HOUSEVIEW TACTICAL ASSET ALLOCATION

22 May 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 June 2025:

- We have maintained a moderately overweight position in SA nominal bonds, supported by attractive valuations, limited upside risk to inflation and dissipating SA budget uncertainty, and prefer them over local cash and offshore bonds.

TAA overview

SA Bonds

We have maintained a positive view on SA bonds. SA bonds are still offering an attractive real yield of c.7.8%. The real yield spread between SA and Brazilian 10-year government bonds also narrowed from -136bps to -77bps over the past month. There is limited upside risk to inflation, given the declining and extremely low net number of CPI categories, with the YoY inflation above the midpoint of the current 3-6% target range. While there has been a significant slowdown in net inflows into the US ETFs for the year to date, meaningful rotations into emerging market ETFs are yet to take place. For SA, net flows into SA bonds and equity for the year to date are still negative. However, with the tabling of the third budget and fewer concerns about the sustainability of the GNU, there has been c.$600m net flow improvement in SA bonds over the past month.

Figure 2: Bond yields of selected EM countries

	South Africa	India	Indonesia	Mexico	Brazil	Turkey
10 Year Yield	**10.55%**	**6.29%**	**6.90%**	**9.53%**	**14.15%**	**34.53%**
Inflation	2.7%	3.2%	1.95%	3.9%	5.5%	37.9%
Inflation Expectation	3.66%	4.60%	2.00%	3.70%	5.33%	34.00%
10 Year Real Yield	**7.85%**	**3.13%**	**4.95%**	**5.60%**	**8.62%**	**-3.33%**
10 Year Real Yield based on inflation expectation	6.89%	1.69%	4.90%	5.83%	8.82%	0.53%
Currency Risk Premium	**2.79%**	**0.86%**	**1.10%**	**2.99%**	**6.84%**	**26.09%**
Sovereign Risk Premium	**3.22%**	**0.89%**	**1.27%**	**2.01%**	**2.77%**	**3.90%**
US 10 Year Yield	4.54%	4.54%	4.54%	4.54%	4.54%	4.54%
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

Figure 3: SA CPI Diffusion Index (based on the net number of categories above the CPI target)

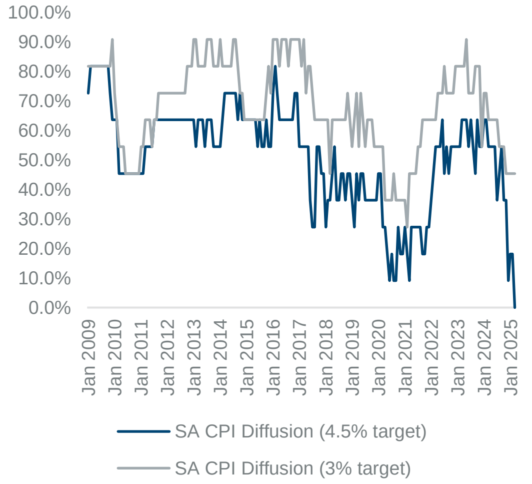
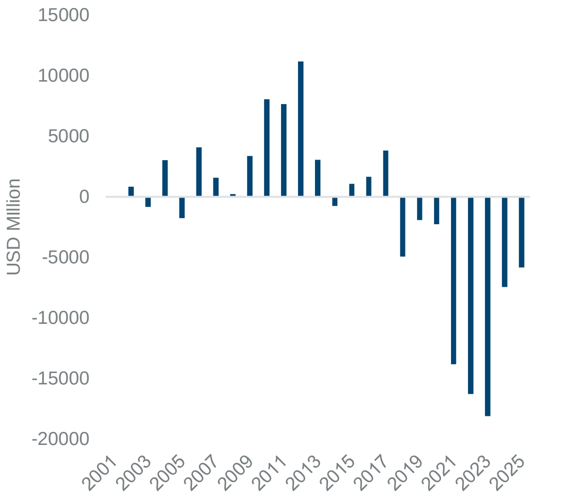


Figure 4: SA bond net sales to foreigners



Source: Bloomberg

While Trump's tariff policies certainly weighed on the global growth outlook, from the latest Citi Economic Surprise Indices and global manufacturing PMI data, emerging markets have marginally outperformed the developed markets. We do expect current trends to continue being supported by a weakening of the US dollar.

Figure 5: Citi Economic Surprises Indices – 20 day moving average

Figure 6: Global Manufacturing PMI

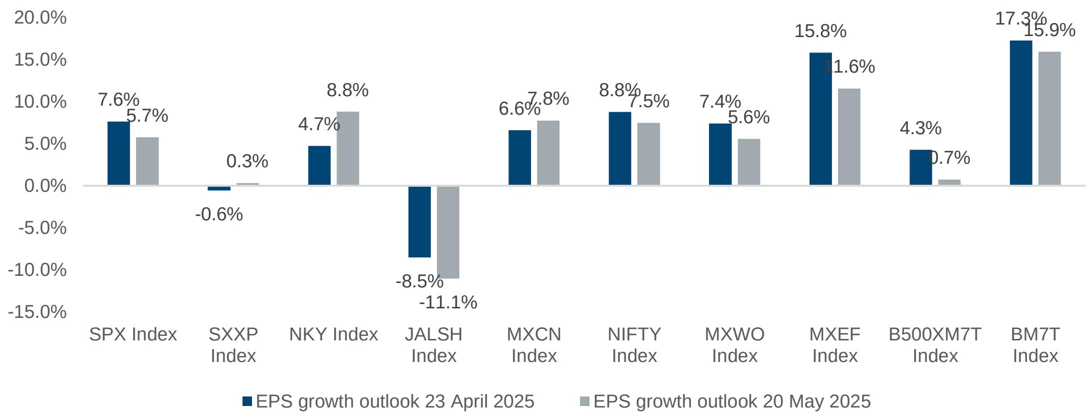
	Sept-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Global Manufacturing PMI	48.8	49.4	50	49.6	50.1	50.6	50.3	49.8
Developed Markets	47.5	48.1	48.4	48.2	49.3	50	49.1	49.1
Emerging Markets	49.8	50.6	51.6	50.9	50.8	51.2	51.3	50.5
Eurozone	45	46	45.2	45.1	46.6	47.6	48.6	49
France	44.6	44.5	43.1	41.9	45	45.8	48.5	48.7
Germany	40.6	43	43	42.5	45	46.5	48.3	48.4
Italy	48.3	46.9	44.5	46.2	46.3	47.4	46.6	49.3
Spain	53	54.5	53.1	53.3	50.9	49.7	49.5	48.1
Greece	50.3	51.2	50.9	53.2	52.8	52.6	55	53.2
Ireland	49.4	51.5	49.9	49.1	51.3	51.9	51.6	53
Australia	46.7	47.3	49.4	47.8	50.2	50.4	52.1	51.7
Sweden	51.3	53.1	53.7	52.4	52.9	53.5	53.6	54.2
UK	51.5	49.9	48	47	48.3	46.9	44.9	45.4
US	47.3	48.5	49.7	49.4	51.2	52.7	50.2	50.2
Japan	49.7	49.2	49	49.6	48.7	49	48.4	48.7
China	49.3	50.3	51.5	50.5	50.1	50.8	51.2	50.4
Indonesia	49.2	49.2	49.6	51.2	51.9	53.6	52.4	46.7
South Korea	48.3	48.3	50.6	49	50.3	49.9	49.1	47.5
Taiwan	50.8	50.2	51.5	52.7	51.1	51.5	49.8	47.8
India	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2
Brazil	53.2	52.9	52.3	50.4	50.7	53	51.8	50.3
Mexico	47.3	48.4	49.9	49.8	49.1	47.6	46.5	44.8
Russia	49.5	50.6	51.3	50.8	53.1	50.2	48.2	49.3
South Africa	52.8	52.6	48.1	46.2	45.3	44.7	48.7	44.7

Source: Bloomberg

We have maintained neutral positions in most of the other asset classes. Our base case is that there may be a technical recession in the US but not a proper recession as the latest labour market, real wage growth, household leverage and surveys suggest that US consumers have the ability to spend solidly, but their willingness has certainly tanked in the face of elevated trade and economic policy uncertainty. As we have seen over the past month, trade dynamics and

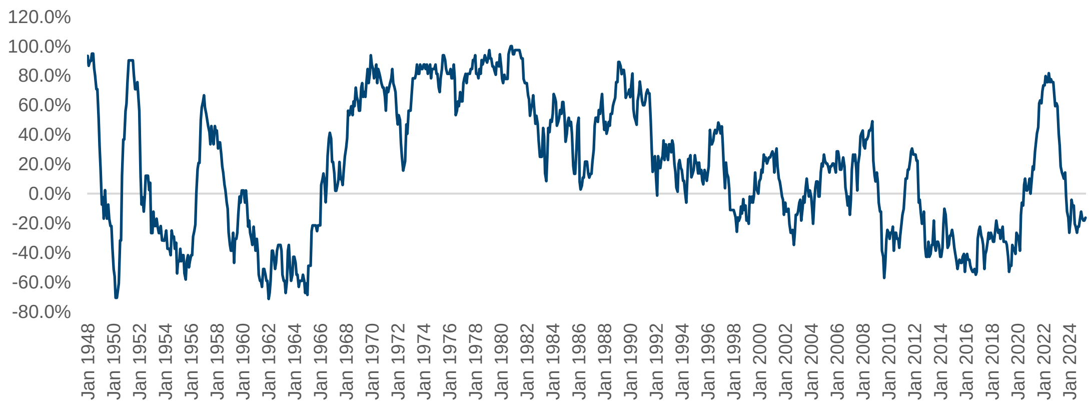
Trump's policy stances remain highly fluid and uncertain. We do expect that the pressure of the mid-term elections will increasingly weigh on him to reach trade deals soon and to moonwalk back some of his previous policies and threats. At the same time, with the US House having narrowly passed Trump's tax-cut bill, it is now the Senate's turn to review and potentially extensively rework the legislation, reconciling any changes made through negotiations between the two chambers. Regardless of the outcome, this legislation would be more pro-growth and would exert added pressure on the US fiscus. If trade deals can get done sooner without causing too much economic harm, corporates should be able to pass some of the tariff price effect onto US consumers. The Fed may keep the interest rate unchanged until there is more clarity about the impact of tariffs on inflation. Yet, given the limited pricing pressure from the inflation data to date and the moderated forward earnings-per-share growth priced in by the market, we do see that the overall backdrop is becoming increasingly conducive for global equity and increasingly bearish for global bonds.

Figure 7: Forward EPS growth



Source: Bloomberg

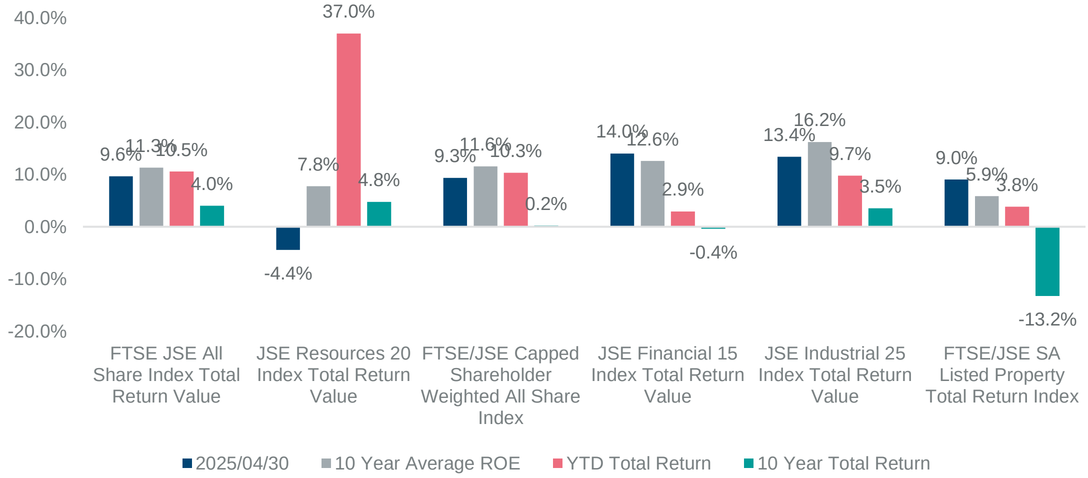
Figure 8: US Urban Consumers CPI Diffusion Index (based on the net number of categories above the CPI target)



Source: Bloomberg

We have maintained our neutral position in SA equity as we are concerned that a potential gold price correction may have the effect of denting the local resources sector. It is comforting to see some broader base rally as the performance of the financials and industrials sectors have also picked up recently. But given the poor quality of the resources index, depicted by the latest ROE of -4.4% (despite rallying by over 35% YTD), it still highlights the concentration risk in the local bourse.

Figure 9: SA equity indices ROE and performance



Source: Bloomberg

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