Quarterly Commentary

M&G Investments

M&G Money Market Fund

Income

Q3 2024

Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the US dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US$).

In South Africa, improving sentiment from a market-friendly election, better economic conditions, and easing monetary policy led to gains in asset prices and the Rand, with the FTSE/JSE All Share Index rising 9.6% in rand terms. Key contributors included Listed Property (19.1%) and Financials (13.7%), while Resources declined by 1.1%. Industrials was one of the standout performers benefitting from the month-end China rally as Naspers and Prosus prices reacted to the strong move in the Tencent share price. From a South African investor perspective, the move had beneficial implications as Tencent followed the market higher, sending the share prices for Naspers and Prosus up by about 14% in September. In addition, the stimulus announcement led to higher commodity prices, which had a positive impact on the local resource sector.

South African bonds performed strongly, with the FTSE/JSE All Bond Index rising 10.5% (in Rand) over the quarter and adding more positive returns to the total for the year. Bond yields continued the downward move we have seen since the conclusion of the GNU election results.

Meanwhile, CPI decreased to 4.4% y/y in August, below the SARB's target and forecasts of 4.5%, down from 4.6% in July. This marks the third consecutive month of inflation slowdown. Following the Fed's lead, the Monetary Policy Committee (MPC) implemented a widely anticipated 25 basis point rate cut to 8%.

Performance

The M&G Money Market Fund returned 2.1% for the quarter (A class, net of fees), 9bps ahead of its benchmark. Over the 12 months ending 30 September 2024, the Fund returned 8.8% versus 8.2% from the benchmark. It has also generated pleasing returns relative to its peer group over the last couple of years, with a ranking of 12th out of 37 funds over the past three years (Morningstar).

Positioning

The third quarter was a stellar one for South African fixed rate assets. The performance of the ALBI illustrates this well – the 10.5% return of the index for the quarter is the third best quarterly return that it has delivered since its inception in 2001. This return was underpinned by a number of factors, the most notable of which was the improvement in investor sentiment towards South Africa after the May election and the formation of the GNU.

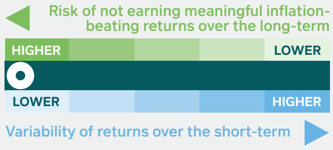
Another significant driver of returns was the extent to which inflation receded, and the unexpected nature of this move. At the start of the quarter the most recently reported headline inflation print for SA was at 5.2% y/y, still well within the upper half of the SARB's target range. This has since dropped to 4.4% y/y, which moves it into the lower half of the target range. This is the lowest inflation print that SA has seen since the first half of 2021. Similarly, both core as well as producer price inflation have receded significantly. This inflation move has led to a material recalibration of economist forecasts. To use the SARB as an example, they now expect inflation to average 0.5% less for both 2024 and 2025 than what their forecasts suggested at the start of the quarter. Furthermore, they now expect headline inflation to remain below the mid-point of their target range for the remainder of their forecast period (to the end of 2026). Three months ago they were only expecting inflation to sustainably move to the lower half of the target band from the second quarter of 2025.

In line with this improving inflation forecast, the SARB cut the repo rate by 25bps in September, after having kept it unchanged for over a year. The confluence of all of these factors (SARB cut, inflation improvement and improved sentiment) led the market to significantly revise its interest rate outlook. At the start of the quarter the FRA market was expecting only a 50bp cutting cycle over the next two years. The market is now pricing in a further 100bps of interest rate cuts (i.e. a total cutting cycle of 150bps).

This backdrop resulted in some significant moves in money market assets. Over the past quarter the NCD curve has moved lower by more than the 25bps SARB rate cut, and the curve has also inverted. Both of these changes point to the market pricing in further rate cuts. Indeed, when you compare fixed NCD rates to their floating counterparts it would appear to us that the NCD market is pricing in approximately a further 100bps of rate cuts, or a total cycle of 125bps, roughly in line with the FRAs. Floating rate spreads are less impacted by expected interest rate changes and these have remained roughly unchanged, moving about 10bps lower over the quarter. The treasury bill curve also moved lower and has also inverted but remains at an attractive level relative to bank NCDs. We therefore maintain a significant holding in treasury bills across most money market mandates, including the M&G Money Market Fund.

Annualised performance	A class	Benchmark	X class
1 year	8.8%	8.2%	8.8%
3 years	7.1%	6.6%	7.1%
5 years	6.2%	5.7%	6.2%
7 years	6.6%	6.0%	6.6%
10 years	6.7%	6.1%	6.7%
20 years	7.0%	6.6%	-
Since inception	7.4%	7.1%	-

Risk profile



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 589 247 406

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Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities

The Fund maintained a relatively high duration and maturity exposure over the course of the quarter. Both the weighted average duration and weighted average maturity levels increased by around 8 days, to 76 days and 120 days respectively, close to the upper end of the category limits. The relatively long-dated exposure in the fund means that, to some extent, attractive yield levels have been locked in in a declining interest rate environment, which should assist the relative performance of the fund.

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Application forms

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

Disclaimer

Sources: M&G Investments, Morningstar & Deutsche Securities