

Melville Douglas

Income Fund Ltd — GBP Class

Quarterly Commentary

The stage appears to be set for another hike in UK interest rates, with the market now discounting a move in May. The Bank of England's Monetary Policy Committee (MPC) have recently been eschewing a more hawkish tone but we expect the pace of any subsequent tightening to be at a much more moderate pace than in the US. UK GDP is trending at a positive yet subdued level relative to many other developed economies but importantly, inflation remains stubbornly higher than the MPC's 2% target rate. However, inflationary pressures are expected to moderate further in the coming months as the fall-out from the post-BREXIT slide in Sterling continues to subside.

Against the backdrop of a firm employment market, which finally appears to be driving wages in the right direction, the spending power of the UK consumer should increase sufficiently to keep growth chugging along despite ongoing BREXIT uncertainties. The Fund's duration strategy remains in sync with our negative view on global bond markets, namely a defensive bias on the belief that the outlook for the UK has improved and perhaps more importantly, rising US government bond yields still have the propensity to lift yields in other developed markets.

A more hawkish Bank of England and some tentatively positive news on BREXIT negotiations have proved sufficient enough to allow Sterling an almost 2% trade-weighted gain in the quarter. The Fund's currency allocation strategy remains biased to Sterling, however, continues to hold moderate weightings to both the US Dollar and Euro as insurance against the uncertainties that BREXIT may bring in the coming quarters. Ultimately, the UK economy has a habit of doing 'just fine' under sometimes difficult circumstances and that trend will likely continue but an aggressive tightening cycle is not on the cards just yet and Sterling may remain range bound until the BREXIT dust settles – which is some time away yet.

Overall, the Fund's strategy remains one of limiting potential downside risk in an environment where we expect yields to continue to rise in the coming quarters. Ongoing synchronised global growth, less accommodative central bank policies and increased inflationary pressures should ensure that global government bond yields continue to normalise. We aim to continue to gradually increase the duration of the Fund at more attractive yield levels as this process unfolds

Melville Douglas

Melville Douglas Investment Management (Pty) Ltd is a subsidiary of Standard Bank Group Limited.
Melville Douglas Investment Management (Pty) Ltd (Reg. No. 1962/000738/06) is an Authorised Financial Services Provider. (FSP number 595)

Disclaimer

This summary brochure has been prepared for information purposes only and is not an offer (or solicitation of an offer) to buy or sell the product.

This document and the information in it may not be reproduced in whole or in part for any purpose without the express consent of Melville Douglas.

All information in this document is subject to change after publication without notice. While every care has been taken in preparing this document, no representation, warranty or undertaking, express or implied, is given and no responsibility or liability is accepted by Melville Douglas as to the accuracy or completeness of the information or representations in this document. Melville Douglas is not liable for any claims, liability, damages (whether direct or indirect, actual or consequential), loss, penalty, expense or cost of any nature, which you may incur as a result of your entering into any proposed transaction/s or acting on any information set out in this document.

Some transactions described in this document may give rise to substantial risk and are not suitable for all investors and may not be suitable in jurisdictions outside the Republic of South Africa. You should contact Melville Douglas before acting on any information in this document, as Melville Douglas makes no representation or warranty about the suitability of a product for a particular client or circumstance. You should take particular care to consider the implications of entering into any transaction, including tax implications, either on your own or with the assistance of an investment professional and should consider having a financial needs analysis done to assess the appropriateness of the product, investment or structure to your particular circumstances. Past performance is not an indicator of future performance.