

We have decided to maintain 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 April 2026:

Our view remains unchanged from last month: stay neutral across all asset classes, reflecting heightened uncertainty driven by the Iran conflict and its implications for inflation, interest rates, global growth and risk sentiment. While valuations, particularly of SA nominal bonds and selected risk assets, have improved, flows have turned cautious and markets have partially priced in these risks. Elevated and potentially persistent inflation, alongside the risk of higher-for-longer rates, continues to weigh on both domestic and global assets. Although underlying fundamentals remain broadly supportive, especially for equities, near-term volatility is likely to persist, and we prefer to stay neutral with flexibility to increase risk exposure should more attractive opportunities arise.

## TAA overview

Global equities gained in February, with the US largely underperforming non-US markets. Investors continued to rotate away from large-cap technology stocks amid concerns over AI-related spending and uncertain returns. Value stocks outperformed in growth terms, reflecting a preference for companies with steadier earnings and moderate valuations. Eurozone and UK markets experienced gains, supported by economic stabilisation signals and rotation from US equities, although some sectors like financials and software faced pressure from AI-disruption fears. Japanese equities rose sharply following a decisive election outcome for the ruling party, boosting confidence in pro-growth policies, while broader emerging markets, led by Korea and Taiwan outperformed, though China lagged. SA equities also did well in February, up by 7.0%, as precious metals continued to gain and the local equity market buoyed by upbeat sentiment. Most of the fixed-income indices also delivered positive returns for the month, driven by an easing or calm inflation outlook, supporting continued rate cuts this year. Listed properties also experienced a good rally in February, driven by a resilient growth backdrop, supportive fundamentals and largely accommodative monetary policies. The rand continued to gain against other major currencies, supported by a welcomed budget, strong terms of trade and a promising fiscal consolidation outlook, together with upbeat sentiment and early signs of improved net investment inflows.



However, on the last day of February, the US and Israel launched surprise air strikes across Iran, killing its Supreme Leader Ali Khamenei and other high-ranking officials, leading to a significant spike in geopolitical risk in the region. Oil and commodity prices initially surged in early March in the wake of the escalation of the Middle East conflict but stabilised early in the second week of March on a contained-disruption outlook. Soon afterwards, however, as uncertainty mounted over the severity and duration of the war, markets started to price in further downside risks of potential energy-supply shocks, a broader escalation of the war in the region, and potentially tighter financial conditions and subdued global growth. Heightened volatility persists as markets seek conviction on the trajectory and impact of emerging outcomes, particularly in the face of conflicting signals and constantly changing narratives about ceasefire talks.

On a macro level, pre-conflict global growth continued to beat market expectations. The US leading indicator also suggests continued US economic expansion. Robust demand drove synchronised global recovery in the manufacturing sector and solidified continued expansion of the services sector. Retail sales and consumer confidence across major economies also showed some marginal improvement, while affordability remains a key issue in the US. Business activities fared better than expected, with a cautiously stable outlook. SA business confidence was boosted in February by a market-friendly budget speech and recovering domestic demand and business activity. Global industrial production data weakened, though, and could be further weighed down by ongoing instability in the Strait of Hormuz, hurting shipping activity and adding to input costs. Corporate earnings were sound and steady leading up to the Iran war, although the net number of S&P 500 companies issuing positive financial outlooks has turned negative as the war has dragged on, stoking stagflation fears, while cost-push inflation remains a concern. For now, the market was still displaying confidence in February, with an anchored-inflation outlook. Corporate spreads have widened modestly as investors have demanded more compensation for holding riskier debt. A private credit fallout also seems to have been contained, with limited systemic risk.

Market sentiment has turned to extreme risk-off due to geopolitical risk, energy price shocks and shifting monetary policy expectations. Judging from the FRA rate curves, the market is pricing in one rate cut by the Fed but no rate cuts by the SARB and ECB. Based on the latest in-house research on the impact of the oil price spike on transportation, the near-term impact on global GDP growth is very limited, and the impact on SA inflation ranges from 10bps to 20bps. If we take into account the secondary impact of the higher oil price on other goods and services categories, and depending on the extent of the oil price increase (20–120%), we could expect the yearly SA inflation rate to be up by 14bps to 131bps. The most recent example is 2022 when the USD/ZAR was trading at a similar range to the current level, with year-on-year oil price movements of 50–70%. This pushed yearly inflation into the 6–7% range, exacerbated by the Russian–Ukraine war impact on global oil, energy, fertiliser and food prices. While the Iran war could end tomorrow, as more oil and LNG infrastructure is damaged amid air/drone strikes, it could have an impact on the energy market for some years to come.

From a TAA perspective, if there is a quick de-escalation of the war, we believe that our base case for 2026 – of a moderately constructive view on risk assets with a relative tilt towards South Africa – will remain intact. However, it is important to note that the market was complacent in its pre-conflict positioning by under-pricing risk. It is extremely difficult to predict the exact outcome of the Middle East conflict. While there could be an upside to equities at the current level, protracted energy-supply disruptions is a risk that cannot be ignored. Cost-push inflation certainly makes global bonds less favourable but if yields increase further, this also poses a valuation risk to equities. Given the fluidity of the Middle East situation and the wide range of potential near-term



outcomes, as well as the asymmetry of risks embedded in current valuations, we have elected to maintain a more neutral stance overall, looking for opportunities to ramp up risky asset exposures when higher-conviction opportunities emerge.

## Main Asset Classes

### SA Bonds – Neutral

From a valuation perspective, South African nominal bonds have become more attractive. They are currently offering a real yield of c.5.0%, with the gap between actual and implied yields widening. In addition, nominal bonds provide a roughly 100bps real-yield premium over SA inflation-linked bonds (ILBs). On a global relative basis, the hedged-yield spread versus the US 10-year Treasury has also widened from 1.14% to 1.42%. However, while the SA–US 10-year nominal yield differential spiked to around 4.40%, it remains below its long-term average. In addition, the Brazilian 10-year bonds are offering nearly double the real yield of South African equivalents.

Earlier in February, sentiment was supported by a strong budget, signs of fiscal stabilisation and the potential for further credit-rating upgrades. However, year-to-date net flows have shifted from positive to negative over the past month, as investors have moved into a risk-off stance, driven by the prolonged Iran conflict and its negative implications for the inflation outlook. Despite the improving valuation backdrop, we maintain a neutral stance, given the significant uncertainty surrounding the duration and ultimate outcome of the conflict.

### SA Inflation-Linked Bonds – Neutral

The 10-year ILBs are currently trading broadly in line with their implied real yield, suggesting a limited valuation upside at present. While the asset class offers inflation protection through both principal and income, its valuation remains sensitive to changes in real yields. In particular, ILBs tend to have a longer duration than nominal bonds, which can amplify price declines in a rising real-yield environment. Historically, higher inflation has often coincided with lower real yields, likely reflecting weaker growth expectations. However, these relationships are not stable across regimes. As such, historical correlations should primarily be viewed as supporting the diversification and inflation-hedging characteristics of ILBs, rather than as a reliable guide to current positioning. Our current stance is therefore driven more by a forward-looking assessment of the balance between inflation dynamics and real-yield risk. Given this trade-off, we maintain a neutral position for now.

### SA-Listed Property – Neutral

We maintain a neutral stance on SA-listed property, as the rate-cut outlook has become more uncertain, given the potential impact and broader consequences of the Iran conflict. While valuations appear relatively attractive, trading at a discount to SA equities and broadly in line with SA nominal bonds, price-to-tangible book value has recovered to above 1x, a level last seen in 2017.

From a macro perspective, SA consumers remain vulnerable, particularly to higher transportation costs and the potential spillover into food prices, both of which could place upward pressure on inflation. This, in turn, may delay or limit the extent of interest-rate cuts which constitute a key support mechanism for the asset class.



The overarching theme is elevated uncertainty. Although markets appear to have partially priced in the current situation, the trajectory and duration of the Iran conflict remain highly unpredictable. A prolonged conflict, potentially lasting several months, could keep oil prices elevated, reinforcing inflationary pressures and weighing on valuations. Conversely, a quicker-than-expected resolution could lead to a sharp decline in oil prices, thereby easing inflation concerns and allowing inflation expectations, interest rate expectations and valuations to move closer to pre-conflict levels. Given this asymmetric and uncertain outlook, we prefer to remain neutral at this stage.

#### **SA Equity – Neutral**

Similar to our SA-listed property view, despite improving sentiment and economic resilience prior to the Iran war, we maintain our neutral stance on SA equity, driven by the overarching theme of elevated near-term uncertainty. Risk-off will persist until it becomes clear that oil prices and supply worries have crested. We will ride out this period of uncertainty, and if there is a further significant drawdown of risk assets, we will capitalise on the opportunity to go overweight in risky assets.

#### **Foreign Cash – Neutral**

The conflict in the Middle East has weighed on emerging market currencies. Some have been directly impacted due to their reliance on energy supplies from Gulf Cooperation Council (GCC) countries, while others have weakened as a result of broader risk-off sentiment and associated capital outflows. In this environment, the US dollar has strengthened as a safe-haven currency, especially as the US has, to some degree, been shielded from the oil price shock due to its status as a net oil exporter and a more cautious Federal Reserve, particularly if sustained higher energy prices keep inflation pressures in check and the Fed delays further rate cuts. Against this backdrop, South Africa's fundamentals suggest that the ZAR is, broadly, fairly valued at current levels. As such, we maintain a neutral stance.

#### **Foreign Bonds – Neutral**

We maintained a neutral view on foreign bonds prior to the Iran conflict, supported by a still-resilient global growth environment, limited recession risk in the US and ongoing fiscal support. Elevated budget deficits and sustained net issuance across developed markets were also expected to place upward pressure on yields. At the same time, central banks appeared likely to pause, given near-term upside risks to inflation, reducing the diversification benefits of foreign bonds as the policy focus shifted away from growth concerns.

The escalation in the Middle East conflict has boosted inflation risks, particularly in the event of a prolonged conflict. The associated rise in energy prices compounds existing inflationary pressures, especially in a scenario where global growth moderates but remains intact. Given these dynamics and the fact that recent market movements have already reflected some of these risks and repriced the rate-cut outlook, we maintain a neutral stance on foreign bonds.

#### **Foreign Equity – Neutral**

We maintained a neutral view on foreign equities at our February TAA meeting when we expected sector rotation to support market broadening, but with limited near-term upside and the potential for sideways movement.

Prior to the Middle East conflict, macro data pointed to a strengthening global backdrop: PMI indicators were trending higher, export growth remained solid, earnings revisions were improving



and productivity gains were evident. This was despite some signs of consumer caution amid rising job insecurity. In addition, both fiscal and monetary policies remained broadly accommodative.

The escalation of the Middle East conflict has prompted heightened near-term volatility and uncertainty, with the potential for higher stagflation risks and, in a prolonged scenario, even a recession risk. While South African breakeven inflation has risen noticeably following the outbreak of the conflict, US 10-year breakeven inflation has remained relatively well anchored.

Overall, fundamentals continue to provide support. The global economy has also become much less oil intensive over the years, suggesting more resilience against oil-price shocks compared to the historical situation. However, the prospect of higher-for-longer interest rates could weigh on equity valuations. As such, we maintain a neutral stance, with a bias towards increased exposure should a meaningful market drawdown present more attractive entry points.

#### **Foreign Property – Neutral**

We maintain a neutral position due to the ongoing uncertainty surrounding the Iran conflict, rising inflation concerns and the potential for further repricing of interest-rate cuts, which could create near-term risks.