FIRST GLOBAL

Quarterly Report

Q3 2022

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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 R137m as of 30 September 2022 with a modified duration of 137 days. The fund is invested in a combination of floating rate and fixed rate instruments. The bulk of the fund was invested in floating rate instruments to keep pace with the continuous expected rate hikes over the next 12 months.

Market update

The South African Reserve Bank (SARB)'s Monetary Policy Committee (MPC) raised the repo rate by 75 bps at the July and September meetings, taking the repo rate to 6.25%. At both meetings the decision was not unanimous, with two members of the MPC preferring an increase of 100 bps, and three members voting for 75bps at the September meeting. The prime interest rate has now been hiked by 250 bps since the start of this year.

The FRA curve started to flatten out after the September hike, now seeing 1year rates peaking at around 8.25% with the short end of the curve lifting aggressively as interest rate hikes are perceived to be front loaded.

South African GDP declined by -0.7% q/q in the second quarter. This decline in economic activity was broad-based (including mining, manufacturing, retail, construction, and agriculture) and largely anticipated. Headline consumer inflation eased to 7.6% in August, after it rose by a substantial 1.5% m/m in July. High inflation is cause by food, fuel, electricity and water, although there is further evidence to suggest that price pressures are broadening.

Looking ahead

As the SARB remains highly data dependent, so must the outlook for the next MPC meeting. Depending on how the international developments and the data play out in the months to come, the SARB can hike by another 50 to 75 bps at the November MPC meeting. The long end of the FRA curve remains very flat, suggesting that investors are still pricing in a flattening in the rates outlook just above 8%. This remains the upper end of potential rates and suggests that investors are pricing in the risk of a rand crisis, which would force the SARB to tighten more aggressively.

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