

# M&G Bond 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 both SA equities and their global counterparts for the year, helped by their cheap valuations at the start of 2023, delivering a 9.7% annual return.

## Performance

The fund delivered 8.3% over the quarter (class A, after fees), ahead of the benchmark's 8.1%. Over the calendar year of 2023 the fund return was 10.8% compared to the 9.7% of the ALBI. The performance relative to peers is equally pleasing. According to Morningstar, the fund ranks in the top decile of its category over 1, 2 and 3 years, and in the top quartile over the past 4 years.

## Strategy and positioning

With global bond yields having peaked in October, and having moved significantly lower since then, the SA bond market also enjoyed a strong rally over the quarter. In fact, almost all of the ALBI's 9.7% return for 2023 came in the last quarter (8.1%). Investors that were able to ride out the volatility over the year were rewarded with a nearly double-digit nominal return, and very healthy real return as well.

The yield curve moved on average 90 bps lower, but also underwent a fairly significant change in shape. The seven-year area rallied the most, by around 110bps, while the ultra-long bonds lagged (yield moved 70bps lower). This bull-steepening of the curve was arguably the result of changes in expectations for central bank rates, in SA as well as globally. In SA, for example, the Forward Rate Agreement (FRA) curve is now pricing in around 100bps of cuts over the next two years. At the start of the quarter it was implying a largely unchanged interest rate trajectory.

We were well positioned for this steepening of the curve, with a significant overweight position around the seven-year area, and practically no exposure beyond 13 years in term.

Another noteworthy development over the quarter was that the ALBI now has a new ultra-long bond, namely the R2053. This bond was first offered in April of 2023, but due to the JSE's liquidity requirements for the ALBI, it only became a constituent at index reconstitution at the start of November. The addition of this security had the effect of increasing the index's duration by around 1%. Again, we don't hold the R2053 or any of the bonds of similar maturity, as we view the ultra-long part of the curve to be overvalued.

We maintained a relatively neutral duration to the benchmark over the quarter; therefore all our outperformance resulted from our curve positioning. We continue to favour fixed-rate government exposure over fixed-rate corporates and view the historically low levels of fixed-rate credit spreads as insufficient compensation for the credit and liquidity risks that such bonds come with. □

## Annualised performance

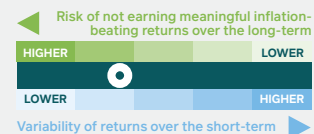
	A class	Benchmark	B class
1 year	10.8%	9.7%	11.0%
3 years	8.5%	7.4%	8.7%
5 years	8.0%	8.2%	8.2%
7 years	8.1%	8.4%	8.3%
10 years	7.5%	8.0%	7.7%
20 years	8.3%	8.5%	8.5%
Since inception	9.6%	9.9%	-

## Disclaimer

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## Risk profile



## Fund facts

### Fund managers

Roshen Harry  
René Prinsloo

### ASISA category

South African - Interest Bearing - Variable Term

### Benchmark

FTSE/JSE All Bond Index

### Inception date

27 October 2000

### Fund size

R861 247 129

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