

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 June 2026:

Our houseview remains broadly unchanged from last month, with the committee maintaining a neutral stance across all major asset classes. Market sentiment improved through April, supported by easing geopolitical tensions, resilient global growth and continued strength in AI-driven sectors. However, optimism faded somewhat into May as inflation concerns resurfaced and markets increasingly priced in a higher-for-longer interest-rate environment. While South African assets continue to benefit from improving fiscal dynamics and offshore equities remain supported by resilient earnings, valuations across most asset classes now appear more balanced following the recent recovery in markets. At the same time, persistent inflation risks, rising global bond yields, fiscal concerns and ongoing geopolitical uncertainty continue to limit conviction levels. In the absence of clear valuation dislocations or compelling high-conviction opportunities, the committee remains neutral across asset classes while retaining flexibility to respond should market conditions improve further.

## TAA overview

April and month-to-date were characterised by a broad risk-on environment, supported by optimism around an extended Middle East ceasefire, easing geopolitical tensions and lower oil price risks. Risk assets outperformed defensive assets as demand for traditional safe havens declined. Emerging markets (EM) outperformed developed markets (DM), supported by stronger capital inflows, improving macro surprises and continued AI-driven growth dynamics. However, risk sentiment began to lose momentum into May as inflation concerns and higher-for-longer rate expectations resurfaced.

Within equities, Asia, particularly South Korea, Taiwan and Japan, delivered the strongest performance, driven by robust AI-related demand and continued strength in semiconductor supply chains. Growth stocks materially outperformed value, reflecting the ongoing technology and AI-led rally. In contrast, Brazil underperformed amid rising inflation concerns, political instability and capital outflows, while India also weakened as inflation concerns offset previously positive sentiment. In fixed income, South African bonds outperformed global peers, supported by an improving fiscal outlook, ongoing reform momentum, Moody's reaffirmation and a declining domestic risk premium. Global bonds weakened month-to-date as US Treasury yields rose sharply



(with the US 10-year yield approaching 4.7% and the 30-year yield above 5%), reflecting persistent inflation concerns, expectations of fewer rate cuts and the growing possibility of further monetary policy tightening. Reduced foreign demand for US Treasuries, particularly from China and Japan, dropped by -4% and -6% respectively in the month of March alone, also contributed to upward pressure on yields. Listed property rebounded during April, although the recovery appeared largely technical rather than fundamentally driven. The sector weakened again into May as concerns around higher-for-longer interest rates and rising global bond yields weighed on sentiment.

In commodities, oil prices declined on the back of ceasefire optimism and increased supply expectations from Russia and Iran, although volatility remained elevated given ongoing geopolitical uncertainty. Industrial metals, including copper, nickel, platinum and aluminium, outperformed due to persistent supply disruptions, resilient structural demand and a weaker US dollar through much of April. The rand strengthened over the period, supported by improved global risk appetite, the weaker US dollar and South Africa's improved sovereign outlook, although the dollar regained some strength later in May as inflation and rate expectations intensified.

From a macroeconomic perspective, emerging markets continued to outperform developed markets in terms of economic surprises and growth momentum. China remained relatively resilient, with Q1 GDP growth of 5% YoY supported by manufacturing activity, exports and ongoing fiscal expansion. In contrast, developed market data weakened, particularly in the Eurozone where despite manufacturing PMI rose to 52.2 in April, the region's services PMI slipped into contraction territory and business confidence, especially in Germany, remaining near historical lows due to going geopolitical instability and supply chain disruptions.

Inflation pressures continued to rise globally, driven largely by energy-related shocks. US inflation remained elevated at approximately 3.8%, while Germany experienced a sharper increase toward 2.9%. Importantly, second-round inflation effects are still expected to feed through the global economy through higher transport costs, food prices and wage pressures, reinforcing expectations that inflation may remain sticky for longer. Against this backdrop, central banks remained broadly on hold but adopted a more hawkish tone. Markets increasingly priced out rate cuts and, in some regions including Europe and South Africa, began assigning higher probabilities to further rate hikes. Uncertainty around the Federal Reserve also increased following leadership changes and growing policy debate, contributing to elevated market volatility and reinforcing the higher-for-longer interest rate narrative.

Labour markets remained relatively resilient, although signs of moderation continued to emerge through bottoming out hiring trends and softer employment momentum. At the same time, consumer confidence weakened globally due to inflationary pressures and higher fuel costs, although some resilience persisted among higher-income US consumers supported by positive wealth effects from equity market gains.

Within South Africa, the macro backdrop improved modestly on the back of fiscal consolidation progress, reform momentum and the more constructive sovereign outlook. However, risks remain elevated, particularly from rising inflation pressures, exposure to higher global energy prices and the possibility of additional SARB tightening should inflation drift toward the upper end of the target range.

Finally, the AI-driven capex cycle remained a key structural support for global growth and earnings expectations. Corporate investment in AI infrastructure and automation remained robust in Q1 and



is expected to continue supporting earnings growth and productivity gains over time through reduced labour intensity. While US productivity growth softened somewhat during Q1, labour cost growth also moderated materially, partially alleviating margin pressure. Nonetheless, persistent geopolitical uncertainty, sticky inflation dynamics and elevated policy uncertainty continue to suggest a more volatile market environment ahead.

## Main Asset Classes

### SA Bonds – Neutral

From a valuation perspective, South African nominal bonds have become less attractive over the past month due to the ongoing compression of both hedged yield spreads and real yields. Notably, the SA-US 10-year yield gap remains significantly below its historical average, and real yield has also become less competitive when compared to other emerging market peers. While improving Credit Default Swap (CDS) spreads reflect lower sovereign risk, these gains face headwinds from rising domestic inflation risks, driven primarily by the economy's structural vulnerability to prolonged high energy prices. Consequently, the South African Reserve Bank (SARB) may be forced to implement pre-emptive interest rate hikes to safeguard its policy credibility. Given that further monetary tightening beyond current market pricing poses a distinct risk to long-duration assets, we maintain our neutral position for now.

### SA Inflation-Linked Bonds – Neutral

Inflation-linked bonds continue to provide effective protection against upside inflation risks. However, valuations appear broadly in line with implied real yields and fairly valued when looking at the breakeven inflation. In addition, the asset class remains sensitive to changes in real rates due to its longer duration profile compared to nominal bonds. Given the current balance between inflation protection and monetary tightening risk, we maintain a neutral stance.

### SA-Listed Property – Neutral

We expect this asset class to come under some pressure over the near term as the asset class remains highly sensitive to interest rate expectations. With the outlook for rate cuts becoming less certain and inflation risks persisting, we prefer to remain neutral.

### SA Equity – Neutral

South African equities continue to offer attractive relative valuations and could benefit from a sustained improvement in global risk sentiment, firmer commodity prices, and supportive capital flows into emerging markets. However, some committee members remain concerned that elevated fuel prices and persistent inflationary pressures may weigh on corporate margins and constrain earnings growth across more domestically exposed sectors. On balance, while the strategy framework points to a tentative and selective overweight stance, elevated market volatility and lingering macro uncertainty warrant a more measured approach. Accordingly, the committee maintains a neutral positioning for now, while remaining alert to opportunities to increase exposure should valuations become more compelling or the macro backdrop improve further.

### Foreign Cash – Neutral

While there is room for the rand to gain from current levels, the US dollar is likely to remain supported by its safe-haven status and relatively strong US economic fundamentals over the near term. The dollar may strengthen if peace deals are not reached or geopolitics deteriorate. With



currencies appearing broadly fairly valued from a real effective exchange rate perspective, we maintain a neutral stance on foreign cash.

#### **Foreign Bonds – Neutral**

The committee adopted a more cautious stance toward foreign bonds. While global bond yields have become increasingly attractive and may be approaching cyclical peaks, there remains a meaningful risk that yields could move higher should inflationary pressures persist, particularly in the wake of recent energy price shocks. Concerns around the medium-term fiscal outlook in the US, especially ahead of the upcoming midterm election cycle, have also contributed to greater uncertainty around sovereign debt markets. Even prior to the escalation in tensions involving the US and Iran, markets were already demanding higher compensation for holding longer-duration debt, reflecting elevated term premia and concerns over sustained fiscal deficits. More recently, rising oil and energy prices have exacerbated existing inflation concerns, reinforcing the risk of a higher-for-longer interest-rate environment. In addition, the relative appeal of foreign bonds has weakened somewhat, as reflected in declining foreign participation in US Treasury holdings. Against this backdrop, the committee believes a balanced approach remains appropriate and therefore maintains a neutral position on foreign bonds.

#### **Foreign Equity – Neutral**

Offshore equities remain supported by resilient global growth, contained economic fallout from the Middle East conflict, and strong corporate earnings expectations, particularly within the US technology sector, which continues to underpin a constructive risk environment. Regionally, the committee remains constructive on the US market given solid earnings momentum and productivity gains, while maintaining a more neutral stance on Europe, Japan, and China. Europe remains vulnerable to the inflationary and growth impact of higher energy prices, while Japan's dependence on imported energy could temper otherwise strong equity performance supported by healthy corporate balance sheets and governance reforms. In China, stabilising trade relations with the US have improved sentiment somewhat, although structural challenges such as ongoing property sector weakness and demographic pressures continue to constrain the broader macro outlook, despite attractive opportunities in sectors linked to AI, automation, and power generation. Against this backdrop, some committee members favour an overweight allocation to offshore equities, supported by robust fundamentals and businesses' ability to navigate geopolitical uncertainty. However, others remain cautious given that US equities, particularly the S&P 500, appear fairly valued rather than outright cheap, while concerns around potential US dollar strength, uncertainty surrounding the incoming Federal Reserve leadership transition, and increasingly momentum-driven market participation warrant a more measured approach. On balance, these cross-currents support maintaining a neutral overall stance on offshore equities while remaining selective across regions and sectors.

#### **Foreign Property – Neutral**

Foreign property remains sensitive to interest-rate volatility and valuation risks, particularly in an environment where global bond yields remain elevated and macroeconomic uncertainty persists. While underlying property fundamentals have shown signs of stabilisation, including improving occupancy trends and more resilient rental growth in selected sectors, the broader backdrop of higher-for-longer interest rates continues to constrain the outlook for capital values. In addition, the current yield spread over 10-year US Treasuries suggests that the asset class is not offering sufficient compensation relative to the risks associated with slower growth, refinancing pressures,



and ongoing valuation adjustments. Given the limited near-term upside and an unfavourable risk-reward profile, the committee maintains a neutral position on foreign property.