Mining & Resources: Rotation Beneath the Surface

After a year dominated by precious metals, particularly Gold and PGMs, the resources sector is beginning to show early signs of rotation towards diversified miners and base metals. While this transition remains tentative, it has started to reflect in both equity performance and positioning, as investors look beyond defensive havens toward cyclical recovery themes.

Positioning Overview

Base Metals – Turning the Corner

We remain overweight base metals, primarily copper and aluminium, through Glencore and South32 (new addition).

The sector is benefiting from tight supply dynamics despite a still-sluggish global macro backdrop. Copper production disruptions and aluminium's constrained capacity growth — particularly China's self-imposed 45 Mt cap — have created a favourable setup ahead of any cyclical upturn. As global growth stabilises, we see further upside for both metals.

Glencore offers undervalued, leveraged exposure to copper, optionality on a recovery in coal, and potential upside from M&A activity.

South32 provides geared aluminium exposure at a discounted multiple. With manganese operations at Gemco now restarted, a strong balance sheet, and multiple growth projects receiving little credit in current valuations, we see attractive risk-reward potential.

Iron Ore – Selective Participation

We maintain a selective approach to iron ore exposure. While we expect short-term seasonal strength, the medium-term outlook remains challenged by significant supply growth and structurally declining Chinese steel demand.

We are therefore overweight Afrimat, where we see substantial value in its diversified operations beyond iron ore (Lafarge Cement in particular), and underweight BHP and Kumba, where earnings are more dependent on iron ore.

PGMs – Constructive but Near-Term Cautious

We are constructive on the longer-term PGM outlook, underpinned by tightening supply fundamentals and a likely transition from destocking to restocking. However, following a strong price recovery, share valuations now reflect much of this optimism.

We are therefore positioned close to equal weight for the time being, awaiting more attractive entry levels to add exposure.

Gold – Balancing Tailwinds and Cycle Risks

Gold's remarkable run has been supported by persistent macro tailwinds — de-dollarisation, central bank buying, and U.S. fiscal pressures. However, risks are building this is now one of the longest gold cycles on record, and valuations relative to other commodities are stretched.

We are tactically managing our exposure between equal weight and a small underweight, ready to move more decisively underweight when signs of a cycle turn become clearer. Our preference remains AngloGold, given its strong free cash flow, operational excellence, conservative balance sheet, and disciplined capital allocation.

We are more cautious on Harmony Gold, where elevated capex requirements will likely weigh on cash generation and heighten downside risk in any gold correction.

Sappi – Asymmetric Upside

Sappi is a new overweight position and one of the most compelling turnaround opportunities in the Resources sector. Management has structurally reshaped the business, shifting from graphic paper toward higher-margin packaging and dissolving wood pulp (DWP).

Despite this progress, the share price remains depressed after a capex cycle that coincided with weak DWP prices. With capex now normalising, PM2 ramping up, and DWP prices recovering, free cash flow yields could reach 20–30%. Relaxed covenants further reduce risk, offering asymmetric upside. The company's investment case is detailed in the Sappi – Asymmetric Upside section.