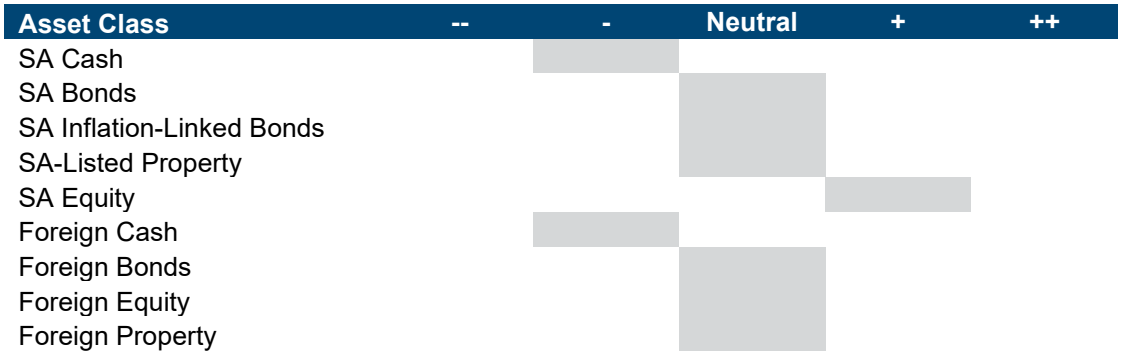
JULY 2026

Monthly Houseview Tactical Asset Allocation

MENTENOVA

We have decided to move to a moderate overweight position in South African equities, funded by reductions in local and offshore cash holdings.

Figure 1: Houseview Tactical Asset Allocation



Synopsis

Here is our investment case for August 2026:

For August, the committee adopted a slightly more constructive investment stance by increasing exposure to South African equities to a moderate overweight position, funded by reduced allocations to both local and foreign cash. Despite heightened geopolitical uncertainty, persistent inflationary pressures, rising energy costs and the risk of further monetary tightening, the committee believes much of this downside risk is already reflected in market prices. South African equities stand out as an attractive opportunity, supported by compelling valuations relative to global markets, improving economic and fiscal fundamentals, ongoing reform momentum, and evidence that corporate profitability may be more resilient to inflation than commonly assumed. While remaining neutral on other major asset classes, the committee views South African bonds as less compelling given richer valuations and potential SARB rate hikes, and offshore equities as constrained by elevated valuations despite supportive earnings and AI-driven growth trends. Overall, the committee believes the improved risk-reward profile of South African equities relative to cash justifies a measured increase in exposure while maintaining a balanced and flexible portfolio in an uncertain market environment.

TAA overview

Month-to-date in July was characterised by a sharp reversal of the broad risk-on environment that had dominated the second half of the second quarter. While May through June benefited from easing geopolitical tensions and optimism surrounding the US-Iran peace framework, sentiment deteriorated significantly following the collapse of the agreement on 7 July and the subsequent resumption of military strikes. The renewed conflict, together with the re-closure of the Strait of Hormuz and disruptions in the Red Sea, reignited concerns around global energy supplies, drove oil prices sharply higher and triggered a broad flight to safety across financial markets. Against this backdrop, risk assets came under pressure as investors reassessed growth, inflation and monetary policy expectations. Emerging market equities, which had outperformed developed markets through most of the second quarter, lost momentum as technology-heavy Asian markets experienced significant selling pressure. Developed market equities subsequently outperformed, supported by their defensive characteristics and greater exposure to sectors that benefited from the shift toward risk aversion. The strong second-quarter leadership from Taiwan, South Korea and Japan reversed significantly during July. Markets most closely linked to the AI and

semiconductor theme came under pressure as elevated valuations, profit-taking and geopolitical uncertainty drove a broad technology sell-off. US equities also struggled, reflecting both AI-related valuation concerns and a wider deterioration in risk appetite. In contrast, Brazil emerged as one of the strongest performers during July, benefiting from a sharp rally in energy companies as higher oil prices improved the outlook for the sector. South African equities remained relatively subdued, with domestic challenges compounded by weaker mining production and continued pressure on precious metal-related counters.

In fixed income, global bond markets remained under pressure as inflation concerns resurfaced. Rising energy prices and renewed supply chain disruptions raised fears of a fresh inflation impulse, causing yields to move higher across major developed markets. Concerns around fiscal sustainability, particularly in the US, also continued to contribute to elevated term premia, with the 30-year US Treasury yield remaining above 5% for an extended period. South African bonds, which had previously benefited from improving foreign inflows, rating upgrades and improving fiscal credibility, also weakened during July. Higher domestic inflation and expectations of further SARB tightening pushed bond yields higher, reducing the attractiveness of longer-duration assets.

Property was one of the few bright spots during the period. Both local and offshore listed property outperformed broader equity markets as investors rotated toward more defensive assets. South African listed property continued to benefit from improving operating fundamentals, supportive fiscal developments and its relative attractiveness versus local equities, while global property found support from defensive positioning despite elevated bond yields.

Commodity markets experienced a significant reversal from the trends observed during much of the second quarter. Oil prices surged toward $100 per barrel as geopolitical tensions disrupted key shipping routes and renewed concerns around global supply. Platinum group metals also rebounded strongly, supported by tighter supply conditions and resilient industrial demand. Copper remained relatively supported by ongoing demand linked to electrification and artificial intelligence infrastructure investment.

Currency markets reflected the uncertainty in the global environment. While the US dollar remained supported by safe-haven demand and elevated yields, some weakness emerged early in July following softer US employment data and a moderation in inflation. The rand proved more resilient than expected despite the risk-off backdrop, supported by investor confidence in South Africa's fiscal trajectory and expectations of higher domestic interest rates. Subsequent to our monthly tactical asset allocation meeting, the rand weakened from R16.5/$ to R16.8/$. This followed the South African Reserve Bank's decision to keep the benchmark repo rate unchanged at 7%, as the Monetary Policy Committee (MPC) maintained the view that current interest rates are sufficiently restrictive and that downside risks to economic growth outweigh immediate inflation concerns.

From a macroeconomic perspective, global growth remained stable but increasingly uneven. Consumer spending and labour market resilience continued to support activity in the US, while economic conditions in China remained relatively stable. However, the Eurozone continued to struggle with weak growth momentum. Global manufacturing activity improved during June, although the renewed conflict now poses risks to both growth and business confidence. Inflation re-emerged as the dominant macroeconomic concern. While US inflation moderated to 3.5% in June, core inflation remained sticky. In South Africa, inflation surprised materially to the upside,

rising to 5.0%, driven primarily by higher fuel and transport costs, as well as increased housing and utilities inflation. As a result, markets increasingly shifted towards a higher-for-longer interest-rate outlook, with expectations building for further policy tightening across several major central banks.

A key structural support for markets remains the AI-driven capital expenditure cycle, which continues to underpin long-term earnings growth, productivity gains and demand for digital infrastructure. However, recent market developments have highlighted the risks associated with increasingly concentrated market leadership and elevated valuations. While the long-term structural case remains intact, short-term performance has become more vulnerable to periods of volatility and rotation.

Main Asset Classes

SA Bonds – Neutral

Our view on South African bonds remains unchanged. The asset class continues to be supported by improved fiscal credibility, rating upgrades, and net positive foreign inflows. However, valuations have become less compelling following recent spread compression, with real yields appearing less attractive relative to SA inflation-linked bonds and those of emerging market peers. In addition, upside inflation risks stemming from energy costs and currency dynamics increase the likelihood that the SARB maintains a cautious policy stance. Given the balance between supportive fundamentals and less attractive valuations, we maintain a neutral position.

SA Inflation-Linked Bonds – Neutral

Our view on South African inflation-linked bonds remains unchanged. Recent upside surprises in inflation reinforce the role of inflation-linked bonds as an effective hedge against persistent price pressures and potential second-round effects. However, breakeven inflation levels suggest that a portion of this benefit is already reflected in valuations, while the asset class remains exposed to rising real yields through its duration profile. The balance between inflation protection and valuation considerations supports a neutral stance.

SA Listed Property – Neutral

Our view on South African listed property remains unchanged. Recent performance has been supported by improving fundamentals and investor sentiment, but the asset class remains highly sensitive to the interest-rate environment. With inflation risks elevated and the outlook for policy easing less certain, the scope for further re-rating appears increasingly limited. We therefore maintain a neutral position.

SA Equity – Moderate Overweight

South African equities have become increasingly attractive from a valuation perspective, with the FTSE/JSE All Share Index and FTSE/JSE Capped All Share Index both trading at a significant discount to global peers and valuation measures approaching historically compelling levels. Improving economic fundamentals, ongoing reform momentum and a supportive fiscal backdrop further strengthen the medium-term investment case. In addition, recent analysis suggests concerns around inflation-driven margin compression may be overstated, with company profitability historically proving more resilient during periods of rising inflation than generally assumed.

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Foreign Cash – Moderate Underweight

While the US dollar remains supported by resilient US economic growth and a Federal Reserve that has maintained a cautious approach to policy easing, we believe these favourable factors are largely reflected in current market valuations. By contrast, the South African rand appears increasingly attractive following an extended period of weakness, with its valuation offering meaningful upside potential relative to long-term fundamentals. The rand continues to benefit from comparatively high domestic real interest rates, which support its carry appeal, while South Africa's improving fiscal trajectory, reform progress and the prospect of stronger capital inflows provide additional medium-term support. Furthermore, investor positioning data indicates that speculative market participants retain a modestly constructive view on the currency. Given the rand's more compelling valuation profile, we have adopted a moderately underweight position in foreign cash in favour of domestic opportunities.

Foreign Bonds – Neutral

Our view on foreign bonds remains unchanged. While global bond yields are elevated and increasingly attractive from an income perspective, risks remain skewed towards higher yields. Economic activity has proven more resilient than expected, inflation concerns persist, and fiscal pressures across several developed markets continue to weigh on the asset class. Given the balanced but uncertain risk–reward profile, we maintain a neutral stance.

Foreign Equity – Neutral

Our view on foreign equities remains unchanged. Global equities continue to be supported by resilient corporate earnings, particularly within the AI and technology sectors. However, elevated valuations, higher-for-longer interest rates, and ongoing geopolitical uncertainty present meaningful headwinds. Furthermore, sustaining the pace of recent earnings growth is likely to become increasingly challenging, while evidence of greater market rotation and narrowing leadership points to a potentially more volatile market environment. On balance, we believe a neutral stance remains appropriate.

Foreign Property – Neutral

Our view on foreign property remains unchanged. The asset class has benefited from a rotation towards more defensive exposures and improving sentiment in certain segments. However, higher-for-longer interest rates continue to constrain valuations, while current yields do not provide sufficient compensation for the risks associated with the sector. Structural challenges in parts of the commercial property market also persist. Given these offsetting factors, we maintain a neutral allocation.

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