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

Performance and fund positioning

The Fund returned 1.35% in April, bringing its 12-month total return to 12.43%, which is ahead of cash at 7.96% and its benchmark at 8.79% over the same period. We believe the Fund's current positioning offers the best probability of achieving its cash +2% objective over the medium to longer term.

Local bonds ended April on a positive note after a rocky start. The FTSE/JSE All Bond Index (ALBI) returned 0.76%, with the long end of the curve (bonds that mature in 12+ years' time) down 0.28%. The belly of the curve (maturities in 7-12 years' time) closed 0.77% higher, while medium-term bonds (maturities in 3-7 years' time) posted the best return of the curve at 1.78%, and short-term bonds (maturities in 1-3 years' time) returned 1.06%. Cash returns came in at 0.59%, while inflation-linked bonds (ILBs) were down 0.19%.

In April, geopolitical tensions continued to dominate financial market news flow, raising uncertainty, and creating potential headwinds for inflation and economic activity in 2025. Inflation readings, in general, reflected slower-than-expected price moderations and new upside risks on the back of US tariffs.

The US economy contracted by 0.3% quarter on quarter (q/q) in the first quarter of 2025 (Q1) from growth of 2.4% q/q in the fourth quarter of 2024 (Q4-24). The big detractor from growth was a surge in imports and a decline in government spending following a pause in defence spending. Consumer spending cooled, although still positive, and gross private capital investment increased. The outlook for growth in 2025 has weakened as higher prices from tariffs will weigh on spending, and trade policy uncertainty could discourage business investment. Sentiment indicators have weakened meaningfully since April's tariff announcements.

US headline inflation slowed to 2.4% year on year (y/y) in March from 2.8% y/y in February, while core inflation eased to 2.8% y/y from 3.1% y/y. Inflation slowed on the back of a decline in energy, vehicles, and recreational costs. There was also a moderation in services and food inflation, although these moderating influences are likely to fade as tariffs affect pricing in the coming months.

The European Central Bank (ECB) cut the deposit rate by 25 basis points (bps) to 2.25% at the April Governing Council meeting. The ECB acknowledged domestic inflation had cooled and still sees inflation on track to reach the 2% target in the medium term. Both wage and services inflation continue to moderate, while uncertainty is likely to undermine confidence and growth in the near term. Taken together, the ECB is expected to cut policy rates again in the third quarter of this year.

China's economy grew by 1.2% q/q in Q1-25 from 1.6% q/q in Q4-24, taking annual growth to 5.4% y/y. Growth was supported by an increase in consumer spending following the provision of government subsidies and a surge in exports. Fixed asset investments, excluding the property sector, increased across sectors, and government spending was also positive for the quarter. However, underlying consumption trends remained subdued, with deflationary pressures weighing on consumer prices and signalling weak household demand. Headline inflation fell 0.1% y/y in March, up from -0.7% y/y in February. Food and transportation costs remain very weak, while apparel and recreation costs increased.

The rand ended the month at R18.61/US$1, weaker than its close in the previous month but in line with its Emerging Market peer group. Offshore credit assets and certain developed market bonds continue to flag as relatively attractive. The Fund has utilised a significant part of its offshore allowance to invest in these assets. When valuations are stretched, the Fund will hedge/unhedge portions of its offshore 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.

In South Africa (SA) headline inflation slowed to 2.7% y/y in March from 3.2% y/y in February, while core inflation fell to 3.1% y/y from 3.4% y/y. Falling retail fuel prices and only modest gains in food inflation helped the headline lower, while weak rentals and a strong slowing in education costs helped anchor core inflation. We expect these trends to continue, but for base effects to see inflation accelerate modestly later in 2025.

At the end of April, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 7.92% (three-year) and 8.48% (five-year), with both maturities lower compared to the end of the previous month. Our inflation expectations suggest that the 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 changes in the global landscape have become less favourable for risk and emerging market assets. The effects of a global trade war will leave global growth floundering, and export-driven economies will struggle in such an environment. The slowdown in global growth, once the immediate inflationary shock retreats, should compel global monetary policy to turn supportive, thus supporting global developed market fixed income. SA's recent political turbulence makes it ill-placed in an unfriendly world. Local inflation should remain relatively well behaved, but a growth slowdown will have negative consequences for the country's finances, suggesting a further risk premium needing to be priced into local bond yields. This would be further solidified if the GNU is reconfigured in a manner that is less supportive of growth and business. SA bonds are at risk of a wider repricing in yields, and bond portfolios should remain neutral but ready to take advantage of weakness when it prevails. In addition, ILBs should be present in portfolios to provide some risk offset should the worst outcome materialise.

The local listed property sector was up 7.65% over the month, bringing its 12-month return to 29.95%. Operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current increase in the cost base, due to higher administered prices and second-round effects on deteriorating infrastructure in much of the country, will weigh on the sector's earnings in the coming year. We believe that one must remain cautious given the high levels of uncertainty around the strength and durability of the local recovery.

Local credit spreads are at historically tight levels due to low levels of issuance and large swaths of capital looking for a home with reduced volatility. The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This sector has grown exponentially over the last five years and has reached a market size of over R100 billion. However, only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. CLNs mask the underlying/see-through credit risk as the issuing entity (predominantly local banks) is seen as the primary credit risk.

The increased usage of CLNs has not expanded the pool of borrowers; rather, it has only served to concentrate it. This is due to the ability to limit the volatility of these instruments by not marking them to market based on the underlying asset price movements. The combination of attractive yields and no volatility is an opportunity that not many would pass up, unless, of course, transparency of pricing is important to the underlying investor. As a result, there can be significant unseen risks within fixed-income funds. Investors need to remain prudently focused on finding assets of which the valuations are correctly aligned to fundamentals and efficient market pricing. Except for a few opportunities, we view the local credit market as unattractive relative to other asset classes.

Outlook

We remain vigilant of the risks 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, while its yield of 9.14% (gross of fees) remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected portfolio 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 April 2025