Portfolio Manager Quarterly Comment

Market review

The Fund delivered some exceptional performance numbers during the second quarter amid heightened levels of uncertainty, and volatility, in the local as well as the international environment. Financial markets started the quarter on the back foot but eventually managed to end the quarter and first half of the year on a stronger note. Locally, general elections, which were held towards the end of May, were the dominant theme determining market direction. The uncertainty around the election and potential outcomes resulted in our local financial markets trading on the back foot for most of April and May, while we subsequently had strong performance from local assets during June. Global markets delivered more mixed results on the back of a number of risk factors impacting markets during the quarter. Equities delivered positive performances as the US equity market reached new all-time highs driven again predominantly by the small number of dominant tech stocks. On the other hand, bond yields traded weaker on both sides of the Atlantic on the back of fewer rate cut expectations priced into markets, despite the European Central Bank (ECB) announcing the first policy rate cut since the onset of the pandemic.

Starting off the second quarter in April we had a surge in the gold price to an all-time high of R2 432/oz towards the middle of the month. This had a positive effect on South Africa's somewhat sluggish FTSE/JSE All Share Index (ALSI), which gained 2.95% during the month even despite the gold price weakness towards the end of the month. South African equities and the rand also benefited from improved sentiment towards emerging markets. Results from local polls suggested a relatively market-neutral outcome to the general election which was to be held on 29 May. Also noteworthy during April was BHP's offer for Anglo American, resulting in a 32.6% increase in Anglo's share price. Other highlights also included firmer iron ore prices, an absence of loadshedding for over 30 days, and reports of progress in logistics planning by new management at Transnet. Following solid gains in the first quarter, the US S&P 500 Index was 4.2% lower at the end of April, also dragging down the MSCI World Index by virtue of the high weighting of US equities in the global indices. Emerging markets were more positive, stimulated by potential signs of a strengthening Chinese economy and regulatory changes. Hong Kong was the best-performing major stock exchange in April, rising by 7.4% month-on-month (m/m). Shares in Tencent reflected the gains, as did its JSE-listed investors Prosus (up 6.7% m/m) and Naspers (up 7.4% m/m), both of which are of course heavily weighted in the ALSI.

During May, global market discussions centred on speculation regarding interest rate cuts, and further excitement around developments in artificial intelligence. In South Africa, investors adopted cautious positions as all attention was focused on the general elections to be held towards the end of the month. Signs of easing core inflation in the US raised expectations that the first interest rate cut from the US Federal Reserve (Fed) could be due during September this year, while on the other side of the pond the ECB acknowledged signs of declining inflation in Europe and flagged its first interest rate cut at the upcoming June meeting. Back in South Africa, the South African Reserve Bank (SARB)'s Monetary Policy Committee (MPC) held the repo rate unchanged at 8.25% at its end-May meeting. This decision was attributed to persistent inflation expectations, despite better-than-expected Consumer Price Index (CPI)

figures for March and April. US investors continued to chase technology shares, pushing the S&P 500 and the Nasdaq to new peaks. Around half of the S&P 500's 4.8% monthly gain came from just four shares: NVIDIA, Apple, Microsoft, and Alphabet. Outside the technology sector, corporate earnings delivered positive surprises, with S&P 500 earnings up 6%. The Chinese government announced new measures to stimulate the economy and support the property sector, but these will only take effect over a longer time period. Meanwhile, the latest manufacturing data showed an unexpected slowdown in activity, as weakness in property prices is dampening domestic demand. In South Africa, dollar weakness early in the month lifted the rand to a recent best level of R18.05/$ and resulted in stronger prices of selected commodities, including gold, platinum, and coal, with a knock-on effect on share prices. The hopeful mood at the start of the month became a more apprehensive one as the results of the elections on 29 May emerged over the following days, showing the African National Congress with a greatly diminished level of support and raising fears of an unstable governing coalition. By the end of May, the South African 10-year bond yield was back to 11.98% and the rand had weakened to its early May level of around R18.80/$.

Global risk sentiment continued to be elevated during June as markets grappled with the growth outlook and the potential for a soft landing. While the tech stocks continued to trend upward, we also had bond yields trade weaker towards the end of the final month of the quarter. Broader asset class returns were more mixed during June with industrial metals and European equities ending weaker while oil prices bounced back quite sharply. The mixed performances can be attributed to the uncertainty created by the unclear path of the growth trajectory as well as the continually shifting policy rate path expectations. Interest rate cuts were again in focus with the ECB delivering the first rate cut since the onset of the pandemic while Canada also delivered their first rate cut. US inflation figures released during the month shows sharply lower core CPI figures, which further suggests interest rate cuts from the Fed should be forthcoming. However, bond markets did not move in tandem with the easing rate expectations and remained elevated as they suggest a more gradual pace of rate cuts should rather unfold. Global bond markets and currencies alike have continued to be driven by political developments, most notably in the US, UK and France. Furthermore, global central banks have started to embark on a cutting cycle in interest rates which will continue to have a major impact on fixed-income returns and broader asset class returns alike. These will continue to be some of the more dominant themes driving markets for the remainer of the year and going into next year.

The All Bond Index (ALBI) delivered a strong return of 7.49% for the second quarter, however, notable that most of the return was on the back of the 5.24% return delivered during June. Inflation-linked bonds (ILBs) also had a better quarter, though still trailing behind nominal bonds. The IGOV Index returned 2.43% for the quarter, while cash as measured by the Alexander Forbes Short-Term Fixed-Interest Index (SteFI) returned 2.06%. Local equities also had a strong quarter delivering 8.19% when looking at the ALSI, while local listed property returned 5.95% for the second quarter. Going forward, we believe there is significant value in South African asset classes. Valuations have been looking compelling for quite some time, and the recent positive outcomes on the political front served to unwind some of the uncertainty premiums priced into local assets. Going forward, we believe nominal bonds should outperform ILBs, in particular when looking at the longer-dated issues, but we believe ILBs to be a compelling allocation as well given the above-average valuations.