Managed Fund

Market context

The first quarter of 2025 was a turbulent period for global markets. While January began on a firmer footing, sentiment quickly turned amid escalating trade tensions and sticky inflation. The US introduced tariffs on Canadian, Mexican and Chinese imports, fuelling concerns around global growth and inflation. Germany announced sweeping fiscal reforms to fund defence and infrastructure, driving European yields sharply higher. Central banks continued to diverge: the Fed kept rates unchanged in Q1, while the European Central Bank cut rates, and the Bank of Japan hiked rates for a third time in its policy normalisation cycle and signalled further hikes ahead.

Global equities declined over the quarter, led by US losses. The S&P posted mid-single-digit declines – its weakest quarter since Q3 2022—as the 'Magnificent seven' fell into bear market territory on valuation and earnings concerns. European equities delivered mid-single-digit gains, supported by fiscal reform and strength in banks and defence stocks. Emerging markets edged higher, buoyed by improving sentiment around China and a weaker US dollar.

South African equities outperformed global peers. However, the rally was narrow, led by a 27.9% surge in the resources sector amid rising precious metal prices. Gold was especially strong as investors sought safe-haven assets amid growing geopolitical tensions and new US tariffs. Chinese stimulus added further support to commodity prices.

Domestically, the South African Reserve Bank held the repo rate at 7.50% in March following a January cut, maintaining a cautious tone. Political risk flared up after the US announced the suspension of aid to South Africa over unverified land issues, and the national budget speech was delayed due to coalition tensions over a proposed VAT increase.

After quarter-end, the ANC passed the budget without DA support, raising concerns over the GNU's sustainability. At the same time, US President Trump announced a raft of higher-than-expected tariffs. SA equities, property, bonds and the rand sold off, along with global risk assets. Our underweight positions in SA equities and bonds and our exclusion of SA property, limited downside. A bias to rand hedges supported relative outperformance in SA equities, while holdings in US treasuries, gold and global cash added value.

To read more, please click here or visit the Insights section of www.ninetyone.com.

Performance

For the month and quarter, the Fund delivered a positive absolute return and outperformed the peer-group average.

Offshore assets were the main contributors. Our underweight position in the 'Magnificent Seven' US tech stocks supported relative returns, although weakness in Amazon and Microsoft weighed on absolute performance. European holdings, particularly in banks and defence stocks, performed well driven by upward growth revisions and policy tailwinds.

Locally, performance benefitted from selective positioning in a narrowly led market. Most South African shares came under pressure, while Naspers, Prosus and resources—particularly gold and platinum group metals (PGMs)—drove broader returns. Our active position in Naspers added value, as did exposure to gold shares. While our PGM exposure was limited, detracting modestly, this reflects a deliberate underweight based on negative earnings momentum and stretched valuations. Impala, for instance, is forecast to earn R3 against a R120 share price.

Our gold ETF exposure also contributed positively, supported by a broad-based rally in the metal driven by policy uncertainty. While we are tilted toward offshore gold equities, local names outperformed—possibly reflecting gold's relative strength as an emerging market theme, underpinned by earnings upgrades.

We trimmed risk assets into quarter-end and added to US nominal and inflation-linked bonds in anticipation of slower global growth

and elevated inflation uncertainty. South African assets, outside of gold shares, remain challenged by a weak growth backdrop. Valuations have retreated, and we used this to add to Shoprite and Pepkor, both of which are well placed to benefit from downtrading.

We remain underweight resource counters more broadly, as tariff-related pre-buying and slowing US growth are likely to weigh on demand. China's shift toward technology-led growth also provides little support for commodity producers. Local banks, meanwhile, remain reasonably valued but unexciting—European banks offer stronger growth and a lower cost of capital.

Outlook

The US economy remains supported by a substantial fiscal deficit—around 6.5%—alongside low unemployment and persistent inflation. However, fiscal policy is becoming more restrictive and monetary policy has turned broadly neutral. As a result, US GDP growth is slowing, and markets have started to reflect this shift: the S&P 500 just recorded its weakest quarter relative to global equities since 2009. While the administration aims to reduce its role in the economy, this ambitious adjustment is likely to be accompanied by a period of weaker growth.

The so-called 'Trump put'—the assumption that policy would support asset prices—has faded as the administration focuses on Main Street over Wall Street. Meanwhile, markets are questioning whether the 'Fed put' still holds. The Fed is facing a difficult combination of tariff-driven inflation and slowing growth and has remained cautious. Against this backdrop, we added US inflation-linked bonds to manage inflation risk and 10-year treasuries to hedge against the possibility of a deeper slowdown.

In contrast, Europe is benefitting from stimulatory fiscal and monetary policy, and growth expectations are being revised higher. Our offshore exposure remains concentrated in Europe, with overweights in banks and defence, sectors aligned with this improved outlook. We remain significantly underweight the US.

In China, growth remains fragile. Property sales are falling at double-digit rates, and governance concerns are mounting. Offshore debt holders of failing property developers have found themselves with limited legal recourse. State direction continues to dominate corporate behaviour, with several firms—including China Telecom—following state-owned banks in issuing rights offers at premiums to market prices.

South Africa remains structurally constrained. As highlighted in our December quarterly review, early optimism around the GNU has faded. Nominal GDP growth remains weak and earnings forecasts have barely moved. The fiscal framework is dysfunctional: despite a wide deficit, there is a limited economic multiplier due to unproductive spending. The transfer of funds from a narrow tax base—just 5 million taxpayers—to a growing number of grant recipients is unsustainable, as the ongoing budget debates have highlighted. Monetary policy remains tight, with high real interest rates weighing on credit demand.

Coalition politics continues to hamper policy execution. The alliance between the ANC and DA is under strain, with the delayed budget highlighting the difficulty of governing through consensus. Market hopes for a stable policy environment are likely to be disappointed. Growth forecasts for 2025 have already been revised down, and the current parliamentary impasse mirrors the dysfunction entrenched at the municipal level. In practice, South Africa is being governed by an ANC minority. During the quarter, the rand strengthened modestly against the US dollar but weakened against the euro and pound—currencies against which we remain overweight.

Post quarter-end, the increased GNU tensions and impact of President Trump's tariffs will result in slower global and local growth and reduced business, consumer and investor confidence. The portfolio was defensively positioned at the end of March, and we have continued to reduce SA Inc.'s equity exposure, given lower growth expectations.

The portfolio continues to focus on allocating capital to regions and sectors where growth is visible and attractively priced—currently, this remains most evident in Europe. Given the divergence in global policy and growth dynamics, an active and disciplined approach to asset allocation remains essential.

Disclaimer

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. We are not acting and do not purport to act in any way as an advisor or in a fiduciary capacity. No one should act upon such information or opinion without appropriate professional advice after a thorough examination of a particular situation. We endeavour to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. We do not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only.

Ninety One will not be held liable or responsible for any direct or consequential loss or damage suffered by any party as a result of that party acting on or failing to act on the basis of the information provided by or omitted from this document. This document may not be amended, reproduced, distributed or published without the prior written consent of Ninety One.

In the event that specific collective investment schemes in securities (unit trusts) are mentioned please refer to the relevant fact sheet in order to obtain all the necessary information in regard to that unit trust.

Collective Investment Schemes in Securities (CIS) are generally medium to long-term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Copies of the audited annual financial statements of the manager and of the scheme managed by it, are available, free of charge, upon request. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used.

Certain Ninety One funds are offered as long-term insurance policies issued by Ninety One Assurance Limited, a registered insurer in terms of the Long-term Insurance Act.

Ninety One is an authorised financial services provider.

Further information

36 Hans Strijdom Avenue

Foreshore, Cape Town 8001

Telephone: +27 (0)21 910 1000