

Discovery Balanced, Moderate Balanced, Cautious Balanced Funds

31 May 2025

Market background

Risk appetite revived in May, supported by easing trade tensions and resilient US economic data. Global equities rallied, with the S&P 500 delivering its best May performance since 1990. The FTSE 100 also gained, helped by solid corporate earnings and a firmer macro backdrop. Technology stocks once again led the charge. Nvidia's first-quarter results exceeded expectations, with revenue rising 69% year-on-year to US\$44.1 billion, driven by ongoing AI demand. OpenAI's US\$6.5 billion acquisition of Jony Ive's hardware startup, io, also drew attention as a bold move toward AI-integrated consumer devices.

Not all asset classes participated in the rally. US Treasuries came under pressure amid mounting fiscal concerns. Mid-month, Moody's downgraded the US credit rating to Aa1 from Aaa, citing rising deficits and the likely impact of extended tax cuts. Long-dated yields jumped, with the 30-year briefly breaching 5.15%. Worries over the fiscal outlook overshadowed earlier optimism from easing trade tensions with China.

In China, the MSCI All China Index rose 2.7% in USD, though sentiment remained fragile. Foreign inflows into mainland equities slowed as global funds reassessed exposure amid geopolitical risks. Domestic investors shifted into local sectors such as healthcare and financials. Looking ahead, the market will be watching for fiscal stimulus from Beijing. While valuations remain appealing, sustained upside likely depends on macro improvement and further easing in trade tensions.

South African assets ended May firmer. The JSE All Share Index hit record intraday highs, buoyed by improved investor sentiment following two key developments: a landmark diplomatic engagement with the US and reduced political uncertainty after the successful passage of the national budget.

The South African Reserve Bank (SARB) cut interest rates by 25 basis points as expected, following a downward revision to its 2025 inflation forecast (now 3.2%). However, the central bank flagged domestic growth concerns, trimming its 2025 GDP forecast to 1.2% amid a softer outlook.

Performance review

The portfolio delivered a positive return in May. It was a strong month, with all asset classes contributing.

Key contributors:

- SA property holdings
- SA equity, in particular 'SA Inc.' with Tiger Brands, Pepkor, Sanlam and The Foschini Group (TFG) rising on good results and trading updates
- Offshore China holdings, including Naspers and Prosus, as tariff tensions eased
- Platinum-Group Metal (PGM) stocks rose, supported by surging metal prices
- SA bonds
- Global equities were strong in US dollar terms, although diluted by rand strength
- 'Big tech' and semiconductor stocks
- Global bank exposure, as cyclical stocks found favour over defensive stocks



Key detractors:

- Gold shares and the GOLD ETF pulled back over the month

We continued to deploy cash to increase equity exposure, adding selectively to areas where we see fundamental strength at reasonable valuations. Locally, we topped up gold shares on weakness, reflecting our positive view on gold's structural role as a portfolio hedge. We also added to British American Tobacco (BAT) after a pullback, supported by valuation and earnings reaching an inflection point.

Offshore, we topped up existing exposure to select technology, industrial and financial names, driven by bottom-up conviction. On the sell side, we exited or trimmed holdings where fundamentals had weakened, rotating into stronger names within the same sectors. This resulted in some portfolio restructuring, with an overall improvement in quality and resilience of earnings.

There were no significant changes to our positioning in other asset classes.

Outlook and strategy

Despite a volatile backdrop and ongoing policy uncertainty, recent data continues to support our base case: the global economy is slowing, but not collapsing. While confidence and sentiment surveys took a hit earlier this year, hard data, particularly around the US consumer and labour market, has proved more resilient. This divergence between sentiment and reality reinforces our conviction that we are in a late-cycle slowdown, not on the cusp of a recession.

The risk of recession remains, particularly if trade tariffs escalate further, but we are not seeing that reflected in corporate results or capex trends. Companies with pricing power, cost discipline and market share potential are holding up well.

Our equity allocation is not driven by momentum or thematic positioning. There is no single dominant theme in this market—it's a blend. Index-level upside is limited, so we are focused on companies with margin resilience and pricing power. We have added selectively to cyclicals in the software space - businesses positioned to take share, as well as to defensives and financials that having earnings tailwinds. It's a tactical, bottom-up approach, guided by fundamentals and responsive to evolving conditions rather than driven by a single top-down macro call.

On the policy front, we may be nearing the end of the US tariff escalation cycle, though ongoing court challenges continue to inject volatility. Tariffs and immigration policy were early headwinds under the Trump administration, but the next phase, potential tax cuts and deregulation, could provide support for risk assets. These proposals have yet to be enacted, but equity markets are already responding positively to the prospect, even as the bond market grows more concerned about the fiscal implications. We continue to hold no global sovereign bonds, given unattractive real yields and a poor risk/reward trade-off.

In South Africa, the market backdrop improved in May. The successful passage of the national budget and meaningful diplomatic engagement with the US buoyed sentiment. The South African Reserve Bank cut rates by 25bps following a downward revision in its 2025 inflation forecast, while reaffirming its inflation-targeting credibility. Local equity strength, especially in 'SA Inc.' names, has increasingly been supported by solid fundamentals rather than sentiment, as seen in names like Capitec.

That said, risks remain. Fixed investment and private-sector capex are still too low. The Government of National Unity must build confidence and credibility while driving growth-enhancing reforms. Until we see more decisive progress, we remain selective in our SA exposure.

We continue to favour South African government bonds over global sovereigns. Local bonds offer attractive real yields, while developed markets remain hampered by stagflationary risks, poor fiscal dynamics and excessive supply. We also maintain positions in gold ETFs, cash and selective equities supported by strong fundamentals and reasonable valuations.

Volatility remains high, but our process is unchanged. We act only when fundamentals shift and markets misprice that shift. In a noisy environment, discipline matters. Our Compelling Forces framework keeps us grounded—focused on fundamentals, valuations, and price behaviour—and helps us stay nimble, not reactive.

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