

Discovery Flexible Property

30 April 2025

Market background

April was dominated by volatility after the US announced sweeping trade tariffs, triggering a sharp sell-off across global equities and bonds. Markets steadied by mid-month after the US delayed some retaliatory measures by 90 days, President Trump softened his tone, and policymakers reaffirmed their commitment to institutional stability. US macro data held up relatively well – jobless claims and PMIs remained solid – helping to ease recession fears.

Growth assets posted mixed returns over the month. US stocks tumbled over 10% in two days before rebounding strongly to end just 0.7% lower. European equities held up better, buoyed by exporters and banks. EM equities gained slightly, helped by selective tariff exemptions and dollar weakness. South African equities rebounded strongly to close April firmly in positive territory.

Domestically, gold miners were among the standout performers as safe-haven demand continued to drive gold prices higher. On the political front, the ongoing budget dispute between the ANC and DA culminated in the Western Cape High Court ordering the suspension of National Treasury's proposed VAT hike. Finance Minister Enoch Godongwana is expected to present a revised fiscal framework towards the end of May.

Performance review

For the month, the portfolio outperformed the benchmark.

Overweight in the South African-focused counter, SA Corporate was the most significant contributor to performance. The company's results released in mid-April brought some positive surprises in the shape of an improving residential portfolio, sweetened further by positively revised income expectations from the Zambian joint venture. Also contributing to relative performance was the portfolio's exposure to German residential counter, Vonovia, and German mixed-use workspace company, Sirius Real Estate.

Outlook and strategy

We expect a decent year for local listed property in 2025. 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. Any disruptions, as we saw in the early part of this year, will impact sentiment in the short term. However, fundamental trends such as higher competition for space due to limited supply are likely to persist and lead to reduced negative reversions and, therefore, growth in rental income. 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.