September 2025

Monthly Houseview Tactical Asset Allocation

We have decided to adopt a moderately overweight position in SA equity for the month of October, funded by 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 October 2025:

- We are maintaining a relatively neutral stance but have moved to a moderately overweight position in SA equity as we believe it will continue to outperform cash and offshore equity on the basis of attractive valuations, dollar weakness, structural support for gold and removal from the greylisting later this year, which may also drive the recovery of foreign investors' appetite for SA assets.
- For offshore assets, we prefer equity over bonds, but we do still regard dollar weakness as a headwind and hence have stayed neutral.
- While the market has been overly bearish on the dollar, which may introduce some volatility over the near term, especially the risk that the preventative cut by the Fed will induce a recovery in US economic growth, we do believe that the longer trend of dollar weakness will prevail as central banks continue to diversify USD-denominated foreign exchange reserves and USD devaluation is one of the Trump's administration's top agenda items.

TAA overview

Recent data shows that US inflation has edged higher to 2.9%, while the US labour market continues to soften. US economic growth was weak in the first quarter of 2025, with GDP contracting by 0.5%, but this was followed by a sharp rebound to an annualised 3.3% in the second quarter. Against this backdrop, the Federal Reserve has revised its 2025 GDP forecast upwards from 1.4% in June to 1.6% while keeping its estimate of the unemployment and inflation rates unchanged from June's projections. The Fed's recent rate cuts should be seen primarily as preventative measures, aimed at supporting weaker labour conditions and stabilising fiscal financing conditions, rather than responding to acute weakness. The current target range for the federal funds rate is 4.00–4.25%, while FOMC projections point to a median of 3.6% for 2025 and 3.4% for 2026. This suggests there is scope for another two cuts this year, in line with what is priced in by the interest rate futures market. The OIS market is already pricing in an interest rate decline to 2.8% by the end of 2026. Risks remain that if US growth picks up or the labour market stabilises, the Fed could pause earlier than expected. December's policy meeting may prove to be pivotal, with potential for a surprise adjustment. The scheduled appointment of a new

Fed Chair in May 2026 also adds uncertainty to the outlook for policy independence. Overall, the balance of evidence still favours further easing, although not to an excessive degree.

From an asset allocation perspective, the environment continues to favour equities over bonds, with scope for US dollar weakness. However, Trump's current tariff stance could lend support to the dollar in the near term, suggesting a volatile path ahead, but the overall trend should remain intact. In this setting, we prefer to be overweight in SA equities.

South African equities present a nuanced picture. Valuation remains attractive. In the near term, the gold price outlook is supported by a weak US dollar, expected Fed rate cuts and the diversification of foreign exchange reserves, despite near-term correction risk. Continued goods deflation in China and Germany is helping to lower import costs, which should benefit South African consumers given the limited overlap between South Africa's export profile and those economies. Removal from the greylisting by the Financial Action Task Force (FATF) later this year could drive inflows, as we have yet to see the recovery of foreign investors' net inflows for SA assets. However, structural challenges will persist over the medium to long term. South Africa continues to struggle with extremely high unemployment and poor educational outcomes, ranking 125th out of 137 countries for labour market flexibility, according to the World Economic Forum. These factors constrain the country's long-term competitiveness relative to other emerging markets and make it harder to sustain a positive growth differential against developed economies such as the United States. Despite these headwinds, the tactical asset allocation remains in favour of an overweight position in South African equities over the next three-month horizon.

Regarding fixed income, local bonds and inflation-linked bonds remain well supported in valuation terms. However, despite falling inflation, which eased from 3.5% in July to 3.3% in August, and dovish guidance from the Fed, the SARB's Monetary Policy Committee (MPC) decided to keep the repo rate unchanged at 7.0% at their latest (September) meeting, underscoring the SARB's commitment to anchoring inflation at the lower end of the 3–6% target range. This suggests a potentially slower pace of easing, unless inflation dynamics improve significantly. We do see that the bullish precious metal prices and the resilient performance of mining companies should provide something of a tax windfall to fund fiscal spending, easing debt sustainability in the near term, despite medium- to long-term structural challenges. The Medium-Term Budget Policy Statement will be released in October. For now, we retain our neutral stance on local fixed income.

South African property has seen some renewed institutional interest, with improving vacancy rates and growing offshore exposure, such as in Spain. At current valuations, selective opportunities exist, although offshore assets may offer a broader set of opportunities and better valuations.

Among offshore equities, Japan offers a potential upside following a change in leadership that has introduced a more dovish policy outlook. In China, the macroeconomic narrative and risk appetite have improved somewhat, but structural weaknesses remain, including youth unemployment that is above 18%, a weak property sector, overcapacity in some industrial sectors and entrenched social imbalances. While the government is attempting to shift towards consumption-led growth, progress is likely to be gradual. In the United States, the labour market continues to weaken, although the services sector, particularly healthcare, education and

	hospitality, remains more resilient than construction, manufacturing and trade. The housing market remains constrained by high interest rates, limiting supply. Importantly, capital expenditure on AI-related technology remains robust, pointing to structural growth drivers independent of Fed policy. Productivity gains and easing labour costs in the second quarter provide further support for corporate earnings over the short term, even as tariffs weigh unevenly across supply chains. Valuations remain frothy, and while we expect offshore equity to outperform bonds, given the current macro backdrop and a potential upside risk to growth, dollar weakness remains a headwind. Hence, we have opted to maintain a neutral position in offshore equity. Global bonds remain attractive on a yield-spread basis, but fiscal concerns and limited diversification benefits reduce their appeal as portfolio hedges. We are therefore also maintaining a neutral stance in global bonds.

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