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M&G Namibian Enhanced Income Fund

Multi-asset

Q4 2024

Market overview

US Treasury bond yields reversed course in the final quarter of the year. After having rallied strongly from their yearly highs in late April down to the lows in September, yields bounced hard to close 2024 at the highest levels across most tenors, especially further along the term structure.

The September labour report showed higher than expected monthly nonfarm payrolls and a lower than forecasted unemployment rate, alongside higher than expected average hourly earnings figures. Prior nonfarm payrolls were revised lower. October saw stronger US real economic activity data surprises coupled with stronger consumer inflation data surprises and this combination added further upward pressure for bond yields. The US rates market was nervous headed into the US presidential election. When the polls started showing Donald Trump in the lead, global markets began to adjust, and this further supported the upward trajectory in bonds yields.

The October labour report showed much lower than expected monthly nonfarm payrolls and an as forecasted unemployment rate, alongside as expected average hourly earnings figures. Prior nonfarm payrolls were hardly revised this time. The weakness in the payroll's figures was largely ignored by the market as it was due to hurricane related effects. October saw weaker US real economic activity data surprises coupled with stronger consumer inflation data surprises and the bond market had to digest this combination of economic data in the month. An election poll released the weekend before the election had the market backtrack on its conviction of a Trump victory, but the election results showed very strong support for Trump and the Republican party overall. Bond yields sold off on the election result before recovering later in November.

The November labour report showed slightly higher than expected monthly nonfarm payrolls and a greater than forecasted unemployment rate, alongside higher average hourly earnings figures. Prior nonfarm payrolls were revised higher this time. December saw weaker US real economic activity data surprises coupled with stronger consumer inflation data surprises. The US Treasury yield curve ended the quarter with a bear flattener.

The US Treasury market was anxious headed into the December FOMC meeting for good reason as it sold-off dramatically in its aftermath. The FOMC lowered the federal funds rate by 0.25% as was widely expected, but the statement and ensuing press conference highlighted that the bar for further easing was high due to the strength of the economy and the stubborn nature of inflation. The US rates market reduced the extent of interest rate cut expectations over the course of December.

Brent crude oil prices increased marginally in the final quarter of 2024, after having declined over the previous quarter. Energy prices were relatively stable, trading within a narrow range. The US dollar index surged in 4Q24, after having lost ground previously. The currency received support once the market began pricing in a Trump win and this only increased upon his actual victory. The dollar had reached its strongest level in over two years by late December. Rampant dollar strength saw the rand exchange rate soften to its weakest level since the week after the local elections. Despite showing a small spot return loss, the rand remained one of the better performing currencies against the US dollar in 2024. The cost of SOAF protection via the CDS market increased in the aftermath of the MTBPS in October but declined following the US election in November and remained at multi-year lows until the December FOMC meeting before rising again. It remained in the ranges seen over the prior four months which saw some of the lowest levels post Covid.

South Africa and Namibia

SA bond yields rose to start the quarter in October. Higher global bond yields, a weaker rand, higher crude oil prices, and nervousness headed into the MTBPS and US presidential election all played a part in the repricing of yields higher. The market had been moving in one direction pretty much for four months and was also due a breather. A lot of good news was priced in since the election. October proved to be a bit of a wakeup call for a market that was still stuck in the GNU honeymoon period. Local economic data showed an improvement, with both the manufacturing and economy wide PMI figures bouncing in September. Consumer price inflation data moderated but printed in line with expectations. The market was very bullish headed into the MTBPS. Expectations for a cut in issuance were strong. Unfortunately, the market was disappointed as issuance was kept unchanged. The National Treasury forecasts for the budget also deteriorated, which was counter to market expectations. Upon the release of the document, RSA bond yields sold-off into month end. Negotiations over a fiscal anchor and a lower inflation target continue and this should keep the market on tenterhooks for the foreseeable future.

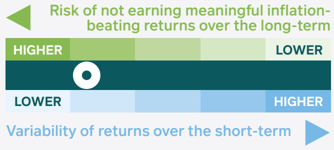
SA bond yields recovered most of their October losses in November. SA economic data releases in November showed an improvement, with signs of a boost in confidence following the formation of the GNU. Consumer price inflation data moderated and printed lower than expected at 2.8%. The Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) decided to lower the repurchase rate by a further 25 basis points. This was in line with analyst expectations, although the market had discounted the possibility of an even larger rate decline. The MPC has chosen to adopt a very cautious stance in lowering rates despite the collapse in realised inflation. The sharp decline in brent crude oil prices since late April, especially in rand terms, has caused the committee to be circumspect.

RSA government bond yields rose modestly in December, outperforming US Treasuries over the month. The local market

Annualised performance	A class	Benchmark	B class
1 year	9.1%	8.5%	9.5%
3 years	8.1%	7.4%	8.4%
5 years	6.3%	6.4%	6.7%
7 years	6.3%	6.8%	6.6%
10 years	6.5%	7.0%	6.8%
Since inception	6.5%	6.9%	-

Sources: M&G Investments, Morningstar & Deutsche Securities

Risk profile



Fund facts

Fund objective

The Fund aims to provide a higher return than those offered by money market or pure income funds and aims to achieve a return of cash plus 2% p.a. (before fees). It invests in a wide range of income-producing assets, while seeking to protect capital and reduce volatility through active asset management.

Investor profile

Investors seeking higher income returns while enjoying moderate capital growth within a fund that aims to protect capital and reduce volatility over the medium to long term. Investors looking to grow their income over time without taking excessive risk. The typical investment horizon is 1 to 3 years but is dependent on the client's income needs and risk profile.

Investment mandate

The Fund invests in a flexible mix of high yielding securities. This includes Namibian, South African and foreign cash, bonds, listed property and equity. No duration constraints apply. The fund is managed to comply with Namibian retirement fund investment regulations.

Fund managers

Roshen Harry
Bulent Badsha

Morningstar category

Africa Fixed Income

Benchmark

IJG Money Market Index

Inception date

19 June 2014

Fund size

N$5 325 370

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saw a dip in activity with holiday-related shortened trading hours and reduced participants. The force of the weak rand and higher core bond yields were counteracted somewhat by the lack of government bond supply. Local real economic activity data released in December were poor, especially the worse-than-expected third quarter GDP figures while price data remain benign. Consumer price inflation increased but printed lower than expected at 2.9% - below the lower bound of the official inflation target range. The MPC of the SARB remains vigilant.

In Namibia, real GDP continues to grow for the 14th consecutive quarter, where 3Q24 was up 2.8% y/y, slightly down from 3.1% y/y increase in 3Q23. Overall, the primary sector was down 4.4% y/y, with the secondary and tertiary sectors up 1.5% and 4.9%, respectively. The strongest sector was health care (up 16%), contributing to strong tertiary sector gains on the back of the rising employment of public healthcare professionals. The logistics and financial sectors also showed big improvements, up 7.9% and 7.1% respectively. The mining sector was down 6.7% with demands for diamonds down, and the agricultural sector was down 6.3% y/y due to the effects of the drought.

The Bank of Namibia (BoN) MPC made a unanimous decision in their 4 December 2024 policy meeting to cut the repo rate by 25 basis points to 7.0%, closing the differential with South Africa to 75 basis points from 100 basis points. This is after BoN's October decision to cut the key policy rate by 25 basis points to 7.25%. Global policy easing, declining medium-term domestic inflation and subdued PSCE all contributed to this decision.

Namibia's annual inflation rose to 3.4% y/y at the end of December. This shows an increase of 3% at the end of both October and November, although lower than 5.3% at the end of December 2023. Average inflation for 2024 was 4.2%, on a downward trajectory from 5.9% in 2023 and 6.1% in 2022. December's increased inflation number was mostly attributed to food inflation with increased prices for meat, fish, oils and fats.

The IJG All Bond Index for Namibia returned 14.1% for the year, with 59 basis points attributable to 4Q2024. BoN released its updated borrowing plan in November 2024, showing increased domestic financing requirements. The 2H2024 borrowing plan shows the total domestic requirement has gone from N$12.8bn to N$15.1bn, shifting reliance from external/multilateral borrowing where the requirement is at N$1.3bn, down from the initially required N$2.4bn. Namibia's yield curve softened in December 2024 with upward pressure on spreads and yields. Secondary market activity remained muted.

On 3 December, the Electoral Commission of Namibia (ECN) declared that the South West Africa People's Organisation (SWAPO) party and its presidential candidate, Netumbo Nandi-Ndaitwah, were declared the winner of the 27th November general elections. Nandi-Ndaitwah is Namibia's first woman president and garnered 58.1% of the vote. The closest opposition was Panduleni Itula of Independent Patriots of Change (IPC) who landed 25.8% of the vote. SWAPO's historically centre-left ideology is expected to continue under Nandi-Ndaitwah, as portrayed by her manifesto.

Performance

Over the 12 months to 31 December 2024. the M&G Namibian Enhanced Income Fund delivered a total return of 9.1% (A class, net of fees), outperforming the benchmark (IJG Money Market Index) return of 8.5%. For the three-year period, the fund delivered 8.1% (A class, net of fees) outperforming the benchmark by 0.7%.

Strategy and positioning

Over the quarter, the fund took advantage of the tightening in bank fixed rate NCD yields relative to RSA government bond yields. During the "Lady R" drama of May 2023, NCDs were purchased to add duration to the fund at elevated yields. These yields were more than those offered by similar tenor RSA government bonds at the time. However, over the course of time, that yield premium had been eroded to such an extent that it was now negative. Therefore, it was decided to sell the bank NCDs in favour of RSA government bonds on a duration neutral basis. This process also helped to raise liquidity for the fund to deploy for future opportunities. The implied real yields from nominal bonds have remained more attractive than those offered by inflation linked bonds for some time, therefore most of the fund's duration exposure is to nominal rates instead of real rates, but some exposure to inflation-linkers is maintained due to the relatively high absolute level of real yields available and the fact that they provide a form of insurance to the portfolio. The preference remains in the shorter end of the yield curve. During the quarter the positioning in our property teams favoured defensive, yet high yielding SA listed property stocks was maintained. Foreign bond exposure remains to short-dated US treasury bonds instead of corporate credit due to the tightness of spreads. A fully currency hedged position for the foreign bonds was maintained. Over the quarter, duration risk was managed tactically while the local cash bond positions were largely maintained. The fund remains drawdown focussed, cyclically aware and tactically alert.

The fund has material exposure to the South African M&G Enhanced Income Fund unit trust and balance is invested in Namibian assets in the form of inflation-linked bonds, bank floating rate notes and the M&G Namibian Money Market Fund.

Contact us

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Invest now

Application forms

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