MENTENOVA

# HOUSEVIEW TACTICAL ASSET ALLOCATION

19 March 2025

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We have maintained a moderately overweight position in SA bonds and moved from a moderately overweight position in foreign equity to neutral, funding the position 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 April 2025:

- We have maintained a moderately overweight position in SA nominal bonds, supported by attractive valuations and some positive policy developments, preferring them over local cash and offshore bonds – although the long-term prognosis for economic growth does not auger well for fiscal sustainability.
- We have opted to stay neutral in offshore equities in the wake of rising trade tensions and policy uncertainty. US sentiment is weakening, with slower retail sales and a bearish business outlook. Globally, the Eurozone, UK and Japan are showing signs of improvement, but US recession risks are rising alongside increased economic and trade policy uncertainty. While potential policy shifts and global recovery could support equities later this year, we prefer to stay neutral for now.

## Monthly Market Overview – February 2025

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|---|---|
| **Market overview** | Faced with a mixture of challenges and uncertainties, markets continued to ride a rollercoaster in February. Contributing factors were pronounced declines in the tech market, President Trump's policy implementation coming into effect at the beginning of March and rising inflation concerns (to name a few). Volatility continued to grow, with investor worries revealed in the CNN Fear & Greed Index first hovering around fear territory and then deteriorating rapidly into 'extreme fear' territory by the end of the month. As a result, mixed asset class performance was broadly on display.<br><br>Developed markets were impacted by this sentiment, as the MSCI World Index was down 0.7%. The performance specifics were revealing. The US equity market struggled, with the S&P 500 Index and the Nasdaq declining by 1.3% and 2.7%, respectively, over the month. At the sector level for the US, Telecommunication services, Food Beverage & Tobacco and Insurance have done well to date, while Automobiles, Media & Entertainment as well as Retail have detracted from S&P 500 returns. A major sell-off in the tech market was reflected in US equity performance, with the FANG, Big 7 and Four Horseman YTD performance moving into negative territory. The |

biggest decline was seen in the Big 7, leaving the Bloomberg Magnificent 7 Index at -8.7% for the month.

Not only did the tech market put strain on equity performances, but fears loomed over with Trump's policy implementation process, with its inflationary implications weighing on sentiment. Trump reaffirmed that 25% tariffs on US imports into Canada and Mexico would take effect early in March and announced additional 10% tariffs on Chinese imports.

In Europe, consumer confidence and economic sentiment saw some improvement. This translated into stronger market performance as the STOXX 600 delivered healthy gains of 3.4%, with hopes for a new German government that may cut taxes and lift spending helping to elevate the market outlook.

Japanese stocks experienced their biggest monthly drop since 2022, with the (tech-heavy) Nikkei 225 posting significant declines of 6% – the result of major selloffs in chip-related firms as well as the economic impact of tariffs dragging down the Nikkei 225's performance. The month ended with individuals, business corporations and trust banks being net buyers, while foreign investors recorded significant net selling.

Emerging markets outperformed their developed market counterparts last month, with the MSCI EM Index marginally up 0.5% for the month, driven by good underlying performance among EM counterparts and supported by dollar weakness during the month. China, one of the contributors, was up close to 2% for the month, as momentum continued with the birth of DeepSeek in January, which saw the tech market perform well. A big detractor among emerging markets was India whose Nifty 50 was down 5.8%, underpinned by slower economic growth and a market correction in many sectors, particularly real estate, IT and media. To alleviate the growth concerns that India posed, the Reserve Bank of India reduced its interest rates for the first time in almost five years. Locally, the FTSE/JSE All Share Index was flat, dragged down by the resource sector which was down 7.1%. During the month, South Africa witnessed the delay of the Budget speech due to discord among members of the Government of National Unity (GNU) over a potential 2% VAT increase. Adding to the turmoil was the reintroduction of stage 6 loadshedding in the wake of (according to Eskom) high electricity demand and emergency reserves having been depleted.

Looking at Style performance, the MSCI World Value Index was up 1.6% for the month, outperforming the MSCI World Growth Index which was down 2.8% for the month.

The fixed-income market remained healthy for the month, with corporate bonds, high-yield bonds and inflation-linked bonds all returning positive returns and the World Government Bond Index up 1.4%, assisted by falling yields. The Bloomberg US Aggregated Index was up 2.2%. Meanwhile, the investment-grade spread remained steady while the Bloomberg Global Agg Corporate Total Return Index was up 1.6%, moving the YTD performance to 2.3%. The SA government's 10-year borrowing rate climbed to 10.5% p.a., despite generally lower global yields due to a combination of risk aversion and geopolitics.

The Bloomberg Commodity Index gave a flat performance (0.8%) over the month, with palladium and Brent crude oil down -9.3% and -4.7%, respectively. In March, oil prices continued to see declines, as investors worried about OPEC+ plans to proceed with output increases in April and

Trump's tariffs on Canada, China and Mexico escalated trade tensions. Gold displayed strength in March, adding 2.1% for the month, which moves the YTD performance to approximately 9%.

Lastly, regarding currency performance, dollar weakness was evident for the month as the Dollar Spot Index saw a slight decline of 0.7%. The ZAR also weakened against major currencies – depreciating by 3.2% against the Japanese yen, by 1.6% against the British pound and by 0.4% against the Euro, and remaining flat (0.1%) against the USD.

### Figure 2: Major market indices' performance in local currency

| 28 February 2025 (Local Currency) | 1M | 3M | YTD | 1 Year | 3 Year (annualised) | 5 Year (annualised) | 10 Year (annualised) | MTD 11 March 2025 |
|---|---|---|---|---|---|---|---|---|
| FTSE/JSE ALSI Total Return | 0.0% | 2.0% | 2.3% | 22.6% | 8.1% | 15.2% | 8.5% | 1.4% |
| FTSE/JSE Capped SWIX Total Return | -0.4% | 1.9% | 2.2% | 22.0% | 7.5% | 13.6% | 6.5% | 1.2% |
| S&P 500 Total Return | -1.3% | -1.0% | 1.4% | 18.4% | 12.6% | 16.9% | 13.0% | -6.4% |
| STOXX 600 Total Return | 3.4% | 9.5% | 10.0% | 15.6% | 10.0% | 10.8% | 6.3% | -3.5% |
| Nikkei 225 Total Return | -6.0% | -2.6% | -6.8% | -3.4% | 14.2% | 14.1% | 9.1% | -1.0% |
| MSCI World Total Return | -0.7% | 0.2% | 2.8% | 16.1% | 10.7% | 14.5% | 10.4% | -4.7% |
| MSCI ACWI Total Return | -0.6% | 0.4% | 2.8% | 15.6% | 9.7% | 13.3% | 9.7% | -4.1% |
| MSCI EM Total Return | 0.5% | 2.2% | 2.3% | 10.6% | 0.9% | 4.7% | 3.9% | 1.1% |
| MSCI World Value Index | 1.6% | 0.2% | 6.2% | 16.1% | 9.1% | 12.0% | 7.9% | -2.6% |
| MSCI World Growth Index | -2.8% | 0.2% | -0.2% | 16.3% | 11.9% | 16.2% | 12.6% | -6.7% |
| MSCI World Small Cap Index | -3.3% | -5.8% | 0.1% | 8.2% | 3.7% | 9.6% | 7.5% | -3.7% |
| FTSE UK Series FTSE All Share TR | 1.3% | 5.7% | 6.9% | 18.4% | 8.5% | 8.9% | 6.2% | -3.2% |
| MSCI AC Asia Ex. Japan Index | 1.1% | 2.0% | 1.8% | 14.7% | 1.2% | 4.8% | 4.6% | 1.2% |
| MSCI Europe Excluding United Kingdom Index | 3.7% | 10.5% | 11.0% | 14.4% | 11.0% | 11.8% | 7.5% | -3.3% |
| Shanghai Shenzhen CSI 300 Index | 1.9% | -0.3% | -0.9% | 14.3% | -2.7% | 2.1% | 3.1% | 1.3% |
| Korea Stock Exchange KOSPI Index | 1.0% | 4.1% | 6.2% | -2.2% | -0.1% | 7.1% | 4.5% | 0.2% |
| Taiwan Stock Exchange Weighted Index | -2.0% | 3.8% | 0.1% | 24.6% | 13.2% | 19.2% | 13.2% | -4.3% |
| NSE Nifty 50 Index | -5.8% | -8.1% | -6.2% | 2.0% | 11.2% | 16.2% | 11.1% | 1.7% |
| Ibovespa Brasil Sao Paulo Stock Exchange Index | -2.6% | -2.3% | 2.1% | -4.8% | 2.8% | 3.3% | 9.1% | 0.6% |
| Nasdaq-100 Index | -2.7% | 0.0% | -0.5% | 16.6% | 14.6% | 20.8% | 17.9% | -7.2% |
| Bloomberg Magnificent 7 Total Return Index | -8.7% | -0.5% | -6.5% | 37.2% | 27.6% | 40.0% | | -9.3% |
| Bloomberg US Large Cap ex Magnificent 7 Total Return Index | 0.2% | -0.6% | 4.9% | 15.6% | 10.0% | 13.4% | | -5.6% |
| Dow Jones Industrial Average TR | -1.4% | -2.0% | 3.3% | 14.4% | 11.2% | 13.8% | 11.7% | -5.4% |
| STEFI | 0.6% | 1.9% | 1.2% | 8.3% | 7.4% | 6.2% | 6.7% | 0.2% |
| ALBI | 0.1% | 0.2% | 0.5% | 17.6% | 9.9% | 9.4% | 8.3% | 0.7% |
| IGOV | 1.0% | 1.4% | 0.6% | 9.2% | 6.2% | 7.7% | 5.4% | 0.2% |
| WGBI | 1.4% | -0.5% | 1.9% | 1.8% | -4.2% | -3.2% | -0.2% | 0.6% |
| Bloomberg Global Inflation-Linked Total Return Index | 1.4% | -0.8% | 2.4% | 1.5% | -6.3% | -1.8% | 0.4% | 0.6% |
| Bloomberg US Agg Total Return | 2.2% | 1.1% | 2.7% | 5.8% | -0.4% | -0.5% | 1.5% | -0.5% |
| Bloomberg EuroAgg Total Return Index | 0.7% | -0.4% | 0.7% | 4.8% | -1.7% | -2.0% | 0.1% | -2.3% |
| Bloomberg Global Agg Corporate Total Return Index | 1.6% | 0.3% | 2.3% | 5.4% | -0.2% | -0.2% | 1.8% | 0.4% |
| Bloomberg US Corporate High Yield Total Return Index | 0.7% | 1.6% | 2.0% | 10.1% | 4.9% | 4.9% | 5.1% | -0.7% |
| Bloomberg Pan-European High Yield Total Return Index | 1.2% | 2.4% | 1.7% | 9.5% | 5.1% | 3.7% | 3.6% | -0.9% |
| J.P. Morgan EMBI Global Core Hedged EUR | 1.4% | 0.8% | 2.6% | 7.7% | 0.4% | -1.6% | 1.0% | -0.4% |
| SAPY Total Return | -0.3% | -2.2% | -2.6% | 19.7% | 13.9% | 8.8% | 1.8% | -2.4% |
| MSCI US REIT Total Return | 3.7% | -3.0% | 4.8% | 16.6% | 2.8% | 6.8% | 5.8% | -4.1% |
| S&P Global Property Total Return | 2.0% | -2.8% | 3.4% | 11.1% | -0.9% | 2.2% | 3.2% | -2.5% |
| STOXX 600 Real Estate Total Return | 0.5% | -1.7% | 3.6% | 11.7% | -8.0% | -3.7% | -1.1% | -6.6% |
| FTSE EPRA Nareit Global REITs TR Index | 2.6% | -3.3% | 4.3% | 11.8% | -0.3% | 3.1% | 3.6% | -3.0% |
| Crude Oil | -4.7% | 0.3% | -2.0% | -12.5% | -10.2% | 7.7% | 1.6% | -4.9% |
| Aluminium | 0.4% | 0.4% | 2.1% | 16.9% | -8.2% | 9.0% | 3.7% | 3.7% |
| Copper | 3.4% | 3.9% | 6.7% | 10.2% | -1.8% | 10.7% | 4.7% | 3.3% |
| Gold | 2.1% | 8.1% | 8.9% | 39.8% | 14.4% | 12.5% | 8.9% | 2.0% |
| Platinum | -3.4% | 0.0% | 4.6% | 7.9% | -3.2% | 1.8% | -2.2% | 3.4% |
| Nickel | 1.7% | -2.7% | 1.0% | -13.7% | -14.6% | 4.6% | 0.9% | 6.5% |
| Palladium | -9.3% | -6.2% | 1.0% | -2.6% | -28.2% | -18.8% | 1.2% | 2.8% |
| Iron Ore | -1.5% | 1.3% | 3.3% | -14.5% | -7.9% | 4.2% | 4.4% | -2.8% |
| Bloomberg Commodity Index Total Return | 0.8% | 5.8% | 4.8% | 11.6% | 0.7% | 10.6% | 1.8% | 2.2% |
| USDZAR | 0.1% | 3.5% | -0.8% | -2.7% | 6.7% | 3.6% | 4.8% | -2.6% |
| GBPZAR | 1.6% | 2.2% | -0.2% | -3.0% | 4.4% | 3.2% | 2.7% | 0.4% |
| EURZAR | 0.4% | 1.6% | -0.5% | -6.4% | 4.0% | 2.4% | 4.0% | 2.5% |
| JPYZAR | 3.2% | 2.9% | 3.5% | -3.0% | -2.4% | -3.1% | 2.4% | -0.6% |
| Dollar Index Spot | -0.7% | 1.8% | -0.8% | 3.3% | 3.6% | 1.9% | 1.2% | -3.9% |

*Source: Bloomberg*

## TAA overview

**Foreign Equity**

While we acknowledged the highly fluid market conditions and the uncertainty surrounding the net impact of Trump's policies at the February TAA meeting, we did not expect such a significant escalation in trade tensions since late February. The increasing intensity, broadening targets and surge in retaliatory measures have certainly put US and global economic growth at risk, and hurt consumer, business and investor sentiment.

US consumer sentiment has softened, with declining job prospects, weaker bullishness on equities and inflation expectations rising from 4.0% to 4.8%, although real wage growth remains positive. Household consumption remains resilient, with annual retail sales growth intact, but monthly trends indicate weakening momentum. In the US business sector, sentiment has softened slightly, despite improvements in PMI data, while manufacturing data remains mixed. The OECD leading indicator continued to signal US economic expansion in February, but the outlook for business activity and production in the manufacturing sector has deteriorated, with capital spending projections turning bearish. US economic fundamentals in general seem to be stable. However, some macro indicators and survey data may not fully reflect the underlying shifts due to time lags and the disruptive nature of Trump's policies.

Globally, economic surprise indices have shown improvement in the Eurozone, UK and Japan, with China displaying early signs of a turnaround, while the US has weakened. The global services PMI stands at 51.6 and the manufacturing PMI at 50.6, with emerging markets outperforming developed markets in both indicators. The Citi Inflation Surprise Index suggests rising price pressures in developed markets. While the probability of a US recession is increasing, it is not yet extreme. However, investor sentiment is being weighed down by a sharp rise in US economic policy uncertainty, with US trade policy uncertainty now significantly higher than during Trump's first term. Despite these shifts, liquidity trends have remained relatively stable.

We tried to quantify the impact of Trump's policies on US inflation growth, based on the promised tariffs imposed on Canada, China and Mexico. Assuming Trump imposes an average 25% tariff on all US imports from these three countries, the impact on US GDP growth from consumer spending is roughly 0.3%, while the impact on US CPI is estimated to be 0.5%. In addition, if we assume corporate earnings will be squeezed from the top line (lower consumer consumption) amid higher input costs (assuming no cost-cutting measures take place), a roughly worst-case scenario is that US corporate earnings per share will contract by 8.6%. The market is currently pricing in 9.0% EPS growth this year, which has been revised down from 11% over the past six months. Sell-side median estimates are for US GDP growth to slow from 2.4% to 2.2% in 2025 and for global GDP growth to slow from 3.3% to 2.9% in 2025. Post our March TAA meeting, the FOMC also released its economic projections, which revised US real GDP growth in 2025 by 40bps, from 2.1% (at December's meeting) to 1.7%. In addition, it revised up the PCE inflation and core PCE inflation by 20bps and 30bps, respectively, while keeping the Fed's rate outlook unchanged, in line with market expectations.

Although Trump's policies have certainly inflicted pain on global and US growth, this time is different as, during his first term, deregulation and tax cuts took place before the narrow trade war.

**Figure 3: Trump's first term vs second term**

**Trump's first term**

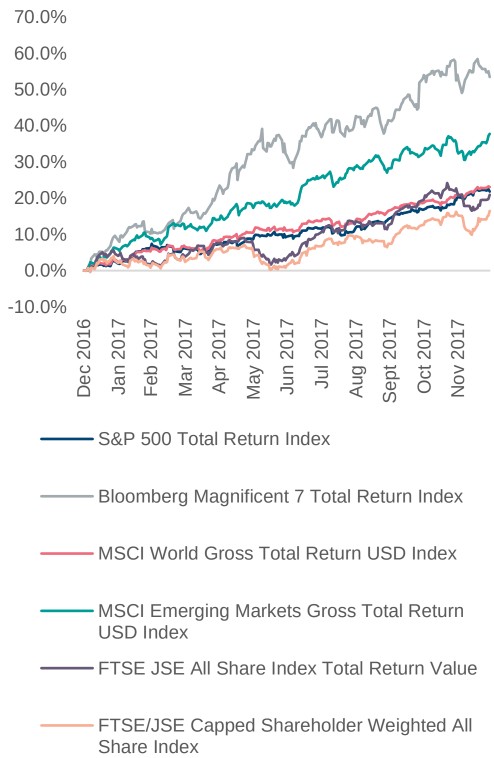
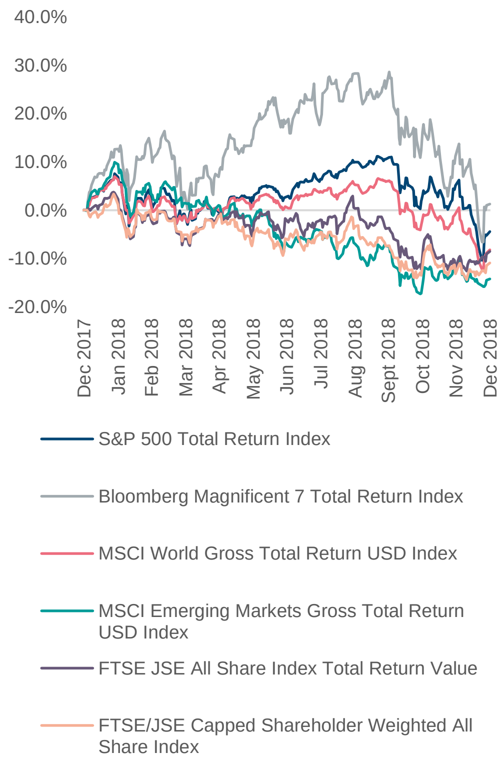
- Mar 2017: deregulation efforts begin, rolling back Obama-era regulations, including environmental and financial rules.
- Dec 2017: Tax cuts and jobs act (TCJA) to lower corporate tax rate from 35% to 21% and cut individual tax rates.
- Jan 2018: Imposed tariffs on imported solar panels, washing machines, steel, and aluminum.
- Mar 2018: Start of trade war with China
- Jul 2018: U.S., Canada, and Mexico reached a new trade deal (USMCA) to replace NAFTA, which was later signed in 2020.
- Jan 2019: Phase One trade deal discussions began to ease the trade war between US and China

**Trump's second term**

- Foreign policy: increasingly unilateral, severed traditional alliances and commitments
- Since Feb 2025: DOGE's initiatives contributed to a surge in job cuts, with the federal government eliminating 62,242 positions in Feb. Early March, Elon Musk suggested potential reductions in Social Security and other entitlement programs.
- March 2025: Aggressive trade stance

*Source: Bloomberg*

The S&P 500 Index rallied 20% prior to the trade war during Trump's first term and then fell by 2.5% during 2018, with the PE ratio derated from 22x to 16.8x on the back of tightening monetary policies.

| | |
|---|---|
| | **Figure 4: Equity performance in 2017**  **Figure 5: Equity performance in 2018**  *Source: Bloomberg* The first three months of Trump's second term have revealed a more determined Trump as far as his 'America First' agenda is concerned and a more unilateral foreign policy, with more intense and far-reaching trade wars ahead of the implementation of other pro-growth policies. While the sequence risk provides some upward opportunity for US equity in the latter part of this year, Trump is likely to reach deals quickly to avoid significantly denting US economic growth and the equity market, which could put his mid-term election at risk. In addition, continued recovery in the rest of the world may support global equity this year. However, given the elevated uncertainty in the near term, we are more comfortable remaining neutral in foreign equity, especially as we have also been taking the opportunity to increase offshore equity exposures through the phased approach of SAA adjustments. |
| **SA Bonds** | The South African 2025/26 Budget, presented by Finance Minister Enoch Godongwana, charts a challenging path ahead in the face of many political hurdles and economic constraints. While the government and all major parties are committed to fiscal consolidation, the budget's passage remains uncertain, making it the first time in the post-apartheid era that the budget may not be approved before the fiscal year ends on 31 March. A key measure includes a VAT increase of a 0.5 percentage point to 15.5%, with a further increase to 16% planned for 2026/27, alongside continued support for infrastructure projects such as new dams and a high-speed rail service for low-income areas. Efforts to reduce the budget deficit from 5% of GDP in 2024/25 to 3.5% by 2027/28 signal a commitment to stabilising public debt. However, the biggest challenge remains the country's weak economic growth, which lingers below 1%, making it difficult to generate the revenue needed for long-term fiscal sustainability. While the budget prioritises discipline and investment, without stronger economic expansion its effectiveness remains uncertain. |

SA bonds are currently offering yields close to CPI + 7%, making local bonds more attractive than offshore bonds due to their higher returns and potential currency upside. However, this outlook carries risks, particularly if foreign investors' perceptions of South Africa deteriorate due to geopolitical challenges and the fragility of the GNU. Despite these concerns, real yields remain sufficiently compelling for us to maintain a moderately overweight position in SA bonds.

**Figure 6: Bond yields of selected EM countries**

| | South Africa | India | Indonesia | Mexico | Brazil | Turkey |
|---|---|---|---|---|---|---|
| **10 Year Yield** | **10.50%** | **6.68%** | **6.93%** | **9.60%** | **14.92%** | **27.75%** |
| Inflation | 3.2% | 3.6% | -0.09% | 3.8% | 5.1% | 39.1% |
| Inflation Expectation | 3.96% | 4.75% | 2.30% | 3.80% | 5.00% | 32.30% |
| **10 Year Real Yield** | **7.30%** | **3.07%** | **7.02%** | **5.83%** | **9.86%** | **-11.30%** |
| 10 Year Real Yield based on inflation expectation | 6.54% | 1.93% | 4.63% | 5.80% | 9.92% | -4.55% |
| **Currency Risk Premium** | **5.60%** | **1.63%** | **1.98%** | **4.19%** | **10.09%** | **22.33%** |
| **Sovereign Risk Premium** | **0.58%** | **0.74%** | **0.64%** | **1.10%** | **0.52%** | **1.10%** |
| US 10 Year Yield | 4.31% | 4.31% | 4.31% | 4.31% | 4.31% | 4.31% |
| **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*

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