glacier
by Sanlam

Fund Commentary

Glacier Money Market Fund

December 2023

Portfolio Manager Quarterly Comment

Market overview

A series of lower-than-expected inflation prints across the US and Europe shifted investors' mindset from 'higher for longer' to the possibility of pre-emptive rate cuts from central banks. This view was then further supported by the December US Federal Reserve (Fed) meeting where the projections suggest three cuts over 2024.This meant that the final quarter contributed positively to the total return of the year of both equity and bond markets. Developed Market (DM) equities returned 24.4% for the year and Emerging Market (EM) equities returned 10.3% for the year while Global IG bonds and EM bonds returned 9.6% and 10.5% respectively. Locally, the equity, bond and cash markets returned 5.3%, 9.7% and 8% respectively. All of this were on the back of markets expecting central banks to cut interest rates earlier than previously thought, although one should be cognisant of the Israel-Hamas war which could throw a spanner in the works in case it escalates.

At the South African Reserve Bank (SARB)'s November Monetary Policy Committee (MPC) meeting they voted unanimously to keep the repo rate unchanged at 8.25%. The general tenor of the MPC statement remained hawkish, with a strong emphasis on upside risks to the inflation outlook and concern about inflation expectations remaining above the mid-point of the target range. They reiterated that it sees the current policy settings as restrictive.

After a resilient first half of the year, SA GDP contracted by 0.2% quarter-on-quarter (q/q) in the third quarter of 2023 (Q3), which can mainly be attributed to persistent rotational loadshedding, logistical constraints as well as a challenging global environment. Five of the 10 economic activities declined, with agriculture (-9.6% q/q), manufacturing (-1.3% q/q) and construction (-2.8% q/q) contributing the most to the overall decline.

Employment rose for the eighth consecutive quarter in 2023. Employment has risen by 2.2 million since the first quarter of 2022 and is now 325k above the pre-pandemic level. In Q3, employment rose faster than the labour force, lowering the unemployment rate by 0.7% to 31.9%, the best figure since the third quarter of 2020.

Moody's ratings warned that spending pressure from SOEs and social support raise the risk of further deterioration in public finances in coming years.

Headline CPI declined to 5.5% year-on-year (y/y) in November from 5.9% y/y in October as a consequence of the 5.5% drop in fuel prices in November. Contrastingly, because of the ongoing Avian flu food prices increased, and core CPI rose from 4.4% y/y to 4.5% y/y. PPI inflation dropped to 4.6% y/y in November from 5.8% y/y in October. The rand strengthened from 18.89 in September to 18.26 in December vs the US dollar. The 10-year SA government bond yield strengthened to 11.05% in December from 12.05% in September. The trade balance increased to a surplus of R21 billion in November from a surplus of R12 billion in September.

The money market yield curve ended the quarter slightly steeper as loadshedding returned, GDP growth remained under pressure and rates probably must remain higher to attract foreign capital.

What SIM did

Quality corporate credit and RSA Treasury Bills (TBs), which are yielding higher than JIBAR rates, were added to the portfolio. The combination of corporate credit, high-yielding RSA TBs, negotiable certificates of deposit (NCDs) and floating-rate notes (FRNs) will enhance portfolio returns.

SIM's strategy

Our preferred investments would be a combination of fixed-rate notes, floating-rate notes and quality corporate credit to enhance returns in the portfolio. With the money market yield curve remaining very steep, fixed-rate bank notes are potentially relatively more attractive than FRNs. This is because bank FRN spreads have recently declined due to the steep money market/forward rate agreement curve, making their performance very dependent on the future interest rate path. Only some RSA TBs yield slightly higher than bank NCDs now.


Money Market Yield Curve
Yield %
10.5
10.0
9.5
9.0
8.5
8.0
7.5
7.0
6.5
0
3
6
9
12
Time (months)
8.07
8.06
8.30
8.26
8.40
8.33
8.73
8.65
8.95
8.95
9.28
9.13
30-Sep-23
31-Dec-23