

M&G Global Bond Feeder Fund

Global Multi-Asset USD-denominated

Q1 2025

Market overview

The new year started off quite differently to the expectations that shaped the outlook heading into 2025. After a strong performance by US equities in 2024, markets were optimistic that a new Republican administration would further fuel US exceptionalism.

However, the situation unfolded quite differently than anticipated in the first quarter. The heightened uncertainty and volatility due to the unpredictable nature of US trade policy has dampened growth expectations and weighed on US markets and the dollar. Trump's new term has been nothing short of chaotic and market moving as participants try to decipher the impact of regulations on asset prices and the economy in general.

Globally, tariff talks and the potential trade war were key drivers of market moves for the quarter, as well as regional dynamics around policy shifts.

Global equity (as measured by the MSCI All Country World Index) fell 1.3% during the quarter. US equities fared the worst in the major regions, with the Nasdaq showing the biggest fall (-10.3%) on the back of the moves in tech stocks. The S&P and Dow Jones lost 4.3% and 0.9% respectively for the quarter (all in US dollars).

Emerging markets, as measured by the MSCI Emerging Market Index, showed positive performance of 2.9% for the quarter, outperforming the developed market counterparts that delivered -1.8% (MSCI World). In emerging markets, Brazil's Bovespa (16.8%), China (15.9%) and South Africa (8.7%) performing strongly during the quarter (all in US dollars). In Turkey, some country-specific market moves due to widespread anti-government protests in the region in March led the Turkish equity market to be sold off, ending the quarter on -8.9% (in US dollars).

Global bonds fared relatively better with 2.6% (Bloomberg Global Aggregate Bond Index, in US dollars).

United States

Growing concerns over tariff threats had a significant impact on US equity markets. Escalating trade tensions, particularly with China, triggered fears of a renewed trade war, which weighed heavily on investor sentiment.

The US administration's threats to impose additional tariffs on key imports spooked investors, leading to heightened volatility in major stock indices. Sectors most vulnerable to tariffs, such as manufacturing, technology, and consumer goods, experienced sharp declines, while companies reliant on global supply chains saw their stock prices suffer. The uncertainty surrounding trade policies not only impacted corporate earnings expectations but also increased the risk of a broader economic slowdown, contributing to a cautious outlook for US equities during the quarter.

The dominance of the "Magnificent 7" began to unravel following

the release of China's low-cost AI model, DeepSeek, and growing concerns over their high valuations. This, combined with uncertainty around trade wars, meant the group faced a rough quarter, with a 15% decline, led by Tesla, Apple and Nvidia.

Meanwhile, US consumer price inflation eased to 2.8% year-on-year in February, down from 3.0% in January. However, market observers believe this decrease is temporary, as long-term inflation expectations continued to rise. In line with expectations, the Federal Reserve kept the federal funds rate unchanged at 4.50%.

Both the US equity market and US dollar sold off on concerns around the potential impact trade wars could have on the US economy. US equity markets ended the quarter down with the NASDAQ being the worst performer delivering -10.3%, the S&P 500 with -4.3% and the Dow Jones with -0.9%.

United Kingdom

The UK's economic landscape saw Labour Chancellor Rachel Reeves announce a £4.8 billion cut in welfare spending and a crackdown on tax avoidance, alongside a downward revision of the 2025 growth forecast from 2% to 1%. Inflation showed signs of easing, with the UK's Consumer Price Index (CPI) dropping to 2.8% y/y in February, slightly below the expected 2.9%. This, coupled with a 25-basis point rate cut by the Bank of England in February as policymakers responded to growing economic concerns, added to the market's optimism.

While European markets faced volatility due to tariff worries and trade tensions, hopes for a European-led peace initiative regarding Ukraine lifted sentiment, benefiting the FTSE 100, despite underlying economic challenges.

The FTSE 100 Index posted an impressive 9.4% gain (in US dollars) for the quarter.

Eurozone

European equity markets outperformed their US counterparts, with Financials delivering particularly strong performance.

Germany was a key driver for the region's market performance for the quarter. The country's decision to lift the debt ceiling benefited defence-related shares, as increased spending in that sector led to outperformance compared to other areas of the market. Further to this, political stability following Germany's elections added to investor optimism, boosting market sentiment and helping the DAX deliver robust returns of 15.8%. France's CAC 40 also delivered a respectable 10.4% (all in US dollars).

Eurozone inflation showed signs of moderation, with the Consumer Price Index (CPI) for February coming in at 2.3% y/y, slightly below expectations, but still within range. The European Central Bank (ECB) cut interest rates by 25 basis points to 2.5%, signalling a potential for further cuts, and also lowered its economic growth

Risk profile



Fund facts

Fund objective

The Fund's objective is to generate investment returns through exposure to global bonds and interest-bearing instruments over the medium term.

Investor profile

Investors seeking returns from a diversified portfolio of global debt and fixed income securities. The recommended investment horizon is 2 years (or longer when used as strategic exposure to the asset class).

Investment mandate

The Fund aims to achieve its investment objective by investing in a diversified portfolio of global debt and fixed income 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

Eva Sun-Wai
Robert Burrows

Morningstar category

Global Flexible Bond

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

9 June 2017

Fund size

USD 200.3 million

Currency

US Dollar

Share type

Accumulation

Domicile

Ireland

Annualised performance

	B Class	Benchmark
1 year	1.2%	3.0%
2 years	-0.1%	1.8%
3 years	-2.8%	-1.6%
5 years	-0.4%	-1.4%
7 years	-0.9%	-0.5%
Since inception	-0.6%	-0.1%

forecast for the fourth consecutive time, now projecting 0.9% growth for 2025.

Japan

Escalating trade tensions, tariffs and shifting monetary policy contributed to market volatility and weighed on markets in Japan for the quarter. The announcement of a 25% tariff by the US on auto imports sparked major concerns in Japan, due to the country's large auto export sector. In addition, public dissatisfaction with fiscal policies erupted in protest action against the Ministry of Finance.

Japan's annual consumer price index slowed to 3.7% y/y in February 2025 from 4.0% y/y in January, slightly above the expected 3.5%. In a widely expected move, the Bank of Japan maintained its benchmark interest rate at 0.5%.

Against this challenging backdrop, the Nikkei was down 5.3% (in US dollars) for the quarter.

China

Despite tariff jitters, AI enthusiasm boosted tech stocks. Markets were boosted by the surprise release late in January of China's low-cost AI model, DeepSeek, sparking the tech rally. China also announced stimulus plans to boost consumption, which were well-received by the market.

Meanwhile, CPI contracted by 0.7% y/y in February 2025. The People's Bank of China (PBOC) maintained its key lending rates, keeping the one-year Loan Prime Rate (LPR) at 3.1% and the five-year LPR at 3.6%. This decision aligned with market expectations.

Boosted by positive sentiment and the latest AI developments and stimulus announcements, the Hang Seng delivered a strong 15.9% for the first quarter (in US dollars).

Performance

The Global Bond Fund returned 3.3% (B class, net of fees, in US\$), versus 2.6% from its benchmark, the Bloomberg Global Aggregate Bond Index. For the 12 months ending 31 March, the fund delivered 1.2% compared to the benchmark's 3% return (both in US\$).

Fixed income markets delivered positive returns for the quarter including US Treasuries and US investment grade corporate bonds. Local currency emerging market sovereign debt also performed well.

Relative performance was particularly strong in January and benefitted from the fund having a position in inflation-linked bonds. Furthermore, higher beta emerging market rates experienced some relief in the month, providing a modest boost to performance. Our long JPY position, also performed well, reaffirming its status as a safe haven.

Credit allocations continued to weigh on relative performance in March, with the fund being underweight. Currencies experienced mixed results in the month. Positions in Japan have been profitable year-to-date, driven by an underweight in Japanese Government Bonds (JGBs) combined with long positions in JPYEUR and JPYCHF. However, underweights in EUR and GBP against a neutral USD position weighed on performance. One of the largest contributors to outperformance was the overweight NOK positioning, with Scandinavian currencies performing exceptionally well during the month.

Strategy and positioning

In January, we reduced the fund's credit risk further. (At month end, we had an underweight in investment-grade credit and an outright short position in high yield.)

In February, we started to shift away from our bias to be long US inflation-linked bonds (TIPS), as they had performed well, but would be unlikely to continue to do well if there was a continuation of weakness in business and consumer confidence. In credit, we reduced some exposure to names which had performed well. In the primary market we participated in a new issue from Johnson & Johnson. In FX, we shifted some of our position in JPYEUR, to JPYCHF. This adjustment was based on our expectation that the euro may become more volatile and see more upside if there is a resolution to the conflict in Russia/Ukraine.


The broad theme during March was to continue de-risking the portfolio. In rate markets, noteworthy adjustments included reallocating holdings within Europe from KFWs to DBRIs, all within the 7 to 9-year range. Additionally, the fund moved towards longer positions in German bunds and BTBs due to the steepening of curves.

We rotated US credit shorts into European positions, prompted by the underperformance of US credit default swaps relative to those in Europe. Furthermore, there was a shift in the portfolio towards higher quality assets, with sales of BBB/A financials in favour of supranational and quasi-sovereigns.

In emerging markets, the fund continues to reflect a preference for Latin American currencies, which are currently delivering attractive yields relative to other portions of the market. During the month, exposure was switched from USD-denominated Romanian bonds into newly issued euro-denominated assets.

Key FX trades included partially closing out an AUD hedge and establishing outright positions in NZD due to its relative underperformance. Additionally, we reduced the fund's long JPY position.

Outlook

Looking ahead, we will likely continue de-risking amid US tariff-caused volatility, adjusting duration and credit allocations. Credit allocations remain challenging, with a shift towards higher quality assets and tight spreads. 

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