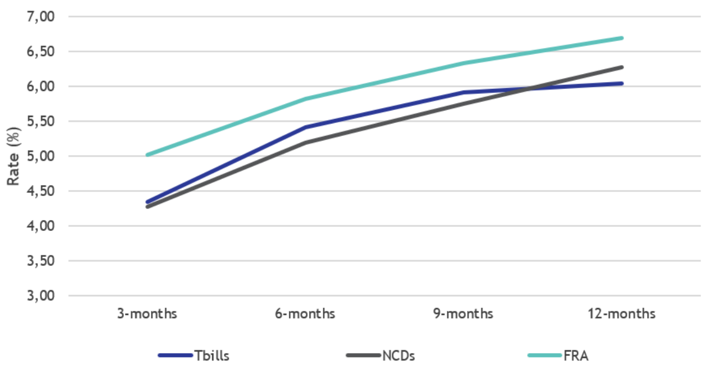
Please note that the commentary is for the retail class of the Fund.

The Fund generated a return (net of management fees) of 1.10% for the first quarter of 2022 (Q1-22), and 4.41% over a rolling 12-month period. This is ahead of the three-month Short-Term Fixed Interest (SteFI) benchmark return of 3.64%.

The South African Reserve Bank (SARB) increased the repo rate by 50 basis points (bps) to 4.25% over the quarter. In line with our expectations, the SARB continued on its path of monetary policy normalisation while noting the upside risk for local inflation together with a more positive outlook on growth. At the March MPC meeting, the SARB took the opportunity to revise their forecasts for both growth and inflation higher, with inflation now expected to be 5.8% in 2022 (from a previous forecast of 4.9%), and real growth expected to be 2.0% over the same period (from a previous forecast of 1.7%). While our growth forecast remains in line with the SARB's revised expectations, we forecast inflation to peak slightly higher at around 6.0% over the next year. What does bear watching, however, is the impact that higher food and fuel prices may have on disposable incomes and hence consumption expenditure.

Given that inflationary pressures are likely to persist together with more restrictive global monetary policy settings, our current expectation is for the SARB to begin front-loading the hiking cycle and rather move in 50bps increments (two members of the MPC voted for a 50bps hike at the March meeting). The shift to a more hawkish voting pattern, coupled with upside risks to both outcomes and the SARB forecasts suggests the risk of a shift to 50bps increments has increased. We expect the repo rate to end 2022 at 5.75% and rise a further 75bps in 2023, taking the repo rate to 6.5% by the middle of the year.

T-BILLS VS FIXED RATE NCDs VS FRA



Source: Bloomberg, SARB

Over the last quarter, the 3-month Johannesburg Interbank Average Rate (Jibar) increased by 0.48% to 4.37%, in line with the repo rate hikes. The market remains hawkish on the outlook for policy rates, with the forward interest rate curve pricing in 200bps of hikes over the remainder of the year. This has contributed to the yield on fixed-rate negotiable certificates of deposit increasing on average by 80bps, and as such, we are finding that these instruments remain attractive relative to Treasury bills of the same tenor. The Fund has also been investing in prime-linked notes in an effort to more efficiently capture the rise in interest rates while keeping duration low.

Over Q1-22, we saw local banks issue subordinated and senior unsecured bonds in the primary credit markets, with auctions receiving strong support and clearing well within price guidance. We did, however, manage to successfully bid in a three-year Investec Bank Limited green bond and five-year Fortress sustainability-linked note. We have seen an increase in offerings of sustainability-linked and green bonds and will continue to support these markets subject to meeting our stringent pricing expectations. More generally, 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 the key focus for this Fund.

Portfolio managers
Nishan Maharaj, Mauro Longano and Sinovuyo Ndaleni
as at 31 March 2022