HOUSEVIEW TACTICAL ASSET ALLOCATION

17 July 2025

HOUSEVIEW TACTICAL ASSET ALLOCATION

We have decided to remain at SAA for the month of August.

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 August 2025:

- In the current market environment, characterised by mixed macroeconomic signals, fading inflationary pressures and uneven growth momentum, we have opted to maintain our SAA positioning with neutral tactical allocation across all major asset classes. This stance reflects our balanced view on risks and opportunities, and the absence of high-conviction asymmetries in valuations, policy direction or sentiment.

TAA overview

The global economy appears to be entering a "Goldilocks" phase, or at least that is what markets are currently pricing in, characterised by easing inflation alongside resilient growth. Headline inflation has moderated to around 3.6% globally, though it remains above central bank targets in major developed economies such as the US, UK and Japan, with the US seeing a marginal pick-up from 2.4% to 2.7% due to sticky services inflation and less energy deflation. Negative surprise indices point to softening price pressures, particularly in goods, with China PPI (Producer Price Index) deflation having deepened. In the near term, China and Germany will likely continue to act as disinflationary forces in the global economy, with little evidence of a reversal in this trend any time soon. Recent targeted Chinese government interventions aimed at containing price wars in specific industries may prevent further deterioration, but the trend reversal is constrained by industrial overcapacity in that country.

Encouragingly, economic data has surprised to the upside in Europe, the UK, emerging markets and China, whereas growth momentum in the US and Japan softened slightly in June. Both global composite PMI and manufacturing data improved from 51.2 and 49.6 in May to 51.7 and 50.3 in June, respectively. The US leading indicator also hints at a potential reacceleration, with the US labour market relatively calm and real wage growth remaining positive. Furthermore, consumer sentiment rebounded modestly with softer inflation expectations, business activities continued to pick up and business leaders were still relatively optimistic about passing on the higher input prices. We did, however, observe a bit of weakness in the Q1 US productivity growth performance and an increase in the US labour cost over the same period.

Figure 1: Inflation in selected major economies

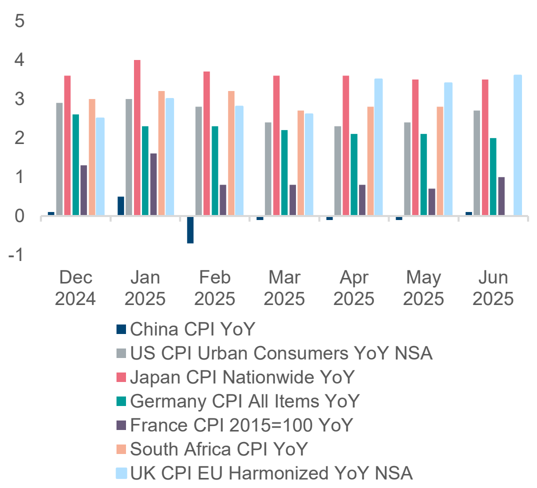


Figure 2: China and Germany PPI YoY

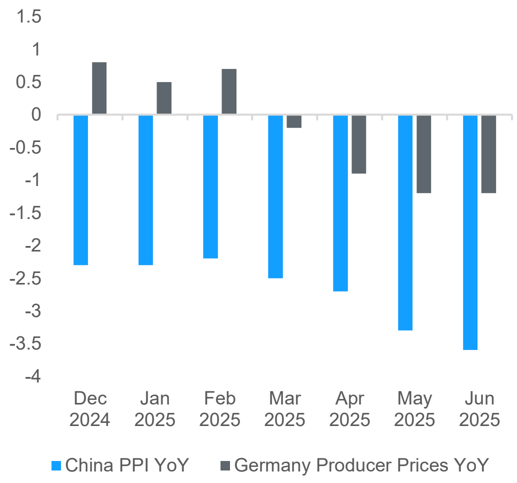


Figure 3: US Leading Indicator

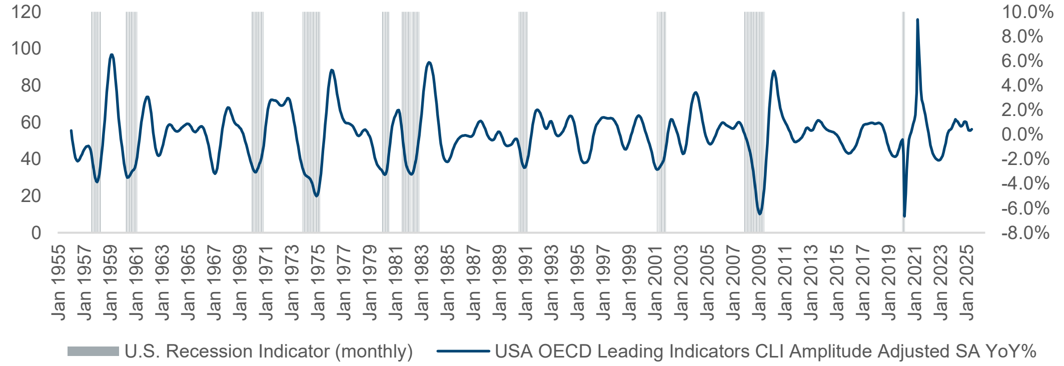
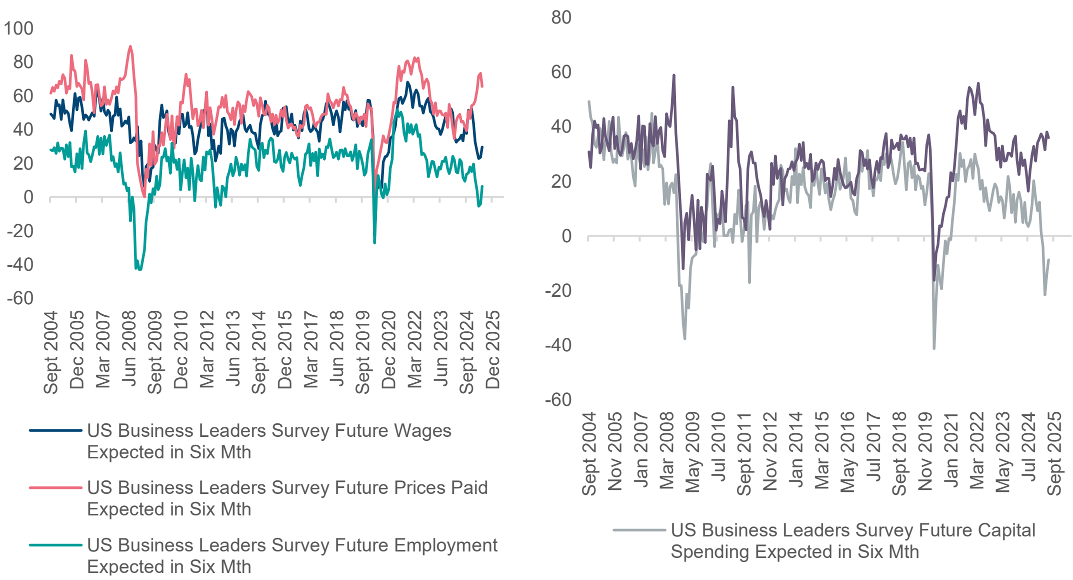


Figure 4: US Business Leaders Surveys



Source: Bloomberg

Investor sentiment also adopted a risk-on stance, with both the US fear and greed and US momentum factor rebounding as Trump's trade uncertainty subsided – although it is still at a high level. Also evident is a modest re-rating in Chinese equity markets, where the market is more optimistic about the ultimate impact of Trump's tariffs on the world's second-largest economy. While capital expenditure spending has been tempered by Trump's policy uncertainty, given the strong QoQ growth in Q1 (c.22% and c.8% in US private fixed investment in computers and peripheral equipment and non-financial business capital expenditure fixed investment), the improving sentiment and subsiding concerns may easily put US capital expenditure back on track.

The US Federal Reserve is expected to deliver two rate cuts by the end of the year, consistent with its forward guidance. Despite this anticipated easing, real yields remain elevated, signalling that financial conditions are not overly accommodative. The recent bear steepening of the US yield curve, driven by stronger growth prospects and fiscal concerns rather than recessionary fears, further reinforces this view. Crucially, inflation breakevens remain well anchored, indicating that markets are not overly concerned about inflation risks at present. This suggests that investors are treating recent tariff-related cost pressures as transitory. Accordingly, the market appears to be pricing in a scenario of lower inflation, close to central bank targets, but without a material slowdown in growth. However, for inflation to sustainably return to target, either growth would need to decelerate or inflation expectations would have to remain elevated, implying some tension in the current pricing in the US 10-year treasury bond. US government bonds account for c.40% of the WGBI Index, with the other c.33% and c.10% accounted for by the Eurozone (including the UK) and Japan, respectively. The interest rate outlook diverges across regions. The ECB has begun cutting rates amid easing inflation amid weak growth, with one more cut likely in 2025. However, sticky services inflation and moderately expansionary fiscal policy, driven by green, digital and defence spending, could slow the pace of easing. In the UK, the Bank of England is expected to cut once later this year, but strong wage growth and persistent inflation make it more cautious. In Japan, the BoJ has exited negative rates and begun gradual tightening, though further hikes will be measured as inflation stabilises and domestic demand remains subdued.

Taken together, with the leading indicators suggesting the potential for renewed US economic expansion, the risk of further delayed rate cuts due to sticky inflation and rising global public debt, the scope for a meaningful upside in offshore bonds appears limited. From a valuation perspective, no asset class stands out as materially cheap or expensive. The correlation between equities and bonds has hovered near zero, enhancing diversification benefits but offering little guidance on valuation-driven tilts.

Domestically, South Africa continues to grapple with structural constraints. GDP growth was anaemic in Q1 2025, expanding just 0.1% QoQ, and both consumer and business sentiment remain fragile. The impact of Trump's tariffs may further weigh on growth this year. Although inflation remained steady at 2.8% in May, placing it in the lower band of the 3–6% target range, the South African Reserve Bank's potential move to a formal 3% inflation target introduces fresh uncertainty into the monetary policy outlook.

South African bonds continue to screen attractively on a real yield basis and the perceived currency risk has eased somewhat, but global investors' appetite remains subdued, with worsening net flows (for both equity and bonds) over the past month. Some offshore investors even expressed the view that should the GNU break up, they would take that as a signal to completely exit from SA markets. Meanwhile, South African equities have posted a solid rally, though gains remain narrow and very concentrated, and structural growth concerns persist. Overall, valuations remain broadly supportive. USD weakness may also provide some support for emerging market assets, but the lack of strong upside growth catalysts tempers our expectations. In our view, unless there is a meaningful improvement in growth and a stronger showing from SA Inc counters, current valuations could come under pressure, particularly if commodity prices retreat. This leaves some scope for a potential downside, and the valuation discount between SA and US equity will not meaningfully recover any time soon. As such, we see no compelling case to make tactical shifts.

In sum, the macro environment is neither strong enough to warrant a pro-growth tilt, nor fragile enough to justify defensive positioning. Valuations are fair, policy direction remains clouded by uncertainty, and investor positioning is balanced. Given this confluence of factors, we believe the prudent course of action is to maintain a neutral stance across asset classes, preserving flexibility while awaiting more compelling signals to adjust our portfolio allocations.

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

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