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## NAM CORONATION STRATEGIC INCOME FUND QUARTERLY COMMENTARY Q1-26

*Please note that the commentary is for the retail class of the Fund.*

### Performance and fund positioning

The Fund returned -1.31% in March, bringing its 12-month total return to 8.9%, which is ahead of cash (12m: 7.4%) over the same period. We believe the Fund's current positioning offers the best probability of achieving its cash +2% objective over the medium to longer term.

The first quarter of 2026 was defined by the dramatic escalation of conflict in the Middle East in late February and early March — a geopolitical shock that transformed the investment landscape in a matter of weeks. The conflict triggered the closure of the Strait of Hormuz, the largest supply disruption in the history of the global oil market. Brent crude surged to nearly US\$120 per barrel, approaching its 2008 peak, as the shock reverberated across asset classes globally. Stock markets declined, a broad bond sell-off ensued, and central banks moved to delay or reconsider easing paths as the prospect of higher inflation and tighter financial conditions took hold. Entering the second quarter, markets remain hostage to the trajectory of the conflict, with the reopening of the Strait of Hormuz being the single most consequential variable for the global macro outlook.

Namibian markets delivered mixed performance over the quarter, reflecting the influence of global headwinds on the domestic economy. Namibian bonds tracked global fixed income trends, where rising oil prices and inflation concerns placed upward pressure on yields, resulting in negative returns. March marked a notable reversal in the Namibian fixed income market, unwinding much of the positive momentum established in the first two months of 2026. The IJG All Bond Index declined by 4.87%, while the IJG Inflation-Linked Bond Index returned 1.64%. The yield curve sold off sharply with yields weakening by an average of 126bps driven primarily by benchmark movements. The front end of the curve widened by an average of 107 basis points, while the belly and long end experienced a more pronounced repricing, with yields widening by 132 and 124 basis points respectively. Treasury bills remained anchored by the repo rate which was maintained at 6.50% at the February MPC meeting.

South African (SA) assets, which had been buoyed by improving domestic sentiment, a strong rand, and contained inflation at the start of the year, also bore the brunt of the risk-off rotation. The fallout was widespread. By the end of March, the rand had lost over 6% against the US dollar, ending the quarter around R16.94/US\$, while the SA bond market suffered a sharp reversal after its remarkable 2025 rally. The FTSE/JSE All Bond Index returned -3.36% for the quarter (versus 19.24% over the last year), and the 10-year SA government bond (SAGB) yield widened by 112 basis points (bps) to 9.32%, erasing much of the prior year's compression. The long end bore the greatest pain, with bonds of 12 years and above losing 4.09%, while the one- to three-year segment offered modest protection at +0.64%. Inflation-linked bonds (ILBs) also declined, returning -1.13% (versus 13.32% over the last year), though they outperformed nominal bonds on a relative basis as breakeven inflation expectations repriced higher due to the oil shock. Cash returned 1.60% — the only positive-returning domestic fixed income asset class for the quarter.



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Significant increases in fuel prices will be the first source of higher inflation, immediately adding 0.5%–1% to headline inflation relative to previous forecasts. However, the longer the oil price stays high (c.US\$90/100/barrel), the greater the likelihood of second-round effects on the rest of the inflation basket. The closure of the Strait of Hormuz also affects approximately 35% of the global fertiliser trade, raising the risk of higher agricultural input costs and, by extension, food prices. Incorporating just the first-round effects of the oil price hike into our inflation forecasts sets the inflation average above 4% in 2026, before easing to an average closer to 3.5% in 2027. There is a risk that inflation in 2027 will be 0.2%–0.4% higher if oil takes longer to normalise, causing second-round inflation effects.

The South African Reserve Bank (SARB) has indicated a willingness to look through first-round effects; however, their base forecasts assume a much quicker normalisation in the oil price to lower levels, while their adverse forecasts are closer to our current baseline. In the SARB's worst-case scenarios, they project the repo rate to around 7%–8.25% (25bps to 150bps of rate hikes). Current market expectations are for 75bps of rate hikes (repo rate at 7.5% by end 2026), which would keep the real policy rate at 3%. This pricing seems quite conservative. The long-term impacts of a sustained oil price spike are unambiguously negative for growth. This is a dynamic the SARB is acutely aware of and which, historically, has tempered its willingness to tighten aggressively into supply-side shocks. If the SARB ultimately hikes less than the 75bps the market has priced, this represents an unrecognised tailwind for bond valuations.

The Federal Reserve Board (the Fed) held the federal funds rate target range steady at 3.50%–3.75% at the Federal Open Market Committee's March meeting. Fed Chair, Jerome Powell acknowledged that the economy is performing reasonably well but emphasised that developments in the Middle East are creating significant uncertainty. He noted that job gains have remained low, with private payroll growth undershooting forecasts, while the unemployment rate has been little changed at around 4.4%. The market has removed all rate cuts in 2026 and expects rates to remain unchanged.

US headline inflation came in at 2.4% year on year (y/y) in February, while core inflation stood at 2.5% y/y, both unchanged from January's prints. The goods sector continued to show tariff-related price persistence, while services inflation remained somewhat elevated. Food, apparel, and energy prices edged up, while vehicle prices decreased. Markets had been pricing in a resumption of cuts by mid-year, but the oil shock has shifted expectations materially.

China's headline inflation increased to 1.3% y/y in February from 0.2% y/y in January, while core inflation jumped to 1.8% y/y from 0.8% y/y. Food prices and recreation costs increased significantly from the previous month, while apparel, medical and housing utilities costs remained steady. Transport costs continued declining, although less pronounced compared to previous months. Unfortunately, producer price deflation persists, albeit at a slower decline; down 0.9% y/y in February from 1.4% y/y in January.

The rand ended the month at R16.94/US\$1, worse than its close in the previous month but in line with its Emerging Market (EM) peer group. Offshore credit assets and certain developed market bonds continue to flag as relatively attractive. The Fund has utilised a significant part of its offshore allowance to invest in these assets. When offshore assets become expensive (or relatively cheap), the Fund may adjust its foreign currency exposure by buying or selling currency futures on the JSE (typically in US dollars, UK pounds, or



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euros). This helps the Fund fine-tune its exposure to global markets without having to sell its offshore investments.

The South African economy grew 0.4% quarter on quarter (q/q) in the fourth quarter of 2025 (Q4-25) from a revised 0.3% q/q in Q3-25. Full-year 2025 GDP growth reached 1.1%, the strongest since 2022, up from a revised 0.5% in 2024. From the production side, positive gains were observed in the finance and business services and trade sectors, while manufacturing and mining industries dragged growth. From the demand side, household consumption, government spending and fixed investment sustained positive momentum, though inventories and net exports weighed on growth. Despite the Q4-25 improvement, growth risks have shifted to the downside as the impact of a potentially protracted rise in oil prices on inflation and consumption, and any possible fuel shortages on overall activity, remains a concern.

The SARB voted unanimously to keep the repo rate unchanged at 6.75% at the March MPC meeting. It noted the outlook for inflation had deteriorated, with fuel prices expected to increase considerably in the coming months. Forecasting inflation and GDP growth has become a difficult task given the volatile global markets. Furthermore, the SARB signalled that rate hikes remain on the table if conditions deteriorate further, assessing two possible US-Iran conflict scenarios: a short-term two-month disruption and a prolonged one-year scenario, both implying the need for higher interest rates. Headline inflation ticked down to 3.0% y/y in February from 3.5% y/y in January, while core inflation also reduced to 3.0% y/y from 3.4% y/y. The decline was driven by lower fuel costs, easing food inflation, and favourable base effects. Housing and utility costs kept inflation up and the new global energy price risks are expected to keep inflation high in the coming months.

At the end of March, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.04% (three-year) and 8.50% (five-year), higher than at the end of the previous month. Our inflation expectations suggest that the current pricing of these instruments remains attractive given their lower modified duration and, hence, high breakeven relative to cash. In addition, NCDs offer the added benefit of liquidity, thereby aligning the Fund's liquidity with its investors' needs. The Fund continues to hold decent exposure to these instruments (fewer floating than fixed), but we will remain cautious and selective when increasing exposure.

ILBs significantly outperformed nominal bonds over the last quarter, but lag over the longer term. However, ILBs have shown their value in a domestic bond portfolio as the only real protection the portfolio can have during times of extreme risk-off due to their inherent inflation protection and lower beta to nominal bond factors. At current real yields, certain portions of the ILB curves still warrant some attention. ILBs out to the seven-year area are still trading above 4% (a guaranteed return of CPI+4%), with the curve past that area trading pretty flat, with no term premium to compensate for the higher risk taken. An important nuance that bears emphasis: while real yields remain elevated, the oil shock has pushed breakeven inflation expectations materially higher. This means that ILBs are now more expensive in breakeven terms, even as their real yields appear attractive in isolation. An investor buying front-end ILBs at a 4%+ real yield is making two implicit bets: first, that real yields will compress as the SARB's eventual easing cycle plays out; and second, that realised inflation will at least match the now-higher breakeven levels baked into the price. The total return of ILBs is more attractive relative to cash, even if ILB yields sell off 25bps per year over the next five years, and inflation averages 3.8%. The seven-year ILB is the most attractive in this scenario,



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offering both a superior return to that of cash and longer maturity ILBs. Our current inflation profile has inflation averaging above 4% for most of the next 12 months. Under those assumptions, the total return of SA ILBs compared to their equivalent nominal bond is much better in the sub-seven-year area of the ILB curve. Given the elevated uncertainty from the geopolitical backdrop, the embedded inflation protection these instruments provide makes them a particularly useful portfolio building block at current levels.

As SA exits a turbulent first quarter, the bond market has shifted from a story of stretched valuations and narrow upside to one of renewed opportunity born out of geopolitical disruption. The complex nature of the situation in the Middle East and the closure of the Strait of Hormuz have repriced risk across the curve, but in doing so have restored a more appropriate margin of safety. Crucially, the domestic reform thesis — fiscal consolidation, contained inflation expectations, and SARB credibility — remains fundamentally intact, even as the near-term inflation impulse from the oil shock clouds the path for monetary policy. In this environment, one should favour the belly of the nominal curve where carry and rolldown are most robust and maintain selective exposure to front-end ILBs where real yields above 4% offer genuine inflation protection and superior risk-adjusted returns. The trajectory of the conflict will ultimately determine whether this repricing proves a compelling entry point or merely a waystation to further volatility, but the quarter's dislocation has provided an opportunity to increase duration to benchmark levels while maintaining a decent allocation to ILBs within bond portfolios.

The SA listed property sector was down 12.16% over the month, bringing its 12-month return to 29.1%. The cost savings due to the implementation of solar and increased payout ratios helped bolster the sector's performance. Dividend yields have repriced to fairer levels (8%-9%), and together with the improved dividend growth outlook, the total return prospects are well above bonds, which could support the sector. Rate hikes and/or a poorer growth outlook due to the Middle East conflict could erode optimism in the sector's prospects. We believe that one must remain selective and cautious given the high levels of uncertainty around the strength and durability of the local recovery.

SA credit spreads are at historically tight levels due to low issuance volumes and a large amount of capital seeking a home with reduced volatility. The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This sector has experienced exponential growth over the last five years, reaching a market size of over R100 billion. However, only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. CLNs mask the underlying/see-through credit risk as the issuing entity (predominantly local banks) is seen as the primary credit risk.

The increased usage of CLNs has not expanded the pool of borrowers; rather, it has only served to concentrate it. This is due to the ability to limit the volatility of these instruments by not marking them to market based on the underlying asset price movements. The combination of attractive yields and absence of volatility is an opportunity that not many would pass up, unless, of course, transparency of pricing is important to the underlying investor. As a result, there can be significant unseen risks within fixed-income funds. Investors need to remain prudently focused on finding assets whose valuations are correctly aligned with fundamentals and efficient market pricing. Except for a few opportunities, we view the local credit market as unattractive relative to other asset classes.



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## Outlook

We remain vigilant about the risks posed by dislocations between stretched valuations and the local economy's underlying fundamentals. However, we believe the Fund's current positioning accurately reflects the appropriate level of caution, while its yield of 8.40% (gross of fees) remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected portfolio performance over the next 12 months. As is evident, we remain cautious in our management of the Fund. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield.

## Portfolio managers

Nishan Maharaj and Mauro Longano  
as at 31 March 2026