M&G Investments

M&G Income Fund

Income

Q1 2025

Market overview

The new year started off quite differently to the expectations that shaped the outlook heading into 2025. After a strong performance by US equities in 2024, markets were optimistic that a new Republican administration would further fuel US exceptionalism. However, the situation unfolded quite differently than anticipated in the first quarter. The heightened uncertainty and volatility due to the unpredictable nature of US trade policy has dampened growth expectations and weighed on US markets and the dollar. Trump's new term has been nothing short of chaotic and market moving as participants try to decipher the impact of regulations on asset prices and the economy in general. Globally, tariff talks and the potential trade war were key drivers of market moves for the quarter, as well as regional dynamics around policy shifts.

Global equity (as measured by the MSCI All Country World Index) fell 1.3% during the quarter. US equities fared the worst in the major regions, with the Nasdaq showing the biggest fall (-10.3%) on the back of the moves in tech stocks. The S&P and Dow Jones lost 4.3% and 0.9% respectively for the quarter (all in US dollars).

Emerging markets, as measured by the MSCI Emerging Market Index, showed positive performance of 2.9% for the quarter, outperforming the developed market counterparts that delivered -1.8% (MSCI World). In emerging markets, Brazil's Bovespa (16.8%), China (15.9%) and South Africa (8.7%) performing strongly during the quarter (all in US dollars). In Turkey, some country-specific market moves due to widespread anti-government protests in the region in March led the Turkish equity market to be sold off, ending the quarter on -8.9% (in US dollars).

Global bonds fared relatively better with 2.6% (Bloomberg Global Aggregate Bond Index, in US dollars).

Performance

The M&G Income Fund delivered a pleasing performance over this more challenging period, returning 2.2% for the quarter and outperforming its benchmark by 33bps (A class, net of fees). It also performed well against peers, falling in the second quartile of the peer group over one year and the top decile over the past quarter (Morningstar).

Positioning

South African fixed income assets had a somewhat challenging start to the year, as was the case in most other countries. The South African government bond curve moved higher by about 25bps on average, and the curve also steepened, such that back-end bonds lost money over the quarter. The money market curve also steepened, with the very front-end pulled down by the SARB's January rate cut, while the longer-dated NCD yields didn't change much.

Floating rate NCD spreads continued their downward trend, and when compared to fixed-rate NCDs, implying no further rate cuts by the SARB. This is roughly consistent with the FRA curve, which is currently pricing in one further rate cut. FRA market is positioned for the repo rate to bottom at 7.25% in this cycle, and this view has not changed over the quarter. This view seems reasonable to us. The SARB estimates the neutral real repo rate at between 250bps and 300bps, and if you add this to the mid-point of the inflation target band (4.5%), that would suggest a neutral repo rate of 7% to 7.5%.

The treasury bill curve was broadly unchanged over the quarter, and these instruments are still looking attractive to us relative to shorter-dated NCDs, especially the 6-month and 9-month tenors. For the M&G Income Fund specifically, the fact that the fund can hold longer-dated instruments makes TBs a less compelling investment relative to what else is available, and we remain uninvested in TBs.

The past quarter saw the maturity of the I2025 government ILB, which was a long-held position in the fund. Apart from that, there were few other changes to the fund over the quarter.

Credit trends

Total credit issuance (excluding government issuances) was off to a slow start in Q1 2025 with only R27.1bn issued, compared to R54.1bn in Q4 2024. The Q1 issuance was down 14% compared to the same quarter in the prior year (Q1 2024: R31.7bn issued). Rolling 12 months issuance to Q1 2025 sits at R165.5bn compared to R143.6bn for the 12 months to Q1 2024, an increase of 15%.

The make-up of issuance for the quarter followed established trends - issuance being almost exclusively floating-rate notes, with auctions accounting for 58% of placements by volume.

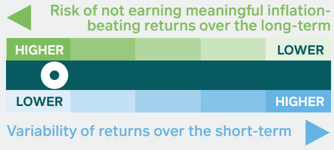
Data compiled by RMB's Credit Research team indicates that banks and financial issuers dominated primary market issuance for the quarter contributing to 52% of gross issuance, followed by corporates at 27%. Standard Bank was the largest bank/financials issuer of the quarter, raising R2.5bn in senior bonds, and R1.5bn in an Additional Tier 1 capital instrument. Pepkor Holdings was the largest corporate issuer for the quarter, having raised R3.3bn.

Zeda Financing Ltd held its inaugural debt capital markets auction in March 2025. The auction was well supported, with more than R2.3bn in bids received. A total of R850m was issued across a 3- and 5-year notes offering, resulting in a subscription rate of 3.2x. Industrial Development Corporation issued its inaugural sustainable use of proceeds bonds in March 2025, raising R2.046bn across 5, 7, 10 and 12-year notes. The auction was 1.7x oversubscribed.

Transnet privately placed a R2.2bn 3-year senior unsecured and non-guaranteed floating rate note at 320 basis points (bps)

Annualised performance	A class	Benchmark	D class
1 year	10.1%	8.3%	10.2%
3 years	9.1%	7.5%	9.3%
5 years	7.5%	6.2%	7.6%
7 years	7.6%	6.5%	7.8%
Since inception	7.8%	6.7%	-

Risk profile



Fund facts

Fund objective
The Fund's objective is to maximise income while providing investors with relative capital stability. This is achieved by investing in a diversified portfolio of non-equity securities in the South African market.

Investor profile
Investors who are looking to maximise their income return over the short-to-medium term without assuming too much risk of capital loss. The recommended investment horizon is 1-2 years, or longer depending on income needs and risk profile.

Investment mandate
The Fund invests in a flexible mix of non-equity securities in the South African market. It is suitable for short-to-medium term investors looking for an actively managed interest-bearing fund. Compared to traditional money market and enhanced cash funds, the Fund can have a longer weighted average duration (max 24 months) with no limit on the maximum maturity period for any one instrument. The Fund is managed to comply with regulations governing retirement fund investments (Reg. 28).

Fund managers
Roshen Harry
René Prinsloo

ASISA category
South African - Interest Bearing - Short Term

Benchmark
STeFI Composite Index measured over a rolling 12-month period

Inception date
6 December 2016

Fund size
R322 811 170

Sources: M&G Investments, Morningstar & Deutsche Securities over 3-month JIBAR, making it the largest SOE issuer year-to-date. This is the first non-guaranteed term note issued by Transnet in the local debt capital market since February 2022.

Numerous rating actions took place during the quarter. During February 2025, Moody's upgraded Barloworld Ltd national scale by one notch, to Aa1.za from Aa2.za. Moody's noted that the rating action reflects that Barloworld has maintained, and is expected to continue to maintain, adequate credit metrics despite a downturn in the commodity cycle, which has caused a decline in demand for heavy equipment in its main market of Southern Africa.

GCR has assigned Motus an initial long term issuer rating of AA-(za) on the back of its leading market position in the South African automotive industry, and strong financial profile. The ratings also reflect Motus' product and geographic diversification, which has helped sustain earnings growth and a moderate gearing and liquidity profile.

GCR has placed Octodec Investments rating of A-(za) on negative outlook due to sluggish financial performance, which has added to funding and liquidity pressure. GCR noted that the negative outlook reflects the weak operating environment that has hampered an improvement in Octodec's key property performance metrics over the past three years. As a result, key gearing and liquidity metrics have deteriorated slightly, which may continue if there is no meaningful improvement in property performance. M&G has no exposure to Octodec.

GCR has downgraded Accelerate Property Fund's national scale credit rating to C(za) from B(za) on increasing material risk of a near-term default or restructuring/distressed debt exchange. The outlook remains on rating watch negative. M&G has no exposure to Accelerate Property Fund.

During March, Moody's upgraded GreenHouse Funding 5 (RF) Ltd's B notes to A3.za(sf) from Baa3.za(sf). The rating action was prompted by an increase in credit enhancement.

Fixed rate spreads closed the quarter -2.7 bps lower over the first quarter of the year. Floating rate credit spreads closed -0.5 bps lower over the first quarter of the year.

Contact us

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Application forms

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Disclaimer

Sources: M&G Investments, Morningstar & Deutsche Securities