Quarterly Commentary

M&G Investments

M&G Namibian Money Market Fund

Income

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 higher than expected 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.

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. 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. The STeFI Composite Index delivered 2.1%.

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. Namibia's IJG All Bond Index delivered -4.6% over Q1, while the IJG Money Market Index returned 2.1%.

Performance

The Namibian Money Market Fund delivered a return of 2.0% over the past quarter (A class, after fees), compared to the 1.7% returned by the benchmark. For the 12-month period ending March 2024, the fund also comfortably outperformed its benchmark, returning 8.6% compared to the benchmark's 6.8%.

Positioning

Both South Africa's Reserve Bank, as well as Bank of Namibia, have kept rates on hold since the first half of 2023. This lack of monetary policy action has meant that money market curves have remained fairly unchanged over the past quarter in both countries.

One fairly significant change over the quarter was how the market shifted its outlook for interest rates. At the start of the year, the FRA curve implied a cutting cycle of approximately 100bp, with the first cut expected around June 2024. The FRA market is now implying only a single 25bp rate cut by the SARB over the entire cycle, and pricing suggests this will happen in Q1 of 2025. This less optimistic interest rate outlook is consistent with the year-to-date acceleration of both headline, as well as core, inflation and also with somewhat deteriorating inflation forecasts by the SARB. Namibia has, however, seen a slight moderation of inflation over the first quarter, leading to improved real returns for money market investors.

Namibian treasury bills remain attractively priced relative to NCD's, particularly at the front of the curve. We increased the fund's holdings in treasury bills somewhat over the quarter, from 7% to 10%. This increased treasury bill exposure was funded out of our 3% holding in fixed rate NCDs, all of which had matured over the past quarter. We may continue to add to our treasury bill position, either through reinvesting for upcoming maturities, or through investing new inflows.

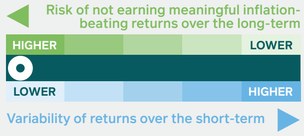
We maintained a large holding in floating rate instruments (approximately 80% of the fund). These instruments are benefitting from the gap between the SA and Namibian central bank rates. Seeing as these instruments reference the South African JIBAR rate, which is in turn influenced by South African monetary policy dynamics, the 50bp gap between the two repo rates mean that these securities deliver attractive yields relative to fixed-rate alternatives.

Apart from the increase in our treasury bill position, fund positioning remains fairly unchanged from the start of the year.

Annualised performance	A class	Benchmark[1]
1 year	8.6%	6.8%
3 years	6.1%	4.9%
5 years	5.9%	4.9%
7 years	6.4%	5.8%
10 years	6.4%	6.1%
Since inception	6.1%	6.1%

[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$1 951 996 674

Sources: M&G Investments, Morningstar & Deutsche Securities

M&G Investments

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Application forms

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