FIRST GLOBAL

Quarterly Report

Q1 2023

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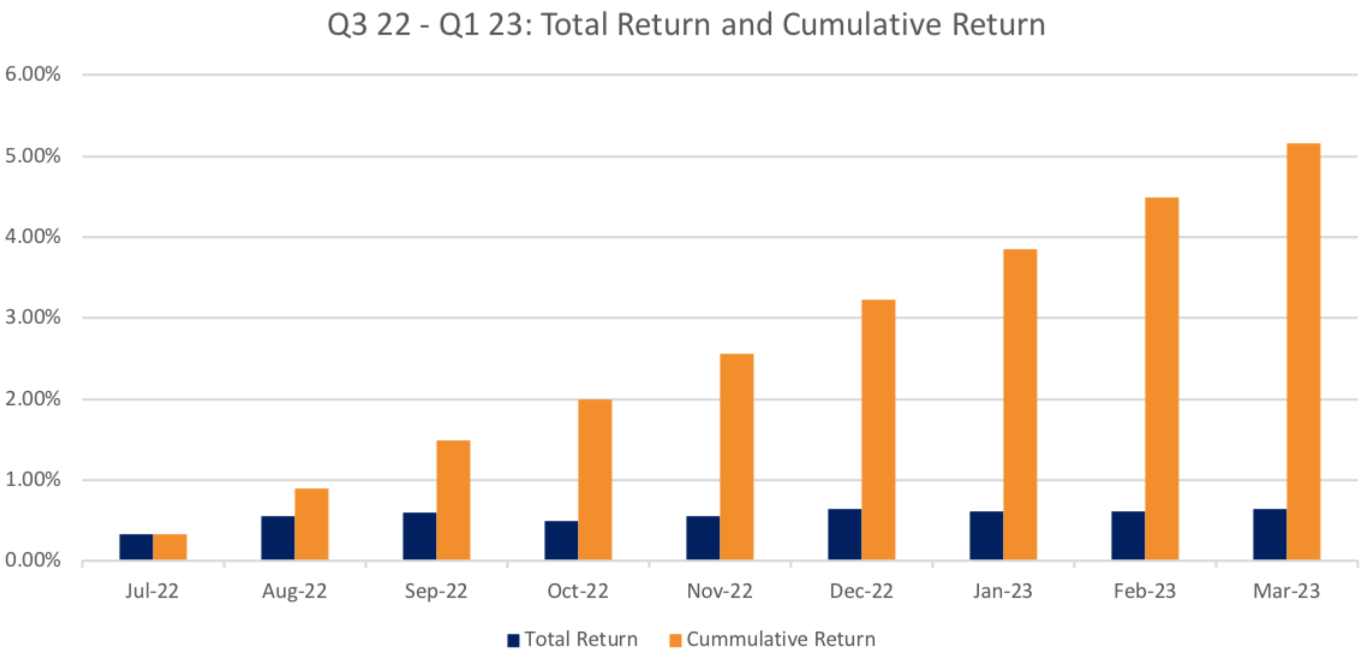
Fund review

The First Global 1 BCI Enhanced Yield Fund, managed by Stanlib Asset Management, had a net asset value of R236m as of 31 March 2023 with a modified duration of 164 days. The fund is invested in a combination of fixed and floating rate instruments to take advantage of the steepness of the curve in the long end, but also to limit interest rate risk. Most of the fund, however, remained invested in floating rate notes to keep pace with further potential interest rate hikes in the next six months.

Lump sum returns with reinvestment of distributions



Source: Profile Data

Market overview

The South African Reserve Bank (SARB)'s Monetary Policy Committee (MPC) raised the repo rate by 50 bps at the March meeting, taking the repo rate to 7.75%. The decision was not unanimous, with three members of the MPC preferring an increase of 50 bps, and two members voting for 25 bps. This rate hike followed a 25bps hike in January where three members voted for the 25bps hike, and two members voted for a 50bps hike. The prime rate is now 11.25%, the highest it's been since 2009.

The MPC statement, at the March meeting, highlighted ongoing upside risks to domestic inflation, as well as the fact that SA's external financing needs are expected to rise, given the sharply lower export commodity price index and weaker growth in export volumes. Weaker commodity prices and higher state-owned enterprise financing needs will put pressure on financing conditions for rand-denominated bonds – which will require the SARB to sustain higher real interest rates.

In February 2023, SA's monthly headline CPI inflation rose by 0.7%, pushing the annual rate of inflation up to 7% compared with 6.9% in January 2023. The monthly increase was hurt by two key items - medical insurance costs and food inflation. The continued upward pressure on food prices is especially concerning, given a range of anecdotal reports suggesting that food producers and retailers are still trying to recoup some of the costs associated with sustained electricity outages.

The Reserve bank is committed to bring inflation more fully under control, but this could be prevented by the upward pressure on wages, the recently announced 18.65% increase in electricity tariffs, increasing food prices and the weaker exchange rate.
SA's macro-economic environment therefore remains extremely challenging. GDP declined in the final quarter of 2022 by 1.3%. S&P Global Ratings revised its credit rating outlook on South Africa to stable from positive and affirmed its BB long-term foreign currency sovereign credit rating. This followed the decision by the FATF to 'grey-list' South Africa. Grey-listing affect investors directly and indirectly, by introducing more administrative complexity when investing offshore and possible economic repercussions.

Short term rates followed the interest rate movements in the market during the quarter. Three-month JIBAR moved by 70 bps from 7.26% to 7.96%. 12-month JIBAR initially traded lower during the quarter, but increased by 30bps after the second rate hike was announced. The 12-month JIBAR rate is now trading at over 9.00%.

Looking ahead

For 2022, SA's inflation rate averaged 6.9%, up from 4.5% in 2021. For 2023, it is forecast to average 5.9%, ending the year at around 5.4%. Unfortunately, the risk to inflation is still to the upside, especially due to higher food prices.
The Reserve Bank is therefore expected to increase interest rates further in the short term and maintain a relatively high level of rates for the rest of 2023. The first rate cut is expected only in 2024 - especially since the bank remains committed to getting inflation back down to the midpoint of the inflation target.

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