Worldwide Flexible Fund

Market context

Heading into 2025, markets were positioned for a continuation of US exceptionalism under a new Republican administration. Instead, unpredictable trade policy has driven volatility, dampened US growth expectations and shifted leadership abroad. European fiscal stimulus surprised to the upside, emerging markets outperformed developed peers, and commodities led gains amid rising inflation and geopolitical tension.

Global equity markets diverged sharply in Q1, shaped by regional dynamics and policy responses. The US market 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, with investor sentiment rotating 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. Despite lingering structural concerns, Chinese equities rebounded on the back of economic stabilisation, stimulus measures and AI-driven tech optimism. Emerging markets broadly outperformed developed markets.

At the sector level, the dominance of the so-called Magnificent 7 began to unravel. This followed the release of Chinese firm DeepSeek's new AI model, which raised questions over the sustainability of US big tech valuations. Industry leaders like Nvidia and Alphabet posted double-digit declines. Still, the standout laggard was US EV-maker Tesla, weighed down by weak delivery expectations and CEO Elon Musk's increasingly polarising political forays.

It was not all bad news, though: Old-economy names in healthcare, consumer and defence found favour, with CVS Health, Philip Morris, Vertex Pharmaceuticals and GE Aerospace posting substantial gains. Berkshire Hathaway also rose close to record highs on the back of a rebound in earnings.

US treasury yields ended a volatile quarter lower, with the 10-year yield falling 36bps to 4.2%. The key drivers were weakening global risk sentiment and a more uncertain US growth outlook. By quarter-end, markets were pricing around 75bps of rate cuts in 2025—some 30bps more than at the start of the year. The Federal Reserve held rates steady, with the 'dot plots' projecting two cuts for the year.

On the inflation front, forecasts rose sharply in March, partly driven by escalating global trade tensions. New tariffs were imposed on China, Mexico and Canada, with further measures announced on 'Liberation Day' after the quarter's end.

South African equities delivered a standout performance in Q1 2025, with the All Share Index gaining 9.0%, outpacing the MSCI World and MSCI Emerging Markets in US dollar terms. The rally was underpinned by a significantly stronger resources sector, fuelled by a surge in precious metal prices. Gold stood out as investors sought safe-haven assets amid growing geopolitical uncertainty. China's latest stimulus measures added further support for commodity prices.

The South African Reserve Bank (SARB) held the repo rate at 7.50% in March, maintaining a cautious stance after cutting rates in January.

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Performance

Over the quarter and the month, the portfolio delivered a negative return.

Key detractors:

- 'SA Inc.' stocks as political risk and growth concerns weighed on sentiment
- SA-listed property, pressured by rising bond yields and weak fundamentals
- Global Cyclical exposure in the industrials and consumer discretionary sectors, amid uncertainty around growth
- Big tech exposure, Google, Amazon, Nvidia and Tesla
- Rand strength a headwind for offshore holdings over the quarter

Key contributors:

- Gold ETF and gold miners, supported by rising gold prices with additional gains from holdings in PGM miners
- Naspers/Prosus, as sentiment towards Chinese tech stocks rebounded, and Tencent delivered strong earnings
- British American Tobacco, offering defensive income and stability
- Standard Bank and MTN, which outperformed local peers
- Global Insurance and utilities sector stock exposure, which offered yield and capital stability in a risk-off environment
- Rheinmetall, which gained on EU fiscal tailwinds
- Asset-lite communication services companies, which held up in a weak equity backdrop

While we exited 2024 with high-risk asset exposure, in January we took profits on some of our US equity exposure after a strong run, particularly large-cap tech. We redeployed some proceeds into a gold ETF while holding the rest in cash amid uncertainty around the US inauguration and earnings season. Within local equities, we reshaped our 'SA Inc.' exposure—trimming/exiting lower-conviction stocks within the banks and retailers and reallocating to higher-conviction names within those sectors. We also initiated a position in British American Tobacco in January for its defensive income and valuation appeal.

In February and March we continued to reduce risk. We exited Glencore and Investec and took profits in Anglo American and other diversified miners. We halved our gold ETF holding and sold out of Tapestry and Agnico Eagle to lock in gains.

Domestic cyclicals, particularly banks, insurers and discretionary retailers, came under pressure from valuation deratings. We remain comfortable with the earnings outlook, especially for financials, though we acknowledge weaker consumer and business sentiment in the near term.

We also rotated some US equity exposure into European names, selectively adding to financials where earnings momentum is improving and valuations are attractive.

Later in the quarter, we continued to raise our cash buffer by further reducing equity holdings, taking profits on winners given that we were heading into the uncertainty of the tariff announcements in the US on 2 April.

We closed the quarter broadly neutral on equities, maintaining a sizable cash buffer for redeployment.

Outlook and strategy

The quarter ended on a sharply different note from how it began. Optimism early in the year gave way to market-wide stress, triggered further in early April by the unexpected breadth and depth of US tariff announcements. While some of this was anticipated, the credibility and persistence of the measures are now under scrutiny. Their long-term implications depend on whether they are ultimately used as negotiating tools or embedded as a source of revenue. Either way, the longer they remain in place, the greater the drag on global growth.

Tariff negotiations with large economies such as China and the EU will be critical over the next two to three months. A partial rollback remains possible, particularly if market stress intensifies. For now, companies with pricing power, margin resilience and adaptable supply chains are better positioned.

The recently announced 30% tariff on South African exports—likely signalling the end of AGOA—was more severe than anticipated. The full impact on growth remains unclear, particularly given the ambiguity around including precious metals. As the SARB assumes, the negative impact may be limited to 0.2–0.3% if precious metals are excluded. If included the drag on growth could be closer to 0.5%.

At the same time, political uncertainty continues. However, the SA budget has been approved and the overall make-up is reasonable (no increase in issuance, a reasonable amount of fiscal restraint and a VAT increase of 0.5% should not aggressively detract from growth). This, on its own, should not translate into a significant sell-off on our bond market or the rand.

Fixed income positioning remains cautious. We maintain no exposure to global bonds, where elevated terminal rate expectations and low yields offer limited value. While this has detracted from short-term performance, we see better risk-adjusted returns in South African government bonds.

We hold a meaningful cash buffer and expect to deploy capital selectively in the months ahead. Valuations in some areas have corrected significantly despite relatively stable fundamentals. We are focused on identifying these dislocations through bottom-up research and will add to high-conviction positions where the risk/reward is favourable.

Volatility remains high and visibility is low. We will resist knee-jerk reactions to these headlines and act only when fundamentals have changed—and where that change is not reflected in valuations. In our view, conviction must be grounded in evidence—not prediction. Anyone who claims certainty about the path of markets, economies or geopolitics in the current environment is likely misjudging the moment's complexity. We remain focused on fundamentals and disciplined in our process, guided by Compelling Forces, Earnings, and Reasonable Valuation.

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