Quarterly Commentary

M&G Namibian Enhanced Income Fund

Multi-asset

Q1 2025

Market overview

US Treasury bond yields reversed course in the first quarter of the year. After having bounced sharply from their cyclical lows in mid-September up to their peak levels in mid-January (just ahead of the US presidential inauguration), yields rallied to end March at the lows of the first quarter, especially at the short end of the term structure, which saw the yield curve steepen. Global financial markets have been on high alert and reacting to headlines emanating from the White House ever since. High volatility seems to be the new normal under Trump 2.0. Tariffs have garnered the most attention and while this was discounted by the market, it is the actual level of tariffs levied and on which products/countries versus expectations that matters most for asset prices. Whether tariffs are in fact implemented or just threatened for geopolitical aims is another factor for markets to weigh. The economic implication of aggressive tariff increases is ultimately higher prices and slower global growth.

US Treasury bond yields were remarkably stable in January with yield changes across the term structure showing a slight bull steepening bias. The December labour report showed much higher-than-expected monthly nonfarm payrolls and a lower-than-forecasted unemployment rate, alongside as-expected average hourly earnings figures. Prior nonfarm payrolls were revised higher again. The bond market sold off on the report's release but recovered a few days later. The January FOMC decision to hold rates steady was widely anticipated. The Committee began the process of normalising interest rates from very restrictive levels in earnest at its September meeting but the enduring strength of the economy, higher-than-expected inflation readings and uncertainties around the new administrations economic policies gave them cause to pause in January.

February was a month of two halves for the US Treasury bond market. Yields started the month rising with a bear flattening bias headed into the 12 February CPI release, which saw all measures of US consumer price inflation printing higher-than-expected. For the rest of the month, yields rallied hard with a bull steepener taking hold. Two reasons come to mind when describing the rally. Firstly, new US Treasury Secretary Scott Bessent made it clear in February that this administration is more concerned with monitoring the US 10-year Treasury yield rather than the Federal Funds rate as it's a better reflection of borrowing costs. Also, they can have an influence on bond yields via fiscal policy. Secondly, US real economic data releases came out weaker than forecast and fears of a looming recession grew. The January labour report showed lower-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 higher again. The bond market sold off on the report's release until the CPI release five days later. Following the wide range of new tariffs announced, the University of Michigan's one-year inflation expectation jumped. This coupled with the upside realised inflation surprise places the FOMC in a difficult position and the result has seen a market that anticipates stable policy rates.

US Treasury bond yields showed a mixed performance in March with the short end rallying and the long end selling off, resulting in a steepening of the yield curve. The short end was supported by weak economic data. The ISM manufacturing data at the start of the month was weak, not only the headline data but more so the details. The February labour report showed slightly lower-than-expected monthly nonfarm payrolls and a marginally higher-than-forecasted unemployment rate, alongside lower-than-expected average hourly earnings figures. Prior nonfarm payrolls were revised lower this time. The bond market initially sold off on the report's release but reversed those losses and some more during the following trading session. While the February CPI inflation release was lower-than-expected at both the headline and core level, bond yields still rose. PPI inflation also printed lower-than-expected in February for both the headline and core measures. The preliminary University of Michigan survey was woeful. Sentiment, current conditions and expectations were all worse-than-expected, while inflation expectations for both the near- and long-term horizons jumped. The Empire State Manufacturing Index collapsed as well. Soft or sentiment survey data have been severely impacted by the new administration's actions on tariffs preceding "Liberation Day". The FOMC held rates steady and bond yields managed to rally a tad on the day of the announcement.

Brent crude oil prices were basically unchanged in the first quarter of 2025, after having increased over the previous quarter. Energy prices were relatively stable, trading within a similar narrow range as the previous quarter. The US dollar index declined in the first quarter, reversing most of the stellar gains made in the previous quarter. The currency lost support around the time of the Trump inauguration and has not looked back. The weak US dollar environment for the year to date saw the rand exchange rate recover to its strongest level since mid-December. The rand was one of the better- performing emerging market currencies against the US dollar in the first quarter in both spot and total return terms despite the executive order imposed by President Trump on South Africa. The cost of SOAF protection via the CDS market has been on a rising trend this year. It moved out of the range held over the previous six months which saw some of the lowest levels post-Covid.

South Africa and Namibia

SA nominal bond yields rose steadily over the course of the first quarter with a steepening bias. Both local and global factors played a part in this move. The South African National

Annualised performance	A class	Benchmark	B class
1 year	8.8%	8.3%	9.2%
3 years	8.2%	7.7%	8.5%
5 years	6.7%	6.5%	7.1%
7 years	6.3%	6.8%	6.7%
10 years	6.4%	7.0%	6.7%
Since inception	6.4%	7.0%	-

Risk profile

Risk of not earning meaningful inflation-beating returns over the long-term

HIGHER | LOWER

LOWER | HIGHER

Variability of returns over the short-term

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$6 241 367

Sources: M&G Investments, Morningstar & Deutsche Securities

M&G Investments

Budget impasse as well as the impact of Trump tariffs on the global economy were to blame. The future of the South Africa's Government of National Unity (GNU) was also at risk for most of the quarter. Inflation-linked bond yields were mixed on the quarter with the short end rallying on VAT related impact and the long end selling off on fiscal/global considerations thereby leading to a steepening.

SA bond yields rose modestly in January, underperforming US Treasuries over the month. The South African market returned to full trading hours and market participants returned from the holiday period for the resumption of weekly government bond auctions, the first MPC meeting of the year and the receipt and subsequent deployment of coupon flows. SA's real economic activity data released in January was poor, especially the PMI and vehicle sales figures while inflation remains well contained. Consumer price inflation increased but printed lower-than-expected at 3.0%. The MPC of the SARB lowered the repo rate by a further 0.25% to 7.50% in January. This decision was widely expected, but the voting split of the committee was a surprise as only four members supported the reduction with two members favouring an unchanged stance. The MPC remains concerned over the upside risks to inflation and has looked through the current "transitory" trough.

SA nominal bond yields rose in February, showing a bear steepening bias. However, inflation-linked bonds rallied with a bull steepener. The highlight or lowlight of the month was the no-show budget. For the first time in history, the South African government failed to deliver the National Budget. The ANC attempted to sneak in a 2% VAT increase into the final budget after agreeing to a budget with its ruling coalition partners in the GNU only two weeks before the budget. They even threatened to walk away from their coalition partners in favour of the left leaning parties if they did not accept it. The ANC failed to appreciate that the country is no longer run out of Luthuli House but rather a multi-party coalition. Bond yields and the rand initially sold off on the news of the budget postponement, but this was only short-lived as market participants took heart from the coalition parties resolve to keep the ANC in check.

SA nominal bond yields rose in March, showing a bear steepening bias. However, inflation-linked bonds fared better, with the front end rallying and the back end selling off somewhat thereby leading to a steepener. The bond market was affected by both global developments emanating from the White House as well as local negotiations among the GNU party members surrounding the budget impasse with headline risks acute on both fronts. The MPC of the SARB met in March and decided to pause the rate-cutting cycle with the repo rate held steady at 7.50%. The decision was not unanimous as four members voted in favour, while two favoured a 25bps rate cut. The committee has only cut rates by a cumulative 75bps despite CPI inflation collapsing. This has been due to the heightened local political and Trump tariff risks. The inflation forecast for 2025 was lowered materially at this meeting, therefore, according to market the window remains open for a rate cut at the May MPC meeting.

Namibia's real GDP slowed in 2024 to 3.7%, moderating from 4.4% the prior year. Nominal GDP ended the year at N$245.1bn. Real GDP is projected to grow by 4.0% in 2025, driven by a recovery in agriculture, improvements in consumer confidence, sustained activity in the mining sector, and ongoing investments in oil, gas, and green hydrogen sectors. While all tertiary and secondary industries expanded, primary industries contracted by 1.8% due to drought and mining weakness.

The fiscal deficit is projected to widen from 2.4% of GDP in FY2023/24 to 3.9% in FY2024/25, attributed to increased public spending on wages, drought relief, and capital expenditures. The government plans to address the upcoming US$750 million Eurobond maturity in October 2025 by utilising a sinking fund to settle US$625 million and refinancing the remaining US$125 million through the domestic market.

Following her inauguration on 21 March 2025, President Netumbo Nandi-Ndaitwah announced a streamlined cabinet, reducing the number of ministries from 21 to 14 and appointing seven deputy ministers. This restructuring aims to enhance efficiency, reduce government expenditure, and eliminate overlapping functions.

Key appointments include Lucia Witbooi as Vice President, Elijah Ngurare as Prime Minister, and Ericah Shafudah as Minister of Finance and Social Grants Management. Shafudah brings over two decades of experience in the finance ministry and has previously served with the World Food Programme.

On 27 March 2025, Minister Shafudah presented the 2025/26 National Budget totalling N$106.3 billion, marking a 4.9% increase from the previous year. The budget allocates N$79.8 billion for operational expenditure, N$12.8 billion for development, and N$13.7 billion for interest payments.

Performance

For the quarter to 31 March 2025, the M&G Namibian Enhanced Income Fund returned 1.3% (A class, net of fees) compared to its benchmark's (IJG Money Market Index) 1.9%. Over the 12 months, the fund delivered a total return of 8.8% (A class, net of fees), which compares favourably to the benchmark return of 8.3%.

Strategy and positioning

The fund has a material exposure to the South African M&G Enhanced Income unit trust fund and the 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. At the start of the quarter, the fund reduced duration via the interest rate swap market. This decision added value to the fund as yields rose steadily over the quarter. For some time, the implied real yields from nominal bonds have been more attractive than those offered by inflation-linked bonds. Therefore, most of the fund's duration exposure has been to nominal rates instead of real rates, though some exposure to inflation-linkers was always 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 fund started buying short-dated ILB exposure ahead of the February budget and continued to do so over the course of the quarter. Short-end linkers rallied in the quarter and this added value. The preference thus far has been in the shorter end of the yield curve, but with the steepening the long end has begun to look attractive also. During the quarter, most of the positioning in our property teams favoured defensive, yet high-yielding SA listed property stocks was switched in favour of units in their multi award-winning M&G Property Fund. Foreign bond exposure remains to short-dated US treasury bonds instead of corporate credit due to the tightness of spreads. A change was made to the foreign bond positions currency hedge, where it was fully currency hedged before, and changed to partially long US dollars during the quarter. Over the quarter, risk was managed tactically especially over the local budget. □

Sources: M&G Investments, Morningstar & Deutsche Securities

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Application forms

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