MENTENOVA

HOUSEVIEW TACTICAL ASSET ALLOCATION

21 August 2025

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

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 September 2025:

- Across asset classes, the picture is finely balanced, justifying a neutral stance. Foreign markets benefit from stronger earnings and policy support, but valuations and fiscal risks temper optimism. South Africa offers attractive valuations and yield, yet domestic growth and fiscal constraints remain binding challenges. The rand is supported tactically by global conditions, but structural vulnerabilities limit the scope for durable gains. In this environment, staying neutral allows flexibility while awaiting clearer directional signals.

TAA overview

Global growth surprised to the upside in July, supported by a resilient services sector, even as manufacturing slipped slightly into contraction. Global inflation steadied at around 3.6% in July, with UK CPI rising from 3.6% to 3.8% and US CPI nudging higher on tariff effects, though still well anchored. Stable oil prices and continued deflation in China's and Germany's producer prices (-3.6% and -1.5% respectively in July) helped contain price pressures. In the US, growth showed signs of slowing, reflected in a softer labour market, but with no imminent risk of recession. Inflationary effects from tariffs appear transitory, and the US economy remains in the midst of a rate-cutting cycle. Against this backdrop, Trump's completed and ongoing trade deals, his One Big Beautiful Bill Act providing a short-term, uneven boost to growth, and a generally lower level of geopolitical risk all contributed to a "risk-on" environment and stronger investor appetite for risk.

In global markets, US equities delivered strong Q2 earnings and maintained momentum. However, ETF inflows into developed market equities slowed significantly following July's strong performance, while fixed income flows remained largely flat. Emerging market inflows have partially reversed, with sentiment cooling on equities but remaining positive for debt.

In South Africa, foreign investment in both bonds and equities weakened over the past month, reflecting a decline in competitiveness relative to other emerging market peers. The rand (ZAR) weakened by 2.9% in July but strengthened by 3.3% in early August. This net positive translation effect, combined with robust SA equity performance in August, contributed to an overall outperformance relative to foreign equities. Over the past two months, both nominal and inflation-linked South African bonds outperformed the FTSE World Government Bond Index (WGBI) in local currency and ZAR terms.

Meanwhile, Chinese equities, as measured by the Shanghai Shenzhen CSI 300 Index, rallied by 9.8% month-to-date in August following a 4.3% gain in July, signalling early signs of improved risk appetite. Institutional investors have been encouraged and some have structurally rotated from fixed income into equity-type investments by the combination of factors: a supportive low-interest-rate environment, an improving macroeconomic narrative, strong equity market performance, and the reintroduction of a Value-Added Tax (VAT) on interest income from newly issued government and financial bonds (effective 8 August 2025), prompting a reassessment of fixed-income portfolios. For retail investors, non-banking deposits are on the rise. The sustainability of the current bull rally will depend on retail participation and whether the earnings outlook shows a meaningful turnaround.

Figure 1: US Fear and Greed Index

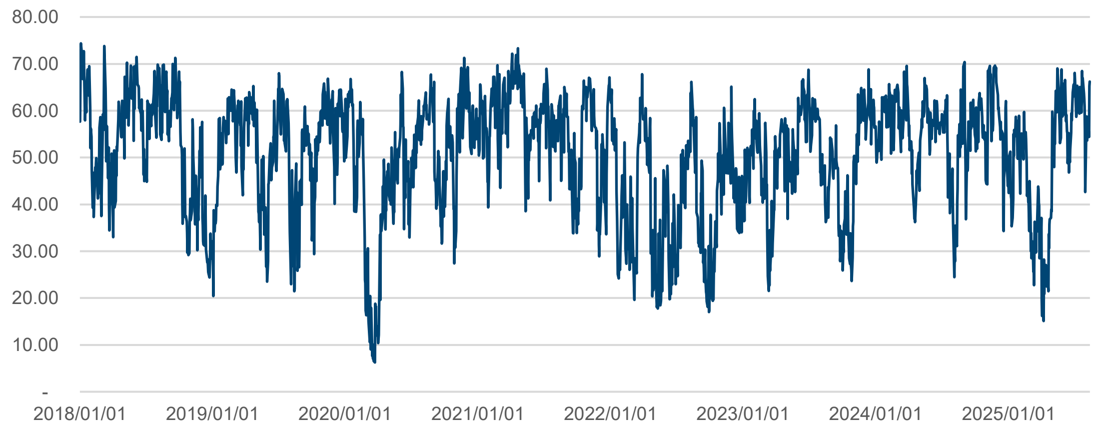


Figure 2: China yuan deposits – Non-banking deposits YoY

Source: Bloomberg

We maintained our tactical asset allocation at neutral, due to a lack of major dislocations in most asset classes, even though we do have a relatively favourable view for SA ILB and the ZAR. Here are some of our main views and discussion points:

South African Equity

South African equities remain attractively priced, trading at a notable discount to global peers. Market performance has broadened beyond a few resource stocks, while firm gold prices, with less correction risk, continue to provide support. In addition, South Africa is likely to be removed from the greylist in October.

However, the domestic backdrop is challenging. Consumer spending is slowing, unemployment remains persistently high, and the country has limited capacity to cushion the impact of the 30% US tariff on South African goods, an effect that will vary across industries. While private sector ingenuity has produced some standout successes, South Africa overall remains less competitive than other emerging markets due to public-sector shortcomings and potential trade risks tied to foreign policy. As a result, South African assets are likely to benefit less than their EM peers from a weaker dollar.

Figure 3: GDP growth differential between emerging and developed markets

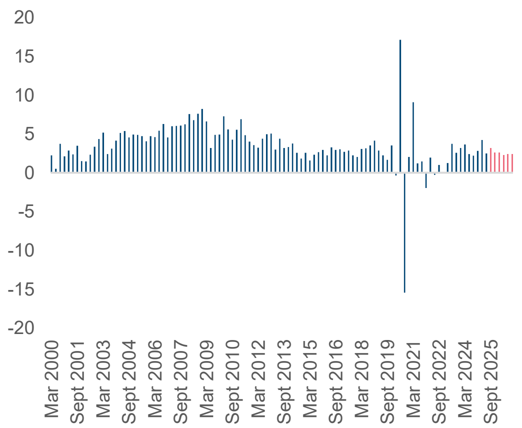
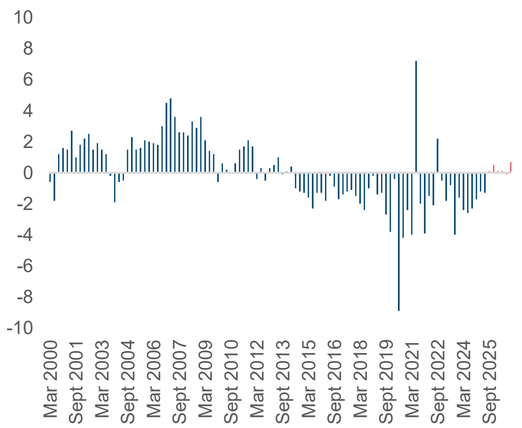


Figure 4: GDP growth differential between SA and US



Source: Bloomberg, blue: actual, red: estimates based on Bloomberg survey of economists

Figure 5: GDP growth differential between SA and emerging markets

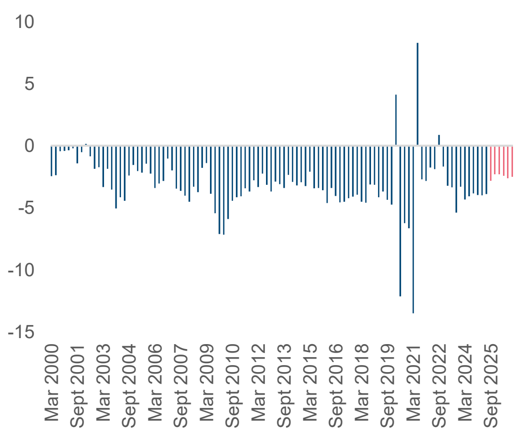
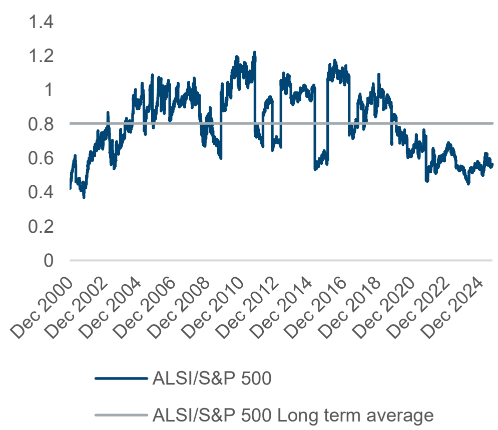


Figure 6: ALSI and S&P 500 PE ratio differential



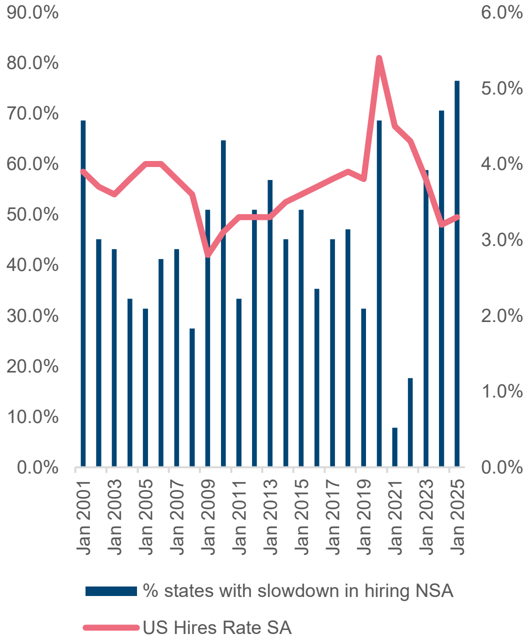
Source: Bloomberg, blue: actual, red: estimates based on Bloomberg survey of economists

South African Bonds

Local bonds continue to offer yield attractiveness (despite narrowing) relative to cash and global peers, and the SARB may still deliver one further rate cut this year if upside inflationary risk is contained. The rand's relative stability against the dollar also helps anchor foreign investor sentiment. Yet the recovery in flows seen in May to July has already lost steam, with fiscal risks and structural growth constraints remaining a clear overhang. Compared with other EMs, South African bonds carry a higher political and fiscal risk premium which limits competitiveness. The inflation-linked bonds are looking increasingly attractive as their current yield increased to above that of the implied real yield, with the short end of the curve much more attractive from a breakeven inflation perspective. The inflation-linked index has a materially longer duration (c.6 years vs c.10 years) relative to the nominal bonds, which may benefit more from further rate cuts.

Figure 7: Current 10-year inflation linked Bond yield vs implied real yield

Figure 8: US hiring rate



Source: Bloomberg

Foreign Equity

Global equities remain supported by strong US corporate earnings, resilient leadership in technology and AI, ample liquidity, productivity gains and moderating labour costs, all of which underpin continued risk-on investor sentiment, even as US growth shows signs of slowing due to fiscal tightening. Services activity has held up better than expected, while capital expenditure in AI and digitalisation remains robust, reinforcing near-term momentum. However, elevated valuations, particularly in US markets, signal weaker long-term return prospects despite the possibility of a near-term bubble. At the same time, a softening labour market and rising delinquency rates suggest lower-income household vulnerability, while tariff uncertainty adds to downside risks.

Figure 9: US private fixed investment in computers and peripheral equipment

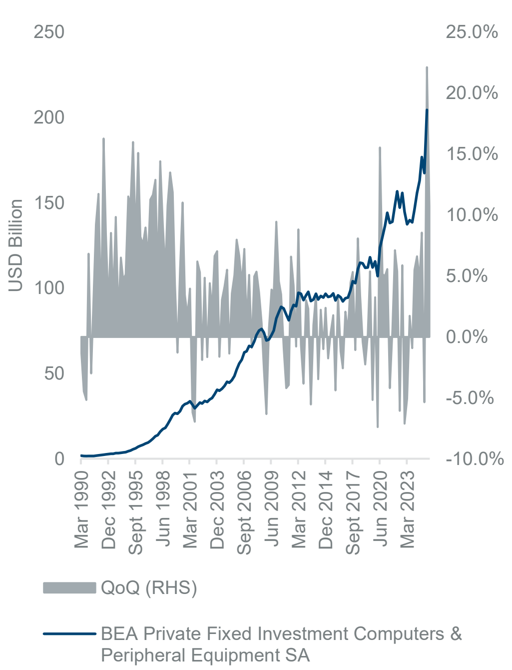
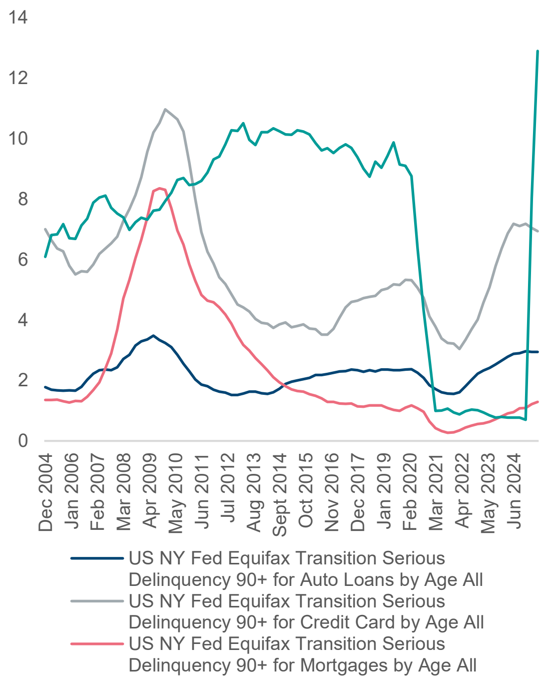


Figure 10: US 90 day + delinquency rates



Source: Bloomberg

Foreign Bonds

Developed market bonds remain relatively appealing, offering attractive spreads versus equities at a time when inflation expectations are well anchored. A widely anticipated Fed rate cut in September would be supportive of duration, while liquidity conditions remain accommodative. That said, the term premium remains elevated due to persistent US fiscal concerns as the consensus view is that Trump's One Big Beautiful Bill Act may boost short-term growth but increase long-term fiscal risk, and any renewed policy or trade uncertainty could inject volatility. Given the limited recession risk in the US (one cannot rule out a technical one), the upside for US treasury seems to be capped; it may not be able to offset the negative translation effect from a USD depreciation which is one of the top agenda items of Trump's newly nominated Fed governor, Stephen Miran, for SA investors.

MENTENOVA

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