

# M&G Global Balanced Fund

Global Multi-Asset USD-denominated

Q4 2024

## Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global equities experienced a slight decline of 1% in the fourth quarter, but showed a strong annual gain of 17.5%, as measured by the MSCI All Country World Index (ACWI). Both developed and emerging market equities saw negative returns in the fourth quarter, with developed markets down by 0.2% and emerging markets down by 8.0%. Global property also faced losses, down 9.2% for the quarter but ended the year in positive territory with 1.6%.

In emerging markets, sentiment was dampened by President Trump's victory, which raised concerns over trade tariffs, especially with China. Brazilian equities struggled, with the Bovespa falling by 29.5%, while China underperformed by 4.9% due to tariff fears. Other markets such as India (-10.6%) and Turkey (-3.1%) also contributed to weaker performance. Despite this, for 2024, the MSCI Emerging Market Index added 7.5%, though it lagged behind the ACWI's 17.5% return, primarily due to the stellar performance in US markets.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

## United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control

of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

While US equities surged in November following the election results, the rally stalled in December after the Fed lowered its expectations for further rate cuts due to slower inflation progress and an uncertain policy outlook. Despite this, US equities still finished the quarter strong, with the Nasdaq leading at 6.3%, followed by the S&P 500 (2.4%) and the Dow Jones (0.9%).

Notably, US equities posted solid returns across all indices for the year led by the Nasdaq (29.6%), S&P 500 (25%), and the Dow Jones (15%), all in US dollar terms. Bonds, however, faced a more challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

## Eurozone

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected. Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

## United Kingdom

Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected. Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates. In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget. The FTSE 100 ended the quarter down 6.8% but posted a 7.7% gain for the year.

## China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's

## Risk profile



## Fund facts

### Fund objective

The Fund's objective is to provide investors with capital growth over the long-term by investing in a diversified portfolio of global assets.

### Investor profile

Investors seeking long-term capital growth from a diversified portfolio of global assets. The recommended investment horizon is 5 years or longer.

### Investment mandate

The Fund aims to achieve its objective by investing across a diversified portfolio of global assets. This includes exposure to equity securities (including property), cash, bonds, currencies and commodities. The Fund may invest up to 75% in equity securities (excluding property) and up to 25% in property securities. The Fund may invest in other collective investment schemes and in financial derivative instruments.

### Investment manager

M&G Investment Management Limited (UK)

### Fund managers

Craig Simpson  
Aaron Powell

### Morningstar category

Aggressive Allocation

### Benchmark

65% MSCI All Country World Index TR (Net), 5% FTSE EPRA/NAREIT Global REIT Index, 25% Bloomberg Global Aggregate Bond Index, 5% US 1m Treasury Bill

### Inception date

19 June 2017

### Fund size

USD 148.6 million

### Currency

US Dollar

### Share type

Accumulation

### Domicile

Ireland

## Annualised performance

	B Class	Benchmark
1 year	6.9%	11.1%
2 years	10.9%	13.7%
3 years	2.0%	2.4%
5 years	4.9%	6.3%
7 years	4.3%	6.2%
Since inception	5.0%	6.6%

Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end. The Hang Seng Index dropped 4.9% in the fourth quarter but posted a strong 23.7% gain for the year.

#### Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter. The Nikkei Index fell 4.1% in the fourth quarter due to a weak yen and strong US economic performance but finished the year with an 8.8% gain (in US\$).

#### Performance

The M&G Global Balanced Fund produced a return of -2.4% (B class, net of fees, in US\$) for the quarter, versus the -2.3% recorded by its benchmark. For the 12 months to 31 December, the fund delivered 6.9% compared to the benchmark's 11.1% return.

Fixed income investments were the main cause of losses. Our holdings in property also cost some performance. Conversely, equity and cash/currency exposure made a small positive contribution.

Within global equities, our core exposure chosen by machine learning recorded a positive return. Absolute performance was driven by gains in global equity markets in the quarter, particularly the fund's holdings in US equities. However, our tactical positions fell in value.

The portfolio's core equity construction strategy, which constrains active exposures to country, currency, and industry, successfully prioritised stock selection and style as primary drivers of returns. This approach led to differentiated performance across capitalisation tranches, with mid-cap and large-cap stocks significantly outperforming small-cap counterparts due to a negative-size exposure. Sector-wise, the portfolio achieved marginal gains in 14 of the 18 GICS industry groups, particularly in Consumer Staples, Energy, and Industrials, while mitigating losses in Technology and Consumer Discretionary sectors through disciplined stock selection.

In terms of tactical (non-core) positions, holdings in Latin America, Asia ex Japan (particularly South Korea) and a World ex US tracker, lost value.

Looking at the fund's fixed income holdings, performance in the fourth quarter was driven by losses on global bonds, as yields rose.

The fund's core fixed income portfolio hurt relative returns. Relative performance was hurt by the fund's underweight position in credit, which includes an outright short in high yield and positioning in currencies, principally due to the overweight in Japanese yen. Tactical holdings in US Treasuries and UK gilts also underperformed.

In terms of our tactical (non-core positions) positions, the main detractor from performance was long-dated US Treasuries and to a lesser extent UK gilts and emerging market sovereign bonds.

Within global property, absolute returns were driven by the weak performance of real estate investment trusts, which fell as investors reined in expectations for rate cuts in 2025.

The portfolio's fourth-quarter performance reflected the challenges of navigating a volatile macroeconomic environment, characterised by falling interest rates and political uncertainties. While the constrained country exposure strategy facilitated selective gains through effective stock selection, it also limited participation in outperforming regions, particularly within the Canadian market. In the style space, the consistency of performance across REITs industries manifested as positive sentiment returns for the sector.

#### Strategy and positioning

At the start of the quarter, we adjusted the fund's currency basket, responding to weakness in spot prices. The trades have increased the overall carry and diversification of the basket.

In December, we responded to weakness in Brazilian financial assets by introducing a new target weighting in 10-year Brazilian government bonds of 1.5%. In addition, we began new positions in what we consider to be attractively valued equities in China and Indonesia. These were funded by selling the S&P 500 Index and closing our position in an emerging market bond tracker.

#### Outlook

Overall, the elevated levels of comfort among market participants, as well as the asset prices that reflect that, lead us to be cautious and selective in constructing portfolios, knowing that there will likely be significant shifts in sentiment and thus asset prices in the months ahead.

We are neutral on equities given ongoing economic resilience but are aware of valuation headwinds and elevated real interest rates. We prefer attractively priced assets and therefore have a bias towards non-US equities. In particular, we believe there are still attractively valued opportunities in Asian and Latin American equities, as well as specific pockets within developed markets, such as European banks, global players and UK stocks.

We still like long-dated US Treasuries as an attractively priced form of portfolio insurance. Long-dated UK gilts also look attractive to us, given declining levels of inflation while the Bank of England base rate remains elevated. We retain positions in a well-diversified basket of emerging market government bonds in local currency as what we consider to be an attractive source of medium-term returns. We are particularly looking at Brazil and Mexico with the potential to add. We do not favour corporate bonds given the current level of credit spread and its recent compression.

We prefer emerging market currencies where yields are attractive. Cash real yields are elevated and attractive, in our view, as well as uncorrelated to other asset classes. Higher liquidity provides flexibility to respond to tactical opportunities. □

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