Please note that the commentary is for the retail class of the Fund.

Performance

The first seven weeks of 2025 continued the trend of the year before: US exceptionalism propelling global equity markets further upwards, buoyed by expectations of a Trump administration creating a more business-friendly environment and driving a significant reset in the precarious US fiscal position. Some cracks began to emerge with the release of the Chinese open-source AI model DeepSeek-R1 in late January, and concerns escalated in the on-again off-again imposition of US tariffs on imports from Mexico, Canada, and China during February. By the end of the quarter, the early gains had unwound, with the S&P 500 Index declining 4% and the ACWI down 1% despite European and emerging markets delivering positive returns. (This was, of course, simply a foretaste of what was to come on Liberation Day – more of which in our Outlook.) Global fixed income markets fared better, reflecting growing risk aversion, with the FTSE WGBI returning 3% for the quarter.

The domestic equity market delivered a positive return for Q1 with the SWIX All Share ending up 6%. This was primarily driven by the precious metal stocks responding to a gold price surging above $3 000/oz and gains in some of the JSE-listed global stocks. In contrast, the share prices of businesses exposed to the domestic economy declined, reflecting concerns over an increasingly strained GNU amid a failed budget. The ALBI returned 0.7% for the quarter, and the rand strengthened slightly against the dollar.

The Fund returned 1.1% for the quarter and 10.8% over the past 12 months, meaningfully ahead of the CPI+3% target. The Fund continues to outperform its target over all meaningful periods with the exception of 10 years, where it is marginally behind target but comfortably ahead of inflation. Since inception, the Fund remains ahead of target.

Portfolio actions and fund positioning

SA equities and fixed income contributed in roughly equal measure to fund returns for the quarter, in addition to a meaningful contribution from the Fund's holding in physical gold. Global equity holdings detracted. During the quarter, we took advantage of the initial strength in global equity markets to reduce exposure, resulting in 2% lower total equity exposure as at end-March, at 37.4% of the Fund. In addition, we reduced exposure to global corporate credit as spreads narrowed. Domestically, we added to inflation-linked bonds as we feel that real yields on offer remain attractive given the upside risks to inflation.

At the beginning of the quarter, we had a currency lock (a long rand futures position) in place of 7%, which we had reduced to 2% by end-March given our lower conviction on the rand being undervalued due to the increasingly fractious domestic environment. The result of all these actions is that the Fund ended the quarter holding more cash, with slightly less global physical exposure (37.4%), but more effective global currency exposure (35.3%) than at end-December. We have retained put protection over 15% of the Fund's global equity exposure.

Outlook

In our December commentary, we highlighted some of the issues we were mindful of in looking towards 2025, including the potential impact of tariffs and whether one could expect the era of American exceptionalism to continue. On the domestic front, we re-emphasised the importance of sound policy execution from the GNU as essential to delivering sustainable economic growth.

These comments turned out to be far more prescient than we would have anticipated. On 2 April, markets were delivered a double-blow: Trump's logic-defying tariff announcement, and the news that the ANC had collaborated with parties outside of the GNU in order to secure approval of the fiscal framework, thereby further jeopardising an increasingly strained relationship with the DA.

The Liberation Day tariffs are to our minds nonsensical, and the escalating risk of a trade war has the potential to undermine not just global trade but also threatens the monetary and geopolitical order. The crude calculations used to arrive at the draconian outputs demonstrate the haste and lack of foresight that has gone into policy formulation:

- There is no cognisance of one of the most fundamental principles of trade economics – comparative advantage.
- There appears to be no appreciation that a current account deficit is a function of a capital account surplus – i.e., the US is dependent on foreign nations' savings to augment its own low savings rate.
- The tariffs only take into account trade in goods and not services, where in many cases the US runs a surplus.

The immediate implication of all of this is clearly a rise in prices–i.e., higher inflation. But it is also very likely to lead to lower growth, and the risk of recession has undoubtedly risen. The policy will result in increased uncertainty amongst capital allocators. The likelihood of significant domestic re-industrialisation is low with only a four-year presidential window ahead. At an aggregate level, the US economy was in good shape with low levels of unemployment – this was not a problem in need of a solution. Whether or not this is intended as an extreme opening position in negotiations remains to be seen, but reciprocal tariffs have been announced by China, and an escalation seems likely.

Domestically, the GNU has been on unstable footing since February when the DA refused to back a budget containing a 2% VAT increase. There has clearly been an escalating level of distrust between the ANC and the DA since, and while at the time of writing it appears as if the coalition may just hold, the relationship between the two major parties has deteriorated to a level where they seem unable to row in the same direction. This bodes poorly for future policy formulation and execution.

The confluence of these events sent equity markets tumbling, and domestic bonds and the rand have sold off heavily. At the time of writing, the S&P 500 is almost 20% lower than its 19 February highs (although still only slightly negative over 12 months) and the rand is hovering close to R20/$.

Events such as these always present challenges, but indiscriminate sell-offs most often provide an opportunity to buy assets at attractive prices, which in turn lays the foundation for superior long-term return generation. The Fund still sits on a healthy allocation to cash and near-cash instruments. In past crises, we have demonstrated our ability to actively allocate fund capital where we see value while at the same time acting to protect against downside. The actions taken in these times have resulted in healthy inflation-beating returns for clients. We don't see why this time around should be any different.

Portfolio managers
Pallavi Ambekar, Charles de Kock and Neill Young
as at 31 March 2025