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

Performance and fund positioning

The Fund returned 2.37% over the last quarter, which was ahead of the STeFI composite benchmark of 1.86%. Since inception of the Fund, it has returned 9.29% p.a. which is ahead of the benchmark return of 8.24% p.a.

Once again, the quarter under review has been eventful with significant developments from both monetary and fiscal policy perspectives, coupled with the ever-shifting political narrative.

Real GDP showed minimal growth of 0.1% quarter-on-quarter (q/q) in Q1, with annual growth reaching only 0.5%. While the agriculture and services sectors saw growth, mining and manufacturing contracted. The private sector remains cautious with weak investment levels, reflecting slow progress in public reforms. Although lower inflation and interest rates could boost household spending, the combination of bracket creep, stagnant job creation, and weak investment has led us to maintain our 2025 real GDP growth forecast for the year at 0.8%.

May CPI remained unchanged from April at 2.8% year-on-year (y/y) – in line with expectations – as did core inflation at 3.0% y/y. May, being a "low survey" month with limited items included, carried minimal risk of surprises. The data showed rising food prices balanced by declining fuel prices. However, this trend in fuel prices is expected to reverse in July, as higher oil prices could drive retail fuel costs up after their extended decline. While this may lead to an acceleration in headline inflation, core pressures remain subdued. We continue to expect headline CPI to average 3.2% in 2025.

Given the above, the SARB MPC cut the repo rate by 25 basis points (bps) to 7.25% in May with a 5:1 vote. The decision reflected improved inflation dynamics and weaker growth prospects. The SARB lowered both its global and domestic growth forecasts. While its average headline inflation forecast for 2025 decreased to 3.2%, its core inflation forecasts exceed our modelling projections. The SARB also analysed a scenario with a 3.0% inflation target, which suggested a long-term repo rate of 6.0% could be achieved. Given the benign inflation environment, unresponsive domestic demand, and global headwinds, we believe there is room for an additional 25bps cut at the July MPC meeting, which would take the repo rate to 7.0%. The SARB has for some time indicated its preference for a lower inflation target, and we expect there could be some announcement in this regard either at the Medium-Term Budget Policy Statement later in the year or as part of the 2026 Budget speech.

The third 2025 Budget (announced in May) continued the fiscal reset with three primary objectives: infrastructure spending as the fastest-growing item, a rising primary balance over the Medium-Term Expenditure Framework (MTEF), and debt peaking at 77.4% of GDP – slightly higher than previous forecasts. Several positive developments emerged, including commitments to a spending review, the identification of ghost workers, the implementation of Operation Vulindlela, and sustained SARS funding. However, significant concerns persist. Government spending has exceeded earlier projections, fiscal consolidation is back-loaded, and the primary balance must reach unprecedented levels to sustain the projected debt peak. Revenue forecasts were reduced by R61.9bn over the MTEF compared to the March 2025 Budget, partly due to the removal of VAT adjustments and lower nominal GDP forecasts. Additionally, gross expenditure increased by R180bn over the MTEF compared to the 2024 Budget. In our view, the Budget's outer year forecasts appear ambitious and require careful scrutiny.

The political outlook suggests the GNU will continue to hold, with recent interactions between the ANC and DA being more level-headed and the business community emphasising the need for calm. Although the run-up to the Budget vote was marred by pettiness from both sides that ultimately led to a loss of trust, positive developments have emerged. Formal engagement processes are now in place to address disagreements constructively, with both parties recognising that coalition governance is the only way forward. However, risks remain, and news coverage around the GNU is expected to remain volatile. Anti-GNU factions persist in both parties, and their opposition will likely intensify as we approach the ANC elective conference in 2027.

Moving on to the performance of the Fund, the quarterly returns of nominal bonds were pleasing relative to cash. The FTSE/JSE All Bond Index (ALBI) returned 5.88% for the quarter, with longer-dated bonds being the stronger performers. The ALBI 1-to-3-year and 3-to-7-year maturity buckets returned 2.76% and 5.76% respectively (both ahead of cash at 1.8%), while longer duration bonds (7-12 years) performed significantly better at 6.87%. The Fund's position remains concentrated in the shorter-dated areas of the curve, with holdings focused in the R186 and R2030, both of which outperformed cash. Given the continued attractiveness of government bonds relative to cash over the medium term, we view the sub-10-year portion of the curve as offering the optimal risk/reward opportunity for a cash-cognisant mandate. Consequently, our nominal bond exposure increased marginally over the quarter while duration remained essentially constant.

Inflation-linked bonds (ILBs) again underperformed their nominal counterparts, with the index returning 0.88% – unfortunately below cash returns. Our short-dated ILB holdings, concentrated in the I2029, delivered a better return of 1.55%. While still below cash, this improved performance was driven by the outlook for potentially lower real policy rates. Despite the subdued inflation outlook potentially constraining ILB returns in the medium term, real rates remain compelling, particularly if the SARB adopts a more dovish monetary policy stance or if an external inflation shock occurs (such as the recent oil price volatility from geopolitical events). Combined with our expected inflation profile, we project the I2029 return at approximately 9.2%, which remains attractive relative to cash. Though nominal bonds appear more attractive, ILBs serve as important portfolio diversifiers, especially in volatile environments. The Fund maintains a 19.6% allocation to short-dated ILBs, which increased significantly since Q1.

Money market opportunities were limited, with NCDs contracting further across the curve, reflecting tight credit market conditions and abundant banking system liquidity. Approximately 5% of the Fund's NCD exposure matured during the quarter, which we chose not to replace. Based on our repo rate view, we have found better value in shorter-dated ILBs and government floating rate notes.

Credit market opportunities remain scarce as spreads continue to compress. Despite finding some small opportunities in the secondary market, our overall credit allocation will likely gradually decrease.

Outlook

We continue to maintain a cautious stance for the remainder of the year, given ongoing political volatility and economic uncertainty both locally and globally. While the Fund invests in risk assets that may temporarily underperform cash, we remain focused on valuation and will invest only in instruments offering appropriate risk-adjusted returns. While the direction on monetary policy should remain supportive for the current positioning of the Fund, key risks include the government's commitment to fiscal reform while maintaining growth stimulus.

Given the current Fund yield of 8.62% (gross of fees) and its modest duration positioning, we believe it remains on track to deliver its target of cash +1.5% over the medium term.

Portfolio managers
Nishan Maharaj and Mauro Longano
as at 30 June 2025