2024, there are signs of cooling over the recent months, suggesting a limited upside.

SA Bonds

For SA bonds, real yields and hedged yields remain attractive. However, foreign flows are yet to return to SA equity and bonds due to the geopolitics risk and pending GNU reform materialisation. The latest budget delay is another setback, but can also be viewed as an opportunity, as it proves that the ANC can't run things unilaterally. Ultimately, the fiasco highlights the importance of economic growth. The country needs more economic growth for jobs and fiscal sustainability. Hope is not a good investment strategy, but we do believe that the GNU coalition is here to stay, as they don't have any better alternatives. Reforms need to happen quickly as time is not on their side. Positive domestic developments are also key to counteract some of the negative impacts from Trump's policies.

In terms of SA equity, possible structural reforms will set SA on a better growth trajectory. It should get re-rating, with a minimum 20% upside potential relative to US equity. At the same time, SA equity turned out to be very much exposed to global value factor, with 85% of SA equity alpha that can be explained by global value factor premium and 15% by global momentum factor premium. Value tends to outperform during bear markets and recession. Given the low probability of recession and more likelihood of some short-term correction than a bear market, it is more probable that the SA equity and US equity valuation gap will remain at the current level.

Figure 15: Bond yields of selected EM countries

	South Africa	India	Indonesia	Mexico	Brazil	Turkey
10 Year Yield	**10.56%**	**6.71%**	**6.84%**	**9.91%**	**14.91%**	**28.19%**
Inflation	3.0%	4.3%	0.76%	3.6%	4.6%	42.1%
Inflation Expectation	4.50%	4.80%	2.30%	4.70%	4.40%	60.00%
10 Year Real Yield	**7.56%**	**2.40%**	**6.08%**	**6.32%**	**10.35%**	**-13.93%**
10 Year Real Yield based on inflation expectation	6.06%	1.91%	4.54%	5.21%	10.51%	-31.81%
Currency Risk Premium	**2.90%**	**1.20%**	**1.06%**	**3.40%**	**7.59%**	**20.16%**
Sovereign Risk Premium	**3.13%**	**0.99%**	**1.25%**	**1.98%**	**2.79%**	**3.50%**
US 10 Year Yield	4.53%	4.53%	4.53%	4.53%	4.53%	4.53%
S&P Rating - Foreign Currency	**BB-**	**BBB-u**	**BBB**	**BBB**	**BB**	**BB-u**
Moody's Rating - Foreign Currency	**Ba2**	**Baa3**	**Baa2**	**Baa2**	**Ba1**	**B1**

Source: Bloomberg

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

While conditions remain highly fluid and the net impact from Trump's policies are yet to be determined, here is a framework for us to navigate the Trumpnomics.

Figure 16: Economic impacts from Trump's policies

	Economic Impact				US Financial Market Implication		
	Growth	Inflation	Debt/Deficits	Uncertainty	Treasury	Equity	Dollar
Tax Cuts	Up	Up	Up		Bearish	Bullish	Bullish
Deregulation	Up	Up			Bearish	Bullish	Bullish
Tariffs (rising input costs)	Down	Up	Up	Up	Bearish	Bearish	Bearish
Deportation & Anti-immigration	Down	Up	Up	Up	Bearish	Bearish	Bearish
DOGE - wage growth, sentiment and efficiency		Down	Down		Bullish		Bearish

Source: Bloomberg, Macro Research Board

During Trump's first term, trade wars with China led to declining stock markets, lower yields, and a disinflationary response in the U.S. This time, while similar dynamics may unfold, the economic landscape has changed. Trump has inherited a relatively stable "Goldilocks" economy. His approach to tariffs now extends beyond China, targeting a broader range of trading partners. Measures such as restricting chip exports to China and securing key strategic mineral resources indicate a more aggressive stance on economic protectionism. While his policies could dampen global growth, the U.S. economy may still outperform other major economies. Market corrections could present selective buying opportunities.

Yet, beyond economic implications, the world is entering a precarious phase. The rise of neo-Nazism, coupled with a U.S. president who prioritises unilateralism, threatens global stability. Policies that compromise other nations' territorial integrity for own gains and weaken alliances could have profound and lasting consequences for the global order and future generations.

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

NEO SITHOLE, BSc (Hons)
C +27 60 685 2419 **T** +27 11 447 7716
F 086 272 1177 **E** nsithole@mentenova.co.za

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