

# Peregrine eyes market shifts amid political and economic uncertainty

After one of its most successful years in a decade, Peregrine Capital is taking a cautious yet opportunistic outlook to navigating local and global markets

Peregrine Capital's hedge funds had a productive 2024, with its High Growth and Pure Hedge funds delivering a respective net 22% and 15.8%, one of its strongest years in the past decade.

"The performance was particularly gratifying given the challenges of navigating significant macroeconomic events, including the South African and US elections," says CEO and portfolio manager Jacques Conradie. "Our job now is to keep up our intensity and focus as we identify profitable ideas for the portfolios. We expect a volatile and exciting time in the markets."

The flagship Peregrine Capital Pure Hedge H4 QI Hedge Fund, which launched in 1998, has added a net annualised 18.91% since then, with no negative years, compared with 9.75% from the SA Multi-Asset Low Equity category and 5.47% from CPI.

The higher-risk Peregrine Capital High Growth H4 QI Hedge Fund has returned a net annualised 23.14% since launch in 2000, compared with 10.51% from the SA Multi-Asset High Equity category and 12.1% from the FTSE/JSE Capped SWIX All Share Index.

Conradie notes that local equity markets were generally weaker in the final quarter of 2024, as euphoria after the formation of the Government of National Unity (GNU) post the May elections has been replaced by tempered optimism as some of the key challenges of turning South Africa's fortunes around became evident.

Six months on from the election and the broad coalition is still holding, bringing substantially improved sentiment. But this has yet to translate into a material rebound in growth rates. Service delivery, water insecurity and high unemployment are among the ongoing concerns, while there have been signs of improvement – from a low base – with Eskom, Transnet and Home Affairs, as well as a meaningful decline in the cost of South African government debt post-election.

"We were excited about valuations going into 2024 and it was a really good year, but a lot has changed since then and the outlook is not certain," says Conradie. "South Africa has had a big re-rate and we haven't



Jacques Conradie

yet seen it make much of a difference in company results."

"We have reduced our South African exposure in the past three to four months until we get clarity on the outlook. We still want to see an improvement on the ground; so far there has been no material step-change."

In offshore markets, they note that US equity markets rallied strongly in the final quarter as a second Trump presidency was confirmed in November, while European markets stagnated and Chinese equities gave back some of their third-quarter gains made on the hopes of significant government stimulus.

In particular the team is looking forward with great interest to seeing what the impact of the new Trump presidency will have on the US. Globally Artificial Intelligence (AI) remains the major theme driving international markets and the team retains exposure to select big names, while also looking for new opportunities where companies stand to benefit from the fast evolving mega-trend.

"Global markets are betting on a swathe of deregulation, government expenditure cuts and higher economic growth rates aided by AI-related productivity gains in the year ahead," said Conradie. "It has become extremely clear how excessive regulatory intervention in the EU has stunted innovation in that economy, dragging down growth and economic prosperity. If the newly established Department of

Government Efficiency in the US successfully achieves its lofty ambitions to reduce government spending and materially cut onerous regulations, it may set the US up for accelerated productivity growth in the decades to come."

Conradie adds that the wave of AI innovation has thus far greatly benefited large technology companies, many of whom are still founder-led and have the deep financial resources needed to build data centres and acquire cutting-edge chips.

Looking ahead to 2025, Peregrine Capital has realised profits on some positions and currently sits at slightly below-average levels of market exposure.

"Global market multiples are above long-term averages, and we feel that slight caution is warranted," says Conradie. "We have a portfolio of attractive opportunities and continue to seek new ideas. We are confident that our consistent process and investment philosophy will continue to generate interesting and fresh ideas."

On the business side, Peregrine Capital added four new investment analysts during 2024, also growing the team in other areas.

It has surpassed R25 billion in assets under management, keeping a close eye on liquidity in all its portfolios.

"One of the benefits of being more visible in the market is that we are attracting some of the best and brightest young talent in South Africa," says Conradie. "Markets are a competitive game and, at its core, our business is driven by having the very best people, so our ability to attract exceptional talent sets the foundation for an exciting future."

"We expect a super exciting few years ahead. There will be lots of opportunities to generate alpha," he says. "A second Trump presidency in the US is likely to introduce significant volatility for financial markets the world over. It promises to be a year where active management and careful stock selection are rewarded. Our team remains excited about the opportunities and challenges ahead, and endeavours to continue compounding investor capital at the best possible rate, employing the same tried-and-tested methods we have used for 26 years."