glacier
by Sanlam

Fund Commentary

Glacier Money Market Fund

September 2021

Portfolio Manager Quarterly Comment

Market overview

At the start of the quarter, with the local economy already being constrained by the third wave of Covid-19, it experienced another setback in the form of riots and looting, which had a broad negative impact on domestic financial markets. Globally, the primary factor that continued to drive markets is the debate on whether inflationary pressures are transitory or more long term in nature and the consequential start of tapering of asset purchases and interest rate hiking cycles by developed market central banks. With unemployment levels decreasing and inflation remaining relatively high, the US Federal Reserve announced at the September Federal Open Market Committee meeting that they will probably soon (possibly November) start slowing their asset purchases, with purchases coming to an end around the middle of next year. The European Central Bank also announced a reduction in asset purchases but emphasised that it's not the start of tapering to zero asset purchases. The Bank of England turned hawkish on the back of higher inflation, suggesting that it could hike interest rates in the near term. Negative news continued to emanate out of China, with the Chinese government implementing further regulations on the technology sector and private tutoring companies. Following this was the potential default of a large Chinese property developer, Evergrande, and its potential spillover effects.

The South African Reserve Bank (SARB) Monetary Policy Committee voted unanimously at both its July and September meetings to keep the repo rate unchanged at 3.5%. They revised their near-term inflation forecast higher to 4.4% from 4.3% for 2021 and kept 2022's forecast unchanged at 4.2%. They also increased their GDP growth forecast for 2021 to 5.3%.

GDP in the second quarter of 2021 (2Q21) grew by 1.2% quarter-on-quarter (q/q) after growing by 4.6% q/q in the first quarter (1Q21) and beating expectations of 0.7% q/q. Moody's stated that the riots are a risk to recovery prospects and highlighted SA's reform challenges. Resultingly big negative effects on consumer and business confidence, combined with the ongoing third wave of Covid-19, create potential downside risks to its GDP growth forecast of 4% this year. S&P estimated that the unrest will reduce SA's GDP for 2021 by 0.7% and grow at 4.2%.

The unemployment rate rose to 34.4% in 2Q21 from 32.6% in 1Q21. This was due to the number of unemployed people rising faster than the labour force. Also, total employment fell by 54 000 q/q in 2Q21, with big job losses in the formal non-agricultural sector outweighing gains in the informal sector, domestic service and agriculture.

In a presentation to parliament by SARB Governor Lesetja Kganyago, he mentioned that the recent unrest will likely put a halt to SA's growth recovery in the third quarter. He also highlighted five risk factors for SA's economic recovery, including electricity supply, future waves of Covid-19, the impact of social unrest on investment, inflation, correction in commodity prices and deteriorating public finances.

President Cyril Ramaphosa made some cabinet changes, with the most significant being a new minister of finance, which, importantly, the market did not perceive as negative. The current minister, Tito Mboweni will be replaced by Enoch Godongwana who is currently the head of the ANC's Economic Transformation Committee.

Headline CPI inflation remained at 4.9% year-on-year (y/y) during the quarter. PPI inflation decreased to 7.2% y/y from 7.7% y/y. Both CPI and PPI remained high due to higher fuel prices and PPI inflation additionally due to higher transport equipment inflation. The rand weakened to 15.11 from 14.32 against the US dollar during the quarter. The SA 10-year government bond yield weakened substantially to 9.75% from 9.35%. The trade balance decreased to a surplus of R42.40 billion from R53.40 billion.

The money market yield curve steepened significantly over the quarter as inflation remained above the midpoint of the SARB's target band and the market started to bring potential interest rate hikes forward in time. Looking forward, inflation pressures remain as the rand weakened significantly and the price of oil remains elevated.

What SIM did

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

SIM strategy

Our preferred investments would be a combination of fixed-rate notes, FRNs and quality corporate credit to enhance returns in the portfolio. With the money market yield curve steepening significantly, fixed-rate bank notes are even more attractive now than before, but RSA Treasury Bills continue to yield higher than bank NCDs and FRNs. Bank floating rate spreads are also slowly picking up now, but not warranting investment yet, as further upward potential remains.