Amplify SCI* SA Flexible Equity Fund

Fund Commentary | December 2024

Deon Botha, David Rossouw
Portfolio Managers
Fairtree

"While there is optimism for a stronger 2025, risks remain, and much will depend on the ability of the economy to transition from self-help reforms into tangible growth."

Global overview

The Fed's hawkish shift raises concerns

In December, the ongoing strength of the US dollar (USD) continued to dominate, exerting pressure on emerging markets (EM) and commodities, particularly gold, as we headed into 2025. The US Federal Reserve (Fed)'s stance exacerbated this robust USD trend, signalling fewer interest rate cuts in 2025 than initially anticipated. This hawkish shift has raised concerns about persistently elevated interest rates, with potential ramifications for global growth and financial market valuations. While the US economy has shown impressive resilience throughout 2024, leading to what appears to be a soft landing, questions persist about the long-term effects of higher interest rates. Corporate and consumer refinancing at elevated rates will likely create a delayed impact, with some pain expected in 2025 as these effects ripple through the economy.

Geopolitical risks further compound these challenges as the fragile situations in Europe and the Middle East continue to raise concerns about oil supply chains. A potential revival of tariffs and protectionism could add to inflationary pressures and disrupt global supply chains, putting further strain on the global growth outlook. OPEC+'s decision to delay the revival of shuttered production for another three months failed to lift sentiment, and a stronger USD pressured oil prices.

China pledges to prioritise economic stability

In China, the policy response to the economic slowdown continued to evolve, with the Central Economic Work Conference (CEWC) emphasising the need for more proactive fiscal policies and easing measures. The CEWC has pledged to prioritise economic stability, focusing on boosting domestic consumption and improving housing market conditions. Despite these efforts, the urgency for aggressive stimulus remains subdued, with authorities taking a more measured approach.

Local overview

Can domestic reforms translate into more tangible economic improvements?

Locally, South Africa's economic performance in the third quarter failed to meet expectations, largely due to a sharp contraction in agricultural production. This highlights the fragility of the domestic recovery, as growth for the year remains subdued at around 0.4%. While there is optimism for a stronger 2025, risks remain, and much will depend on the ability of the economy to transition from self-help reforms into tangible growth. The two-pot retirement system and stronger consumer confidence provided some support for the retail sector in December, with early signs of stronger trading and improved sentiment towards consumer-facing companies. Property stocks also showed resilience, supported by rate cuts and a more stable balance sheet outlook.

Market performance

In contrast, resources came under pressure, with the stronger USD weighing on commodity prices. The resources sector continues to battle the twin headwinds of a stronger USD and weaker Chinese demand. Corporate developments were mixed in December. Super Group's acceptance of a takeout offer, with proceeds to be distributed as a special dividend, was a notable positive. FirstRand's legal challenges related to the UK motor finance case remain an overhang, though the potential for an appeal provides some optimism. Absa's results were better than expected.

Positioning

In conclusion, while global risks remain elevated, the South African market's self-help story continues to unfold. The fund remains selectively positioned, focusing on stocks with strong earnings potential and underappreciated growth stories, and is ready to capitalise on market dislocations as they arise in 2025. The key will be how quickly domestic reforms translate into more tangible economic

INTELLIGENT IMPACT THAT MATTERS

Amplify SCI* SA Flexible Equity Fund

Fund Commentary | December 2024

Deon Botha, David Rossouw
Portfolio Managers
Fairtree

"While there is optimism for a stronger 2025, risks remain, and much will depend on the ability of the economy to transition from self-help reforms into tangible growth."

improvements and whether global factors, such as higher rates and geopolitical risks, continue to weigh on the investment landscape.

Disclaimer

Sanlam Collective Investments (RF) (Pty) Ltd ("SCI") is a registered and approved Manager in terms of the Collective Investment Schemes Control Act. Collective investment schemes are generally medium- to long-term investments. Past performance is not necessarily a guide to future performance, and the value of investments/units /unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the Manager on request. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. The Manager does not provide any guarantee with respect to either the capital or the return of a portfolio. The manager has the right to close the portfolio to new investors in order to manage it more efficiently in accordance with its mandate. Income funds derive their income primarily from interest-bearing instruments. The yield is current and is calculated on a daily basis. If the fund holds assets in foreign countries it could be exposed to the following risks regarding potential constraints on liquidity and the repatriation of funds: macro-economic, political, foreign exchange. The Manager retains full legal responsibility for the cobrand portfolios. Collective investments are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Forward pricing is used. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-div date. Performance is calculated for the portfolio and the individual investor performance may differ as a result of initial fees, actual investment date, date of reinvestment and dividend withholding tax. Amplify SCI* SA Flexible Equity Fund maximum fund charges include: Manager initial fee (max.): 0.00%; Manager annual fee (excl. VAT): 0.95%; Total Expense Ratio (TER): 1.12%. The Manager retains full legal responsibility of the third-party portfolio. The registered name of the fund is Amplify Sanlam Collective Investments SA Flexible Equity Fund.

*Sanlam Collective Investments
Fairtree is a licenced financial services provider
(FSP no: 25917)

INTELLIGENT IMPACT THAT MATTERS