

M&G Namibian Balanced Fund

Multi-asset

Q1 2024

Market overview

The first quarter of 2024 (Q1) brought a continuation of the relatively bullish investor sentiment towards global equities seen in the last months of 2023, as prospects for growth in the US were buoyed by positive company earnings reports and supportive economic data that increased the likelihood of a “soft landing” for the economy. On the other hand, global bonds were weaker as inflation proved somewhat higher than expected (the price of Brent crude oil rose roughly 14%) and major central banks kept interest rates on hold, prompting pundits to move out their rate cut expectations to the second half of the year. Still, they and the US Federal Reserve are roughly aligned in their forecasts of a 25bp interest rate cut in each of Q2, Q3 and Q4, starting at the Fed’s 11-12 June FOMC meeting.

Global equity (as measured by the MSCI ACWI) delivered a total return of 8.2% in Q1 compared to 11.0% in Q4, while developed market equities produced 8.9% and emerging market equities returned only 2.4% (MSCI Emerging Markets Index – all in US\$). Global bonds posted -2.1% (Bloomberg Global Aggregate Bond Index, in US\$).

In South Africa, the FTSE/JSE All Share Index and Capped SWIX Index underperformed, both delivering -2.3% in rand terms. The local market was dragged down by a 7.6% loss in Financials, while Industrials returned 0.6%, Resources 0.8% and Listed Property 3.5%, the latter continuing its rally from the previous quarters. South African bonds recorded a -1.8% return for the quarter. This saw the yield on the 10-year SA government bond rise to 12% by quarter-end. Meanwhile, the rand lost 3.5% against the US dollar, 2.7% versus the UK pound and 0.9% against the euro.

United States

In the US, stubborn inflation (and the Fed’s unwavering fight against it) was one of the few negative factors denting investor sentiment. At 3.2% y/y, February CPI was marginally higher than its January levels, with rising energy prices making themselves felt. At the same time, the Core PCE Price Index, the Fed’s preferred inflation measure, came in at 2.8% y/y, as expected. Also in line with expectations, the Federal Reserve kept benchmark interest rates on hold at its March FOMC meeting, and is forecast to do the same in May. For the quarter, the Dow Jones produced 6.1%, the Nasdaq 9.3%, and the S&P 500 10.6% (all in US\$). The S&P’s 12-month forward P/E ratio rose to a heady 21X at quarter end from 19.5X at the start of the quarter, with price gains outpacing those of earnings. Although the breadth of the gains improved from 2023’s narrow focus, a look at the Equal-Weighted S&P Index shows that it was still large-cap shares driving the outperformance of the market during the quarter.

UK

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its February meeting, saying its next move

would remain data-dependent. Similar to the US, the market is pricing in the start of rate cuts from June 2024. February CPI fell sharply to 3.4% y/y from 4.0% in January, helping reinforce the prospect of rate cuts. With Q4 2023 GDP growth reported at -0.3% after -0.1% in Q3, the economy entered a technical recession, and only slight improvement is expected in 2024: the BoE forecasts flat (0%) GDP growth for 2024 as a whole. In Q1 2024, the FTSE 100 returned 3.0% in US\$.

Euro area

In the Euro area, optimistic corporate news sent European shares to record highs in mid-March, with upbeat earnings updates and some M&A news boosting investor confidence. Euro area CPI fell to 2.6% y/y in February, but was still uncomfortably above the ECB’s target of 2.0%. As expected, the ECB left rates unchanged, even as a softer outlook for inflation and economic growth bolstered expectations for cuts starting in June. Q4 2023 GDP growth in the region was reported at a mere 0.1% (q/q annualised). In European equity markets, France’s CAC 40 returned 6.6% in Q1, while Germany’s DAX delivered 7.9% (both in US\$).

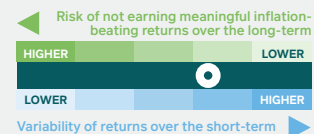
Japan

It proved to be a momentous quarter for Japan -- the BOJ announced its first rate hike in 17 years, setting a new short-term rate target of 0-0.1% and ending eight years of negative interest rates. This came amid a rise in March CPI to 2.4% y/y, even as the latest GDP data showed the economy grew by only 0.4% (q/q annualised) in Q4 2023, and personal consumption marked its third consecutive quarterly decline. The mixed data added to uncertainty around how soon the BOJ could raise rates again, but the equity market reacted positively as the Nikkei was among the world’s top-performing markets with a 13.2% return in Q1, after delivering a remarkable 22.6% in 2023.

China

China experienced a mixed quarter of sharp equity selling followed by some recovery, as the Chinese authorities enacted measures to stabilise the capital market and bolster economic growth. The PBOC cut the bank reserve requirement ratio by 50bps, followed by a historic 25bp cut in the 5-year Loan Rate. These moves significantly boosted market sentiment. GDP growth for Q4 2023 came in at 5.2% y/y, surpassing the government’s 5% target level, and the new 2024 target was set at 5.0%, as expected. This is expected to be even more difficult to achieve, due to prevailing headwinds such as weak consumer demand, industry oversupply and lower consumer and business confidence. Analysts foresee further policy support in the months ahead to further support market confidence and sustainable growth. Chinese markets were still fairly weak in Q1, with Hong Kong’s Hang Seng returning -2.7% and the MSCI China delivering -2.2%, both in US\$.

Risk profile



Fund facts

Fund managers

Michael Moyle
Sandile Malinga
Leonard Krüger

Morningstar category

Moderate Allocation

Benchmark

Namibian Peer Group Average

Inception date

1 August 2008

Fund size

N\$747 635 247

Annualised performance

	A class	Benchmark	B class
1 year	9.3%	11.3%	9.8%
3 years	9.7%	9.2%	10.2%
5 years	8.1%	8.2%	8.6%
7 years	7.8%	7.5%	8.3%
10 years	7.8%	7.6%	8.4%
Since inception	8.4%	8.9%	-

Emerging markets

With the exception of India, which returned 6.1% (in US\$) for the quarter, larger emerging equity markets performed poorly. Brazil's Bovespa was among the weakest with a return of -7.4%, while the MSCI Turkey fell -5.6%, the MSCI South Africa delivered -6.7% and South Korea's KOSPI produced -0.3% (all in US\$).

South Africa and Namibia

In South Africa, at its March policy meeting the SA Reserve Bank voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago remained hawkish regarding stubbornly high inflation (with CPI rising to 5.6% y/y in February from 5.3% y/y in January, well above the expected 5.4% y/y) and relatively high inflation expectations for 2024 among businesses and consumers. The economy managed to eke out growth of 0.1% (q/q annualised) in Q4 2023, worse than expected, for an annual rate of 0.6% for 2023 as a whole. The SARB has projected GDP growth at 1.2% in 2024 and 1.3% in 2025, the acceleration due largely to improved electricity supply. Equity returns remained depressed by the country's low growth prospects and uncertainty over the upcoming national elections, both of which are keeping foreign investors on the sidelines.

In Namibia, the Bank of Namibia left its main repo rate unchanged at 7.75% at its mid-February policy meetings, broadly following the SARB to maintain the N\$ peg to the rand. In its latest projections, the central bank is forecasting GDP growth of 3.9% in 2023, decelerating to 3.4% in 2024. The slowdown is attributable to expected weaker growth in both the primary and secondary industries, given slower global growth prospects, weak household and business demand and uncertainties caused by the ongoing drought in the region. In some good news, CPI inflation slowed to 5.0% y/y in February from 5.4% in January, and the BoN sees inflationary pressures receding further, with CPI averaging 4.8% in 2024.

In other good news from Namibia's 2024/25 National Budget delivered during the quarter, the government granted VAT relief to all small businesses with less than N\$1 million in turnover, which is expected to benefit some 23,000 SMEs. Also, the construction sector stands to benefit from a 50% increase in the government's budget for development spending (including construction of roads, etc) in the year ahead, and the outlook for the tourism sector is a positive one after a good rebound in 2023, the government reported, although this does depend to some extent on weather conditions.

Namibian assets broadly underperformed their SA peers for the quarter: the NSX Overall (All Share) Index returned -5.2% over the three months, with Financials producing -7.6%, Industrials delivering -5.7% and Resources recording 3.9%. Namibia's IJG All Bond Index delivered -4.6% over Q1, while the IJG Money Market Index returned 2.1%. With its direct peg to the rand, the N\$ also depreciated against the major global currencies, as noted above.

Performance

The fund returned 0.6% for the quarter (net of fees in N\$), and for the 12 months to 31 March 2024 it returned 9.3% (net of fees in N\$), compared to the benchmark's 11.3% return. Since its inception in 2008 it has returned 8.4% per annum

compared to 8.9% from its benchmark.

The fund's exposure to global equities added the most value to its absolute performance for the quarter, followed by Namibian cash. Namibian listed property and ILBs added small amounts as well. The largest detractor from absolute performance was the fund's holdings of SA equities, and Namibian and SA bonds to a lesser extent. Other asset classes were broadly neutral.

Within specific equity exposure, the rally in Naspers/Prosus shares added good value to the fund, as did the rebound in Multichoice over the quarter. Other notable contributors included globally exposed holdings Richemont and BAT, and gold counters AngloGold Ashanti and Gold Fields. The largest detractors from performance were MTN (over concerns around its Nigerian operations), mining counters Harmony and Exxaro, as well as financial services company HCI.

Strategy and outlook

Starting with our view on offshore vs local asset allocation in the fund, during the quarter we did not adjust our positioning, although the valuation gap between the two widened: global equities became more expensive, while local equities cheapened slightly. We are comfortable with our ongoing positioning favouring more attractively valued SA assets compared to their global counterparts.

Within our global holdings, during Q1 we took profits on a small portion of our global equity holdings following the strong rally. However, we remained broadly neutrally positioned in global equity, with an underlying underweight in the US market. Proceeds went into global cash holdings.

In global equities, the MSCI ACWI 12-month forward P/E rose to 17.9X at quarter-end from 16.8X at the beginning of the quarter, pulled up by the stellar US market performance as both stock prices and earnings gained ground, prices more so than earnings. We took profit on a small portion of our global equity holdings following the quarter's strong rally, but we remained broadly neutrally positioned. Within this positioning, we remained tilted away from the expensive US market (with the S&P on a 21X forward P/E), preferring cheaper markets such as the UK, Japan, China and other emerging markets.

Within global bonds, we did not make any changes to our slightly overweight duration positioning during the quarter, given that there was no meaningful change in market valuations. We continue holding some 30-year US Treasuries, which adds duration to our portfolios, as well as moderate levels of local currency sovereign EM bonds where the real yields are high and the currency is trading at fair-to-cheap levels. The fund also remained underweight global corporate credit at quarter-end, based on our view of credit spreads as unattractive for the risk involved versus their government counterparts.

We still favoured SA and Namibian equities at the end of Q1 2024, with no changes to our positioning. SA equity valuations (as measured by the 12-month forward P/E ratio of the FTSE/JSE Capped SWIX Index) cheapened somewhat during the quarter, from 10.0X to 9.7X, as share prices fell while earnings moved largely sideways. Market conditions

remained relatively depressed, and continued to favour stock-picking.

We maintained our tilt away from Namibian listed property, preferring to hold other equities that we consider offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors. We hold no SA listed property in the portfolio.

We also did not change our overweight positioning in SA nominal bonds in the fund. The yield on the 10-year SA government bond rose to around 12% at quarter-end, for a very attractive real yield of 7.5% compared to both history and other global sovereign bonds. We continue to believe SA nominal bond valuations are attractive relative to other fixed income assets and to their own longer-term history, and will more than compensate investors for their associated risks over time. We hold no SA ILBs in the fund.

Meanwhile, yield spreads between SA and Namibian bonds were mixed over the quarter depending on the duration even as Namibian bonds broadly underperformed their SA counterparts. In our view, Namibian bonds remain relatively unattractive, offering an inadequate yield differential compared to South African bonds after the former's strong gains in 2023. As such we are holding more SA bonds than Namibian bonds in the fund. The fund does have a small holding in Namibian ILBs for their diversification benefits, which contributed marginally to performance during the quarter.

Lastly, the fund remained tilted away from Namibian and SA cash at quarter-end, despite the attractive positive real cash rates. This is because we prefer the relatively better risk-adjusted prospective returns on offer from higher-risk asset classes such as local equity and bonds. Furthermore, bonds should enjoy a re-rating and hence capital gains resulting in additional returns, while returns to cash decline, should the widely expected easing of interest rates occur. □

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