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

The Fund returned 0.59% in November, bringing its 12-month total return to 6.14%. This return is ahead of cash (3.53%) and that of its benchmark (3.88%).

Local bonds had a lacklustre performance in November. The FTSE/JSE All Bond Index returned 0.66% for the month; supported by medium-term bonds (3-7years), which returned 1.25%. The long-term (7-12 years) part of the curve delivered 0.32% and the back end of the curve (12+ years) returned 0.56%. Short-term bonds (1-3 years) delivered 1.16%. Cash returns came in at 0.29% and inflation linked bonds (IBLs) returned -0.08%.

November was dominated by surging inflation reports as energy prices continue to increase across the globe. Medium-term inflation risks have shifted to the upside, as sticky bottlenecks prevail, exacerbated by constrained supply chains, a new Covid-19 variant, high primary commodity prices, and labour shortages in the US and parts of Europe. While the full impact of the new variant is unclear, the impact is likely to pose a headwind to the ongoing recovery.

In the US, headline inflation in October reached a high of 6.2% year on year (y/y) vs 5.4% y/y in September. Core inflation increased to 4.6% y/y in October from 4.0% y/y in September. The inflation uptick was largely a result of increasing energy prices and ongoing price pressure coming from food and used vehicle inflation. With the spike in inflation broadening out across sectors and showing no signs of moderating, Federal Reserve Board (the Fed) Chairman Jerome Powell has conceded that these are unlikely to be 'temporary'. On balance, the Fed is likely to withdraw quantitative easing and, ultimately, hike rates sooner than was signalled by the Federal Open Market Committee, both of which have been anticipated by the market.

In emerging markets, China's headline inflation increased to 1.5% y/y in October vs 0.7% y/y in September. The inflation pick-up reflects non-food prices, transport and communication inflation. Core inflation increased slightly to 1.3% y/y in October from 1.2% y/y in September. Worryingly, producer price inflation surged to 13.5% y/y in October from 10.7%y/y in September. This steep increase reflects a spike in the cost of raw materials and widening power shortages.

In South Africa, the Minister of Finance, Mr Enoch Godongwana, tabled the Medium-Term Budget Policy Statement (MTBPS) in early November after an election-related delay. The MTBPS made reasonable revenue and growth assumptions, but very few new baseline expenditure allocations. An 'unallocated reserve' was put in place to provide a cushion for expenditure risk and possibly strengthen National Treasury's bargaining position. Nonetheless, all big decisions were deferred to the February 2022 budget. The main budget deficit as a % of GDP is now projected at 6.6% for 2021/2022 down from 9.9% in 2020/2021 and is expected to narrow to 4.9% of GDP by 2024/2025. National Treasury's estimated debt to GDP ratio remains elevated and above consensus, with a primary budget surplus forecast for 2024/2025, and debt stabilisation only thereafter. The medium-term outlook remains constrained by large spending commitments and weak economic growth.

The rand ended the quarter at R15.89/US$1. The cyclical tailwinds from strong commodity prices are starting to fade and the rand lies at the mercy of global risk appetite. Omnicron, and its impact on global growth came under the spotlight towards the end of November, which was a drag on the rand's performance. The Fund maintains its healthy exposure to offshore assets. When valuations are stretched, it will hedge/unhedge portions of its exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollars, UK pounds and euros). These instruments are used to adjust the Fund's exposure synthetically, allowing it to maintain its core holdings in offshore assets.

The South African Reserve Bank (SARB) hiked the repo rate by 25 basis points (bps), moving it from 3.5% to 3.75%. The hike reflects the Monetary Policy Committee's concerns about upside risks to the inflation outlook against very accommodative monetary policy settings and risks associated with tighter global monetary conditions. The SARB revised its inflation forecasts marginally upwards to factor in the short-term rising fuel prices and, to a lesser degree, the weak currency, but sees risk to its broader inflation forecast are on the upside. Despite this, risks to the growth outlook are assessed to be to the downside, stemming mostly from uncertainty related to electricity supply and the July unrest on business confidence and job creation. The SARB is expected to follow a gradual rate hiking cycle aimed at keeping inflation expectations anchored.

Both headline and core inflation were unchanged from the previous month at 5.0% y/y in October, and 3.2% y/y, respectively. October was a low survey month, and the data reflect moderate price increases for food and energy. Looking ahead, we expect price pressures from food and energy to persist, and some price increases in goods affected by supply constraints is also increasingly likely.

At the end of November, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 6.78% (three-year) and 7.71% (five-year), materially lower than the close at the end of the previous month, due to the repricing in SARB interest rate expectations. SA's more moderate inflation expectations suggest that current pricing of these instruments remains attractive due to their lower modified duration and, hence, high breakeven relative to cash. In addition, NCDs have the added benefit of being liquid, thus aligning the Fund's liquidity with the needs of its investors. The Fund continues to hold decent exposure to these instruments (fewer floating than fixed), but we will remain cautious and selective when increasing exposure.

The prospects for the local economy have improved as reform progress has gathered momentum and global developments have provided tailwinds to the local recovery. Inflation is moving higher but should remain under control despite uneasiness around global inflation. The recovery in growth should gain more traction and spill into next year, which will provide more breathing space for the fiscus. Despite their recovery in the second quarter of 2021, SA government bonds (SAGBs), still embed a significant risk premium relative to cash. The steepness of the yield curve makes the 12-to 15-year area attractive, even if the local rate hiking cycle starts sooner than expected. For bond portfolios, we continue to advocate overweight positions to SAGBs focused in the 12- to 15-year area of the curve and allocations to ILBs with a maturity of less than eight years.

The local listed property sector was up 2.2% over November, bringing its 12-month return to 44.3%. The balance sheet concerns coming out of the Covid-19 crisis have subsided somewhat as companies have managed to introduce dividend payout ratios (with some withholding dividends entirely) and sell off assets. Going forward, operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. We believe that one must remain cautious, given the high levels of uncertainty around the strength and durability of the local recovery. However, certain counters are showing value, given their unique capital structures and earnings potential. These counters remain a core holding within the Fund.

The FTSE/JSE Preference Share Index was down 0.7% over the month, bringing its 12-month return to 45.6%. The most recent performance has been bolstered by an announcement by the banks of their intent to repurchase a significant portion of their outstanding preference shares. Preference shares offer a steady dividend yield linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 8% and 10% (subject to a 20% Dividends Tax, depending on the investor entity). The change in capital structure requirements mandated by Basel III will discourage banks from issuing preference shares, which will limit availability. Due to the reduced liquidity in this asset class and other instruments, at the same point in the capital structure, trading at more attractive valuations, the Fund will not look to increase its holdings and will maintain its current small exposure to specific corporate preference shares.

We remain vigilant of the risks emanating from the dislocations between stretched valuations and the local economy's underlying fundamentals. However, we believe that the Fund's current positioning correctly reflects appropriate levels of caution. The Fund's yield of 6.95% remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected Fund performance over the next 12 months.

As is evident, we remain cautious in our management of the Fund. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield.

Portfolio managers
Nishan Maharaj and Mauro Longano
as at 30 November 2021