CORONATION MONEY MARKET FUND

Quarterly Portfolio Manager Commentary

Please note that the commentary is for the retail class of the fund.

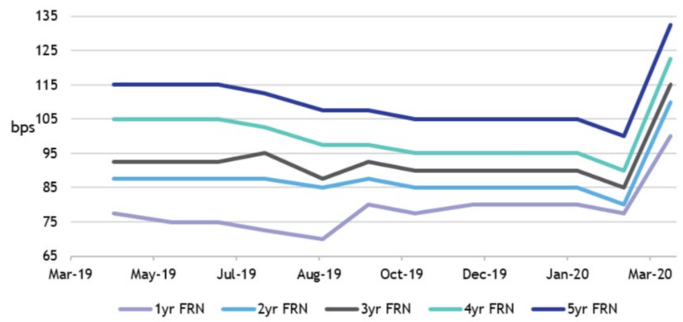
The fund generated a return (net of management fees) of 1.8% for the quarter and 7.7% over a rolling 12-month period, which is ahead of the 3-month Short-Term Fixed Interest (SteFI) benchmark return of 6.8%.

The South African (SA) fourth-quarter 2019 (Q4-19) GDP print was surprisingly weak, at -1.4% quarter-on-quarter (q/q), seasonally adjusted average (saa) versus a revised third-quarter (Q3-19) print of -0.8% q/q, saa. This was the second consecutive contraction, putting the economy into a technical recession. Overall, GDP growth for 2019 was just 0.2% year-on-year (y/y) versus 2018's 0.8% y/y. The SA economy is expected to contract further in 2020 owing to the negative economic impact of the Covid-19 outbreak. Headline inflation printed at 4.7% y/y in February versus 4.5% y/y in January, but core inflation came in at 3.8% y/y in February versus January's 3.7% y/y. Inflation is expected to remain muted, partly anchored by the decline in oil prices.

The South African Reserve Bank (SARB) cut the repo rate by 125 basis points (bps) over the last quarter; the first 25bps cut at the January meeting and a 100bps cut at the March meeting. The SARB cut rates due to weak economic growth, benign inflation outlook and as a response to help stimulate the economy on the back of negative economic impact from Covid-19. The SARB's interest rate cut move is in line with the rest of the global central banks' rate cuts. Given the benign inflation outlook and the weak outlook for growth, we believe there is a room for further rate cuts.

Over the last quarter, the 3-month Johannesburg Interbank Average Rate (Jibar) index decreased by 1.2%, from 6.8% to 5.6%. This is reflective of the decrease in repo rate and further interest rate cut expectations priced in by the market. Fixed-rate negotiable certificates of deposit (NCD) yields and treasury bill yields also decreased following the rate cut. Floating-rate NCD spreads above Jibar widened, reflecting the tightening of liquidity in the market as well as an increased credit risk premium in the money market space. The increase in floating-rate NCD spreads is not enough to offset the decline in the Jibar rate. As such, given our lower interest rate expectations, the absolute yield of the fund is expected to decrease, as the majority of the fund is invested in floating rate instruments.

FLOATING-RATE NCD SPREADS ABOVE JIBAR



Source: Bloomberg

Corporate issuance has been limited over the last quarter and banks largely issued in the primary market to refinance upcoming redemptions. Other corporates opted to raise debt through private placements. We are expecting corporate credit spreads to start increasing to reflect the weak economic environment and increased credit risk in what remains a strained economic environment. We remain cautious and continue to invest only in instruments which are attractively priced relative to their underlying risk profile. Capital preservation and liquidity remain our key focus areas for the fund.

Portfolio managers

Nishan Maharaj, Mauro Longano and Sinovuyo Ndaleni

as at 31 March 2020