Quarterly Commentary

M&G 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.

Performance

In the current environment, where the repo rate is high compared to prevailing inflation, the fund continues to put up good absolute and real return numbers. It is also consistently placing in the top half of the peer group (according to Morningstar), which is pleasing, given the conservative way in which we manage the fund's credit exposure. The fund returned 2.2% over the quarter (Class A, net of fees), compared to the benchmark's 2.0%. For the calendar year of 2023, the fund outperformed the benchmark by more than 50bps, generating 8.3%.

The M&G Money Market Fund has also generated pleasing returns relative to its peer group of late. According to Morningstar, the fund ranked 12th out of 38 funds over the past year, and 13th out of 34 funds over the last three years.

Strategy and positioning

The SARB again elected to hold rates steady this quarter, with the last change in the repo rate having come in May of 2023. The market for Negotiable Certificates of Deposit (NCDs) market took its cue from the SARB, with the NCD curve also little changed over the quarter. Floating NCD spreads have, however, increased slightly, and when you view the fixed and floating rate interest rates together, this indicates that the market now appears more positioned for rate cuts ahead. Indeed, the NCD market appears to be pricing in about 50bps of cuts over the next two to three years. This seems like a reasonable outlook to us, and we therefore don't have a strong preference for one interest rate class over the other.

The Forward Rate Agreement (FRA) market appears more aggressive in its expectation for interest rate cuts. It is now pricing in around 100bps of cuts over the next two years. This has been one of the big changes that took place over the past quarter – at the start of the quarter the FRA market was implying a largely unchanged interest rate trajectory.

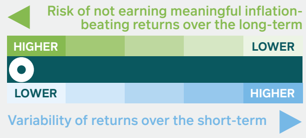
Government treasury bills continue to look attractive relative to bank paper. In light of this, we have increased our exposure to the instrument class from 13% to 21% over the quarter. Although these securities have the highest credit quality in the investment universe (in our opinion), they do come with less liquidity; therefore we don't expect to grow this position much further from here.

The fund duration was maintained at around 75 days over the quarter, in an effort to take advantage of the yield enhancement available from owning longer-dated paper.

Annualised performance

Annualised performance	A class	Benchmark	X class
1 year	8.3%	7.8%	8.3%
3 years	5.8%	5.4%	5.8%
5 years	6.0%	5.5%	6.0%
7 years	6.4%	5.8%	6.5%
10 years	6.4%	5.9%	6.5%
20 years	6.9%	6.6%	-
Since inception	7.3%	7.1%	-

Risk profile



Fund facts

Fund managers

Roshen Harry
René Prinsloo

ASISA category

South African - Interest Bearing - Money Market

Benchmark

STeFI Call Deposit Index

Inception date

9 April 2002

Fund size

R1 495 680 985

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Application forms

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Sources: M&G Investments and Morningstar