Amplify SCI* Wealth Protector Fund

Fund Commentary | February 2024

Saul Miller
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"We remain defensively positioned, maintaining exposure to fixed-income assets. From an offshore perspective, our focus is still on shares with strong free cash flows and offering good dividend yields."

Overview

Persistent market resilience

Trends across the main economic regions accelerated in February, particularly in the US where employment data was again resilient. China showed signs of recovery with better-than-expected export data in January and February, however, the outlook remains uncertain. Back home, continued infrastructure challenges and heightened uncertainty ahead of elections weighed on sentiment in South Africa and the annual Budget Speech did little to shift the current muted outlook. The local market is clearly looking for delivery.

US markets soared, achieving new record highs, again largely driven by a small concentration of companies exposed to the AI theme. China's equity market finally rose again, lifting emerging market (EM) performance while Europe and UK equity markets delivered weak performance as company earnings disappointed.

Job opportunities presented in the US

US economic data provided proof of ongoing strength in February as 275 000 new jobs were added to the economy, exceeding analysts' expectations. However, wage growth, which had previously been outpacing inflation, appears to be slowing in February. Inflation, at 3.1% in January, although trending lower, remains well above the US Federal Reserve's 2% target. This suggests expected rate cuts will be implemented "later rather than sooner".

The US earnings season continued into February with many reported company earnings exceeding analyst consensus expectations. This drove another market rally and the S&P 500 was up over 5% for the month. US valuations remain elevated, however, there are specific opportunities within certain sectors. Faded market enthusiasm around the pace of rate cuts drove US bond yields higher over the month while the view that rates will be "higher-for-longer" supported US dollar strength.

Chinese New Year spirit

The Chinese economy has remained relatively sluggish over the last year, but newly released trade data show the world's second largest economy might be recovering with exports in January and February sharply increasing. It's still too early to gauge if this is a temporary surge or a sign of recovery, particularly given the weak outlook on demand for goods, poor consumer confidence and continued geopolitical tensions. Chinese equity markets rallied significantly after the local new year and off the back of new interventions from the Chinese government to support the equity market. Japanese equity markets also rose despite weaker economic growth in the region as the Japanese market continued to gain confidence following business-friendly policy changes.

South Africa lacking activity and action

Economic activity was once again subdued in February and although data showed retail sales lifted year-on-year to end-December, this was off a low (loadshedding) base. Inflation proved sticky and while food inflation is lower than a peak of 14%, it remains high at 7.7% weighing heavily on consumer wallets. Again, we note that the potential for interest rate cuts later in the year may provide some relief, however, with the US stalling rate cuts, a prolonged period of higher local rates is likely.

The annual SA Budget speech did little to change sentiment as a slow economy continues to weigh on the revenue line. Furthermore, more plans with few proof points to support implementation did little to drive a shift in outlook. Positively, loadshedding is slowly improving, evident in comparative figures for the first two months of 2023. And container congestion in Durban port is easing, opening up economic activity. Poor logistics remains a significant challenge to South Africa's growth outlook and the announcement of new leadership at Transnet provided markets with a confidence boost. The appointment of Michelle Phillips as Transnet's new CEO demonstrates a commitment to driving the SOE's recovery plan.

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SA's economic outlook remains subdued and the political landscape uncertain, creating significant risk to investors. However, despite the need for sustained action to reform failing infrastructure, there are some reasonably cheap investment opportunities. Certain offshore-exposed businesses are also trading on reasonable valuations and offer diversification away from domestic challenges.

Performance and positioning

Performance

SA equity markets continued to struggle in February as disappointing company updates and news flow dragged on sentiment (FTSE/JSE Shareholder Weighted All Share Index: -2.2%). SA was one of the worst performing EM markets with a limited number of shares delivering positive performance over the month. Among these, MultiChoice stood out as the top performer following the announcement of a takeover bid by French company Canal+. Miners were the biggest losers as company results revealed the impact of falling commodity prices over the last year. SA listed property was once again the best local performer (FTSE/JSE SA Listed Property Index: +0.8%) while SA bonds posted a loss (FTSE/JSE All Bond Index: -0.6%).

In contrast to local weakness, global markets delivered a stellar February performance. Once again, the US market strength was driven by a handful of companies set to benefit from the AI theme. Chinese markets rallied over the month, lifting EM performance. Sentiment in China is finally improving off the back of stimulus measures.

Positioning

The fund's relatively high exposure to SA floating-rate instruments contributed to performance. Within equity, the fund benefited from exposure to MultiChoice. Shareholders responded favourably to the local media company's announcement of a takeover bid from Canal+, which would potentially unlock significant shareholder value. Exposure to offshore stocks and local companies with offshore exposure contributed to performance. Miners continued to struggle because of lower commodity prices, and exposure to Glencore and African Rainbow Minerals detracted.

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