DISCOVERY TARGET RETIREMENT DATE FUND

June 2024

Market context

It was a mixed quarter for capital markets. In the US, another strong run for AI-related tech stocks helped lift equity indices higher. In Europe the European Central Bank (ECB) joined the growing list of G10 banks to start cutting rates, but the announcement of a snap election in France weighed on sentiment towards the end of the period. Similarly, in the UK, the FTSE 100 performed strongly over the quarter, but lost ground in June amid election concerns.
In Asia, Hong Kong and Chinese mainland stocks fell for the second consecutive month in June, with markets lethargic ahead of a July meeting of China's top leaders. However, stocks delivered a positive performance over the quarter. In Japan, the Nikkei rallied on a weakening yen, but was unable to sustain the forward momentum of Q1, over the second quarter.
South African equities closed the second quarter in positive territory, supported by optimism over corporate earnings and the prospect of a market-friendly outcome following the national elections. The economy contracted by 0.1% quarter-on-quarter (q/q) in Q1 2024, missing market expectations and falling below the 0.3% posted in the previous quarter. Main detractors included manufacturing, mining, and construction, as loadshedding continued to weigh on economic growth.
Gold was largely flat in June, ending the month at US$2,327 per ounce, leaving the precious metal up by approximately 4% over Q2 overall.

Performance

Over the quarter the portfolio delivered a positive absolute return.

Key contributors:

- SA equities (banks, retailers, insurers and property); SA bonds
- Semi-conductor holdings TSMC, KLA and ASML as well as our mega-cap tech holdings
- Global industrials that are benefitting from fiscal spend, including Trane Technologies and Schneider Electric
- Naspers and Prosus
- Resources stocks: South32, Anglo American

Key detractors:

- Global stocks outside of the tech sector (healthcare, consumer staples, industrials) struggled as the breadth of the market narrowed during the quarter
- Global bonds
- Bidcorp, on rand strength and a pullback following strong performance

During the quarter we took profits on some of our global bond exposure and brought the proceeds back to SA where we added to select '**SA Inc.' stocks** prior to the election.
In addition, we have added to our preferred equity names on market weakness, including **Autodesk, Canadian National Railways,** and online retailer **Zalando**. We initiated new positions in a Japanese insurer and Danish brewer, Carlsberg.
In terms of sales, we exited **JPMorgan Chase & Co. and ExxonMobil** following strong performance. We halved our China holdings during the March/April rally. We also trimmed our holdings in Anglo American and Bidcorp, following strong gains, and BHP on a poor volume growth outlook.
We held our neutral duration position on **SA bonds** but continue to hold a reduced position in **global bonds**, with small positions in European, Australian and New Zealand bonds.

Outlook

Central banks continue to balance inflation and economic growth. With cooling inflation and slowing economic growth, the US Federal Reserve is expected to cut rates in September, following recent cuts by the Bank of Canada and ECB. These moves have been welcomed by bond markets, but uncertainty has kept many investors cautious. Rate cuts are important for equities in general, and emerging market risk assets in particular, as the dollar tends to weaken which is supportive of emerging market currencies and eases financial conditions, while lower debt servicing costs can boost demand and growth in these often heavily indebted economies.

In South Africa the ANC has formed a Government of National Unit following the May election which did not hand the ANC government an outright majority. The provision of some degree of certainty has been good for both equity and bond markets. While keeping a wary eye on the GNU, investors are now focused on the upcoming earnings season and the possibility of a rate cut in South Africa. SA's corporate earnings base has reset lower over the last year, creating an opportunity of outperformance over the next 12 months.

In the **US**, we continue to see mixed data: while manufacturing data is showing early signs of green shoots, the services sector is slowing, but still in expansionary territory. The labour market is sending mixed signals, but incomes continue to grow, ensuring the economy remains resilient.

In **China** economic data is mixed with consumer spending unexpectedly plateauing in April and May but manufacturing and exports improved. Whether mounting trade tensions will hobble this remains to be seen. The Chinese government's focus on strategic sectors such as renewables, technology and infrastructure will remain, and will be supportive of commodities. Stabilisation of the property sector is key to restoring consumer confidence and is the area that is causing the stop-start recovery.

The portfolio has a small cash balance, which continues to yield an attractive risk-free return. Our equity mix remains tilted towards companies with strong earnings fundamentals at a reasonable valuation and is presently tilted towards South African equities. China and US equities remain on our radar; the coming US earnings season may result in some equity pullbacks which we will take advantage of. Election-related volatility may also create opportunities. China's recovery continues to stutter. Our allocation to SA bonds is supported by a strong yield underpin. We expect to continue to take profits on our global bond allocation in the months ahead, given supportive growth and inflation dynamics. Profits will be cautiously re-invested in equities.