

# M&G Global Balanced Fund

Global Multi-Asset USD-denominated

Q1 2024

## Market overview

The first quarter of 2024 (Q1) brought a continuation of the relatively bullish investor sentiment towards global equities seen in the last months of 2023, as prospects for growth in the US were buoyed by positive company earnings reports and supportive economic data that increased the likelihood of a “soft landing” for the economy. On the other hand, global bonds were weaker as inflation proved somewhat higher than expected (the price of Brent crude oil rose roughly 14%) and major central banks kept interest rates on hold, prompting pundits to move out their rate cut expectations to the second half of the year. Still, they and the US Federal Reserve are roughly aligned in their forecasts of a 25bp interest rate cut in each of Q2, Q3 and Q4, starting at the Fed’s 11-12 June FOMC meeting.

Global equity (as measured by the MSCI ACWI) delivered a total return of 8.2% in Q1 compared to 11.0% in Q4, while developed market equities produced 8.9% and emerging market equities returned only 2.4% (MSCI Emerging Markets Index – all in US\$). Global bonds posted -2.1% (Bloomberg Global Aggregate Bond Index, in US\$).

### United States

In the US, stubborn inflation (and the Fed’s unwavering fight against it) was one of the few negative factors denting investor sentiment. At 3.2% y/y, February CPI was marginally higher than its January levels, with rising energy prices making themselves felt. At the same time, the Core PCE Price Index, the Fed’s preferred inflation measure, came in at 2.8% y/y, as expected. Also in line with expectations, the Federal Reserve kept benchmark interest rates on hold at its March FOMC meeting, and is forecast to do the same in May. For the quarter, the Dow Jones produced 6.1%, the Nasdaq 9.3%, and the S&P 500 10.6% (all in US\$). The S&P’s 12-month forward P/E ratio rose to a heady 21X at quarter end from 19.5X at the start of the quarter, with price gains outpacing those of earnings. Although the breadth of the gains improved from 2023’s narrow focus, a look at the Equal-Weighted S&P Index shows that it was still large-cap shares driving the outperformance of the market during the quarter.

### United Kingdom

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its February meeting, saying its next move would remain data-dependent. Similar to the US, the market is pricing in the start of rate cuts from June 2024. February CPI fell sharply to 3.4% y/y from 4.0% in January, helping reinforce the prospect of rate cuts. With Q4 2023 GDP growth reported at -0.3% after -0.1% in Q3, the economy entered a technical recession, and only slight improvement is expected in 2024: the BoE forecasts flat (0%) GDP growth for 2024 as a whole. In Q1 2024, the FTSE 100 returned 3.0% in US\$.

### Euro area

In the Euro area, optimistic corporate news sent European shares to record highs in mid-March, with upbeat earnings updates and some M&A news boosting investor confidence. Euro area

CPI fell to 2.6% y/y in February, but was still uncomfortably above the ECB’s target of 2.0%. As expected, the ECB left rates unchanged, even as a softer outlook for inflation and economic growth bolstered expectations for cuts starting in June. Q4 2023 GDP growth in the region was reported at a mere 0.1% (q/q annualised). In European equity markets, France’s CAC 40 returned 6.6% in Q1, while Germany’s DAX delivered 7.9% (both in US\$).

### Japan

It proved to be a momentous quarter for Japan -- the BOJ announced its first rate hike in 17 years, setting a new short-term rate target of 0-0.1% and ending eight years of negative interest rates. This came amid a rise in March CPI to 2.4% y/y, even as the latest GDP data showed the economy grew by only 0.4% (q/q annualised) in Q4 2023, and personal consumption marked its third consecutive quarterly decline. The mixed data added to uncertainty around how soon the BOJ could raise rates again, but the equity market reacted positively as the Nikkei was among the world’s top-performing markets with a 13.2% return in Q1, after delivering a remarkable 22.6% in 2023.

### China

China experienced a mixed quarter of sharp equity selling followed by some recovery, as the Chinese authorities enacted measures to stabilise the capital market and bolster economic growth. The PBOC cut the bank reserve requirement ratio by 50bps, followed by a historic 25bp cut in the 5-year Loan Rate. These moves significantly boosted market sentiment. GDP growth for Q4 2023 came in at 5.2% y/y, surpassing the government’s 5% target level, and the new 2024 target was set at 5.0%, as expected. This is expected to be even more difficult to achieve, due to prevailing headwinds such as weak consumer demand, industry oversupply and lower consumer and business confidence. Analysts foresee further policy support in the months ahead to further support market confidence and sustainable growth. Chinese markets were still fairly weak in Q1, with Hong Kong’s Hang Seng returning -2.7% and the MSCI China delivering -2.2%, both in US\$.

### Emerging markets

With the exception of India, which returned 6.1% (in US\$) for the quarter, larger emerging equity markets performed poorly. Brazil’s Bovespa was among the weakest with a return of -7.4%, while the MSCI Turkey fell -5.6%, the MSCI South Africa delivered -6.7% and South Korea’s KOSPI produced -0.3% (all in US\$).

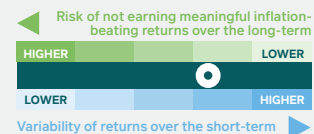
## Performance

For Q1 2024, the fund produced a return of 2.4% (net of fees in US\$) versus the 4.7% recorded by its benchmark. For the 12 months to 31 March, the fund delivered 13.3% compared to the benchmark’s 15.5% return.

### Absolute performance

The fund’s performance reflected the strong performance from global equities over the quarter, with its allocation to equities making the most significant contribution to returns. Its fixed income exposure hurt returns, and property exposure also held back returns marginally.

## Risk profile



## Fund facts

### Investment manager

M&G Investment Management Limited (UK)

### Fund managers

Craig Simpson

### Morningstar category

Flexible 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 121.6 million

## Annualised performance

	B Class	Benchmark
1 year	13.3%	15.5%
2 years	2.7%	3.3%
3 years	3.6%	3.5%
5 years	6.0%	7.1%
Since inception	4.9%	6.5%

Within global equities, our core exposure chosen by machine learning made the largest positive contribution to returns. Tactical positions also made a contribution. The core portfolio outperformed on 30 out of 64 trading days during the quarter, offering an unfavourable hit rate of around 47%. This was accompanied by a modestly negative skew, resulting in the fund underperforming over the quarter.

A key attribute of portfolio construction within the fund is that active country, currency and industry exposures are constrained to ensure that style and idiosyncratic stock risk are the main drivers of active returns.

The portfolio's style exposure proved to be a significant headwind over the course of the quarter, accounting for almost all the underperformance. Within style, exposure to smaller cap and higher volatility companies proved to be the most significant drag on relative returns. Stock selection had a modest negative impact over the quarter.

In terms of tactical (non-core) positions, European, Japanese, US financials and Asia ex-Japan equities were beneficial to returns. However, a short position in the US stock market weighed on performance.

Looking at the fund's fixed income holdings, its core exposure and tactical positions hurt returns. Within its core exposure, absolute performance was hurt by holdings in developed market government bonds as investors pushed back their expectations for interest rate cuts by central banks. Some positions in corporate bonds and emerging market sovereign debt, however, aided performance. The fund's performance was also hurt by its long duration position. In terms of our tactical positions, the main detractor from returns was from US Treasuries.

Within property, absolute performance was driven by the weakness in real estate investment trusts in the quarter. The portfolio outperformed on 33 out of 64 days during the quarter, offering an attractive hit rate of around 52%. This was offset by a slightly negative skew.

The fund is managed by constraining active country, currency and industry risk at the portfolio construction phase. This ensures that style and idiosyncratic stock risk are the main drivers of active returns. Both style and stock selection had a muted impact over the quarter. Within style, exposure to small size and low momentum companies detracted from performance, but this was offset by exposure to cheap valuation and high beta companies.

### Relative performance

The portfolio underperformed its reference index in Q1, hurt mainly by its equity positions.

Within equities, both core and tactical positions hurt relative returns. Tactical positions in Asia ex-Japan (particularly China), Latin America and the UK had the biggest adverse impact on relative performance. The fund's short position in the S&P500 Index also had a negative effect. Conversely, holdings in Japanese and European

equities and US financials were beneficial to relative performance.

Within fixed income, the core portfolio had a small negative effect on relative performance. The fund's tactical holdings detracted, mainly due to exposure to US Treasuries. The fund's property investments also had a small negative impact on relative returns.

### Strategy and positioning

In January, we established a new position in Hang Seng Index futures. Price falls in Chinese shares begin to look increasingly emotionally driven to us. Valuations have improved and forward earnings measures have turned positive.

In March, we sold positions in European banks and US banks and reduced non-US equity positions. These changes reflected strong price performance and a reduction in the attractiveness of valuations.

### Outlook

At the end of 2023, the consensus outlook for 2024 was broadly one of slowing global growth supporting further disinflation. Versus this, the strength of US growth and US earnings have positively surprised the market and supported strong equity returns. In turn, this has fostered further risk-seeking behaviour in equities and corporate credit and somewhat skittish risk aversion in government bonds.

Central banks seem broadly comfortable with the path of inflation but don't want to cut while growth remains strong and inflation above target levels. Bond markets now appear to have priced in a significant portion of this and offer attractive real yields and potential diversification if growth falters. Equity valuations look demanding in places (most notably the US), but not detached from earnings. □

### Contact us

✉ [info@mandg.co.za](mailto:info@mandg.co.za)

🌐 [mandg.co.za](http://mandg.co.za)

📞 0860 105 775

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