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

The Fund returned 1.06% in November, bringing its 12-month total return to 11.94%, ahead of cash (8.24%) and its benchmark (9.10%) over the same period. We continue to believe that the Fund's current positioning offers the best probability of achieving its cash +2% objective over the medium to longer term.

Local bonds had a strong performance in November. The FTSE/JSE All Bond Index (ALBI) returned 3.06%, with the long end of the curve (i.e., bonds with maturities of 12+ years) delivering the best performance, up 4.0%. The belly of the curve (bonds with maturities 7-12 years from now) closed 3.20% higher, while medium-term bonds (maturing in 3-7 years' time) returned 2.32%. Short-term bonds (maturing in 1-3 years' time) were up 1.03%, while cash returns were subdued at 0.63%. Inflation-linked bonds (ILBs) were up 1.11% for the month.

November was a bit of a mixed bag regarding economic data, with soft economic growth readings in the third quarter of 2024 (Q3-24) and global central banks taking a more cautious stance on future policy easing. Global inflation continued to moderate, inching closer to central banks' target ranges – albeit at an increasingly incremental pace.

The Federal Reserve Board (the Fed) voted unanimously to lower the Fed funds rate target range by 25 basis points (bps) to 4.50% - 4.75% at the Federal Open Market Committee (FOMC) meeting in November. The FOMC noted that the economy has continued to expand at a solid pace, and unemployment has ticked up marginally, although it remains within the Fed's tolerance range. Inflation has made some strides towards reaching the 2% target, but it remains above where the Fed would want it to be. Risks to inflationary pressure and the growth outlook were assessed to be balanced, although the statement highlighted that the Fed stands prepared to adjust the stance of monetary policy, should risks emerge that could inhibit the attainment of its goals.

US headline inflation ticked up to 2.6% year on year (y/y) in October from 2.4% y/y in September, while core inflation remained unchanged at 3.3% y/y. There were significant increases in motor vehicle insurance, health insurance, rentals, and services inflation. Energy prices, telecommunications, and used vehicle prices eased, but not enough to offset the price pressures elsewhere.

China's headline inflation slowed to 0.3% y/y in October from 0.4% y/y in September, owing to weak inflation pressures in transport, housing, and household utilities. Food, medical services, and apparel prices also moderated. Domestic demand remains subdued despite the stimulus measures introduced in September, which include interest rate cuts, the relaxation of lending criteria, and support for stocks and property markets. Deflation in the Producer Price Index persists, with inflation falling 2.9% y/y in October from 2.8% y/y in September.

The rand ended the month at R18.06/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 exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollars, UK pounds, and euros). These instruments are used to adjust its exposure synthetically, allowing it to maintain its core holdings in offshore assets.

The South African (SA) economy posted a surprise contraction of 0.3% q/q in Q3-24 from a growth of 0.4% q/q in Q2-24. From the production side, weakness was concentrated in the agricultural sector, which experienced adverse weather conditions that resulted in poor field crop production. The transport and trade sectors also contracted while financial services expanded. From the demand side, exports and inventories detracted from growth, while household spending and a decline in imports added, although not sufficiently to offset the weakness. Overall, the economy's performance is disappointing and reflective of very constrained domestic demand. The market expects a largely cyclical uplift in growth in the fourth quarter of 2024, supported by lower inflation and policy rates and some spending associated with two-pot withdrawals. That said, this is unlikely to be sufficient to reach our 1.1% 2024 GDP forecast.

The South African Reserve Bank voted unanimously to cut the repo rate by 25bps from 8% to 7.75% at the November MPC meeting. The post-meeting statement highlighted that the SARB is moving with caution, given the uncertainty surrounding global monetary policy settings and volatile local currency movements. The MPC also noted that in the near-term, growth-related data has been mixed, with the expectation that structural reforms in energy and logistics will lift growth in the medium term. There were few revisions to the inflation outlook, and risks were assessed to be balanced.

Headline inflation eased to 2.8% y/y in October from 3.8 y/y in September, while core inflation slowed to 3.9% y/y from 4.1% y/y. The main driver of the slowdown was another large fall in retail fuel prices and strong base effects in food inflation. Price movements outside of food and fuel were modest, with non-alcoholic beverages, restaurants, and hotel prices moderately up. We expected inflation to remain at or below 4.5% until mid-2025.

At the end of October, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.175% (three-year) and 8.635% (five-year), with both maturities being 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 election of Donald Trump as the next US president has created headwinds for global monetary policy. Easing is now expected to be much less than previously anticipated due to the implication of global tariffs on inflation. Developed and emerging market bond yields are all significantly lower compared to the start of the year. However, the current market pricing of interest rate expectations seems ambitious, which suggests global bond yields are well priced at current valuations. SA bonds have enjoyed renewed investor optimism following the formation of the GNU and on the heels of the global bond rally. SA inflation expectations have reduced significantly but are now fairly priced in through repo rate expectations. The country's fiscal accounts remain at risk over the longer term, and current bond valuations discount a more optimistic outcome. ILBs still offer value relative to nominal bonds in the event that inflation materialises higher than forecast or if real yields follow nominal bond yields lower. Bond portfolios should be positioned at a neutral duration at current levels, with a healthy dose of ILBs for good measure.

The local listed property sector was up 1.69% over the month, bringing its 12-month return to 42.1%. Operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current subdued growth outlook, combined with an increase in the cost base, due to higher administered prices and second-round effects on loadshedding, 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.

We believe that allocating significant amounts of capital to the local credit market is unwise and would represent a substantial opportunity cost in the face of attractive valuations in other, more liquid asset classes. The current level of credit spreads on offer is historically compressed.

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[1] based on the underlying asset price movements. This is why CLN repacks of SA government bonds have become so popular over the last five years. 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.

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 9.4% (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 November 2024

[1] Valuations are not regularly adjusted to mirror their current value