

M&G Bond 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).

The FTSE/JSE All Share Index returned 5.6% (in rand) on the back of strong performance in the precious metal and mining space. The resource sector rallied 33.7% in the quarter, with gold and PGM names delivering strong returns due to those commodities being up significantly in the month of March. The strong rally in SA equity for the quarter has been very concentrated in a few bigger names, such as gold companies, Naspers/Prosus, MTN and a few other rand-hedge stocks, like British American Tobacco and Richemont. Industrials delivered

3.1% while financials ended the quarter down 1.8%.

SA bonds had a more muted quarter but managed to add small gains of 0.7% as per the All Bond Index. Concerns around the budget have led to a steeper yield curve with yields on long-dated bonds rising somewhat during March compared to flatter levels on the short-end of the curve. For inflation-linked bonds, the Composite Inflation-Linked Bond Index also delivered 0.7% for the quarter, with a similar steepening of the curve for those instruments (all in rand).

Performance

The M&G Bond Fund performance was somewhat disappointing over the first quarter both in an absolute and relative sense (0.4% versus 0.7% for the All Bond Index, A class, net of fees). The returns against the peer group were also underwhelming, landing the fund in the third quartile over the quarter, and in the second quartile over the past year (Morningstar).

The longer-term returns, 10.5% over three years and 11.8% over five years, continue to stack up very well against the benchmark and peer group though, as evidenced by the recent performance awards. The M&G Bond Fund won at the 2025 Raging Bull Awards for best South African interest-bearing variable-term fund for three-year straight performance, category winner at the recent Profile Unit Trust Awards for three-year straight performance, and won at the inaugural FundHub Industry Performance Awards in the South African interest-bearing variable-term fund category over three years (all awards for the performance period to end December 2024).

In addition, we've reduced the annual management fee (AMF) of the A class of the M&G Bond Fund by 0.15% effective from 1 April 2025.

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, which places its bond move close to the median of a peer group of countries over this period. The quarter also saw a reasonably significant steepening of the

Annualised performance

	A class	Benchmark	B class
1 year	19.9%	20.2%	20.1%
3 years	10.5%	9.8%	10.7%
5 years	11.8%	11.7%	12.0%
7 years	8.0%	8.3%	8.2%
10 years	8.0%	8.4%	8.2%
20 years	8.4%	8.6%	8.7%
Since inception	9.8%	10.1%	-

Risk profile

Risk of not earning meaningful inflation-beating returns over the long-term



Variability of returns over the short-term

Fund facts

Fund objective

To maximise income while securing steady capital growth. This is achieved by investing in a diversified portfolio of bonds in the South African market.

Investor profile

Individuals that require a high level of income from their capital investment with relatively low risk. The recommended investment horizon is 1-3 years, or longer when used as strategic exposure to the asset class.

Investment mandate

The Fund invests in a combination of government, semi-government and corporate bonds, and other interest-bearing securities. No duration constraints apply. The Fund is managed to comply with regulations governing retirement fund investments (Regulation 28).

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

R1 017 912 197

Awards

Raging Bull: 2024
Fundhub: 2024
Profile: 2024

curve, with the front-end of the curve relatively unchanged, the 10-to-15-year part around 30bps weaker, and the back end selling off by more than 40bps.

As mentioned previously, the fund maintains a neutral duration position relative to its benchmark, and to a degree this shielded the fund somewhat from underperforming. Nevertheless, the first quarter was a challenging period for the fund, as we had significant exposure to the 15 to 20-year part of the curve, and the steepening in this area detracted from performance. We remain convinced that this part of the curve shows good relative value, and have added to our position over the quarter, albeit in a duration-neutral manner.

Fixed rate credit spreads remain at historically low levels and are in fact negative for the better-quality issuers. In such an environment, we expect the fund to remain uninvested in credit. □

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Application forms

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Disclaimer

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