Discovery Equity Fund

Market background

Global financial markets were broadly positive in March, supported by a resurgence in growth assets after a turbulent period in the middle of the month. News headlines were dominated by the prospect of a global banking crisis, starting in the US with the collapse of Silicon Valley Bank and culminating in Switzerland with the acquisition of Credit Suisse by UBS. These events led to a sharp sell-off in financial sector assets across the US and Europe. In response, central banks and other authorities stepped in to reassure investors of the sector's resilience and overall stability, and calm was restored. China's economy continued to show signs of recovery, supporting metal prices. While in South Africa, a bigger-than-expected interest rate hike and a string of negative economic data releases weighed on the local bourse.

Looking back at the first quarter of the year (Q1), January saw global equity and fixed income markets close firmer, as declining inflationary pressures across key economies fuelled optimism that central banks were approaching the end of their rate-hiking cycles. Sentiment reversed somewhat in February, with 'stickier' inflation prints and a more resilient labour market in the US sparking concerns that rates would remain higher for longer. In March, after the initial wobble around financial sector concerns, growth stocks rallied on the back of falling bond yields, which helped global financial markets close Q1 firmer. The MSCI All Country World Index returned +6.8% for the quarter. Developed markets outperformed emerging markets, with the MSCI World Index returning delivering +7.9% and the MSCI Emerging Markets Index +3.5%. All returns are quoted in US dollars.

Locally, the South African Reserve Bank (SARB) hiked its benchmark repo rate by 50bps in March, above market expectations of a 25bps increase. Annual inflation increased above market expectations to 7% in February, while GDP growth for Q4 2022 contracted by 1.3% q/q, below market forecasts of a 0.4% fall. South Africa's energy crisis continued to weigh on economic activity and growth forecasts, with Standard & Poor's downgrading the country's sovereign credit rating outlook from 'positive' to 'stable', and the IMF projecting a sharp deterioration in the country's near-term growth outlook.

For Q1 2023, the FTSE/JSE All Share Index and Capped SWIX gained 5.2% and 2.4% respectively. Industrials surged 13.6%, while financials lost 0.3% and resources closed 4.7% lower. The JSE All Bond Index gained 3.4%, listed property lost 4.8% and cash, as measured by the STeFI Composite Index, delivered +1.7%.

Performance review

The Fund underperformed the benchmark for the quarter.

At a stock level, among the largest detractors from relative performance over the period were underweight positions in Naspers and AngloGold Ashanti, both of whom benefitted from the easing of China's COVID policy and the subsequent reopening of the economy. Contributing to relative performance over the quarter were underweight positions in Impala Platinum Holdings and Sibanye Stillwater.

Significant purchases over the period included Richemont and BHP Group, while significant sales included British American Tobacco and FirstRand Bank.

Outlook and strategy

The Fund'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 Fund's largest overweight positions include Exxaro Resources and MultiChoice Group, while its significant underweight holdings include Standard Bank Group and Anglo American. Both Exxaro and MultiChoice display strong relative value attributes. In contrast, Standard Bank shows weak relative quality attributes, while Anglo American displays weak relative earnings revisions.