



## Quarterly review

### Nedgroup Investments Money Market Fund

As at 31 March 2021

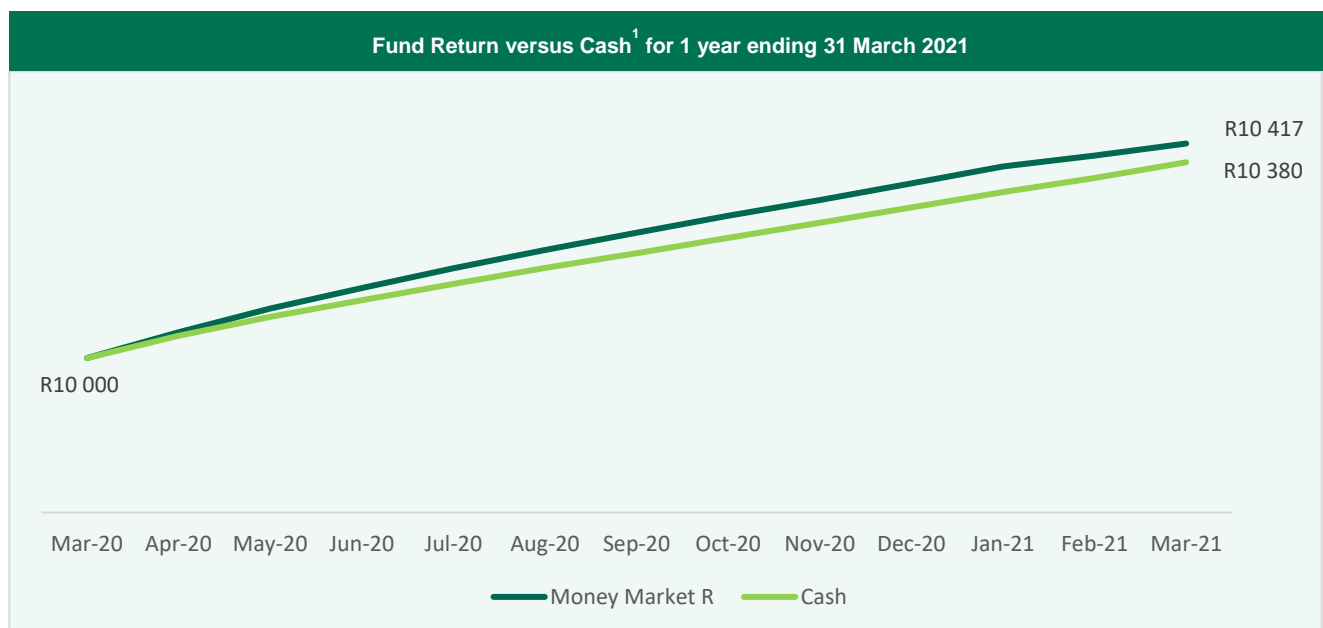


## Progress against COVID-19 leading to optimism about the economic rebound

Despite the lockdown restrictions, the opening of economies and improved activity in 2021 are made more likely by approval and rollout of vaccines. These sentiments were echoed by the IMF and World Bank, both forecasting an expansion for the global economy for 2021 of 5,5% and 4,0%, respectively. The OECD has now joined the ranks of entities that have lifted their economic growth forecasts to account for vaccine rollouts and greater US fiscal stimulus, now expecting global growth of 5,6% in 2021 (up from 4,2%). A historic rally saw the S&P 500, gain +56.4% over the year, supporting a +54.8% (in dollar terms) gain for the MSCI World Index. Overall, this was a volatile first quarter, with duration exposed assets in the crossfire with bond yields and earnings trending higher. Over the course of the quarter, the Nedgroup Investments Money Market Fund increased by +0.7%.

The table below compares an investment in the Nedgroup Investments Money Market Fund to bank deposits (cash) over various time periods. This illustrates that over longer periods, investors have been rewarded for taking on interest rate risk. For every R10 000 invested in the Nedgroup Investments Money Market Fund a year ago, you would have R10 417 at the 31st of March 2021. This is greater than the R10 380 you would have achieved had you invested your money in bank deposits (cash) over the same period.

Value of R10,000 investment in Nedgroup Investments Money Market Fund versus Cash <sup>1</sup>						
	3 Months	1 Year	3 Years	5 Years	7 Years	10 Years
Growth of fund (after fees) (Growth in %)	R10 075 0.7%	R10 417 4.2%	R12 010 6.3% p.a.	R13 924 6.8% p.a.	R15 732 6.7% p.a.	R18 348 6.3% p.a.
Growth of cash (Growth in %)	R10 085 0.9%	R10 380 3.8%	R11 789 5.6% p.a.	R13 469 6.1% p.a.	R15 072 6.0% p.a.	R17 470 5.7% p.a.



Over most periods, the Nedgroup Investments Money Market Fund has done significantly better than bank deposits (cash) as the fund benefited from the yield enhancement from investing in longer dated money market instruments. Over the past ten years it has delivered more than 0.5% of additional interest per annum, or R878 for every R10 000 invested.

1. We used the STeFI call deposit rate for cash returns



## Economic and market performance – One step forward

By the end of March, 32% of the US population and 75% of adults over 65 years had received at least one dose of the vaccine. With approximately 3 million doses being administered each day in the US, and as this pace of vaccination continues, the prevailing expectation is that the economy will experience significant pickup in domestic and global economic activities. As vaccination continues to accelerate in large economies, providing a much-needed boost to the economic activities, slow vaccination rollout and extended lockdowns in countries with lack of access to the vaccine threatens the recovery. Hence, this has kept the pandemic at the forefront of everyone's mind, most notably that of policy makers.

Stock markets enjoyed another positive quarter, the fourth in a row since last year's March pull back, with the S&P 500 closing at a +6.2% gain over the quarter. Developed markets gained +4.0% over the quarter, meanwhile emerging markets only gained +2.3% against a stronger US Dollar and heightened volatility. Global Real Estate also saw a positive return over the quarter with the index gaining +6.2%. Global bond markets lost further ground on higher bond yields resulting in a -4.5% decline in the Barclays Global Aggregate Index. It is not unusual to see bonds lose value when stocks are doing well because generally high-quality bonds move in the opposite direction of equities.

The first quarter also saw the US President elect Joe Biden's inauguration proceeding without incident given the lingering concerns that protests at the Capitol would be repeated. The new administration moved swiftly to reverse many of the previous administration's decisions, which can now easily be done since the balance of power is in favour of the Democratic Party.

Global central banks have done all they can to communicate their preference to remain accommodative, especially given the uneven nature of vaccine rollouts and economic recovery to date. Bond markets are, however, already pricing a future of expansion in fiscal support, economic growth and potential for related inflation, as reflected in higher bond yields. The European Central Bank (ECB) kept monetary policy unchanged at its meeting in March. The Pandemic Emergency Purchase Programme (PEPP) was maintained at \$1.85 trillion, although policymakers noted that the total amount might not be utilised unless inflationary pressures became risky. The short-term economic outlook remains uncertain; however, a moderate rebound in activity is expected sometime this year. The ECB views the current uptick in inflation as temporary. Time will tell whether markets will force policy makers to act, but for now, the tussle will continue to impact broader asset prices.

Over the quarter, the rand registered exceptional gains against the three major currencies, teetering between R14.20/\$ and R14.30/\$. After tracking below the SA Reserve Bank's inflation target range of 3 to 6% in the midst of the pandemic, local inflation was recorded at an average inflation rate of 3.3% for the calendar year 2020. The South African Reserve Bank (SARB) voted to keep interest rates unchanged at their March MPC meeting – a unanimous decision by the committee. This arguably signals that the next move could be an increase, but the SARB took some time to highlight that policy would remain accommodative and that more evidence would be required before acting. Local market had a good start to the year with the FTSE/JSE All Share Index gained +1.6%, bringing the first quarter return to a pleasing +13.1%. This was mainly due to the strong quarterly performance from the resources sector (+18.7%). The domestic property sector gained +1.2% in March, bringing the quarterly returns to a healthy +6.4%. The All Bond Index declined by -2.5% in March, bringing the first quarter returns to -1.7%. Inflation-linked bonds benefitted from the prospects of reflation, returning +4.6% over the quarter.



## SA interest rate outlook and what it means for the Fixed Income funds

The year 2020 was laden with great economic risks which were further worsened by the breakout of the novel COVID-19 virus. A growing trend in supply-side constraints emanating from electricity shortages, increasing global trade tensions, and rising levels of policy uncertainty, rendered the local and global economic backdrop particularly uninspiring.

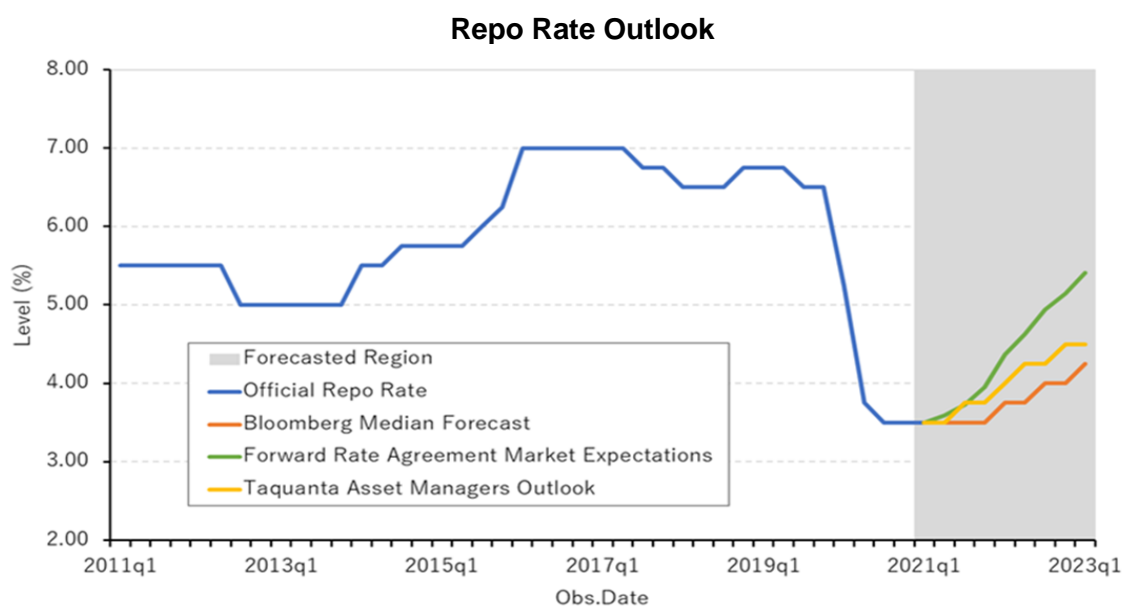
The magnitude of this economic recession once again muted demand for crude oil, where low demand levels and high storage costs saw the price of this commodity slip into negative territory amid high inventory levels.

Solace for global investors was subsequently found in cash type assets and gold bullion, where excess liquidity and production limitations resulted in cascading yields and an increase in the commodity spot price, respectively.

High yielding and commodity-linked emerging market currencies such as the rand, then appreciated significantly against the United States dollar and other G7 currencies.

This resiliency of the rand on the back of weak global oil prices not only contained inflation, but further enabled monetary policy authorities to cut short-term interest rates by 300 basis-points.

Looking ahead, the overarching expectation is for short-term interest rates to recover from current levels. The expected magnitude of rate increases varies depending on the reference source (see below).



source: Bloomberg, Taquanta Asset Managers, Mar 2021

Key drivers of this interest rate outlook are underpinned by a recovery in the global inflation cycle as well as a narrowing output gap.

Expansionary global fiscal policy and the lifting of lockdown restrictions are set to be growth positive, especially coming from a low production base. A successful implementation of the COVID-19 vaccine rollout program as well as a strong efficacy of the inoculation thereof, can further improve economic activity through anchoring policy and business confidence. In the short-term, we envisage this resumption in economic activity to outpace spare capacity as the global demand for final products looks to outweigh the supply of capital goods.

For this reason, global oil prices have increased by 37% in rand terms in the first quarter of the year, while electricity costs have been confirmed to rise by approximately 16% from the second half of the year. A build up in global savings from a rise in cash investments is also likely to decrease, the more certain policy and political

expectations become. This decrease in savings should benefit production assets, improve capital expenditure programs, and increase the labour participation rate.

The short-run phenomenon of a low-base effect inspired growth trajectory and slow improvements in the labour market have made our short-term interest rate outlook less aggressive relative than that of the Forward Rate Agreement (FRA) market.

The FRAs are also pricing in more aggressive interest rate hikes than the surveyed median expectation envisages. This reflection of the market's view seems to be possibly overstated by the near-term positive output gap, where economic activity is set to outpace its spare capacity and potential growth rate as a function of low base-effects following a deep and long-standing economic recession. In the absence of formidable structural reform, limited government spending capacity, and constrained labour market conditions, a positive output gap appears to be short-lived, thereby limiting the scope of aggressive policy rate hikes.

Furthermore, tepid consumer demand levels and the recently introduced increases in indirect taxes are set to reduce the pace of CPI recovery. We are however mindful of the sharp incline in fuel and electricity costs which appear to be understated in the surveyed median forecasts. To this end, our outlook is slightly more hawkish than that of the Bloomberg peer median, as pass-through and administered price inflation are poised to bear adverse effects on transport and food price inflation.

The investment philosophy of conservative credit selection and low duration continues to support returns in our cash funds. The Nedgroup Investments Cash Solutions funds have a bias towards floating rate instruments linked to 3-month Jibar. This bodes well for future yields of the funds given the general interest rate view of anticipated increases. While we look for opportunities, we remain prudent around credit, and we continue to manage the liquidity and maturity risk as efficiently as possible.



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