M&G Investments

M&G Global Equity Fund

Global Equity 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%.

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.

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.

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.

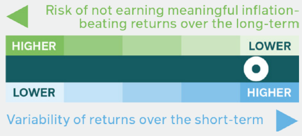
China

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 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

Annualised performance

Annualised performance	B Class	Benchmark
1 year	16.9%	17.5%
2 years	19.4%	19.8%
3 years	6.3%	5.4%
5 years	10.3%	10.1%
7 years	8.1%	9.2%
Since inception	8.8%	9.8%

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 equity securities.

Investor profile
Investors seeking long-term capital growth from a diversified portfolio of global equity securities. The recommended investment horizon is 7 years or longer.

Investment mandate
The Fund aims to achieve its investment objective by investing across a diversified portfolio of global equity securities. Quantitative analysis of individual companies, proprietary data analysis and machine learning are used to identify securities for potential inclusion by the fund managers. These equity securities include common stocks and shares, depository receipts and real estate investment trusts. The Fund may invest in other collective investment schemes and financial derivative instruments.

Investment manager
M&G Investment Management Limited (UK)

Fund managers
Gautam Samarth
Michael Cook

Morningstar category
Global Flex-Cap Equity

Benchmark
MSCI All Country World Index TR Net

Inception date
9 June 2017

Fund size
USD 463.2 million

Currency
US Dollar

Share type
Accumulation

Domicile
Ireland

Sources: M&G Investments, Morningstar & Deutsche Securities

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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 Equity Fund produced a return of 2.8% (B class, net of fees, in US$) for the quarter versus the -1.0% recorded by its benchmark. For the 12 months to 31 December, the fund delivered 16.9% compared to the benchmark's 17.5% return.

Absolute performance was driven by gains in equity markets in the quarter, particularly the fund's holdings in US equities.

The fund outperformed in every month in the quarter, with the strongest relative performance coming in October and November.

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.

Throughout the quarter, factor performance showed consistency and divergence across regions. Higher-risk stocks performed well in the US and Emerging Markets but lagged in Europe and Japan. Growth factors remained robust globally, particularly in the US and Europe, while value measures generally weakened except in defensive sectors within Europe and Japan. Sentiment measures, especially price momentum, were successful in developed markets but inconsistent in Emerging Markets, and quality factors yielded mixed results, being favoured in Europe and Emerging Markets.

The portfolio's 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.

The final quarter of 2024 underscored the portfolio's strategic strengths in active stock selection and favourable style factor tailwinds. Despite encountering varying regional challenges and market volatility influenced by macroeconomic sentiment and geopolitical events, the portfolio achieved solid outperformance against the benchmark.

Strategy & positioning

Encouraged by our performance, we believe this quarter validates our central use of artificial intelligence in our investment process. We will continue to maintain constrained active exposures within our diversified portfolio to navigate the evolving global markets through 2025.

The portion of the fund managed using its proprietary machine learning model is approximately 90%, with the balance of approximately 10% remaining in strategic ETFs. The ETF allocation is primarily used for liquidity purposes.

Outlook

As we move into the first quarter of 2025, the AI theme is expected to remain a central focus for investors. We anticipate that AI-driven advancements will extend beyond large-cap, technology companies, broadening into smaller companies, and permeating various industries. This broadening adoption of AI technologies could unlock new growth opportunities and enhance productivity across sectors such as healthcare, finance, manufacturing, and consumer goods. Investors should watch for companies that effectively integrate AI into their operations and those that stand to benefit from increased efficiency and innovation.

Geopolitical developments will continue to play a significant role in shaping market dynamics as the new US government takes office. Policy shifts and international relations will be closely scrutinised, with potential implications for trade, regulation, and global cooperation. The administration's stance on issues such as climate change, technology regulation, and international trade agreements could create both opportunities and challenges for businesses operating domestically and internationally. Market participants should remain vigilant to geopolitical events and assess their potential impact on specific industries and regions.

Central bank policies will remain a critical factor influencing market conditions, as authorities strive to balance the dual objectives of managing inflation and lowering interest rates. The ongoing efforts to control inflation without stifling economic growth will require careful navigation by central banks around the world. Investors should monitor central bank communications and policy decisions closely, as changes in interest rates could affect borrowing costs, consumer spending, and investment returns. The interplay between inflation control and interest rate adjustments will likely drive market volatility, making it essential to maintain a disciplined and flexible investment approach to adapt to the evolving economic landscape throughout Q1 2025.

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Invest now

Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities