Amplify SCI* Balanced Fund

Fund Commentary | February 2024

Brian Thomas
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Overview

Nvidia boosts technology stocks and overall market sentiment

Global markets continued their strong start to the year, with developed market equities posting another positive return in February. Persistent commentary regarding the narrow concentration of performance in the so-called Magnificent 7 stocks had fuelled investor nervousness in the early stages of the 2024 earnings reporting season, pausing the rally in key growth stocks. While overall earnings largely met expectations, a stronger-than-expected report from Nvidia, the key hardware enabler for AI, blew away investor concerns and provided a renewed boost to the outlook for technology stocks and overall market sentiment. There was additional support from a range of interventions by Chinese authorities seeking to repair investor appetite for listed assets. These measures did not seem to provide a "silver bullet" of stimulus but improved the backdrop in aggregate. The overall geopolitical backdrop remained tense (mainly regarding relations between Russia and the West as well as in the Middle East) but there was no news that notably moved market prices.

US inflation disappoints

With regard to the global bond backdrop, the yield curve pushed slightly higher during the period. US inflation disappointed in the month with the January CPI reading surprising above consensus and causing the rates market to push out the timing of interest rate cuts. Growth remained resilient and labour markets continued to hold up, allowing the US Federal Reserve to send a message that they can be patient in cutting rates until they have greater confidence around the inflation outlook. As a result, developed market sovereign bonds lost ground in the month, with the US 10-year yield rising 34 basis points to 4.25%.

Local equities underperform in February

In South Africa, equities struggled in contrast with the supportive global backdrop. Weak earnings reported by mining and resource companies pressured the SA equity indices. The FTSE/JSE Resources Index lost 6.90% for the month, dragging the overall FTSE/JSE Capped Shareholder Weighted All Share Index lower, which posted a loss of 2.23%.

2024 SA Budget surprises the market

The market nervously awaited the 2024 SA Budget presentation, which surprised positively relative to expectations. National Treasury demonstrated continued fiscal discipline with fiscal deficits unchanged over the forecast period and a growing primary surplus anticipated (starting from this year), which is key to stabilising debt levels. These forecasts are considerably better than market expectations. The potential usage of the GFECRA (the Gold and Foreign Exchange Contingency Reserve Account that sits at the South African Reserve Bank) was keenly anticipated; in our view, we accepted that this mechanism would bring SA in line with other markets but the rules governing future use, clear communication and transparency, and the use of proceeds were going to be critical components in how the market viewed the credibility of the usage. All three of these conditions were satisfactorily addressed in our view.

Despite the bond-friendly budget, SA yields ended the month with a softer tone, driven by the rise in global core yields and investor wariness as market focus switches to the upcoming SA government election in May. SA CPI printed in line with expectations at 5.3%, with the all-important food category moderating to 7.2% year-on-year from 8.5% in December (and a peak of 14% in March last year). SA bonds traded in sympathy with global bond markets, with the All Bond Index returning -0.58% in February. Over the course of the month the rand depreciated by 2.78% against the strong US dollar.

INTELLIGENT IMPACT THAT MATTERS

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Performance and positioning

Performance

The Amplify SCI Balanced Fund delivered a 0.7% gain on the month, benefiting from its international exposure to offshore equities, with the MSCI World Index gaining 7.2% in rand terms over the month. It also benefited from its positions in Richemont, British American Tobacco and AngloGold Ashanti. Notable detractors were Anglo American and Sasol and a combination of the fund's exposure to platinum group metal companies.

Positioning

From an asset allocation perspective, the fund's position is largely unchanged from January. The fund is underweight equities in favour of fixed income against its strategic asset allocation particularly in South Africa, where we believe that the high yields on offer in the government bond markets offer a margin of safety and superior risk-adjusted returns to equity. Offshore equity valuations remain stretched and although domestic South African equities are cheap relative to historic averages, earnings growth remains under pressure constrained by weak economic growth.

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