

ViewPoints

Autumn Edition - April 2025

At a glance – our asset class views

| Domestic SA | Comment | - | o | + |
|-----------------|---|---|---|---|
| Equities | Overweight – China sentiment, higher commodity prices | | | + |
| Listed property | Overweight – strong balance sheets, improving environment | | | + |
| Bonds | Overweight – yields discounting most of the bad news | | | + |
| Income* | Overweight – higher yield compared to money market | | | + |
| Money market | Underweight – funding positions in bonds and equities | - | | |
| Global | Comment | - | o | + |
| Equities | Overweight – potential for a rally beyond US borders | | | + |
| Bonds | Neutral – higher inflation vs demand for haven assets | | o | |
| Money market | Underweight – funding overweights to domestic assets | - | | |

While our long-term real return assumptions are derived assuming that markets are in equilibrium, we do not believe that this is the case all the time. We therefore take tactical views on the relative performance of each asset class over a three to 12-month period, specifically ignoring shorter-term noise and not relying on long-term expectations. Having identified a specific factor or catalyst for the relative out- or under-performance of an asset class, we then rate it on a scale of underweight/neutral or overweight and position our portfolios accordingly.

*Floating rate instruments of maturity longer than one year.

**Views expressed for each asset class are subjective and are for the asset class as a whole. All views are as at 31 March 2025.

Domestic asset classes

Equities

- We are overweight equity and have benefitted from the high returns produced over the past year. Before the GNU exuberance last year, local equities were at attractive valuations. This year, positive developments in the Chinese technology sector, coupled with higher commodity prices, are likely to provide further tailwinds. On the valuation front, the asset class is paying a dividend yield of 3.7% and on average, investors are expecting earnings to grow by 21% this year.
- Trump's policies have introduced many risks, including recession and the associated risk to earnings and dividends. Hence, we are keeping a close eye on markets and stand ready to act should the need arise.

Listed property

- We remain overweight property. We believe the recent sell-off was a result of investors derisking their portfolios in the wake of Trump's trade wars. Loadshedding and higher bond yields may also have spooked investors. Despite these challenges, we think the balance sheet work that companies have done over the past few years makes them resilient in this current environment. Loan-to-value (LTV) ratios are low at 37% and discounts to NAVs remain wide, around 34%.
- Looking at the fundamentals, rental reversions have turned positive in the retail space and vacancies in the notorious office space are also low. These coupled with undemanding valuations make local property attractive. We find its distributable income yield of 10.6% and potential growth of 5.8% lucrative.

Bonds

- The SA yield curve steepened in Q1 – longer-dated bonds sold off 40 basis points on average while those on the short end of the curve remained relatively flat. In fact, since the September 2024 low, bond yields have gone up in five of the past six months. The unprecedented postponement of the budget and the subsequent disagreements over the 0.5% VAT increase provided further challenges.
- We are overweight domestic bonds. While the recent rise in yields has hurt, we believe the 11% yield at the long end of the curve reflects most of the risks associated with the country's fiscal position.

Income

- We are overweight income. The current yield of 8.3% is almost 100 basis points better than its historic average, and considerably higher than the 7.6% of money market instruments. The asset class is also a good hedge in the current volatile environment.

Money market

- The SARB cut interest rates by 25 basis points at its January meeting, and paused in March as trade wars took center stage. We think the SARB has room to make further cuts this year as inflation remains low.
- We are underweight money market as we prefer to use our money market allocation to fund positions in bonds and equity.

Global asset classes

Equities

- We remain overweight equity despite the recent sell-off in global markets, particularly in the US. Valuations remain attractive, other than those in the tech industry, with ample opportunities across countries and sectors. In addition, we expect central banks to continue cutting rates throughout the year. Trade wars are posing a risk of higher inflation and lower economic growth. Like our view on domestic equity, we are keeping a close eye on our overweight position.

Bonds

- While the bond market was affected by the resurrection in inflation, as well as fears and uncertainty about US growth, it still rallied in Q1 as investors piled into haven assets such as US treasuries. The US benchmark 10-year yield dropped 37 basis points in Q1 to 4.2%. We are neutral on global bonds – we think the risk of potentially higher inflation balances against the need for safer assets. We prefer SA bonds relative to offshore bonds.

Money market

- We are underweight global money market assets, preferring SA assets and global equity.

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