

Discovery Equity Fund

Market background

Global financial markets rallied in November, buoyed by growing expectations that the US Federal Reserve (Fed) could change its tough position on interest rates while guiding the economy towards a 'soft landing'. Supporting this notion was the release of key economic indicators out of the US, which pointed to inflation slowing below market expectations and the US labour market showing signs of cooling. In Europe, the European Central Bank (ECB) kept rates on hold, opting to take a cautionary 'wait and see approach' despite inflation in the region starting to moderate. In South Africa, broader risk-on sentiment saw domestic government bonds and equities rally, helping the rand advance against the US dollar. The FTSE/JSE All Share Index closed the month higher, boosted by mining shares which benefited from stronger gold and iron ore prices. Meanwhile, Eskom reinstated Stage 4 loadshedding after a brief respite, with planned maintenance and increased demand expected to cause additional strain on the country's already-debilitated energy system. In other news, SA headline inflation eased to 5.5% year on year (y/y) in November 2023, down from 5.9% in October, and below economist expectations of 5.6%, while core inflation rose to 4.5% y/y above consensus expectations of 4.4%. The South African Reserve Bank (SARB) kept interest rates unchanged in November, noting that inflationary risks for the country remained elevated.

Performance review

For the month, the portfolio marginally underperformed the benchmark.

The portfolio's overweight positions Harmony Gold and Gold Fields were among the largest contributors to relative performance in November, with both counters benefiting from a firmer gold price. Further contributing to performance over the month was the portfolio's overweight position in Naspers, after the company reported a strong trading update, citing improved earnings from its e-commerce investments, particularly Tencent Holdings. Among the largest detractors from relative performance for the month were overweight positions in Old Mutual and Momentum Metropolitan.

Significant purchases over the period included Sanlam and Gold Fields, while significant sales included BHP Group and Harmony Gold.

Outlook and strategy

The portfolio's investment philosophy and process aim to deliver consistent returns for investors. We follow a multi-style investment approach which is dynamically adjusted to ensure that relative risk is actively managed throughout the business cycle. We prefer shares that are trading at a discount relative to the market.

Some of the portfolio's largest overweight positions include Old Mutual and British American Tobacco, while significant underweights include FirstRand Bank and Anglo American. Old Mutual displays strong relative earnings momentum, while British American Tobacco displays strong relative quality. In contrast, FirstRand displays weak relative value while Anglo American displays weak relative momentum.

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