AMPLIFY

Amplify SCI* Balanced Fund

Fund Commentary

January 2021

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*Sanlam Collective Investments
Laurium Capital is a licenced
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International

'Goodbye Donald, welcome Joe!'

The US leadership transition from Republican to Democrat eventually proceeded through gritted teeth and amid high security with the Georgia runoff placing both the Senate and the House in the hands of the Democrats. While the Democratic 'Blue Wave' majority across the US legislature was seen as significant, it could not overcome renewed fears of Covid-19 mutations, slow vaccine rollouts, and lingering fiscal concerns in many major economies. As a result, the strong equity rally of the last quarter of 2020 gave way to a less convincing and messy January return. In developed markets, early enthusiasm and new index highs were followed late in the month by a strong sell-off. In the US, an epic short squeeze in GameStop highlighted social discord, and simmering unhappiness with the narrow financial market gains post the Global Financial Crisis (and especially post Covid-19). Main Street is not happy. And may not remain quiet.

US election result spurs reflation expectations

The result of the US election spurred market expectations for much higher fiscal stimulus in the US, and saw US 10-year yields kick sharply higher from 0.9% in late December to 1.2%. This rapid move was driven by higher inflation expectations in the US (to just above 2%), with real yields trending sideways. The Fed was quick to dampen fears of any imminent change in monetary policy with a number of Fed Governors commenting that any talk of tapering of purchases is premature, causing US yields to pull back from their higher levels, ending the month at 1.1%.

Local

SA, like most emerging markets, had a strong January

In South Africa, the Covid-19 caseload thankfully responded to the level 3 lockdown measures and declined. Nonetheless, a bungled vaccine procurement process and rollout plan kept domestic stocks in check. The SA equity market, however, rallied quite strongly, rhyming with emerging markets, which in general had a better month than developed markets. This turbulence in global risk appetite unsettled the rand, as well as domestic bond yields, but both retraced from their weaker levels towards the end of the month as US yields stabilised. A slightly weaker rand added a return tailwind as the US dollar looked to make back some of its recent losses.

The FTSE/JSE Capped Swix Index was up 3.1%, with strong returns from the resources sector, which returned 4.9% as metal prices and even soft commodity markets held firm. The Industrial index (led by a resurgent Naspers/Prosus on the back of a rally in Tencent) was also up 8.5%. In contrast, the local-only Financial index was down 3.1%, reflecting the local concerns more keenly.

SA tax revenues look better than MTBPS projections

The ALBI returned 0.7% in January. Domestic bond yields have largely settled into a range, whilst waiting for the greatly anticipated annual budget later this month. Positively, tax revenues are on track to outperform October's MTBPS expectations (by at least R35bn), supported by higher taxes from mining companies (on the back of higher commodity prices), as well as better momentum across all of the major tax categories. One of the key questions that will be addressed in the Budget is what the overrun will be used for. It will likely be a combination of funding for the vaccine rollout plan and further injections into struggling SOEs, as well as a likely slightly better Budget deficit outcome.

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Portfolio performance

Contributors and detractors

The Amplify SCI Balanced Fund (the fund) ended the month up 4.2%. The equity positions in the fund contributed 3.6% of the fund's return. Stand-out contributors to performance were Naspers (1.4%) and the investment that the fund has into the Laurium Global ETF Fund, which added a further 80bps. There were very few detractors in the January performance. The fixed income component of the fund added 0.4%, and the property holdings, which were the main detractors in the month, lost 0.2%.

Portfolio positioning

We continue to add to undervalued insurance and healthcare

In terms of equity positioning, we continued to add to undervalued insurance and healthcare stocks on further weakness. We trimmed our Naspers and Prosus positions slightly, taking advantage of the rally. We remain bullish on resources counters despite their strong recent returns, accepting that we may see heightened volatility in the short term, but believing that the medium-term outlook (limited mine supply and easy money) will lend ongoing support to metal prices.

SA is at a fiscal crossroad

Our view on bond positioning and valuations remains similar to where we entered the year – SA finds itself at a fiscal crossroad, and bond investors need to see decisive commitment and action from authorities this year on both fiscal consolidation, as well as growth reforms, in order to address debt sustainability risks. Investors will be looking to the Budget for further guidance on the fiscal consolidation outlook, particularly pertaining to updated forecasts for the public sector wage bill. It is also likely that investors will receive further colour on growth reforms, such as more detail around the implementation and near-term goals of Project Vulindlela, and further detail around the infrastructure fund. Unfortunately, there appear to be further delays with the release of spectrum (seemingly due to court action), there has been little further clarity around mining regulations, and timelines around the security of energy supply are still unclear. We remain positioned slightly overweight duration, to take advantage of the attractive yields and risk premium on offer in the yield curve. But we are cautious around the very real fiscal sustainability risks faced by bond investors, once the window period offered by stronger global risk appetite and search for yield fades.

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