

We have decided to move to an all neutral position for the TAA.

**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 March 2026:

We have moved from a moderately overweight position in SA equity to neutral. While we believe that SA equity still has room to outperform local cash on the basis of improving sentiment, ample global liquidity, structural support for gold and the sustained recovery of foreign investors’ appetite for EM and SA assets (amid dollar weakness and the need for geographical diversification), after the recent rally, valuation is no longer that compelling. Also, the domestic equity market is becoming increasingly reliant on the commodity-driven value cycle, which is vulnerable to some degree of correction should the geopolitical risk subside and sentiment reverse.

## TAA overview

January was a month in which most equity markets delivered positive returns, with the MSCI Emerging Markets Index posted strong gains of 8.9%, outperforming the MSCI World Index, which was up by 2.3%. Korea, Taiwan and Brazil were some of the top performers, driven by strong global demand for AI-related memory technology, government-led shareholder reforms, a weaker dollar and easing inflationary pressure. The South African equity market lagged the emerging market benchmark as, although the precious metal rally was the main driver of its stellar performance last year and into this year, wild volatility was witnessed in the last two weeks of January. Foreign assets in general underperformed against domestic assets in ZAR terms for the year to date due to rand appreciation, although the exception was foreign property which delivered 5.8%, driven by supportive policy measures, improving economic fundamentals, sector rotation and structural demand in specific property segments, such as data centres, storage and healthcare.

On a macro level, global growth has continued to surprise on the upside in early 2026, defying earlier market expectations of a sharper slowdown. The US economy, in particular, has exceeded its previously dampened outlook, supported by resilient domestic demand, ongoing fiscal stimulus and a broadening AI-driven earnings recovery. This “Goldilocks” mix of steady growth and moderating inflation has sustained net inflows into US assets, with investors diversifying beyond the Magnificent 7 into cyclical sectors, while also maintaining allocations to fixed income for



safety's sake. In contrast, China remains constrained by persistent structural headwinds. Factory activity has slipped back into contraction, retail sales have declined by 0.9% and foreign direct investment has become more selective, favouring high-tech and policy-aligned strategic industries. Significant capital outflows and investor impatience over the lack of aggressive fiscal support have reinforced asset rotation away from China.

On the inflation front, global price pressures continue to moderate, with headline inflation easing towards 3.3% and downside surprises emerging in recent data. However, central banks are starting to worry that resilient growth may slow the disinflation process and therefore encourage some of the major central banks to keep rates on hold. The Federal Reserve maintained its policy rate at 3.5%–3.75% in January 2026, following cuts in late 2025, and is widely expected to implement rate cuts in the second half of this year amid leadership transition uncertainty and inflation still above its target level. The European Central Bank has also kept rates steady at 2.0%, balancing deflationary pressure from a strong euro against uncertain fiscal stimulus timing. The South African Reserve Bank held the repo rate at 6.75%, with models suggesting gradual easing towards 6.25%–6.5% by year end, although administered prices, food inflation and the anchoring of the new 3% inflation target remain key risks. In contrast, the Bank of Japan continues to normalise policy, with further hikes expected amid currency weakness, fiscal expansion and rising long-term bond yields.

Financial conditions in the US remain looser than average, with credit still accessible and lending standards broadly consistent with this stage of the cycle, despite reduced expectations for additional rate cuts. Global economic activity continues to expand, although industrial production growth has weakened across several major economies. US manufacturing sentiment has improved, with production outlook indices rising and non-farm payrolls exceeding expectations, suggesting some stabilisation in the labour market. US consumer sentiment remains subdued but has shown modest improvement as concerns of labour insecurity and inflation overhangs abate, while housing activity is experiencing a fragile recovery as mortgage rates stabilise. Close to 50% of consumer spending in the US is driven by the top 10% income earners, while the bottom 80% income earners contribute 35%. This indicates that while some population groups benefit from the wealth effect from elevated equity markets, the impact of this and AI on jobs is being felt increasingly unevenly among consumers. While developed markets are faced with elevated government debt levels and the rising cost of servicing debt, there are some promising signs of recovery in emerging markets, such as South Africa, supported by the recent year's commodity price rally, improving business activity and domestic demand.

From a TAA perspective, our base case for 2026 remains moderately constructive on risk assets, with a relative tilt towards South Africa. This view is supported by a still-benign global growth backdrop, accommodative liquidity conditions and ongoing fiscal policy support. However, valuations across several major markets are elevated, and investors are not being sufficiently compensated for assuming additional risk. The potential re-pricing of rate-cut expectations remains a key vulnerability, particularly if inflation proves to be stickier than expected or growth re-accelerates, even though sentiment and capital flows may continue to underpin emerging markets or selected sectors in the near term.

The S&P 500 Index is gradually becoming less top-heavy as earnings dispersion broadens and leadership rotates away from concentrated mega-cap growth towards value and cyclical sectors. That said, companies are running out of room for disappointment. Even solid earnings results are being met with scepticism, as forward guidance softens and expectations build around an



earnings-per-share slowdown. This suggests that markets are transitioning from a phase driven by multiple expansion to one that is far more sensitive to the quality and sustainability of earnings.

In South Africa, the FTSE/JSE All Share Index (ALSI) has been driven largely by the commodity-linked value cycle, particularly resources. Elevated premiums in mining and industrial metals have supported returns. However, this concentration introduces crowding risk and increases vulnerability to a sharp correction should commodity prices soften. Compared with last year, when asset class performance was predominantly driven by the macro backdrop, 2026 is shaping up to be a year in which sector and style allocations are likely to play a more instrumental role.

Given the wide spectrum of potential near-term outcomes, and the asymmetry of risks embedded in current valuations, we have elected to adopt a more neutral overall stance. Preserving optionality allows us to deploy capital more decisively when higher-conviction opportunities emerge.

## Main Asset Classes

### SA Bonds – Neutral

The spread between the current 10-year nominal bond yield and its implied yield continued to narrow over the past month, with the current yield sitting within close range of the long-term implied yield. The hedged yield spread vs the US 10-year treasury also narrowed further from 1.43% to 1.14% over the same period. Strong budget and fiscal stabilisation, calm inflation and further credit rating upgrade potential could certainly drive further yield compression, and there are early signs of an improving appetite from foreign investors. However, at a 10-year real yield of around 4.5%, SA is facing competition for flows from other emerging market peers, such as Brazil. We chose to stay neutral due to limited short-term upside from these valuation levels.

### SA Inflation-Linked Bonds – Neutral

The 10-year ILB is suggesting that it is trading at a slight premium to the implied real yield. While food prices, driven by weather impacts and foot-and-mouth disease, are a major upside inflation risk, with the crude oil price staying range-bound close to US\$65 per barrel and the ZAR strengthening against the US dollar, our base case is for headline inflation to remain below 4%. Overall, this asset class is relatively fairly valued.

### SA Listed Property – Neutral

After a strong performance in 2025, there is limited scope for a further significant upside this year from current valuations as the price-to-tangible book value recovers to the early 2018 level. Income rather than re-rating is expected to be the key driver of this asset class this year. Should the SA inflation rate remain comfortably below 4%, more rate cuts could take place. The Fed is likely to push out further rate cuts. While the SARB does not mechanically follow the Fed, its policy decisions are often influenced by US rate moves, particularly given the implications for capital flows and the rand. As a result, the SARB could also delay further rate cuts. Tepid SA economic growth, high operating costs and vulnerable consumers could negatively affect rental growth potential, especially in the retail sector. Therefore, we chose to remain neutral.

### SA Equity – Neutral (from Moderately Overweight)

From a relative valuation perspective, the recent rally has dampened its attractiveness. However, we remain positive about this asset class based on solid sentiment, improving (albeit below-trend)



domestic growth, a steady currency, ample global liquidity and a benign global growth backdrop. However, the index is c.34% exposed to the resources sector. While PGM prices may be underpinned by industrial demand, gold is increasingly becoming a sentiment trade. There is still structural support for gold as investors and central banks seek diversification, with likely Fed rate cuts in the second half of this year providing further support, but the risk is certainly building up at this level. Should Russia and Ukraine reach a peace deal by June, that would be a negative catalyst for this asset class. One of the positive signs is a broadening of the domestic market rally for the YTD, with some SA corporations – such as banks, insurers, telecoms and construction entities – having outperformed. Should net inflows from foreign investors continue to improve, this could drive further momentum. However, on the balance of risks of uneven outcomes and what have been priced in, while our view is positive, our conviction is not strong enough to maintain a moderate overweight position.

#### **Foreign Cash – Neutral**

The USD valuation remains elevated after the 2025 pullback, but at the same time, the rand has also seen a near-term overshoot, as suggested by the real effective exchange rates and underlying macro drivers. While fiscal stabilisation and encouraging signs of progress from some of the reforms, such as in the logistics space, would justify the overshoot to some extent, near-term risks appear more balanced.

#### **Foreign Bonds – Neutral**

We chose to remain neutral on US treasuries given the benign global growth backdrop, a limited recession risk in the US, additional fiscal stimulus, elevated budget deficits across developed markets and net issuance, and most central banks may enter a period of pause given near-term upside inflation worries. While the Fed is still expected to cut rates when the new Fed chair takes office in May this year, the candidate is yet to be confirmed. Trump's current nominee, Kevin Warsh, is one of more hawkish of the potential candidates. Correlations between the MSCI ACWI and the WGBI have also been positive, limiting foreign bonds' diversification benefits as central banks shift their focus to inflation rather than potential growth shocks.

#### **Foreign Equity – Neutral**

From a TAA perspective, we have kept our views unchanged from last month, choosing to remain at neutral. While we still favour equities over fixed income and believe that strong corporate earnings, accommodative monetary and fiscal policies, and stabilisation in the US labour market will provide some support, elevated valuations and concentration in US mega-cap growth stocks pose a downside risk. Sector rotations could support broadening but also potential sideways movements in the near term.

#### **Foreign Property – Neutral**

Global property remains relatively attractive over broader global equities from a valuation perspective, but more expensive compared to global bonds or, more specifically, US treasuries. Inflation rate concerns and potential re-pricing of interest rate cuts could pose some near-term risk.