

TAA UPDATE | SEPTEMBER 2026

Monthly Houseview Tactical Asset Allocation

Navigating Interconnected Risks with Valuation Discipline

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IN THIS DOCUMENT

Contents

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AT A GLANCE

Positioning for October 2026

SA Cash	**Moderate Underweight**
SA Bonds	**Neutral**
SA Inflation-Linked Bonds	**Neutral**
SA-Listed Property	**Neutral**
SA Equity	**Moderate Overweight**
Foreign Cash	**Moderate Underweight**
Foreign Bonds	**Neutral**
Foreign Equity	**Neutral**
Foreign Property	**Neutral**

Synopsis 03

TAA Overview 04

Main Asset Classes 06



Positioning is reviewed monthly by the Mentenova investment committee.

SECTION 01

Synopsis

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

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			■		

Here is our investment case for October 2026:

The committee maintains its moderate overweight position in South African equities, funded through underweight allocations to both offshore and local cash. The September backdrop has become more challenging, with renewed Middle East tensions lifting oil prices, reviving inflation concerns and pushing long-dated global bond yields higher. Despite the more volatile environment, South African equities remain attractively valued relative to global peers and their own history, supported by improving fiscal credibility, ongoing reform momentum and steady corporate profitability. Near-term domestic growth remains a constraint, while a firmer US dollar following the Federal Reserve's latest rate increase may limit immediate rand appreciation. Nevertheless, South Africa's relatively high real interest rates, improving fiscal trajectory and reform progress continue to support the medium-term rand outlook and the case for funding the equity overweight from cash. The committee therefore keeps SA equity moderately overweight, SA cash and foreign cash moderately underweight, and remains neutral across all other asset classes.

SECTION 02

TAA Overview

Global markets have moved into a more demanding phase as geopolitical risk, renewed inflation pressure and higher long-term interest rates compete with still-resilient corporate earnings and the ongoing AI investment cycle. Risk assets performed strongly through August, but momentum reversed in early September as Middle East tensions intensified, oil prices surged, and sovereign yields rose. Market leadership remains selective, with investors increasingly rewarding earnings resilience, cash generation and exposure to durable structural themes rather than broad-based risk-taking.

The global macroeconomic backdrop has softened, but not enough to remove inflation risk. Growth lost some momentum through the second quarter across several regions, while higher energy and transport costs have begun to feed back into price pressures. In the US, the labour market data remain relatively resilient, and inflation is still above target. The Federal Reserve responded with a 25 basis-point rate increase in September and retained a more hawkish bias, reinforcing a higher-for-longer policy backdrop. Eurozone inflation has also moved higher as energy costs increased. At the same time, large fiscal deficits, heavy sovereign issuance and rising term premia have pushed long-dated yields higher across the US, Europe and Japan. China continues to face weak domestic demand and property-sector challenges, but investment in high-tech manufacturing and AI-related capacity remains an important offset. Emerging-market performance has therefore been uneven, with technology-heavy Asian markets continuing to benefit from semiconductor demand while commodity-sensitive markets remain exposed to the global energy shock.

South Africa's near-term growth backdrop has weakened, with real GDP contracting 0.2% quarter-on-quarter in the second quarter and business surveys pointing to subdued demand, weak consumer confidence and softer manufacturing activity. However, the medium-term investment case continues to be supported by improving policy credibility, structural reform progress and attractive real interest rates. Inflation eased to 4.3% in July, but the FRA curve has shifted towards a higher-for-longer rate profile as markets price in renewed inflation and oil-price risks. This leaves a clear tension between weak cyclical momentum and an improving structural backdrop, making reform execution, fiscal discipline and the response of foreign capital increasingly important for domestic asset performance.

Equity performance has become more differentiated. South African equities were strong in August, supported by rand strength, precious metals and resource exposure, before pulling back in September as global risk appetite weakened and higher yields weighed on valuations. The committee does not view the recent weakness as a change in the underlying thesis: SA equities still trade at attractive discounts to global peers and historical levels, while profitability has remained more resilient than feared during inflationary periods. Offshore, AI and semiconductor demand continues to support earnings, particularly in the US and parts of Asia. South Korea and Taiwan have remained beneficiaries of the semiconductor cycle, while broader developed markets are increasingly sensitive to valuation and duration. Elevated concentration means that disappointments in earnings, rates or the expected productivity payoff from AI could generate sharper market rotations even if the structural investment theme remains intact.

Bond markets remain challenged by the combination of sticky inflation, elevated sovereign borrowing and rising long-term yields. South African government bonds continue to offer attractive nominal yields and are supported by improving fiscal credibility, ratings momentum and foreign demand, but spread compression and the global rise in yields reduce the valuation cushion. The domestic curve has also been affected by weaker growth and a more cautious inflation outlook, while global bonds have faced renewed selling as US and European yields moved higher. Inflation-linked bonds remain useful protection against renewed energy-driven inflation, while both local and offshore property remain sensitive to higher discount rates, financing costs and weaker consumer affordability. The result is a more balanced fixed-income opportunity set in which carry remains attractive, but duration risk has increased.

Inflation has re-emerged as a central market risk. The renewed escalation in the Middle East has disrupted key energy routes and contributed to oil prices remaining around or above US$100 per barrel, increasing the risk of second-round effects through transport, production and consumer prices. This complicates the policy outlook for central banks and reduces the scope for near-term easing. The Fed's September rate increase underscores this tension: activity and labour demand remain sufficiently resilient to tolerate tighter policy, while inflation is still too high for policymakers to declare victory. Across Europe, renewed energy pressure has also contributed to firmer inflation and higher sovereign yields. South Africa faces the same imported inflation risk, even as domestic demand remains soft. The SARB's 7.0% policy rate and the upward shift in forward rates therefore continue to support cash carry and the rand but also constrain rate-sensitive assets. This combination favours inflation protection and income, while limiting conviction in long-duration bonds and property until the inflation path becomes clearer.

> **Markets are navigating multiple, interconnected uncertainties across monetary policy, fiscal sustainability, energy and geopolitics, and technological disruption. The key is not to eliminate uncertainty, but to position portfolios where valuations and fundamentals provide sufficient compensation for it.**
>
> MENTENOVA INVESTMENT COMMITTEE, OCTOBER 2026

Liquidity remains adequate but increasingly selective. US Treasury buybacks can improve market functioning and provide a near-term liquidity offset, but they do not resolve the underlying challenge of large fiscal deficits, heavy debt issuance and rising term premia. At the same time, the AI infrastructure build-out requires substantial capital expenditure and financing, which may place pressure on credit markets and long-term yields. The interaction between monetary policy uncertainty, fiscal intervention, elevated energy prices and the financing needs of the AI cycle create a less forgiving environment for high-duration assets. Trade and technology linkages between the US and China also remain deeper than headline decoupling suggests, adding another source of uncertainty to the AI investment cycle and global supply chains. The committee therefore continues to favour selective risk-taking rather than a broad increase in risk. South African equities remain the preferred tactical exposure because valuation support and improving domestic fundamentals provide a margin of safety that is less evident in several offshore markets. Cash remains the funding source for this view, while all other asset classes remain neutral and liquidity are retained to take advantage of potential market dislocations.

SECTION 03

Main Asset Classes

SA Bonds – Neutral

South African government bonds continue to offer attractive nominal yields and benefit from improving fiscal credibility, reform progress and supportive foreign demand. However, the global rise in long-dated yields, renewed oil-driven inflation risk and a more cautious domestic rate outlook limit the scope for further rerating. Spread compression has also reduced the valuation cushion, while real yields are not clearly more compelling than inflation-linked bonds or selected emerging-market peers. The combination of attractive carry and better domestic fundamentals, balanced by duration and inflation risks, supports a neutral position.

SA Inflation-Linked Bonds – Neutral

Inflation-linked bonds remain a useful hedge against persistent inflation and potential second-round effects, particularly as higher oil and transport costs raise the risk of renewed price pressure. The asset class therefore

retains an important portfolio diversification role. However, much of the protection is already reflected in breakeven inflation valuations, while the relatively long duration of the ILB market leaves returns vulnerable if real yields rise further. The balance between stronger inflation protection and fairer valuations keeps the asset class at neutral.

SA Listed Property – Neutral

South African listed property is supported by improving operating fundamentals, resilient distributions and continued corporate activity. However, the sector remains highly sensitive to the interest-rate path. Higher oil prices and renewed inflation concerns have reduced expectations for near-term monetary easing, while weak consumer confidence and softer domestic activity continue to constrain affordability and demand. These improving fundamentals are therefore offset by higher discount rates and macroeconomic uncertainty, leaving the risk-reward profile broadly balanced and supporting a neutral allocation.

SA Equity – Moderate Overweight

South African equities remain the committee's highest-conviction tactical position. The market continues to trade at attractive discounts to developed-market peers and to its own historical levels, providing a valuation cushion despite the recent pullback. Improving fiscal credibility, structural reform progress and relatively high real interest rates continue to support the domestic investment case, while commodity exposure provides participation in the broader energy, metals and AI-related capital-expenditure cycle. Importantly, corporate profitability has proved more resilient through rising-inflation periods than headline macro conditions might suggest. Weak GDP growth, subdued business confidence and higher oil prices remain meaningful risks, but they do not yet invalidate the medium-term thesis. The attractive starting valuation and favourable relative risk-reward profile support maintaining the moderate overweight.

Foreign Cash – Moderate Underweight

Foreign cash remains a key funding source for the overweight South African equity position. The US dollar has received near-term support from resilient US activity and the Federal Reserve's September rate increase, while US cash yields remain attractive. However, the medium-term return potential of foreign cash is still less compelling than that of selected risk assets, and the dollar does not offer a sufficiently attractive valuation case to justify increasing exposure. The rand remains volatile, but South Africa's high real interest rates, improving fiscal trajectory, reform progress and potential capital inflows continue to support its longer-term valuation. The committee therefore maintains a moderate underweight while retaining sufficient portfolio liquidity.

Foreign Bonds – Neutral

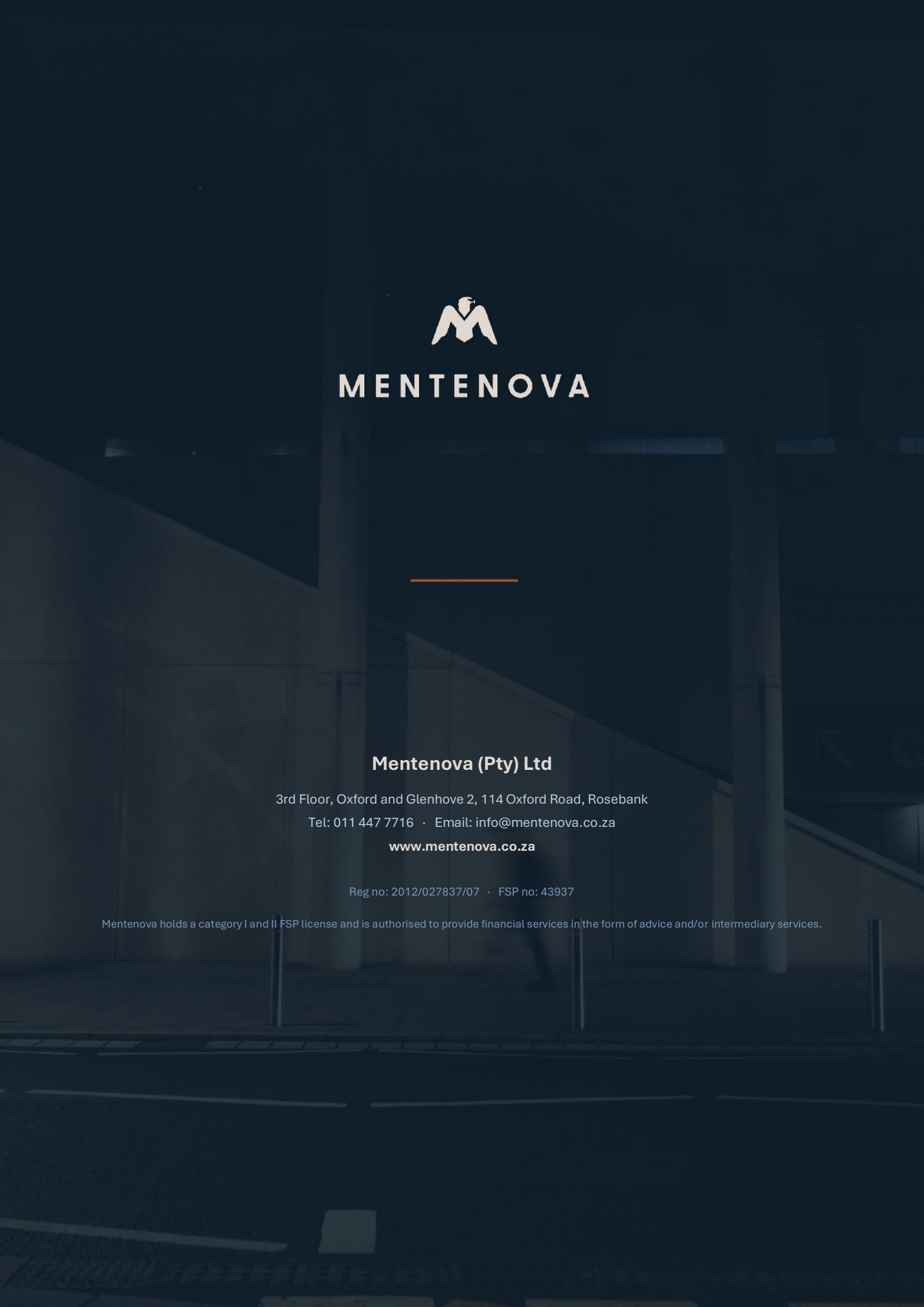
The risk-reward profile for foreign bonds remains finely balanced. Persistent inflation, elevated oil prices, large fiscal deficits and heavy sovereign issuance have pushed long-term yields higher across major markets, increasing duration risk. A more hawkish Federal Reserve also reduces the likelihood of an early easing cycle. At the same time, current yields provide a more meaningful income buffer than in recent years. These opposing forces support maintaining a neutral allocation rather than taking a strong directional duration view.

Foreign Equity – Neutral

Global equities continue to benefit from resilient corporate earnings and the ongoing AI investment and adoption cycle. Evidence that AI adopters are beginning to translate investment into stronger earnings supports the structural case, while semiconductor demand remains a powerful tailwind in the US and parts of Asia. However, elevated valuations, high market concentration, geopolitical uncertainty, trade frictions and higher-for-longer interest rates reduce the margin of safety. The eventual productivity payoff from the current capital-spending boom is also likely to arrive gradually. The balance between strong structural earnings support and demanding valuations keeps foreign equity neutral.

Foreign Property – Neutral

Offshore property remains constrained by elevated global borrowing costs and the renewed rise in long-dated sovereign yields. The sector's long-duration income characteristics and leverage make valuations particularly sensitive to changes in discount rates, while capital has also been drawn towards sectors offering stronger near-term earnings growth. Improving operating fundamentals and a gradual recovery in investor sentiment provide some support, but current yield compensation is not yet sufficient to offset financing and macroeconomic risks. The balance of these factors supports a neutral position.



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