MENTENOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

24 April 2025

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We have maintained a moderately overweight position in SA bonds, 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 May 2025:

- We have maintained a moderately overweight position in SA nominal bonds, supported by attractive valuations and some positive domestic developments, and prefer them over local cash and offshore bonds.

TAA overview

SA Bonds

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. The low oil price will also keep inflation low, despite tariff threats. Concerns emanating from the Government of National Unity (GNU) should dissipate over the short term as the threatened VAT hikes are reversed. However, worries over the fragility of the GNU is a natural part of a coalition government. While foreign flows are yet to return for local equity and bonds, given the implied yield and embedded hedged yield discount, some degree of political risk has been priced in. Overall, real yields remain sufficiently compelling for us to maintain a moderately overweight position in SA bonds.

Figure 2: Bond yields of selected EM countries

	South Africa	India	Indonesia	Mexico	Brazil	Turkey
10 Year Yield	**10.92%**	**6.37%**	**6.95%**	**9.48%**	**14.56%**	**33.82%**
Inflation	3.2%	3.3%	1.03%	3.8%	5.5%	38.1%
Inflation Expectation	3.90%	4.70%	2.10%	3.65%	5.40%	32.30%
10 Year Real Yield	**7.72%**	**3.03%**	**5.92%**	**5.68%**	**9.08%**	**-4.28%**
10 Year Real Yield based on inflation expectation	7.02%	1.67%	4.85%	5.83%	9.16%	1.52%
Currency Risk Premium	**3.01%**	**0.79%**	**1.03%**	**2.88%**	**7.11%**	**25.43%**
Sovereign Risk Premium	**3.58%**	**1.26%**	**1.59%**	**2.28%**	**3.12%**	**4.06%**
US 10 Year Yield	4.32%	4.32%	4.32%	4.32%	4.32%	4.32%
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

A large part of the TAA discussions was focused on SA equity, offshore equity and bonds. We are maintaining a neutral stance on SA equities following a period of relative outperformance. The price-to-earnings (PE) valuation gap between South African and US equities has narrowed and is now approaching our short-term target of 0.65. While there is still scope for a further upside, particularly as concerns around the GNU and VAT subside, and with support from a weaker US dollar bolstering emerging market assets, we are currently seeing a more balanced risk–reward profile. Importantly, a significant portion of the recent rally was driven by a sharp rise in the gold price to above $3,300, fuelled by heightened demand for safe-haven assets. This introduces downside risk to the local market should the gold price retreat to the $2,800 level. Given these dynamics and fluid circumstances, we believe it is prudent to remain neutral and to reassess positioning as the outlook on the local macro landscape improves and global market volatility stabilises.

We are also maintaining a neutral view on offshore equities and bonds. While the base case has shifted from no recession in the US to an increased likelihood of a deeper slowdown or stagflation, key economic indicators – such as solid household and corporate balance sheets – remain sound, for now. US earnings expectations saw a roughly 2.0% negative revision over the past month but still face further downside risk, as the market currently prices in 7.0% EPS growth for the S&P 500. Dollar weakness may provide some offset. Given the heightened trade and policy uncertainty, especially around tariff dynamics and political developments in the US, we prefer to ride out the current volatility before reassessing positioning.

While offshore bonds offer diversification benefits amid the economic fallout, the outlook is clouded by above-target inflation, rising fiscal spending and elevated US Treasury issuance amid weaker demand from traditional buyers. Their defensive characteristics are compromised in a stagflationary environment. With yields vulnerable to renewed sell-offs and the broader situation still being fluid, we believe a neutral allocation supports diversification without unnecessary portfolio churn.

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