CORONATION JIBAR PLUS FUND

Quarterly Portfolio Manager Commentary

CORONATION TRUST IS EARNED™

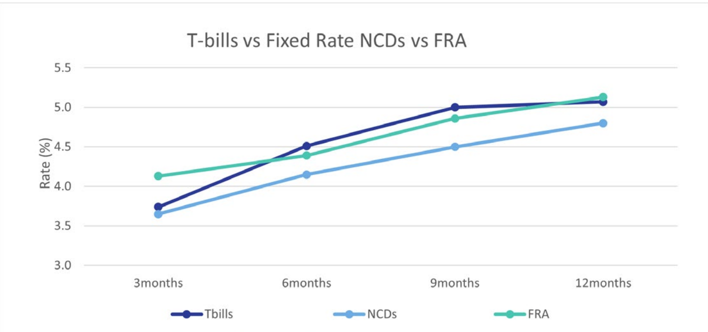
Please note that the commentary is for the retail class of the Fund.

The Fund generated a return (net of management fees) of 1.1% for the second quarter of 2021 (Q2-21) and 4.3% over a rolling 12-month period, which is ahead of the three-month Short-Term Fixed Interest (SteFI) benchmark return of 3.5%.

The South African economy grew by 4.6% quarter on quarter (q/q) seasonally adjusted annualised (saa) in Q2-21, compared to a revised growth of 5.8% q/q saa in Q4-20. Positive contributions came from the financial and business services, mining, manufacturing, transport and trade sectors. From the demand side, household and government spending slowed down but remained positive contributors to GDP, while inventories provided a strong boost as these were drawn down at a slower pace than before. The new restrictions could dampen third-quarter GDP this year, despite efforts made to limit the impact on the broader economy. Another threat to economic recovery is the slow pace of the Covid-19 vaccine rollout programme.

The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) unanimously voted to leave the repo rate unchanged at 3.5% at the last meeting. The MPC also revised 2021 growth upwards to 4.2% from a previous forecast of 3.8%. The upward revision was prompted by higher commodity prices and improved trade data, and better prospects for the global growth recovery. While growth outlook risks are 'balanced', the MPC sees inflation risks on the upside. On the interest rate side, the SARB's Quarterly Projection Model (QPM) continues to signal a 25bps rate hike in Q4-21.

The market has become more hawkish with the Forward Rate Agreements (FRA) curve pricing in two 25bps rate hikes before the end of the year. We have seen this hawkishness flow through to fixed-rate NCD and Treasury bill markets, with the nine-month T-bill now yielding 5% from 4.8% in the last quarter. Our T-bill allocation has remained unchanged from the previous quarter, and we are taking a prudent stance because liquidity is limited in these instruments.



Source: Bloomberg, SARB

We saw some corporates, namely MTN and Growthpoint, return to the primary debt capital markets in the last quarter. The auctions were well supported, with both entities getting oversubscribed auction results and pricing clearing at the lower end of price guidance. Local banks issued capital and senior unsecured bonds, receiving strong support and clearing below price guidance. Supply and demand dynamics continue to drive pricing in the debt capital markets, and pricing is slowly getting back to pre-Covid-19 levels. We remain cautious and continue to invest only in instruments that are attractively priced relative to their underlying risk profiles. Capital preservation and liquidity remain our key focus areas for the Fund.

Portfolio managers

Nishan Maharaj, Mauro Longano and Sinovuyo Ndaleni

as at 30 June 2021