STANLIB Multi-Manager Global Bond Fund

STANLIB MULTI-MANAGER

Minimum Disclosure Document as of 31 March 2023

The fund is a class fund of STANLIB Offshore Unit Trusts, which invests exclusively in the STANLIB Funds Limited - STANLIB Multi-Manager Global Bond Fund

Market overview

The first quarter was a tumultuous period for global bond markets, with the catalyst to increased volatility during March (MOVE index of Treasury vol hit levels last seen at the height of the GFC) being the collapse of two US regional banks - Silicon Valley and Signature Bank. That led to fears about broader contagion across the financial system especially following the acquisition of Credit Suisse by UBS who required government guarantees.

Despite aforementioned, the year has seen some strong gains after the weakness of 2022, with global bonds gaining 3%. A collapse in energy prices over the quarter was helpful. In this regard European natural gas prices were down -37.3%, which helped dampen inflation expectations. Meanwhile the reopening of the Chinese economy boosted hopes that global growth would be lifted more broadly. Strong US data releases and unemployment falling to a 53-year low of 3.4% sparked discussions about a “no landing” scenario.

The above operating environment, where growth remained strong, led to investors ratcheting up their expectations for central bank terminal rates. That was then validated by Fed Chair Powell, who said in his semi-annual congressional testimony that “we would be prepared to increase the pace of rate hikes”. While in the East, Japan inflation reached its highest level since 1981. Both these events sparked a sell-off in bonds halfway through the quarter.

All this changed shortly afterwards though, as concern grew about the financial system following the collapse of SVB, raising fears about broader contagion. The big question now is whether the turmoil from March proves to be an isolated incident, or whether it’s the harbinger of further shocks ahead.

Having struggled last year, emerging markets saw a much better start to 2023 with local currency bonds gaining 4.9%. On the forex front, the dollar continued to weaken. This contributed to returns of global indices where non-dollar denominated assets experienced not only positive returns in local currencies, but when converted to dollars they were slightly more pronounced.

Fund review

The Bond Fund outperformed during the period under review. Alpha of 16bp was attributable to both country and currency positioning. In this regard an overweight to EM coupled with an underweight to the dollar contributed the most to returns. Conversely an underweight to Japanese government bonds was the largest relative detractor.

Amundi underperformed marginally due to credit and fx positioning. With respect to the former, credit spreads widened – especially financials that were negatively impacted by the mini (still to be confirmed) banking crisis. By contrast, yield curve positioning contributed i.e. portfolio was positioned for a steepening of the US curve, which benefitted from short term rates falling more than long term ones.

The BlackRock mandate performed in line with the benchmark. On the plus side their credit screen, which focuses on higher quality names, helped performance given more indebted corporates saw spreads widen as investors became concerned the credit crisis would have a negative impact on accessing finance. An overweight to EM was also beneficial as the asset class continued to benefit from China’s reopening.

Brandywine was the top performer over the quarter. Contributing to this outperformance was an overweight to Colombian, Polish and South Korean local bonds. They also had an overweight to US treasuries, which helped given the flight to quality. Overweight’s to South American currencies like the Mexican and Columbian peso as well as the Brazilian real contributed handsomely while the strategy’s long Norwegian krone position detracted because of the decline in oil prices.

Our PIMCO mandate has been the biggest laggard this year. An underweight to US duration coupled with an overweight to MBS had a negative impact. To this end bank failures in the US resulted in yields falling while the outlook for real estate financing deteriorated.

Outlook

Our central scenario remains one of a recession induced by the tightening of monetary policies implemented to fight inflation. It is still too early to assess the macroeconomic consequences of the doubts now weighing on US regional banks, which play a significant role in the financing of the economy. How credit distribution evolves will be a crucial factor in the conduct of central bank monetary policy, especially for the Fed. The ECB also noted greater uncertainty warranted a data-dependent approach to future policy rate decisions and that there would be downside risks to their growth and inflation forecasts if market turmoil hit confidence.

We expect recent events are likely to lead to tighter credit conditions and banks reducing lending. This should eventually reduce growth and inflation. Having said that, we believe the current moves are overdone in the short term and markets are now pricing too many cuts, too soon, as inflation remains sticky. While still-high core inflation would have more than justified further increases in key rates, it is likely the terminal rate will be lower than envisaged in early March.