Ninety One

Opportunity Fund

Market context

It was a mixed month for global capital markets. In the US, President-elect Donald Trump's decisive victory at the polls propelled US equities to new highs. Developed markets (MSCI World) rallied +4.6%, while emerging markets (MSCI EM) fell -3.6% (both in USD). In China, capital markets faced downward pressure due to concerns over the possibility of trade tariffs under the new Trump administration. Sentiment towards South African equities also declined, given the strong trade relations between the two economies, which was further compounded by weaker-than-expected domestic indicators. Staying with South Africa, other noteworthy events included the SARB cutting its key interest rate by 25 basis points and S&P Global upgrading the country's credit rating outlook to 'positive'. Local bonds maintained their post-election rally in November, as inflation continued to show signs of easing. In commodity markets, gold declined on the prospect that Trump's policies could re-stoke inflationary pressures and cause US interest rates to remain higher for longer. In energy markets, OPEC+ members postponed their plan to increase oil production until the end of the year. Despite the conflict in the Middle East threatening supply, oil has declined in recent months on the back of lingering macro concerns, specifically over the outlook for Chinese demand.

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Performance

For the month, the portfolio delivered a positive absolute return.

The portfolio's offshore equity component was the largest contributor to performance for the month, with exposure to Visa, Booking Holdings and Moody's among the main contributors. Local bonds further supported returns, largely driven by declining yields over the period, as did the portfolio's exposure to domestic cash. Despite the local bourse closing the month marginally in the red, positive gains from select local equities such as British American Tobacco, Clicks and Capitec supported performance, while positions in the likes of BHP, Mondi and Richemont weighed on returns. Staying with detractors, the portfolio's gold ETF exposure also weighed on performance in what was a challenging month for the precious metal.

Outlook

As inflationary pressures ease, we are observing a moderation in the US economy. While the current interest rate environment is supportive for global equities, sectors and styles will be impacted differently. We believe that stocks bound to the economic cycle or expensive shares driven by momentum and hype are most at risk. Proven earnings resilience will become more important following stretched near-term market performance and an increasingly uncertain outlook. The Quality compounders we own are now at attractive valuations relative to the market and Growth as an investment style. Global equities remain our preferred asset class.

Despite the strong quarter, the prospects for many 'SA Inc.' counters are still dependent on the sustained recovery of the local economy. While we are incrementally more constructive on the domestic backdrop, we remain conservative in our outlook and continue to hold a low overall allocation within the portfolio. In an environment that lacks broad-based structural growth, companies will need to focus on capturing market share from competitors. We do not support the valuation argument given the growth headwinds. That said, we have still found meaningfully attractive investment opportunities within our investment framework, with tailwinds having built for several of our diversified holdings. While the South African Reserve Bank (SARB) has cut interest rates along with the Fed, South Africa's real interest rates remain among the highest in the world, with a 10-year government bond equivalent yielding 10.1% (at the time of writing). This is well ahead of inflation at 2.8%, now below the mid-point of the SARB's target band. These instruments offer higher risk-adjusted return potential than many domestic shares. The current rate now implies a real return for cash investors and less of a drag on our return targets. That said, we prefer domestic bonds to cash on a risk-adjusted basis.We do not believe that it is appropriate to skew the portfolios for a specific outcome. Instead, we maintain a balance of exposures that blends the best of growth assets with the income on offer from defensive assets, while generating inflation-beating returns over the medium to long term.

Further information

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