MENTENOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

19 June 2025

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We have moved from a moderately overweight position in SA bonds to neutral. We have decided to be at SAA for the month of July.

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 July 2025:

- We have chosen to be at SAA for July due to the significantly elevated uncertainty in the macro landscape. Our portfolio remains positioned to benefit from supportive liquidity conditions, while also mitigating downside risks associated with slower global growth and ongoing domestic policy challenges.

TAA overview

SA Bonds	Following our recent asset allocation review, incorporating the insights from both the June macro update and the tactical asset allocation discussion, we have reduced our overweight position in South African nominal bonds to neutral. This decision reflects a more measured stance given the recent decline in real yields, down by approximately 55 basis points, alongside a relative deterioration in SA bond attractiveness when compared to peers such as Brazil. While valuations remain broadly appealing, inflation dynamics are still supportive, monthly inflows also saw some improvement and SA bonds still offer meaningful income relative to local cash and foreign bonds, a number of factors – elevated geopolitical and US trade and economic policy risks, and a potential shift in global rate expectations – prompted a reassessment of risk-adjusted return prospects for this asset class and diminished their tactical appeal. Maintaining our strategic asset allocation framework, we believe a neutral stance on SA nominal bonds better aligns with current market dynamics and the broader macroeconomic outlook. This adjustment allows for greater flexibility in reallocating capital if more compelling opportunities arise, either in South Africa or globally.

Figure 2: Bond yields of selected EM countries

	South Africa	India	Indonesia	Mexico	Brazil	Turkey
10 Year Yield	**10.10%**	**6.34%**	**6.69%**	**9.27%**	**13.99%**	**33.43%**
Inflation	2.8%	2.8%	1.60%	4.4%	5.3%	35.4%
Inflation Expectation	3.40%	4.60%	2.00%	3.70%	5.30%	34.30%
10 Year Real Yield	**7.30%**	**3.52%**	**5.09%**	**4.85%**	**8.67%**	**-1.98%**
10 Year Real Yield based on inflation expectation	6.70%	1.74%	4.69%	5.57%	8.69%	-0.87%
Currency Risk Premium	**2.70%**	**1.16%**	**1.00%**	**3.02%**	**7.03%**	**25.05%**
Sovereign Risk Premium	**3.05%**	**0.82%**	**1.32%**	**1.88%**	**2.61%**	**4.02%**
US 10 Year Yield	4.36%	4.36%	4.36%	4.36%	4.36%	4.36%
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

Our neutral stance on South African equity remains intact, primarily due to concerns around valuation concentration and sector-specific vulnerabilities. While the broader equity market has shown some recovery, especially with industrials and financials offsetting the risks in the resource sector, we are cautious given the poor fundamentals in the resources index which has rallied over 35% YTD, despite reporting a negative aggregated ROE of -4.4%. The gold price, a key driver for local miners, remains at risk of correction, which could weigh heavily on the index. Although equity flows have worsened, the potential for continued dollar weakness and improving political clarity could support valuations longer term, but not sufficiently to induce a shift from our neutral position at this stage.

We are also remaining neutral on foreign equity. This decision reflects a convergence of downside risks and stretched valuations. The S&P 500 forward earnings growth has declined from 6% to 2%, while price multiples have expanded, despite weakening earnings momentum. At the same time, consumer sentiment remains weak, and volatility could increase as we near President Trump's 90-day tariff suspension expiry on 9 July. While household and corporate balance sheets are still sound, and medium-term catalysts such as tax cuts or deregulation may provide upside, these are not immediate. As such, we prefer to wait for a better entry point before re-engaging with conviction.

Foreign bonds remain at a neutral weight, reflecting an environment of conflicting forces. On the one hand, US 10-year yields have risen to around 4.4% and, together with the risks of slower global growth, have appeal. On the other hand, the diversification benefit of foreign bonds is also diminished due to the uncertain inflation outlook or increased risk of stagflation, worsening fiscal deficits, and US dollar and US treasury losing the appeal of safe haven assets. Given this backdrop, we do not find sufficient justification to either overweight or underweight the asset class for now and prefer to remain neutral until the global bond outlook becomes more directional.

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