Quarterly Commentary

M&G Investments

M&G Namibian Money Market Fund

Income

Q3 2024

Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the US dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US$).

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%) and Financials (13.7%), while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher, sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

Namibia experienced a similar, if less dramatic, reduction in inflation over the quarter, with CPI declining from 4.9% (the last reported number at the start of the quarter) to 4.4%. Like its South African counterpart, the Bank of Namibia chose to cut its repo rate by 25bps over the quarter to 7.5%. This leaves the gap between the two countries' repo rates at 50bps, where it was prior to the interest rate changes.

Performance

The M&G Namibian Money Market Fund delivered a return of 2.0% over quarter (A class, net of fees), 30bps ahead of its benchmark. For the 12 months to 30 September 2024, the fund returned 8.4% versus the benchmark's 6.9%.

Positioning

The third quarter was a stellar one for South African fixed rate assets. The performance of the ALBI illustrates this well – the 10.5% return of the index for the quarter is the third best quarterly return that it has delivered since its inception in 2001. This return was underpinned by a number of factors, the most notable of which was the improvement in investor sentiment towards South Africa after the May election and the formation of the GNU.

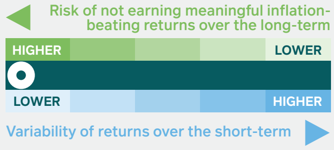
Another significant driver of returns was the extent to which inflation receded, and the unexpected nature of this move. At the start of the quarter the most recently reported headline inflation print for SA was at 5.2% y/y, still well within the upper half of the SARB's target range. This has since dropped to 4.4% y/y, which moves it into the lower half of the target range. This is the lowest inflation print that SA has seen since the first half of 2021. Similarly, both core as well as producer price inflation have receded significantly. This inflation move has led to a material recalibration of economist forecasts. To use the SARB as an example, they now expect inflation to average 0.5% less for both 2024 and 2025 than what their forecasts suggested at the start of the quarter. Furthermore, they now expect headline inflation to remain below the mid-point of their target range for the remainder of their forecast period (to the end of 2026). Three months ago they were only expecting inflation to sustainably move to the lower half of the target band from the second quarter of 2025.

In line with this improving inflation forecast, the SARB cut the repo rate by 25bps in September, after having kept it unchanged for over a year. The confluence of all of these factors (SARB cut, inflation improvement and improved sentiment) led the market to significantly revise its interest rate outlook. At the start of the quarter the FRA market was expecting only a 50bp cutting cycle over the next two years. The market is

Annualised performance	A class	Benchmark[1]
1 year	8.4%	6.9%
3 years	6.9%	5.6%
5 years	6.0%	4.8%
7 years	6.4%	5.7%
10 years	6.6%	6.2%
Since inception	6.2%	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 objective

This Fund aims to achieve a high level of current income, while preserving capital and liquidity. The Fund's objective is achieved by investing in cash and other high quality money market instruments.

Investor profile

Investors seeking to increase their portfolio's cash holdings with a high-yielding, low-risk money market fund. Investors who need an inexpensive safe haven to house funds while moving between market sectors. Investors who want investments that are protected from equity and bond market volatility while earning above-inflation returns.

Investment mandate

The Fund aims to achieve a high level of current income, while preserving capital and liquidity. Investments are in short- term, highly liquid money market instruments with a maturity of less than one year. The weighted average duration of the underlying assets may not exceed 90 days.

Fund managers

Roshen Harry
René Prinsloo

Morningstar category

Africa Money Market

Benchmark

IJG Call Index

Inception date

12 March 2010

Fund size

N$2 131 842 920

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Sources: M&G Investments, Morningstar & Deutsche Securities

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now pricing in a further 100bps of interest rate cuts (i.e. a total cutting cycle of 150bps).

As was the case in South Africa, Namibian NCD yields decreased by slightly more than the 25bp interest rate cut, in anticipation of more cuts to come. Namibian floating NCD spreads declined further, with 1-year floating NCDs now only giving investors 20bps above JIBAR. These are the lowest spreads seen in 5 years, and this is partly explained by the gap between the SA and Namibian repo rates. Namibian treasury bills remain attractively priced relative to the rest of the Namibian money market universe.

We made no significant changes to the fund's positioning over the quarter.

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