M&G Money Market Fund

Income

Q1 2024

Market overview

The first quarter of 2024 (Q1) brought a continuation of the relatively bullish investor sentiment towards global equities seen in the last months of 2023, as prospects for growth in the US were buoyed by positive company earnings reports and supportive economic data that increased the likelihood of a "soft landing" for the economy. On the other hand, global bonds were weaker as inflation proved higher than expected and major central banks kept interest rates on hold, prompting pundits to move out their rate cut expectations to the second half of the year. Still, they and the US Federal Reserve are roughly aligned in their forecasts of a 25bp interest rate cut in each of Q2, Q3 and Q4, starting at the Fed's 11-12 June FOMC meeting.

At its March policy meeting the SA Reserve Bank voted unanimously to keep the repo rate steady at 8.25%, as expected. Governor Lesetja Kanyago remained hawkish regarding stubbornly high inflation (with CPI rising to 5.6% y/y in February from 5.3% y/y in January, well above the expected 5.4% y/y) and relatively high inflation expectations for 2024 among businesses and consumers. The economy managed to eke out growth of 0.1% (q/q annualised) in Q4 2023, worse than expected, for an annual rate of 0.6% for 2023 as a whole. The SARB has projected GDP growth at 1.2% in 2024 and 1.3% in 2025, the acceleration due largely to improved electricity supply. Equity returns remained depressed by the country's low growth prospects and uncertainty over the upcoming national elections, both of which are keeping foreign investors on the sidelines. South African bonds recorded a -1.8% return for the quarter. This saw the yield on the 10-year SA government bond rise to 12% by quarter-end. Finally, the STeFI Composite Index delivered 2.1%.

Performance

The M&G Money Market Fund returned 2.1% over the quarter (Class A, net of fees), compared to the benchmark's 2.0%. Over one year, the fund delivered 8.7%, outperforming its benchmark, the STeFI Call Deposit, by 0.6%. While the fund is focused on the short term, it's pleasing to note the fund's outperformance of its benchmark over longer periods (3, 5, 7, 10, 20 years and since inception, up to 31 March 2024).

The fund has also generated pleasing returns relative to its peer group. According to Morningstar, the fund ranked 14th out of 38 funds over the past year, and 14th out of 34 funds over the last three years.

Positioning

The MPC has now kept interest rates unchanged since May 2023. The lack of movement in the repo rate has kept the front-end of the NCD curve reasonably anchored, and fixed-rate NCDs of less than a year in maturity were little changed over the past quarter. Longer-dated fixed rate NCD yields moved higher over the quarter, as one would expect, given the weakness of the SA bond market (with government bond yields up between 60bp and 90bp).

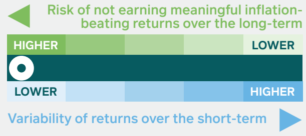
One fairly significant change over the quarter was how the market shifted its outlook for interest rates. At the start of the year, the FRA curve implied a cutting cycle of approximately 100bp, with the first cut expected around June 2024. The FRA market is now implying only a single 25bp rate cut over the entire cycle, and pricing suggests this will happen in Q1 of 2025. This less optimistic interest rate outlook is consistent with the year-to-date acceleration of both headline as well as core inflation, and also with somewhat deteriorating inflation forecasts by the SARB.

Interestingly, the NCD market implies even less (if any at all) of a cutting cycle. A comparison of fixed-rate to floating-rate NCD yields suggests that the repo rate will stay largely unchanged over the next year. This seems perhaps a little overly pessimistic to us; we would think a shallow cutting cycle to be the most likely outcome. As a result, we think it makes sense to have a slight preference for fixed-rate paper over floating exposure, in money market and income products, where mandates allow.

Treasury bill yields declined over the quarter, particularly for the 9-month and 12-month tenors. This is arguably due to a more favourable issuance outlook, published in February's budget, as a result of National Treasury accessing a portion of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) valuation gains, and having less of a need to borrow as a result.

Over the past quarter the fund duration declined somewhat, from 75 days to 55 days, but the average maturity increased from 108 days to 115. We therefore continue to attempt to take advantage of the yield enhancement available from longer-dated instruments.

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 595 394 480

Annualised performance	A class	Benchmark	X class
1 year	8.7%	8.1%	8.7%
3 years	6.3%	5.8%	6.2%
5 years	6.1%	5.5%	6.1%
7 years	6.5%	5.9%	6.5%
10 years	6.5%	6.0%	6.6%
20 years	6.9%	6.6%	-
Since inception	7.4%	7.1%	-

Sources: M&G Investments, Morningstar & Deutsche Securities

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Invest now

Application forms

An electronic copy of this document is available at www.mandg.co.za

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