

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

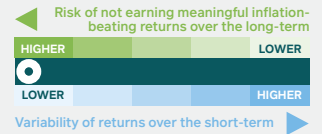
	A class	Benchmark	X class
1 year	8.3%	7.8%	8.3%
3 years	5.8%	5.4%	5.8%
5 years	6.0%	5.5%	6.0%
7 years	6.4%	5.8%	6.5%
10 years	6.4%	5.9%	6.5%
20 years	6.9%	6.6%	-
Since inception	7.3%	7.1%	-

Disclaimer

MandG Investments Unit Trusts (South Africa) (RF) Ltd (Registration number: 1999/0524/06) is an approved CISC management company (#29). Assets are managed by MandG Investment Managers (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa Limited - Trustees Services & Investor Services, 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town.

Collective Investment Schemes (unit trusts) are generally medium-to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations - relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances, a process of ring fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.

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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Invest now

Application forms

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