

M&G Namibian Inflation Plus Fund

Multi-asset

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

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).

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

Emerging and Developed Markets

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).

South Africa

The FTSE/JSE All Share Index returned 5.6% (in rand) on the back of strong performance in the precious metal and mining space. The resource sector rallied 33.7% in the quarter, with gold and PGM names delivering strong returns due to those commodities being up significantly in the month of March. The strong rally in SA equity for the quarter has been very concentrated in a few bigger names, such as gold companies, Naspers/Prosus, MTN and a few other rand-hedge stocks, like British American Tobacco and Richemont. Industrials

delivered 3.1% while financials ended the quarter down 1.8%. Property had a challenging quarter with -4.2% (as measured by the All Property Index).

SA cash, as measured by the Short-Term Fixed Interest (SteFI) composite, returned 1.9% for the quarter.

SA bonds had a more muted quarter but managed to add small gains of 0.7% as per the All Bond Index. Concerns around the budget have led to a steeper yield curve with yields on long-dated bonds rising somewhat during March compared to flatter levels on the short-end of the curve.

United States

Growing concerns over tariff threats had a significant impact on US equity markets. Escalating trade tensions, particularly with China, triggered fears of a renewed trade war, which weighed heavily on investor sentiment.

The US administration's threats to impose additional tariffs on key imports spooked investors, leading to heightened volatility in major stock indices. Sectors most vulnerable to tariffs, such as manufacturing, technology, and consumer goods, experienced sharp declines, while companies reliant on global supply chains saw their stock prices suffer. The uncertainty surrounding trade policies not only impacted corporate earnings expectations but also increased the risk of a broader economic slowdown, contributing to a cautious outlook for US equities during the quarter.

The dominance of the "Magnificent 7" began to unravel following the release of China's low-cost AI model, DeepSeek, and growing concerns over their high valuations. This, combined with uncertainty around trade wars, meant the group faced a rough quarter, with a 15% decline, led by Tesla, Apple and Nvidia.

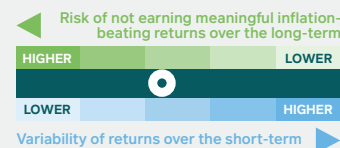
Meanwhile, US consumer price inflation eased to 2.8% year-on-year in February, down from 3.0% in January. However, market observers believe this decrease is temporary, as long-term inflation expectations continued to rise. In line with expectations, the Federal Reserve kept the federal funds rate unchanged at 4.50%.

Both the US equity market and US dollar sold off on concerns around the potential impact trade wars could have on the US economy. US equity markets ended the quarter down with the NASDAQ being the worst performer delivering -10.3%, the S&P 500 with -4.3% and the Dow Jones with -0.9%.

United Kingdom

The UK's economic landscape saw Labour Chancellor Rachel Reeves announce a £4.8 billion cut in welfare spending and a

Risk profile



Fund facts

Fund objective

The Fund aims to produce above inflation (or real) returns by investing in inflation-linked bonds, other interest-bearing securities and equities. The Fund has two objectives: 1. The primary objective is to outperform Namibian CPI by 4% per annum before fees over rolling three-year periods. 2. The secondary objective is to aim for no losses over rolling 12-month periods.

Investor profile

The Fund is ideal for those saving for retirement, those already living off a pension and those wanting to protect their savings from the detrimental effects of inflation, thereby preserving purchasing power and earning a real return.

Investment mandate

The Fund aims to achieve above inflation (or real) returns by investing in inflation-linked bonds, other interest-bearing securities and equities. The fund is managed to comply with regulations governing retirement fund investments in Namibia.

Fund managers

Sandile Malinga
Michael Moyle
Leonard Krüger

Morningstar category

Cautious Allocation

Objective

Namibian CPI+4% p.a. measured over a rolling 3-year period

Inception date

15 September 2003

Fund size

N\$2 177 098 542

Annualised performance

	A class	Objective	B class
1 year	11.5%	7.7%	12.0%
3 years	10.1%	9.3%	10.6%
5 years	11.1%	8.6%	11.6%
7 years	8.2%	8.3%	8.7%
10 years	7.5%	8.7%	7.9%
20 years	9.9%	9.4%	-
Since inception	10.3%	9.2%	-

crackdown on tax avoidance, alongside a downward revision of the 2025 growth forecast from 2% to 1%. Inflation showed signs of easing, with the UK's Consumer Price Index (CPI) dropping to 2.8% y/y in February, slightly below the expected 2.9%. This, coupled with a 25-basis point rate cut by the Bank of England in February as policymakers responded to growing economic concerns, added to the market's optimism.

While European markets faced volatility due to tariff worries and trade tensions, hopes for a European-led peace initiative regarding Ukraine lifted sentiment, benefiting the FTSE 100, despite underlying economic challenges.

The FTSE 100 Index posted an impressive 9.4% gain (in US dollars) for the quarter.

The Eurozone

European equity markets outperformed their US counterparts, with Financials delivering particularly strong performance.

Germany was a key driver for the region's market performance for the quarter. The country's decision to lift the debt ceiling benefited defence-related shares, as increased spending in that sector led to outperformance compared to other areas of the market. Further to this, political stability following Germany's elections added to investor optimism, boosting market sentiment and helping the DAX deliver robust returns of 15.8%. France's CAC 40 also delivered a respectable 10.4% (all in US dollars).

Eurozone inflation showed signs of moderation, with the Consumer Price Index (CPI) for February coming in at 2.3% y/y, slightly below expectations, but still within range. The European Central Bank (ECB) cut interest rates by 25 basis points to 2.5%, signalling a potential for further cuts, and also lowered its economic growth forecast for the fourth consecutive time, now projecting 0.9% growth for 2025.

Japan

Escalating trade tensions, tariffs and shifting monetary policy contributed to market volatility and weighed on markets in Japan for the quarter. The announcement of a 25% tariff by the US on auto imports sparked major concerns in Japan, due to the country's large auto export sector. In addition, public dissatisfaction with fiscal policies erupted in protest action against the Ministry of Finance.

Japan's annual consumer price index slowed to 3.7% y/y in February 2025 from 4.0% y/y in January, slightly above the expected 3.5%. In a widely expected move, the Bank of Japan maintained its benchmark interest rate at 0.5%.

Against this challenging backdrop, the Nikkei was down 5.3% (in US dollars) for the quarter.

China

Despite tariff jitters, AI enthusiasm boosted tech stocks. Markets were boosted by the surprise release late in January of China's low-cost AI model, DeepSeek, sparking the tech rally. China also announced stimulus plans to boost consumption, which were well-received by the market.

Meanwhile, CPI contracted by 0.7% y/y in February 2025. The People's Bank of China (PBOC) maintained its key lending rates, keeping the one-year Loan Prime Rate (LPR) at 3.1%

and the five-year LPR at 3.6%. This decision aligned with market expectations.

Boosted by positive sentiment and the latest AI developments and stimulus announcements, the Hang Seng delivered a strong 15.9% for the first quarter (in US dollars).

Commodities

In the flight to safety against the backdrop of geopolitical and trade tensions, investors flocked to gold, driving up prices and ending the quarter as a standout performer. Commodity prices were further supported by China's latest stimulus measures. Gold and silver ended the quarter north of 19% and copper rallied to 11.1% (in US dollars). The PGM sector also saw increases with platinum, palladium and rhodium prices all rising. On the soft commodity side, coffee was the star after rising 18.75% during the quarter.

South Africa

Fiscal uncertainty increased following the delay of the National Budget Speech, initially scheduled for 19 February, due to coalition disagreements. The budget was eventually re-presented on 12 March, with the proposed 2% VAT hike scaled back to 50 basis points over the next two years. The most significant impact was the effect this had on the Government of National Unity (GNU), as the ANC and DA clashed over the budget proposal, undermining the stability of the government.

On the economic front, South Africa's GDP showed modest growth of 0.6% q/q in Q4 2024, narrowly avoiding a technical recession, following a contraction of 0.3% in Q3. Annual consumer price inflation held steady at 3.2% y/yr in February 2025. As expected, the South African Reserve Bank (SARB) kept the repo rate unchanged at 7.5% in March, maintaining a cautious stance after the rate cut in January.

Despite concerns over tariffs, the rand strengthened on dollar weakness. The JSE All Share Index (ALSI) posted a solid 5.9% gain for the quarter in rand terms, and in US dollar terms, it rose by 9%, outpacing both developed and emerging markets. This rally was largely driven by a stronger performance in the resources sector, on the back of the surge in gold and platinum group metal (PGM) prices.

Namibia

Namibian equity market performance showed mixed results in the first quarter of 2025. The NSX Overall Index experienced a decline of 4.2%, reflecting broader market pressures. However, the NSX Local Index performed strongly, ending the quarter up by 3.5%, indicating resilience within domestic stocks. In the bond market, the IJG All Bond Index (ALBI) posted a modest gain of 1.3%, while the IJG Inflation-Linked Bond Index (ILB) outperformed with a return of 1.75%. The IJG Money Market Index also delivered a decent performance, returning 1.9% (all in N\$). These figures highlight a more favourable environment for fixed income, even as broader equity markets faced challenges.

At their first meeting for the year in February, the Bank of Namibia's Monetary Policy Committee (MPC) decided to lower the repo rate by 25 basis points to 6.75% citing the aim of maintaining support for the economy and protecting the peg between the Namibia dollar and the South African rand.

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Currency

The US dollar weakened against a basket of major currencies in the quarter. The rand and the Namibian dollar with its rand peg, strengthened 2.5% to the US dollar but weakened against both the euro (-1.5%) and pound sterling (0.5%), but in a very orderly manner.

Performance

The M&G Namibian Inflation Plus Fund returned 1.5% over the first quarter of 2025 (A class, net of fees in N\$). For the 12 months ending 31 March 2025, it returned 11.5% (A class, net of fees in N\$) compared to its 7.7% objective. Since its inception in 2003, the fund has delivered an annual return of 10.3% compared to 9.2% per annum from its objective over the same period.

In terms of asset allocation this quarter, the fund's SA and Namibian equity position (up 5.7%) added the most to value on an absolute basis, however it returned slightly less than the benchmark. The fund's underweight allocation to international equity and favourable stock selection kept it in positive territory on an absolute and relative basis versus the negative returns experienced by the benchmark.

Within SA and Namibian equity, the top contributor to performance this quarter was AngloGold Ashanti (up 66%) on the back of strong performance in the precious metal and mining space. Gold was significantly up in the month of March. Not holding Mr Price group proved beneficial versus the benchmark's position (down -25%). However, not holding Harmony Gold Mining detracted from relative performance as it delivered well during the quarter.

Strategy and outlook

The start of the year saw the South African market outperform global peers when looking at both the local equity and bond market. We saw very strong moves in the SA equity market as measured by the FTSE/JSE Capped Swix Index, which returned 5.9% for the quarter against the -3.8% fall in global equities as measured by the MSCI All-Country World Index (both in rand). The bond market was more subdued, adding 70bps, but this was also ahead of the flat performance for the Bloomberg Global Aggregate Bond Index (in rand).

Our broad preference continues to be overweight SA and Namibian assets and underweight foreign exposure. In South Africa, we saw some earnings expectations upgrades during the quarter, but mostly limited to a few sectors, such as precious metals & mining and communication services. The effect is that SA still screens cheap when looking at pure fundamentals, such as price-to-book (1.79x) and forward price-to-earnings ratio (10.10x). On the bond side, we still see value as real bond yields are trading in excess of our fair value. Fundamentals for the local property sector have also improved somewhat on the back of a retracement in price for that asset class after very strong positive performance in 2024.

Globally, we kept our overall positioning fairly intact during the quarter. The valuation for the MSCI All Country World Index 12-month forward P/E ratio reduced from 18.35x at the start of the year to 17.25x by the end of the quarter. This is mainly due to the downward move in US equity markets, with the S&P ratio moving from above 22x at the start of the year to closer to 20x by the end of March.

Out of interest, this ratio reduced drastically for the so called "Magnificent 7" stocks from 34.5x to 28.7x in the first three months of 2025. This can be explained by various factors such as the news end January on DeepSeek AI developments in China being at reduced cost and increased efficiency compared to US counterparts, as well as the impact of tariffs on global trade and the US economy. At the same time, we saw the forward P/E ratio for World excluding the US, as well as emerging markets move slightly higher on the back of relative price outperformance.

We made no changes to our global equity positioning in our funds on the back of these moves, as we believe there's still room for the trend to continue. As such, we continue to have a short position to the US market, counter-balanced by long positions to China, Mexico, South Korea, and a few other developed and emerging countries.

On the bond side, we continue to hold our existing position to long-dated US treasuries in our funds with an overweight duration position. We also still maintain our position to Brazilian bonds, which we added at the end of last year. New positions we engaged with in the asset class were adding UK gilts and German bunds during the sell-off in global bond markets during the first few weeks of January. We have seen a retracement in yields to lower levels for the former since adding the position to the funds, while for German bunds we saw a significant sell-off in yields in March due to a raise in the debt ceiling in that region post their election. As at the end of the first quarter, bund yields have retraced back to the levels where we engaged the position at the start of the year.

During the quarter, we cut our SA and Namibian equity position, which went into cash, on the back of the outperformance versus other markets. We view this as a tactical trade due to relative market moves, but still see SA equities as fundamentally cheap when looking at valuation metrics such as the 12-month forward P/E ratio (10.1x) and Price-to-Book ratio (1.79x).

We have kept our property positioning unchanged during the quarter, after making use of market opportunities during the previous year to reduce the underweight we have in place to that asset class. At present, we still have a small underweight to neutral position to property in our funds, consistent with where we started the year.

In terms of bonds, we kept the weighting of SA and Namibian bonds during the quarter at a slight overweight position. The fundamentals for SA nominal bonds are mostly unchanged from where we ended 2024. We still see real yields currently at attractive levels.

We continue to hold on to an overweight position in Namibian Inflation Linked bonds (ILB's) due to the attractive returns offered in that asset class. The current real return for Namibian ILB's compare favourably to that of nominal bonds and therefore we are comfortable having both included in our portfolios. □

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