Quarterly Commentary

# M&G Namibian Money Market Fund

Income

## Q4 2023

### Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with unexpectedly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024, as well as forecasting a "soft landing" for the US economy. They also added that they didn't want to make an error by "waiting too long" to begin lowering rates. This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global bonds experienced a very volatile year, marked by rapid shifts in the interest rate outlook and investor sentiment that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds as an asset class returned 5.7% for the year.

South African assets were weighed down in 2023 by ongoing general pessimism over the country's weak growth prospects, loadshedding and uncertain government finances, exacerbated by the higher risks associated with the grey-listing of SA in global financial transactions and incidents like the "Lady R" and hosting of the BRICS Summit. This manifested in rand weakness, equity underperformance against the MSCI EM Index and continuing low valuations on SA stocks and bonds. However, SA bonds notably outperformed their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

#### South Africa and Namibia

In South Africa, at its 23 November policy meeting the SA Reserve Bank voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago still sounded relatively hawkish regarding inflation, but noted that growth was likely to remain muted due to ongoing energy and logistical constraints (at ports and railways) weighing on economic activity and adding to the costs of doing business. Q3 2023 GDP contracted more than expected at -0.7% y/y (versus -0.2% forecast), with output declining in agriculture, mining and construction, while services output expanded. Looking ahead, the SARB projected GDP growth at 0.8% for 2023, 1.2% in 2024 and 1.3% in 2025. Besides local headwinds to growth, China's ongoing slower growth presents challenges for SA's commodity exports.

Headline November CPI declined to 5.5% y/y from 5.9% y/y in October, largely on the back of energy price decreases. However, after falling in Q3, surveyed inflation expectations for 2024 rose to 5.7% from 5.5% in Q4, according to the BER. Consumer confidence remained in the doldrums, as the FNB/BER Consumer Confidence Index registered -17 points in Q4 from -16 points in Q3.

In Namibia, the Bank of Namibia (BoN) left its main repo rate unchanged at 7.75% at both its October and December policy meetings, broadly following the SARB to maintain the N$ peg to the rand. In its December Economic Outlook, the central bank forecast 2023 growth at 3.9% following the strong 7.2% expansion seen in Q3 2023, helped by a surge in mining and quarrying, as well as higher-than-expected oil and gas exploration activity. GDP growth for 2024 is seen decelerating to 3.4% due to softer global demand for commodities and an expected contraction in agricultural production, plus a slowdown in consumer and business spending amid high interest rates. The Bank reported increases in both uranium and gold production in 2023, and a decline in diamond production versus the very high levels of 2022. Namibian CPI fell to 5.7% y/y in November from 6.0% in October, and is seen averaging 5.9% in 2023 and 4.8% in 2024.

Following a long consultative process, the Namibian government expects to introduce a new N$18/hour minimum wage in Q1 2024, and will be implementing a 5% salary increase for government workers, despite its drive for fiscal consolidation. During the quarter, groundbreaking began on Africa's first decarbonised iron plant, powered exclusively by green hydrogen. The Hylron Oshivela Project in western Namibia is partly funded by the German government.

Namibian assets broadly outperformed their SA peers for the quarter, escaping much of the elevated risk associated with South Africa. Namibian bonds recorded further gains thanks to improving government deficit projections and lower bond issuance, as well as higher demand due to the localisation regulations, with yield spreads versus SA bonds continuing to narrow. Namibia's IJG All Bond Index delivered 6.7% over Q4, while the IJG Money Market Index returned 2.1%.

### Performance

The fund delivered a return of 2.1% over the past quarter (A class, after fees), compared to the 1.7% returned by the benchmark. For the calendar year of 2023 the fund also comfortably outperformed its benchmark, returning 8.3% compared to the benchmark's 6.6%.

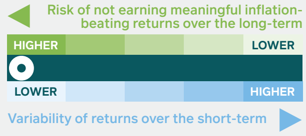
### Positioning

Both the SARB and BoN elected to hold rates steady this quarter, with the last change in either country's repo rate having come in June of 2023. In SA the market for Negotiable Certificates of

| Annualised performance | A class | Benchmark[1] |
|---|---|---|
| 1 year | 8.3% | 6.6% |
| 3 years | 5.7% | 4.6% |
| 5 years | 5.8% | 4.9% |
| 7 years | 6.4% | 5.8% |
| 10 years | 6.4% | 6.1% |
| Since inception | 6.1% | 6.0% |

[1] The Fund's benchmark changed from the IJG Money Market Index to the IJG Call Index on 1 December 2019

### Risk profile




### Fund facts

#### Fund managers
Gareth Bern
Roshen Harry

#### Morningstar category
Africa Money Market

#### Benchmark
IJG Call Index

#### Inception date
12 March 2010

#### Fund size
N$1 985 664 208



Sources: M&G Namibia, IJG and Morningstar

Deposit (NCD) took its cue from the SARB, with the NCD curve also little changed over the quarter. In the Namibian market, both fixed as well as floating NCD rates edged a little higher (10-30 basis points) over the quarter.

The South African Forward Rate Agreement (FRA) curve moved significantly lower over the quarter, signaling that the market is more optimistic about the prospects for rate cuts than it was at the start of the quarter. It is now pricing in around 100bps of cuts over the next two years, compared to a largely unchanged interest rate trajectory being priced in three months ago.

We maintained a large holding in floating-rate instruments (around 80% of fund). These instruments are benefitting from the 50bp gap between the SA and Namibian central bank rates, with the BoN at 7.75% and the SARB at 8.25%. Seeing as these instruments reference the South African JIBAR rate, which is in turn influenced by South African monetary policy dynamics, the differential between the two repo rates means that these securities deliver attractive yields relative to fixed-rate alternatives.

The fund positioning remained largely unchanged over the quarter, and the duration was maintained at around 50 days.

M&G Investments

## Contact us

info@mandg.com.na

mandg.com.na

+264 61 256 166

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## Disclaimer





Sources: M&G Namibia, IJG and Morningstar