Equity Fund

Market context

The consensus coming into 2025 was for a continuation of US exceptionalism under a new Republican administration. Instead, investors were served with unpredictable trade policy, leading to heightened volatility, weaker US growth expectations, and a shift in leadership abroad.

In the US, equity markets struggled weighed down by renewed trade tensions, inflation concerns and the unwinding of big tech dominance. The S&P 500 posted its worst quarterly return in three years, while investor sentiment shifted toward more traditional sectors. In contrast, European equities delivered strong returns, buoyed by a structural shift in fiscal policy towards higher defence spending and relative economic resilience. UK equities followed suit, supported by large-cap banks and defence firms.

South African equities delivered a standout performance, with the All Share Index gaining 9.0%, outpacing the MSCI World (-1.8%) and MSCI Emerging Markets (+2.9%) in US dollar terms. The rally was underpinned by a significantly stronger resources sector, fuelled by a surge in precious metal prices. Gold was the standout performer, as investors sought safe-haven assets amid growing geopolitical uncertainty and the implementation of global trade tariffs.

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Performance

The year began on a positive note, with the US economy in a strong position, underpinned by robust consumer and business confidence and anticipation of pro-growth policies under the incoming Trump administration. The outlook for Europe was progressively turning optimistic, supported by newly elected leadership and a commitment to fiscal spending. Asia was not far behind. China specifically had started showing the lagged effects of monetary stimulus introduced in mid-2024, with tentative signs of growth stabilising.

As recently as early March this year, the global growth outlook remained constructive, with expectations for the global economy to expand by around 3%, a backdrop generally supportive of corporate earnings. For South African investors, this coincided with a uniquely positive domestic narrative: the performance of state-owned enterprises was showing signs of stabilising, inflation remained contained, consumer and business confidence was recovering, and growth was expected to accelerate under the newly formed Government of National Unity (GNU).

Over the past few weeks, however, we've seen a dramatic shift in sentiment. In the US, sweeping trade tariffs have created policy uncertainty and deteriorated global growth expectations. Our overweight exposure to industries most impacted by the shift in sentiment weighed on relative performance, with Amazon and TSM among the main detractors. Big-tech names came under added pressure following the release of Chinese firm DeepSeek's new AI model, which saw our underweight position in Apple contribute positively to performance. Performance was further supported by the exposure to German manufacturer, Rheinmetall.

Domestically, the future of the GNU has become less certain. The combination of local and global factors weighed on the local bourse, especially on SA Inc. counters, where select high-conviction positions in banks and retailers detracted from overall performance. Among the main detractors over the period were overweight positions in Mr Price, Foschini and Truworths, while underweight exposure to the likes of Shoprite and Woolworths added to relative performance. Our overweight position in global consumer staple businesses such as Philip Morris provided support as volatility increased.

Against this backdrop, the portfolio underperformed its benchmark over the quarter.

Outlook

Equity markets are likely to remain volatile over the coming months as investors grapple with US trade policy uncertainty, potential responses from other countries (both to trade negotiations and domestic stimulus), and the implications for global growth. Undoubtedly, economic growth expectations are being revised lower worldwide, including in South Africa. Being nimble in this evolving landscape will be crucial, and of equal importance, will be the ability to focus on the fundamental outlook for sectors and companies as they adapt to the current operating environment.

The portfolio is well diversified, with exposure to a range of stocks and sectors that meet our investment philosophy and are best positioned, relatively, to navigate the ongoing volatility and capture upside as conditions improve. Our allocation to select gold and platinum miners, including AngloGold Ashanti and Impala Platinum (both of which were key contributors to performance over the quarter), continue to provide both a hedge against macro uncertainty and, importantly, have strong positive earnings revisions profiles to underpin their share prices. We also retain a constructive outlook on Naspers while continuing to monitor the geopolitical environment, particularly the evolving relationship between the US and China.

We maintain our holdings in high-conviction local names that we believe are poised to benefit from an eventual recovery in domestic confidence. Within the retailers, Mr Price and Foschini remain a key active overweight within the portfolio. Although the domestic earnings recovery has been slower to emerge than some expected, the idiosyncratic nature of the South African economic recovery remains intact, albeit with growth rates revised slightly lower, in line with global trends. The national budget was passed, inflation is well contained, and structural reforms - despite political noise - are gradually making their way through. Business and consumer confidence have been temporarily dented, but we believe this will improve. Locally, we expect the combination of structural reforms, improving economic fundamentals, and more stable policy direction to support an eventual rebound in sentiment and activity. We continue to hold Discovery and Sanlam in the insurance sector, both of which offer attractive long-term growth prospects underpinned by strong balance sheets and disciplined capital allocation.

Our investment philosophy remains unchanged – seeking to invest in companies that are receiving positive earnings revisions and that trade at a reasonable valuation. It is at points of market volatility, such as this, that the consistent application of our investment philosophy proves most valuable. We will continue to lean into the conviction ideas we hold should short-term market sentiment overwhelm what, in many cases, remain strong medium-term fundamental outlooks for companies where we see long-term robust earnings trends at reasonable valuations. With a balanced allocation across key holdings, we believe the portfolio is well-positioned to participate in upside as confidence rebuilds and a broader recovery begins to take shape.

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