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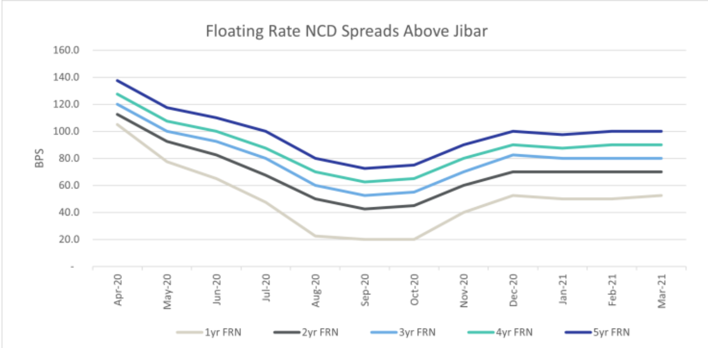
Please note that the commentary is for the retail class of the fund.

The Fund generated a return (net of management fees) of 0.89% for the first quarter of 2021 (Q1-21) and 4.50% over a rolling 12-month period, which is ahead of the three-month Short-Term Fixed Interest (SteFI) benchmark return of 4.00%.

The South African (SA) economy grew by 6.3% quarter on quarter (q/q) seasonally-adjusted annualised (saa) in Q4-20 following revised growth of 67.3% q/q saa in Q3-20. Notable positive contributions to growth came from strong gross fixed capital formation and consumer and government spending. Overall, the SA economy contracted by 7% in 2020. While we expect growth to rebound strongly in 2021, the extent will depend on the successful rollout of a vaccine.

The SA Reserve Bank (SARB) left the repo rate unchanged at 3.5% at its last monetary policy committee meeting. The committee still sees policy as accommodative and supportive of credit demand. It was once again highlighted that broader reforms, including a debt trajectory that stabilises and an increase in electricity supply, would enhance the effectiveness of monetary policy transmission and improve growth – reminding markets of the limits of monetary policy in supporting the economic recovery. We currently expect that the SARB will only embark on a path of interest rate normalisation in the first quarter of 2022. As such, we would expect no further impact from base rates on the Fund's yield for the balance of the year. Currently, market expectations are more hawkish than this, with nine-month forward rate agreements pricing just under three interest rate hikes.

With market expectations for interest rate hikes becoming more hawkish, we have seen wider yields in both money market NCDs and Treasury bills, with the latter still more attractive in our view. We have subsequently increased our allocation to Treasury bills. Another area offering value for the Fund in the last quarter has been short-dated inflation-linked bonds. Given our inflation outlook, our total return expectations for these instruments should significantly beat cash and NCD returns over the next year.



Source: Bloomberg

The local banks dominated issuance in Q1-21 and received strong support in primary market auctions, clearing tighter than price guidance and outside our fair value expectations. We continue to see limited activity from corporates but would expect this to improve as the economic recovery gains traction. Given that the economy remains weak, 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 31 March 2021