FIRST GLOBAL

Quarterly Report

Q4 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 R224m as of 31 December 2022 with a modified duration of 134 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 reflect our view that there will be more interest rate hikes in the first quarter of 2023.

Market overview

The South African Reserve Bank (SARB)'s Monetary Policy Committee (MPC) raised the repo rate by 75 bps at the November meeting, taking the repo rate to 7%. The decision was not unanimous, with two members of the MPC preferring an increase of 50 bps, and three members voting for 75 bps. The last rate hike for the year resulted in the repo rate being hiked by 325 bps in 2022 and lifted it above pre-Covid levels.

The MPC statement highlighted the upside risks to South African inflation, including upward pressure on salaries. The fact that two MPC members voted for a hike of 50 bps suggests that interest rates are approaching a peak. The SARB is now more aware of the downside risks to growth and its outlook for inflation at the end of 2023 is favourable. SARB governor Lesetja Kganyago said that to stop increasing the repo rate, the MPC would need to see clear evidence that inflation had not just peaked but was declining sustainably to the 4.5% target midpoint.

Short term rates for the quarter followed the trends. Three-month Jibar moved by 79 bps from 6.47% to 7.26%, while the longer end of the curve remained flat. 12-month Jibar rates increased by only 9 bps during the quarter, from 8.59% to 8.68%.

Looking ahead

With the FRA curve flat in the long end, it seems probable that the SARB is almost at the end of its rate hiking cycle. One or two more rates hikes are possible in the first quarter of 2023 and then rates will start trading sideways. Once inflationary pressures have decreased more convincingly, the bank will want to pause and assess the need for any further rate hikes – especially if SA's inflation rate is heading towards 4.5% at the end of 2023 and the major central banks are also looking to end their own rate hiking cycles.

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