

The fund was up 7.7 in the fourth quarter, underperforming the All Bond Index (up 9.0%). It has returned 18.2% pa over the last three years, outperforming the benchmark (up 16.9%), and 9.9% pa since inception in 2015 - ahead of its benchmark (9.4%).

Economic backdrop

Global economic activity has slowed due to increased US tariffs and persistent uncertainty surrounding a US foreign-policy stance that has shifted from broadly chaotic and aggressive to persistently disruptive. Financial conditions, which tightened meaningfully in the immediate aftermath of the April US tariff announcements, have since loosened, driven by a sharp rise in asset prices and lower short-term interest rates.

In the US, erratic government policy continues to result in subdued consumer and business sentiment and reduced investment, although the decline in business investment has been less severe than expected due to robust AI-driven spending. The US labour market is softening despite sharply lower supply from immigration, as companies delay hiring amid tariff uncertainty and AI-driven change. This is depressing sentiment, exacerbating skills mismatches and leading to more cautious workforce planning. Consequently, looking through near-term moderate improvements in growth, driven by fading tariff impacts, the recovery from the government shutdown and front-loaded fiscal stimulus, underlying US economic growth appears to be softening from its previously robust pace.

China's nominal economic growth has been weak due to ongoing deflation, consumer scarring from the pandemic and the property market correction. This is reflected in low confidence, negative wealth effects and elevated precautionary savings. More aggressive monetary and fiscal stimulus and targeted structural state interventions have not yet succeeded in improving Chinese consumer confidence. Export activity has been unexpectedly resilient, with strong growth to emerging markets offsetting the adverse effects of US tariffs. It is expected to remain robust as China's cost competitiveness improves.

Europe's economy, which has been stagnating in part from its export link to a weak manufacturing sector in China, will start to benefit from higher domestic fiscal stimulus - particularly in Germany. Japan's economy is expected to continue to experience a steady, domestically driven expansion supported by ongoing labour market strengthening and gradually improving business investment.

South African activity has been supported by much higher precious-metal prices and a mild recovery in real consumption as falling inflation and interest rates ease household pressure. Although, a significant increase in online betting has diverted spending from other goods and services. A more enduring lift to economic growth is, however, structurally constrained by the acute underperformance of transport infrastructure (albeit improving), poor service delivery from weak and revenue-hungry municipalities, inadequate (albeit improved) electricity supply and low business confidence. Disappointingly, the recent moderate increase in investment from very low levels has not yet been accompanied by any notable job creation.

In recent years, there has been progress made in moving to reform the economy through Operation Vulindlela and the partnership between government and business leaders that is targeting key priority areas needing reform. Additionally, the Government of National Unity has brought about positive leadership changes in key ministries and a renewed commitment by government to accelerate initiatives that address the country's structural problems.

Markets review

South African bonds increased by 9% in the quarter, outperforming cash (up 1.8%). Global bonds were largely weaker over the period. South African bonds outperformed emerging market bonds, with long-dated bonds particularly strong.

At their last meeting in November, the SARB reduced the repo rate by 0.25% to 6.75%. This was the first meeting since the formal adoption of the 3% inflation target. Despite a unanimous vote to reduce the repo rate, the SARB maintained a cautious stance in its policy approach. The Monetary Policy Committee emphasised that any further easing would be data-dependent and contingent on the balance of inflation risks. South African government long bond yields remain moderately high in the context of well contained inflation.

Fund performance and positioning

- The fund underperformed the benchmark during the quarter. Its short duration position contributed to the underperformance as long dated fixed-rate government-issued bonds outperformed shorter duration bonds.
- The fund is short duration vs the benchmark. Real yields on offer in nominal RSA long bonds are still high in the context of a benign inflation outlook.
- The yield curve remains moderately high in our view and the fund is positioned to take advantage of moderately high carry yields and potential capital gains on offer.