momentum
multi-manager

Quarterly investment report

Momentum Investments Target Portfolio Range

Q1 2025

Introduction

Assessing investment returns in an outcome-based investment context

The Momentum Investments Target Factor Portfolio Range is managed in terms of our outcome-based investing philosophy, where we design the portfolios to maximise the probability of achieving the inflation-plus return target of each portfolio over the relevant period while continuing to meet the portfolios' risk targets. To achieve this, our portfolio management approach conceptually starts at an (multi) asset class level, then progresses to the identification of specific investment strategies within each asset class (if appropriate) and finally ends up in the selection of (potentially more than one) investment mandates awarded to investment managers that will implement the desired investment strategies.

Given this outcome-based investing framework, when assessing the returns of the Momentum Investments Target Portfolio Range, it is important to start by looking at the returns from the portfolios against their inflation-related targets. This allows us to answer the question: did we achieve our target over the most recent relevant period?

We then assess these returns relative to this target in terms of the following:

- The returns provided by the asset classes included in the portfolios
- The returns from the building blocks that provide the asset class exposure for the portfolio against their asset class (or strategic) benchmark. This in turn is explained by:
    1. The returns from the investment strategies (or styles) used in the building block (if any)
    2. The returns from the investment managers that were awarded the mandates used in each of the building blocks

This quarterly review thus starts with the assessment of the investment returns generated by the portfolios against their targeted investment outcomes over the most recent periods. The next section focuses on the economic environment and the returns generated by the asset classes (beta) for the most recent quarter, measured against our average real return expectations for each asset class. We review the returns from the building blocks and the underlying investment managers against their strategic investment benchmarks.

Economic overview

Q1:2025

Sanisha Packirisamy
Chief economis

The inauguration of Trump and his subsequent policy changes were the dominant driving forces for financial markets throughout the first quarter of 2025. As the barrage of Trump's executive orders that aggressively transformed the geopolitical and global trade landscape gained momentum during the quarter, financial market uncertainty about the implications of his actions increased investor anxiety. The initial investor interpretation of the proposed Trump campaign policy mix — comprising higher tariffs, tighter immigration controls, deregulation, and tax cuts — was that it would be broadly reflationary over the medium term, with expectations of stronger US economic growth accompanied by a moderate rise in inflation. However, market focus in the first quarter of this year increasingly pivoted towards the near-term downside risks for the US and global economies, particularly the adverse growth implications of substantial tariff increases. This shift has elevated concerns around a potential recession or a stagflationary environment globally, marked by significantly weaker growth alongside higher inflationary pressures. As a result, the more growth-supportive components of the policy agenda, including deregulation and prospective tax relief, have receded in prominence within the current investment narrative.

Against this backdrop, a more risk-off market sentiment prevailed as the first quarter progressed. As a result, global equities meaningfully underperformed global bonds in the quarter, with global bond returns flat versus negative global equity returns.
As the perceived ultimate global safe-haven asset, US bonds performed exceptionally well in the quarter, with 10-year yields falling by 31 basis points (bps). In contrast, other developed market (DM) bond yields generally rose in the quarter, with European 10-year yields up 34 basis points. The latter was in direct response to the German parliament's relaxation of the country's strict 'debt brake' rules to substantially boost future defence and infrastructure spending in a major policy shift that should underpin economic activity in the coming years. Within the global equity space, the standout trend in the quarter was the large discrepancy between US equity returns, which were sharply negative, and European equity returns, which were significantly positive. US equity returns were also negatively impacted during the quarter by a significant sell-off in large technology stocks.

Despite some rand appreciation in the first quarter of 2025 (primarily due to US dollar weakness), SA asset classes strongly outperformed global assets in rand terms. On the back of sharp increases in gold and platinum prices, as the dollar weakened and trade tensions intensified, the SA resources sector had a very robust performance, supporting the overall SA equity market. In contrast, the rise in SA bond yields (10-year yields up by 32 basis points in the quarter) as worries about global risk appetite and local political stability surfaced, had a negative bearing on both SA-listed property and the financial sector, with both down in the quarter.

For a detailed economic outlook by our chief economist, Sanisha Packirisamy, please click **here**.

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Portfolio management
Q1:2025

Mohammed Sibda
Portfolio manager

There were no material changes to portfolio positionings during the quarter. In early April, however, we reduced global bond and global cash exposures. These asset classes provided protection during the fallout and also benefited from the Rand's weakness. The proceeds were switched into local equity and local cash. No other changes were made as we are mindful of further market weakness given the economic uncertainty.

We are also comfortable with our overall positioning as our portfolios are diversified across asset classes, geographies and strategies. We will, however, continue to look to take advantage of market volatility.

Portfolio Performance Overview

The Target Range underperformed over the quarter and 12 months.

The underperformance is explained by:

The local equity building block's underperformance during the first quarter (2.8% vs. 5.9%). The main detractors from performance were the underweight positions to gold counters and Richemont.

The underweight local equity position during the shift to the new long-term SAA has also contributed to some of the Factor 7 portfolio's underperformance.

VIEW LATEST FACT SHEETS

Asset class returns
Q1:2025

Herman van Papendorp
Head: Asset allocation

The first column of the table below reports the returns for the asset class benchmarks for the first quarter of 2025. The next column highlights the returns for these asset classes for the previous year. These one-year returns are converted into real returns by deducting inflation (3.1%) for the year. The final column in the table contains the returns above inflation we expect to get (on average) for these asset classes for a full market cycle.

For a detailed financial market outlook report from the Head of Asset allocation, Herman van Papendorp, please click **here**.

Asset class	Q1 2025 returns	Nominal returns for the previous 12 months	Real returns for previous 12 months*	Expected real return (p.a.)
Local equity (Capped SWIX)	5.8%	22.9%	19.7%	5.8%
Local bonds (ALBI)	0.7%	20.2%	17.0%	3.3%
Local listed property (SAPY)	-3.5%	19.8%	16.7%	7.0%
Local ILBs (ILBI)	0.6%	8.9%	5.8%	2.8%
Local cash (SteFI)	1.9%	8.3%	5.1%	1.3%
Global equity (MSCI ACWI)	-3.7%	4.4%	1.2%	6.5%
Global bonds (WGBI)	2.6%	2.1%	-1.0%	-0.3%
Global property	-0.7%	1.8%	-1.3%	4.0%
US dollar/rand**	-2.5%	-3.0%		
SA CPI*	**1.3%**	**3.1%**		

*CPI is lagged by 1 month
**A positive/negative value here reflects the effects of a depreciation/appreciation of the rand against the US dollar on global asset class returns in rand terms. As the rand gets weaker/stronger, the returns of global investments get better/worse from a local investor's perspective.

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Building block Return assessment

Q1:2025 Commentary

As explained above, our outcome-based investment philosophy starts at the asset class level and then goes down to an investment strategy (if appropriate) and investment mandate level within each asset class. We thus construct building blocks that reflect our selected investment strategies and managers that were awarded the mandates to implement these to either improve on the returns of the asset class or manage its risk profile.

Local equity building block

The JSE Capped SWIX Index posted gains of 5.8%, heavily driven by the Resources sector, which delivered a return of 30%, benefiting from soaring gold and PGM prices. Industrials also delivered a positive return of 3.1%, while Financials and property were in the red with -1.8% and -4.2% respectively.

This resulted in the building block experiencing a difficult quarter, underperforming with a return of 2.8%. The underlying Trending, Value and Quality components delivered a return of 3.4%,1% and 0.6% respectively.

The Trending Equity component is assertively positioned towards shares demonstrating strong price and earnings momentum. This focus resulted in overweight exposures to the Financial and Property sectors, coupled with underweight exposures to Resources and Industrials. Within these sectors, the component specifically favoured Gold Mining stocks and Banks and Insurance companies, while being underweight in General Mining, Platinum, Telecommunications, and Financial Services stocks.

The Value Equity component, in contrast, seeks shares exhibiting strong value characteristics, including favourable price-to-book and price-to-sales ratios, as well as attractive earnings and dividend yields. Similar to the Trending component, it was overweight in Financials and Property and underweight in Resources and Industrials. However, its specific preferences lie with Energy, Chemicals, Paper, Iron & Steel stocks within Resources, Telecommunication stocks within Industrials, and Banks within Financials. It held underweight positions in Gold, Platinum, and Retail stocks.

Finally, the Quality Equity component focuses on shares of companies displaying strong quality attributes, defined as being both profitable and stable. This strategy led to a distinct positioning with a material overweight exposure only to the Financial sector, while holding underweight exposures in Resources, Industrials, and Property stocks. The component favoured Food, Beverage & Tobacco stocks within the Industrial sector and Banks within the Financial sector, while specifically maintaining underweight positions in Gold and Platinum mining stocks.

Local property building block

The SA Listed Property Index (SAPY) and the All-Property Index (ALPI) recorded a total return of -3.5% and -4.3%, respectively, for the quarter ending 31 March 2025. Year-to-date, SA-listed property has experienced a pullback following a strong performance in 2024, in line with a broad sell-off in global bond markets. This weakness was exacerbated by rising global trade tensions, increased economic uncertainty, and shifting expectations around monetary policy.

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Return assessment

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In March, several central banks in advanced economies, including the SARB, held monetary policy meetings, all of which highlighted the risks posed by trade tariffs to their forecasts.

The building block delivered a negative return of -4.0% in the quarter, which was marginally ahead of the benchmark return of -4.3%.

Local real return portfolio

The Real Return portfolio delivered 2.6% for the quarter. Prescient delivered a return of 4.2% for the quarter, outperforming its CPI + 3% benchmark (2.0%). Performance benefited from the SA equity rally in March. The fund employs a strategy using index options for downside protection, with adequate equity exposure at ~30.1%. The portfolio held substantial nominal bonds (~57%), money market (~0.6%), inflation-linked bonds (~7%), and infrastructure debt (~5%).

Sanlam delivered a return of 1.2% for the quarter. Performance was driven by fixed income assets, given still attractive real yields in enhanced cash (CPI+4-5%) and bonds (up to CPI+8%). Equity exposure was further reduced during the quarter in favour of fixed income. Nominal bonds are preferred over ILBs, and the funds remain cautious on local listed property due to high bond yields.

The local bond building block

Q1 was a difficult quarter for fixed income asset classes as both nominal and real yield rose across the board. Nominal bond and ILB yields moved higher, dragging total returns down as a result, with the ALBI (0.70%) and the IGOV (0.63%) struggling to eke out positive returns. The high beta asset classes were volatile with listed property returning -3.51% and the ZAR surprising to the upside with a 2.76% positive return. Cash (STeFI) was king on a risk-adjusted basis, returning 1.89% for the quarter.

The global economy remains highly uncertain, with escalating trade tensions and shifting geopolitical dynamics. Economic growth prospects are unpredictable, though Germany's increased investment in security and infrastructure is expected to support European growth, while China's stimulus measures aim to bolster domestic demand.

In the United States, economic sentiment has been volatile. A strong start to the year, marked by rising stock prices and a stronger dollar, has given way to concerns over tariffs and policy uncertainty, leading to weaker growth expectations, a depreciating dollar, and declining stock market gains. Meanwhile, asset prices in other economies have been more resilient, with most major currencies appreciating against the dollar.

Inflation in advanced economies remains elevated, with headline and core inflation exceeding 2% in the US, Euro area, UK, and Japan. While some policy adjustments by central banks are anticipated, interest rates are expected to remain high for an extended period due to persistent inflation risks.

In South Africa, GDP growth improved in Q4 2024, driven primarily by household consumption, supported by lower inflation and pension fund withdrawals. However, overall growth was weaker than anticipated, with several sectors underperforming. Economic growth for 2024 was recorded at 0.6%, slightly below expectations. The 2025 growth forecast has been revised downward to 1.7%, reflecting weaker demand and ongoing supply-side constraints. Risks to growth remain skewed to the downside.

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It is the view of the South African Reserve Bank (SARB) that inflation, while still within the lower half of the target range, has risen slightly in recent months. Goods inflation remains low but is expected to be temporary, whereas services inflation is somewhat higher yet remains below the 4.5% midpoint target. Revisions to the Consumer Price Index, proposed VAT increases, and shifts in global oil prices contributed to a slightly lower inflation outlook, with headline inflation projected at 3.6% for 2025 and 4.5% for 2026. The balance of risks to inflation remains tilted upward in the medium term.

In this context, the Monetary Policy Committee (MPC) of the reserve bank decided to maintain the policy rate at 7.5%. Four members favoured this decision, while two members preferred a 25 basis-point cut. Although South Africa has experienced improving investor confidence, reduced risk premiums, and lower bond yields, global economic instability and domestic uncertainties present risks that warrant a cautious policy stance The MPC reviewed multiple external scenarios, including a potential US slowdown, which could benefit South Africa through a weaker dollar and higher commodity prices, improving terms of trade and strengthening the rand. Conversely, the potential loss of AGOA benefits and the imposition of tariffs on South African exports could weaken trade performance, lower growth, and heighten inflationary pressures, necessitating a more restrictive policy response.

The MPC remains committed to ensuring price stability and well-anchored inflation expectations. Continued structural reforms, prudent debt management, improvements in network industries, and aligning wage growth with productivity are essential to fostering economic resilience.

The GDP forecast for Q1 2025 stands at 0.4% (quarter-on-quarter, seasonally adjusted), with Q2 expected at 0.5%. Annual growth for 2025 has been revised slightly downward from 1.8% to 1.7%. The MPC will continue to assess economic developments on a meeting-by-meeting basis to ensure appropriate policy adjustments. The SARB has previously mentioned that enhancing domestic economic conditions necessitates prudent public debt management, improved efficiency in network industries, controlled administered price inflation, and real wage growth aligned with productivity gains.

All the bond sectors delivered weak absolute performances for the quarter. The 1-3-years sector was the best-performing sector with a return of 2.08%, The 3-7-years sector had a return of 2.02%, the 7-12-years sector returned a mere 0.87%, whilst the 12+ years sector was the weakest performer with a negative return of -0.69%.

For the quarter, the portfolio yielded a return of 0.97%, thus outperforming the ALBI benchmark at 0.70%. The large overweight position in the 7-12-years sector (94.84% against the ALBI's 35.17%) contributed marginally to the relative outperformance, whilst the underweight position in the 12+-years added to performance (zero against the ALBI's 32.87%) as this was the weakest performing sector for the quarter. The exposure to ILB's as well as Listed Property remained at zero.

Local cash building block

The monetary easing cycle continued in Q1, with a 25bp cut in the repo rate at the Jan meeting. This move by the authorities takes the repo down to 7.50% (prime at 11.00%), as they inch policy towards neutral from the current restrictive setting, which is much more appropriate for the benign growth and

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stable inflation environment we are experiencing. The traded money market responded accordingly, with rates moving lower. The 3-month Jibar rate declined 19 bps to 7.56%, while the 12-month rate declined less significantly, by 3 bps to 8.09%. Based on these Jibar rate levels the total return for the STeFi Composite Index was 1.89% for the quarter.

Credit spreads have compressed significantly, led by the banks but increasingly everything else following. Investors are not really being compensated adequately for taking term credit risk, and investment managers preferred shorter dated, more defensive exposure. There is not a lot of opportunity by way of new issuance or further spread compression at the moment.

For the quarter, the building block delivered a return of 2.24% compared to 1.89% for the SteFI benchmark.

For the year, the building block delivered a return of 9.87% against the SteFI benchmark of 8.28%. It consistently met its objective of capital preservation by maintaining positive returns on a one-year rolling basis. Both investment managers had a high exposure to floating-rate notes, which provided a fair degree of liquidity, while also providing above-benchmark yields.

Global equity building block

The first quarter of 2025 marked the beginning of a new era, both geopolitically, as the Trump administration reshapes the global order, and economically, with nationalism replacing globalisation. Trump 2.0's sweeping policy changes – tariffs, deregulation, and protectionism – have heightened uncertainty, damaging consumer and business confidence and raising recession fears. March's market performance reflected this growing unease. A wave of new tariffs and escalating trade tensions has weighed on investor sentiment, while the US has reinforced its focus on China as its primary geopolitical adversary. European allies face mounting pressure to increase defence spending, with Germany taking extraordinary steps to loosen fiscal constraints and fund military expansion. Equity markets saw increased volatility amid these shifts. The combination of tariff uncertainty and concerns over US AI competitiveness extended the sell-off in megacap tech. The MSCI World declined by -4.5% in March, with the 'Magnificent 7' falling by -9.7%. The S&P 500 dropped -5.7%, erasing year-to-date gains. Chinese equities continued to rally, with MSCI China up by 2.0% in March and 15% YTD, as policy easing, regulatory support, and AI optimism boosted sentiment.

Against this backdrop, the Global Equity Building block delivered a negative return of -3.6% for the quarter, ahead of the benchmark returns of -3.8%.

Global property building block

Globally, the FTSE EPRA/NAREIT Developed Rental Net Total Return Index (the index) recorded a net total USD return of 1.5% for the quarter. The best performing listed real estate market for the quarter was Japan, which recorded a total USD return of 9.1%. Australia recorded the lowest total USD return of -0.9%. The best performing global sectors for the quarter were Healthcare at 15.6%, Gaming Net Lease at 11.5%, and Traditional Net Lease at 10.6%, while the worst performing sectors for the quarter were Data Centers at -15.6%, Hotels at -12. 7% and Lab Space at -3.5%. The Rand strengthened slightly against a weakening USD, while weakening somewhat against the Euro and Pound.

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Against this backdrop, the Global Property building block delivered a negative return of -0.9% for the quarter.

Global fixed income building block

The first quarter of 2025 saw a significant shift in the global macroeconomic landscape, marked by rising divergence across regions. US exceptionalism came under pressure as heightened policy uncertainty and political risk triggered a drop in sentiment and revived recession fears. In contrast, Germany's fiscal policy pivot under a new incoming administration led to an improved sentiment across Europe. The German parliament approved the relaxation of strict debt limits, allowing defence and security spending to bypass budget constraints and establishing a €500bn infrastructure fund over 12 years. This triggered the largest daily jump in Bund yields since reunification in 1990, although markets partially recovered by quarter-end amid renewed tariff concerns ahead of US "Liberation Day." US Treasuries outperformed as weaker economic data drove yields lower.

In corporate credit, US dollar-denominated investment grade and high-yield bonds outperformed their euro counterparts. In the UK, gilt yields edged higher as stagflation concerns and fiscal vulnerability, highlighted in the Spring Statement, weighed on sentiment. In Asia, Japanese bond yields rose on stronger growth and inflation, while China's deflationary backdrop kept yields subdued. Overall, regional macro policy changes drove pronounced divergence across fixed-income markets. The Rand strengthened slightly against a weakening USD, while weakening somewhat against the Euro and Pound.

Against this backdrop, the Global Bond building block delivered a negative return of -0.1% for the quarter.

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Conclusion

We are mindful of the current economic environment and market volatility. We will continue to manage the portfolios prudently, ensuring that they are well diversified. Our focus is on the long-term objectives, and as such, we will resist making any knee-jerk reactions but will rather look for opportunities to increase the probabilities of achieving the stated portfolio objectives.