Discovery Equity Fund

Market background

After a highly volatile end to the first quarter of 2023, April proved to be a reasonably calmer month by comparison.

Returns across global financial markets were fairly benign but broadly positive for the month, as the prospect of a slowdown in global economic growth and stubbornly high inflation weighed on investor confidence. For April, global equities as measured by the MSCI All Country World Index returned +1.4%. Developed markets outperformed emerging markets, with the MSCI World Index returning +1.8%, while the MSCI Emerging Markets Index ended the month down by 1.1%. In fixed income, global bonds as measured by the Bloomberg Barclays Aggregate Bond Index delivered a return of +0.4% for the month, largely on the back of positive gains across credit markets.

Concerns that the US may be heading towards a recession escalated after first-quarter (Q1) estimates showed that the US economy had grown by a mere +1.1% quarter-on-quarter (q/q), below market expectations of +2%. The result pointed to a third successive quarter of slower growth, with declines in business investment, inventories and the housing market among the key detractors. On the inflation front, annual inflation (CPI) slowed for a ninth consecutive month to 5% year-on-year (y/y) in March. However, the Core Personal Consumption Expenditure (PCE) Price Index – the US Federal Reserve's (Fed's) preferred gauge to measure inflation – rose by 4.6% y/y.

In the UK, economic data during the month was mixed. Retail sales fell below expectations to 0.9% in March and manufacturing PMI contracted to 47.8 in April – pointing to a second consecutive month of downturn. Meanwhile, consumer prices accelerated above market expectations to 10.1% y/y in March, but core inflation remained unchanged at 6.2%. Turning to the Euro Area, GDP growth expanded by an annualised 0.1% q/q in Q1. Of the region's largest economies, Germany recorded no growth, while France, Italy, and Spain recorded positive growth over the quarter. Consumer inflation in the region increased to 7.0% in April, while inflation remains at elevated levels and above the European Central

Bank's target range, suggesting that policymakers will continue their rate-hiking cycle over the near-to-medium term.

In China, GDP growth accelerated for the third consecutive quarter, advancing by an annualised 2.2% q/q in Q1, ahead of consensus forecasts. Inflation data also came as a positive surprise, printing at 0.7% for March – below market forecasts of 1.0%. The economy continues to show encouraging signs of recovery after the government lifted its zero-COVID policy and policymakers began easing their stance on tech firms and property companies.

In South Africa, high levels of nationwide load shedding continued to weigh on economic activity, with companies in various sectors citing continued power outages as a leading cause behind weaker results. Retail trade fell in February (-0.5%), while mining production contracted for the 13th consecutive month (-5%). Meanwhile, South Africa recorded a trade surplus of R6.9 billion in March, supported by a surge in imports (+31.7%) and exports (+26.9%), with both reaching all-time highs. South African equities closed the month broadly firmer, in line with global markets. In April, both the FTSE/JSE All Share Index and Capped SWIX gained 3.4%. Resources advanced 4.0%, led by gains in precious metals and mining sectors (+14.6%). Industrials added 3.1%, supported by stronger tobacco (+7.2%) and personal goods (+6.4%) sectors. Financials closed 3.4% higher, with real estate investment and services (+8.8%) the standout performer. The FTSE/JSE All Property Index gained 5.8% for the month, while the JSE All Bond Index fell by 1.1%. Cash, as measured by the STeFI Composite Index, delivered +0.6%. In currencies, the rand closed the month weaker against the US dollar, euro and pound sterling.

Performance review

The portfolio underperformed the benchmark for the month.

Detractors from performance included underweight positions in AngloGold Ashanti and Gold Fields. The resurgence of the gold price this year (+9% in US dollar and +14% in rand terms) favoured miners, with AngloGold Ashanti (+49.6%) and Gold Fields (+63.8%) making up the two top-performing shares year to date on the bourse, and placing among the top-five largest gainers for the month.

Offsetting some of these losses was the offshore component of the portfolio, with the weaker local currency providing a further tailwind to these offshore earnings.

Within the local equity component, the portfolio's underweight position in Anglo American was among the largest contributors to relative performance, as was the overweight position in British American Tobacco.

Significant purchases over the period included Gold Fields and Capitec Bank, while significant sales included Richemont and MultiChoice Group.

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 British American Tobacco and Exxaro Resources, while significant underweights include Standard Bank and Anglo American. British American Tobacco displays strong relative quality attributes, while Exxaro displays strong relative earnings revisions. In contrast, Standard Bank displays weak relative quality attributes, while Anglo American displays weak relative earnings revisions.