

Melville Douglas

Bond Fund

Quarterly Commentary

Globally, economic growth momentum continued to gather pace in the last quarter of 2017. This resulted in the Fed and ECB revising GDP growth higher for the next few years. Monetary policy in Developed markets remained supportive, but is expected to become more restrictive as the cycle matures. As the market had expected, the US Fed, in its meeting in December 2017 raised rates by a further 25 basis points.

At the end of November and in line with consensus, Standard and Poor's lowered SA's long-term foreign currency rating another sub-investment grade notch, to "BB" from "BB+". It also lowered the local-currency rating to "B" (sub-investment grade) from "A-3" with the outlook upgraded from negative to stable. Moody's placed its Baa3 ratings (investment grade) for foreign and local currency sovereign debt on review for downgrade. The next review will take place after the government budget is released in February 2018.

Bonds and the rand initially sold off, but this was reversed as value soon attracted both domestic and foreign investors to our markets. It would appear that most of the bad news was already discounted. This trade was exacerbated when certain investors were positioned for a much worse outcome and forced to unwind short positions.

With the global central banks monetary policy actions and SA credit ratings decision behind, the markets' attention then shifted to the ANC elective conference held in Johannesburg between the 16th to 20th December. Going to the conference the outcome was too close to call with the two main contenders neck to neck. The outcome would indeed be significant as the new president of the ruling ANC would be announced and with that greater clarity on the ANC's future economic policies. At the conclusion of the conference, Mr Cyril Ramaphosa won the leadership race and investment markets received this outcome favourably and as such both bond yields (8.58%) and the currency (ZARUSD 12.38) ended the year at their best levels for 2017.

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