Quarterly Commentary

M&G 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.

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. Global bonds posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US$). Global property stocks continued to generate among the weakest returns, with the FTSE EPRA/NAREIT Global REIT Index returning 1.4% (US$). 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%.

Performance

Over the quarter the fund delivered a return of 1.8% (A class, net of fees) compared to the benchmark's 1.7%. 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.

Strategy and 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.

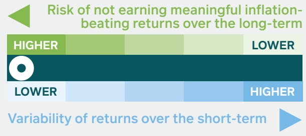
For the Money Market Fund specifically, we have kept duration relatively unchanged (88 days at quarter-end), at the high-end of the 90-day mandate limit. The aforementioned fiscal concerns are less relevant over the timescale that this fund invests in. The money market curve also remains steep compared to history and the fund's high duration has helped us to take advantage of this.

The end of February saw the maturity of the R2023, which had become a core holding of this fund. We have slowly been deploying its proceeds into select opportunities and will continue to do so as and when these emerge.

Annualised performance	A class	Benchmark	X class
1 year	6.2%	5.7%	6.2%
3 years	4.8%	4.4%	4.8%
5 years	5.8%	5.2%	5.8%
7 years	6.3%	5.7%	6.4%
10 years	6.1%	5.6%	6.2%
20 years	7.1%	6.8%	-
Since inception	7.3%	7.1%	-

Disclaimer

Risk profile



Fund facts

Fund managers

Roshen Harry
René Prinsloo

ASISA category

South African - Interest Bearing - Money Market

Benchmark

STeFI Call Deposit Index

Inception date

9 April 2002

Fund size

R1 434 569 758

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Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities