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M&G Bond Fund: Three awards for three years of consistent outperformance

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The M&G Bond Fund achieved a hat trick in the first quarter of 2025, receiving three performance awards in recognition of its three-year performance. The fund's annualised performance over three years to end December 2024 was 10.9%, outperforming its benchmark, which returned 10.1%. A summary of the M&G Bond Fund's wins is below:

Award-Winning Performance

- Raging Bull Certificate: Best SA Interest-Bearing Variable-Term Fund (3-year performance to December 31, 2024)
- Profile Unit Trust Award: Best SA Interest-Bearing Variable-Term Fund (3-year performance to December 31, 2024)
- FundHub Industry Performance Award: Best SA Interest-Bearing Variable-Term Fund (3-year performance to December 31, 2024)

We believe these accolades reflect the quality of M&G Investments' fixed income capability and the consistency with which we have delivered investment excellence to our clients. We'd like to share some insight into why this fund stands out, the benefits for our investors, the current market environment and where we are seeing value.

Focused and tactical: A differentiated approach to meeting investor needs

The M&G Bond Fund stands out by focusing on extracting relative value from the South African government bond curve. While many of its peers concentrate on corporate debt or macroeconomic-driven duration bets, the M&G Bond Fund invests exclusively in South African government bonds (apart from a small cash holding) in a duration-neutral manner.

The good recent performance was therefore achieved without having to rely on riskier, higher yielding corporate bonds. With essentially no credit exposure, investors in the fund are protected from the significant investment losses that can occur when corporations default on their debt (e.g. African Bank or Edcon).

Similarly, the duration-neutral fund management approach (relative to benchmark) means that our clients benefit from a strategy that doesn't depend on consensus-beating forecasts of political or macro-economic outcomes. In our experience, the most market-moving events are either binary, and very difficult to forecast (such as last year's election outcome), or entirely unforecastable (such as COVID 19). Their hard to predict nature is precisely the reason why these events have such large market impacts. When they do occur, duration positioning typically has an overwhelming impact on investment performance, and being on the wrong side of a "black swan" event can be very difficult to recover from.

Given that the M&G Bond Fund does not employ credit or duration strategies to achieve the desired results, it must be managed in a highly tactical manner. This means that fund turnover can be relatively high at times, when we are actively switching between positions to extract relative value.

Successfully navigating a complex, uncertain investment landscape

With our investment approach, we aim to provide investors with a way of outperforming the All Bond Index regardless of the credit cycle phase or geopolitical and economic surprises. We maintain a disciplined, valuation-driven approach rather than relying on binary, difficult-to-predict events.

It is instructive to consider this approach in the current market landscape. In recent weeks, markets have been grappling with a highly uncertain environment with respect to global trade. The "Liberation Day" reciprocal tariffs announced by President Trump on 2 April were significantly in excess of what most market participants were expecting. Subsequently, US tariff policy has pivoted a number of times, with changes to both country-specific as well as sector-specific tariff levels. This uncertainty has had a significant market impact, with large sell-offs in equity and bond markets, and the VIX index reaching levels not seen outside of the GFC and the COVID pandemic.

It is reasonable to expect that President Trump's leadership style will result in further market surprises from time to time. However, as was the case with the "Liberation Day" announcement, being able to correctly forecast when these surprises will occur, and whether they will be positive or negative, is extremely challenging. So, the re-election of President Trump, and any of his actions since taking office, has in no way changed how we manage the fund. We do, however, expect the uncertainty and volatility caused by his actions to lead to relative value opportunities, which we would aim to take advantage of on identification.

Mainstream economists broadly share the view that should the position of the US administration prevail (i.e. high tariff increases), it would ultimately lead to higher prices for US businesses, which would most likely have to be passed on to their consumers to the extent that these businesses are unable to absorb the additional costs of the tariffs. This would invariably lead to decreased purchasing power for the US consumer, which would most likely result in lower US GDP growth outcomes and ultimately lower global growth.

Given the risk of persistent inflation shock, the Fed has signaled continued patience to future rate cuts and is hesitant to judge the impact of tariffs to inflation as a temporary phenomenon. Furthermore, the Fed aims to keep inflation expectations well anchored and seeks to ensure inflation does not move up in an adverse way. If it does, it would tarnish its credibility.

Where we're currently seeing value for our investors

Overall, we still think South African government bonds offer decent value at current yields, although this is less the case than a year ago, when bond yields were approximately 100bps higher. Consequently, replicating 2024's exceptional 17% return on the ALBI will be challenging. Even though the M&G Bond Fund does not invest in inflation-linked bonds, these instruments have lagged conventional bonds significantly in the post-election rally and are starting to show value. However, we still have a marginal preference for conventional bonds.

Until recently, the two newly issued government bonds, namely the R2033 and R2038, looked very attractive relative to the rest of the curve, but that investment opportunity has largely passed. Right now, we think the 15-year part of the curve looks attractive, as it appears to us to offer investors disproportionate rewards for the interest rate risk that it carries.

To discover more about the M&G Bond Fund.