Melville Douglas

Bond Fund

Quarterly Commentary

March was about Moody's and the critical sovereign credit rating review, which saw South Africa not only maintain its Baa3 investment grade rating but return to a stable outlook. More good news was received from S&P, which lifted the country's forecasted growth rate for 2018 to 2%, and the SARB cut the repo rate by 25 basis p to 6.5%. These events were very positive for the bond market and as a result both bond yields and currency rallied at the back of this with bond yields breaking through the 8.0% mark, trading to best levels of 7.64% on the benchmark bond (R186) before reversing some of those gains to end the month at 7.99%.

This good news seemed to have been absorbed quickly by the markets as they shifted immediately to global factors as jostling between US and China on trade tariffs rages on. The markets are understandably jittery about this with no immediate resolution in sight.

During the month we benefitted from our slightly long relative duration position, however we remain cautious and we will not hesitate to reduce our duration position to neutral or short should the bearish environment persist.

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