M&G Investments

M&G Money Market 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

Due to the relatively conservative manner in which we manage the fund, we don't typically expect the fund to perform in the top decile or even quartile of its peer group. We are uncompromising with respect to risk management and aim to achieve the best possible result within this conservative (in our opinion) framework. In this context, we are pleased with the returns that the fund has delivered of late.

Over the past quarter, the M&G Money Market Fund generated 1.9% (A class, net of fees), which was 12bps ahead of its benchmark. The fund continues to perform well relative to peers, with a ranking of 12th out of 37 funds over the past year (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.

The fund's duration decreased somewhat over the quarter from 66 days to 58 days. Apart from this, the fund positioning is little changed from a quarter ago.

Annualised performance

Annualised performance	A class	Benchmark	X class
1 year	8.5%	8.0%	8.5%
3 years	7.8%	7.3%	7.8%
5 years	6.3%	5.8%	6.3%
7 years	6.6%	6.0%	6.6%
10 years	6.8%	6.2%	6.8%
20 years	7.0%	6.6%	-
Since inception	7.4%	7.1%	-

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

To protect the capital of investors in an absolute sense, while providing income in excess of short-term bank deposit rates. Investors' capital remains highly liquid. While this is a low-risk fund, investors should be aware that the possibility of capital loss does exist. This could happen should an issuer of an underlying investment in the fund default.

Investor profile

Risk-averse individuals requiring a short-term investment with protection from equity and bond market-type volatility. Capital protection is more important than long-term capital growth. The recommended investment horizon is 1 – 12 months.

Investment mandate

South African short-term, highly liquid money market instruments with a maturity of less than 13 months. The weighted average duration of the underlying assets may not exceed 90 days and the weighted average legal maturity may not exceed 120 days. 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 - Money Market

Benchmark

STeFI Call Deposit Index

Inception date

9 April 2002

Fund size

R1 759 003 070

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Sources: M&G Investments, Morningstar & Deutsche Securities