



Core Income Fund

Market context

The defining event of the quarter was the South African Reserve Bank's (SARB) Monetary Policy Committee decision on 23 September to raise the repo rate by 25bp to 7.25%, in a unanimous vote that resumed the tightening cycle after the Monetary Policy Committee (MPC) had unexpectedly held rates at its 23 July meeting in a split 4-2 vote. July's headline inflation print, released three weeks after the hold, slowed sharply to 4.3% year on year (y/y) in July from 5.0% in June, below consensus expectations of 4.4-4.5%, as fuel prices and food inflation eased. The August print inched higher to 4.4% y/y, although still undershooting consensus expectations. Rising oil prices stemming from the Middle East conflict threaten to push inflation higher in the months ahead. In its decision to hike in September, the SARB struck a relatively hawkish tone, citing the need to bring inflation back toward its 3% target in order to prevent inflation becoming entrenched.

In the South African Bond market, the 10-year yield rose above 9% towards the end of the quarter, its highest level since April. The move was driven by the combination of rising developed market yields and the renewed flare-up in geopolitical tensions in the Middle East as the US rejected an Iranian proposal to reopen the Strait of Hormuz, resurfacing oil supply concerns and the knock-on impact on energy prices and inflation globally.

The currency performance over the quarter tracked the same oil narrative as bonds. The rand traded strongly, to levels below R16.00/USD in August, supported by a softer US dollar, strong gold and platinum prices, and the favourable carry trade. That strength unwound in September, however, as the Iran-conflict oil shock, Fed tightening, and SARB hike expectations weighed on sentiment, with the currency ending largely unchanged at R16.40.

For a more detailed global market background, please read our market review [here](#).

Performance

As the share class was launched less than 12 months ago, performance is not disclosed.

The portfolio delivered a higher running yield over the period as the repo rate moved from 7.00% to 7.25%. NCDs shifted sharply higher in response to the rate hike, rising 50 basis points over the month to close the quarter at 8.10% - a move that exceeded the hike itself, reflecting the market moving to price in a more sustained tightening cycle. Positioning through the period remained measured, while maintaining sufficient liquidity to take advantage as opportunities presented themselves. We continue to favour short-dated NCDs and Treasury bills.

Outlook

Global geopolitical risk in the Gulf continues to outweigh supportive local fundamentals and is expected to remain the primary driver of markets. Oil supply remains tight and prices elevated, which has exacerbated weak US Treasury markets, with yields hitting multi-decade highs. While South Africa and emerging markets have slightly outperformed developed markets, they have not been spared. Over the coming weeks, market focus is expected to shift from oil towards politics, as local government elections in South Africa and the US midterms take centre stage. Locally, the fiscal position remains sound: commodity prices are holding up, revenue collection continues to surprise to the upside, and a fiscal rule is expected to be announced at the midterm budget, which would be very positive. With the country on a positive outlook, the rating agencies have indicated they favour South Africa's direction of travel. However, given the broader uncertainty, the portfolio maintains a relatively conservative stance.

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