M&G Investments

M&G Namibian Money Market Fund

Income

Q1 2023

Market overview

So far in 2023, global financial markets have experienced wild swings – particularly in the normally less volatile fixed income markets – dictated by the guessing game over the path of US interest rates, inflation and growth. January's sentiment was relatively bullish, dominated by expectations of a weaker US economy going into 2023, which would have increased the likelihood of softer inflation, lower-than-expected interest rates and a relatively imminent pause to the US Federal Reserve's rate hiking cycle. This was all up-ended in February by surprisingly strong economic data, including more widely embedded inflation than previously thought. With the Fed signalling its intention to continue hiking, this sent market uncertainty higher and global asset prices lower, an environment that continued well into March.

Then the emergence of banking sector turmoil sparked by the sudden failure of specialist Silicon Valley Bank and the engineered buyout of Swiss banking giant Credit Suisse by UBS shocked markets even further, with swift central bank and government interventions preventing contagion to other sectors. Gold benefited and risk-off sentiment prevailed as global financial stocks sold off. Central banks suddenly had an even tougher policy balancing act, having to choose between their duties of fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led back to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

In fact, the US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats. Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US$).

South Africa and Namibia

In South Africa, the SARB surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

The 50bp rate increase did help to reinforce the SARB's global credibility, while the rand reacted by strengthening below the key R18/1USD level, at least temporarily. The SA forward rate market is now pricing in a further 50bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again. Meanwhile, S&P Global downgraded the sovereign credit rating outlook to negative from stable, citing load-shedding and the fragile economy as the primary drivers.

The Bank of Namibia (BoN) lifted its own repo rate by 25bps to 7.0% on 15 Feb, and is widely expected to follow the SARB with a 50bp rate hike when its MPC meets on 19 April, to rein in inflation (with February CPI rising to a high 7.2% y/y), continue anchoring inflation expectations, and guard the N$ peg against the rand. The SA repo rate is currently 75bps above that in Namibia, putting greater pressure on the N$ to depreciate.

Investors welcomed the 2023 South African National Budget's improved fiscal trajectory and the government's plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

The Namibian government turned its attention to a possible downsizing of the public service in order to reduce its wage bill and improve the national budget deficit. The Government Institutions Pension Fund (GIPF) is concerned about such a move, as it would exacerbate the 2.4% decline seen in its membership during the 2022 financial year. In March, Namibian civil servants demanded an 8% salary increase, well above current inflation.

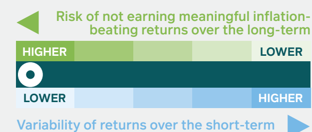
Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country's international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

During the quarter Namibia's real GDP growth for 2022 was reported at 4.6%, reflecting gradual improvement and a rebound from pandemic conditions, with growth recorded across all primary, secondary and tertiary industries, although the construction sector and private sector credit growth were still weak. Growth was boosted by a strong recovery in diamond mining, as well as a record N$13.2 billion in foreign investment into the oil sector for offshore exploration during the first nine months of 2022. The BoN's March economic update projected 3.0% GDP growth for 2023 and a 2.9% expansion in 2024.

Annualised performance	A class	Benchmark[1]
1 year	6.1%	5.0%
3 years	4.5%	3.6%
5 years	5.7%	5.1%
7 years	6.3%	5.9%
10 years	6.1%	6.0%
Since inception	5.9%	6.0%

[1] The Fund's benchmark changed from the IJG Money Market Index to the IJG Call Index on 1 December 2019.ly 2017.

Risk profile



Fund facts

Fund managers
Gareth Bern
Roshen Harry

Morningstar category
Africa Money Market

Benchmark
IJG Call Index

Inception date
12 March 2010

Fund size
N$1 705 077 350

Sources: M&G Investments, Morningstar & Deutsche Securities

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For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4% in rands, while inflation-linked bonds (ILBs) produced 0.9% and cash returned 1.7%. Namibian bonds (the IJG Bond Index) returned 4.3% over Q1 and a strong 13.1% for the 12 months to end March, and the IJG Money Market Index delivered 1.8% for the three months and 6.3% for the 12-month period. Finally, despite some late-March gains on the back of the SARB's larger-than-expected rate hike, the rand and N$ moved weaker against the major global currencies, losing 4.8% against the broadly weaker US$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

Performance

The fund returned 1.8% (A class net of fees) over the quarter, compared a return of 1.5% return for the benchmark over the period. For the 12 months to 31 March 2023, the fund returned 6.1%, outperforming the benchmark's 5.0% return.

Because the instruments held by the fund are predominantly floating-rate in nature, absolute returns achieved continue to improve as the repo rate moves higher.

Positioning

Following the bond market's strong start to the year, we took the opportunity over the past quarter to reduce duration across most of our fixed income products. Although South African bonds still appear attractive on most measures, the asset class is slowly nearing fair value. Cash is also becoming relatively more attractive, thanks to continued hiking by the SARB. Furthermore, we have concerns that continued load shedding will negatively affect growth, which could ultimately lead to a weaker fiscal trajectory. We are already seeing signs of this happening. February's budget saw the first meaningful increase in National Treasury's debt-to-GDP projections since the 2020 MTBPS, resulting from the additional government support offered to Eskom.

For our money market funds specifically, we have kept duration relatively unchanged (68 days for this fund at quarter-end), and at the high-end of the 90-day mandate limit. The aforementioned fiscal concerns are less relevant over the timescale that this fund invests in. The money market curve also remains steep compared to history and the fund's high duration has helped us to take advantage of this.

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Application forms

An electronic copy of this document is available at www.mandg.co.za

Disclaimer

MandG Investments Unit Trusts (Namibia) Ltd (Registration number: 2007/609) is an approved Management Company in terms of the Unit Trusts Control Act, 1981.

Unit trusts are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. A schedule of fees and charges and maximum commissions is available on request from the Management Company. Commission and incentives may be paid and if so, would be included in the overall costs. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Different classes of units may apply to the portfolio and are subject to different fees and charges. Unit prices are calculated on a net asset value (NAV) basis, which is the total value of all the assets in the portfolio including any income accrual and less any permissible deductions from the portfolio divided by the number of units in issue. Fund valuations take place at approximately 14h30 Namibian time each day and forward pricing is used. Purchase and repurchase requests must be received by the manager by 13h30 (09h00 for the Money Market Fund) Namibian time each business day. In calculating performance figures initial charges are not taken into account. Annual service charges are deducted in all calculations. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested.

Sources: M&G Investments, Morningstar & Deutsche Securities