Discovery Target Retirement Date Fund

30 November 2024

Market context

The US election took centre stage in November, with Donald Trump's decisive victory driving global equities higher, led by his home market. US equities hit new highs, rebounding from October losses, as investors bet that the new administration's policies, such as corporate tax cuts and lighter regulation, could boost domestic growth.
European shares posted their first positive month in three, but gains were tempered by concerns that the export-reliant region could suffer from heightened trade tensions.
Chinese markets delivered mixed results. The Hang Seng Index fell on US tariff concerns, while the SSE Composite ended the month slightly higher.
South Africa's FTSE/JSE ALSI closed November slightly lower, weighed down by global trade uncertainties and mixed domestic economic data. Trump hinted at potential trade tariffs on China, South Africa's largest trading partner, while geopolitical tensions in Eastern Europe and the Middle East further dampened investor sentiment. Domestically, October's manufacturing PMI pointed to slowing factory activity, while September's retail sales declined.
Geopolitics was in focus too. Ukraine launched US long-range missiles into Russia, prompting Russia to loosen its nuclear doctrine terms. In the Middle East, a ceasefire agreement was reached between Israel and Hezbollah.
At the sector level, consumer discretionary, financials and tech all performed strongly, however more defensive areas such as materials and utilities lagged. Healthcare stocks were hit by the nomination of vaccine sceptic Robert Kennedy Jr to head the US health department.
Gold declined, primarily due to a stronger US dollar and renewed optimism in equity markets.

Performance

For the month, the portfolio delivered a positive absolute return.

Key contributors:

- In a strong global equity market over the month, standout performers were:
    - Financials, including JPMorgan, Barclays, and Japanese insurer Sompo
    - US consumer-facing: Tapestry, Amazon, US real estate platform Zillow
    - Take Two Interactive and TKO
- SA bonds
- SA listed property
- Discovery, Capitec, and The Foschini Group performed well
- Resource stocks: South32 and Anglo American
- A weaker ZAR benefitted the offshore holdings in the portfolio

Key detractors:

- Semiconductor holdings: MediaTek, TSMC
- PGM and Gold stocks: dollar dominance drove a retreat in these stocks
- China stocks held back on market sentiment, rather than fundamentals

Several changes were made to the portfolio in the month. We took profits on rand hedges including Gold Fields, Richemont, and South 32. We exited Barrick Gold and Shoprite, taking profits.

We deployed the proceeds and cash into existing US-centric names and added Nintendo ahead of its new console launch. We also increased duration in SA bonds during the month.

Outlook and strategy

Markets remain constructive on risk assets as we transition from the US election to the lead-up to the January inauguration. The incoming administration's fiscal and trade policies will be critical, with investors closely watching the quantum and sequencing of policy announcements. While this period may bring volatility, we view it as an opportunity to add selectively to the portfolio, focusing on fundamentals and valuations.

Our base case continues to see slowing growth leading to a soft landing for the US economy. However, the path forward is not without risks. The potential for trade tariffs on China is a key concern, and we are closely monitoring China's response. At the same time, both the EU and China have room to stimulate their economies. With inflation coming down and real incomes improving in the EU, any added stimulus could enhance growth prospects into 2025.

In South Africa, we remain optimistic about SA Inc. names. The two-pot retirement reform, lower interest rates and lower petrol prices are supporting retail activity, as reflected in positive updates from Mr Price, Pepkor, and the banking sector. Black Friday sales numbers exceeded last year's levels, further reinforcing the improvement in consumer activity. Despite these encouraging trends, consensus forecasts have yet to fully reflect the upside potential, creating room for positive surprises. The labour market remains a critical focus, with job data in early 2025 likely to shape the sustainability of the current positive trends.

In China, equities delivered mixed results in November, and the outlook remains tied to the government's fiscal and monetary policy response. We remain cautious about increasing exposure to Chinese equities until further clarity emerges on growth and trade dynamics.

At month-end, equities continued to represent the largest asset class in the portfolio, with selective additions driven by opportunities arising from market volatility. Our equity portfolio is positioned around companies with strong earnings fundamentals and reasonable valuations. In South Africa, improving retail trade and resilient financials support our allocation to local equities. Globally, stock picking will be increasingly critical in 2025, and without a crystal ball at hand, our focus remains on deeply understanding our portfolio companies to navigate potential challenges effectively.

In this environment, where noise and uncertainty dominate, we will remain disciplined and focused on long-term value creation while leveraging tactical opportunities.