

Discovery Flexible Property

31 May 2025

Market background

Global equities staged a strong rebound in May, buoyed by easing trade tensions and firm US economic data. The S&P 500 rallied sharply, reflecting renewed investor confidence and improving sentiment toward risk assets. The FTSE 100 also posted solid gains, supported by resilient corporate earnings and a firmer macro backdrop.

Emerging market equities also gained, supported by improving fund flows and recovering commodity prices, particularly in energy and industrial metals.

In South Africa, capital markets ended May broadly firmer, with the JSE All Share Index reaching new record highs during intra-month trading. Investor sentiment was buoyed by two key developments: a landmark diplomatic engagement with the US and a reduction in domestic political uncertainty following the successful passage of the national budget. On the macroeconomic front, headline inflation held steady at 2.8% y/y in April, while core inflation eased to 3.0% y/y – its lowest level since mid-2021. The South African Reserve Bank (SARB) revised its 2025 inflation forecast downward to 3.2%, prompting policymakers to cut interest rates by 25 basis points (bps) as widely expected.

Performance review

For the month, the portfolio outperformed the benchmark.

In the UK, overweights in Hammerson, Shaftesbury and Unibail-Rodamco-Westfield were among the main contributors to relative performance following stronger trading updates. On the local side, Equites Property Fund also added value after guiding earnings 5-7% higher for FY26, benefitting from the recent sale of some of its UK holdings. Overweight exposure to American Tower, meanwhile, weighed on returns as investors took profits on the back of strong performance. Also weighing on performance was our marginal underweight in MAS Plc. The company recently announced the prospect of significant corporate action, including changes to its Board and a potential buyout from PK Investments.

Outlook and strategy

It has been a relatively strong first half of the year for listed property, and we expect much of this performance to continue for the remainder of the year. While most of the rerating has probably already occurred, fundamentals for the sector appear reasonably favourable. Prospects are closely tied to the anticipated economic recovery in South Africa, which is continuing to make progress. Fundamentals have shown clear signs of improvement with positive reversions and lower vacancies now entrenched in performance across most counters. Sectoral performance has also held up relatively well, with the office environment showing signs of having potentially turned a corner. Dividend sustainability has also improved, with many companies restructuring their balance sheets and current dividend streams well covered by operational income. Against the backdrop of moderately declining local interest rates, this should provide a favourable environment for decent returns in 2025. With anticipated income returns in excess of 9% on average, which is likely to be bolstered by some growth and marginal rerating, we see low double-digit returns as an achievable target for the sector this year. We continue to see select opportunities in domestically orientated names exposed to retail and industrial subsectors, while the UK retail names also offer an attractive combination of yield, growth, strong balance sheets and accelerating improvement in fundamentals.