M&G Global Equity Fund

Global Equity 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.

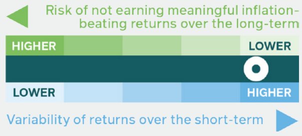
Germany was a key driver for the region's market performance for the quarter. The country's decision to lift the debt ceiling benefited defence-related shares, as increased spending in that sector led to outperformance compared to other areas of the market. Further to this, political stability following 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

Annualised performance

Annualised performance	B Class	Benchmark
1 year	7.2%	7.2%
2 years	13.7%	14.9%
3 years	6.7%	6.9%
5 years	15.7%	15.2%
7 years	7.9%	9.1%
Since inception	8.0%	9.3%

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 471.6 million

Currency

US Dollar

Share type

Accumulation

Domicile

Ireland

Sources: M&G Investments, Morningstar & Deutsche Securities 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 M&G Global Equity Fund produced a return of -3.3% (B class, net of fees, in US$) for the quarter versus the -1.3% recorded by its benchmark. For the 12 months to 31 March, the fund delivered 7.2% aligned to the benchmark's return.

Absolute performance was mainly driven by losses on US equities in the quarter, which fell due to new tariff measures and growing concerns about valuations of big technology firms.

Over the quarter, the portfolio experienced modestly heightened volatility as index-level moves and aggressive rotations of investment style performance impacted stocks within the market, with some stocks performing very badly and others performing well - on a relative basis. Clearly, during this turbulent time, our portfolio - which aims to capitalise on idiosyncratic opportunities with tightly constrained exposures at country and sector level - saw some beneficial and some detrimental style exposures.

In January, the portfolio delivered strong returns, outperforming its benchmark. Portfolio performance benefited from robust stock selection, particularly in the United States, despite minor detractors from industrial and small-cap exposures.

In contrast, February presented a more challenging landscape, with the portfolio underperforming. Global equity markets displayed considerable variation in performance, and the significant style rotations became apparent. Developed markets retraced modestly, while emerging markets posted marginal gains, reflecting a broader rotation away from growth attributes towards more value-based metrics.

March continued the prevailing challenges for global equities, with the portfolio marginally underperforming in the month. The early part of the month saw the portfolio perform relatively well, but a significant market rotation on 28 March - triggered by adverse macroeconomic data and geopolitical events - caused significant style rotations. This period underscored the heightened impact of systemic risk drivers and the broader volatility inherent in global markets.

Sector allocation adjustments during March proved critical in managing risk. While overweight positions in certain sectors, such as Financials, detracted from overall performance, the underweight exposure to higher-risk US names provided some degree of defence. Robust stock selection within regions such as South Korea, alongside a well-considered counterweighting of macroeconomic headwinds, allowed for a degree of mitigation against adverse market movements.

Strategy and positioning

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

Overall, the quarter has presented a mixed performance relative to the benchmark during a period of significant macroeconomic turbulence impacting all segments of the market. Strong returns in January, offset by subsequent months of underperformance, reinforced our mantra of placing trust in our investment approach and maintaining discipline in our implementation - the portfolio's robust construction and diversification remain its key strengths.

The consistent application of our bottom-up investment strategy, positions the portfolio well to capitalise on investor sentiment, and we look forward to macroeconomic stabilisation once the 'first 100 days' of the US presidency passes. As market uncertainties ease and stabilisation occurs, the strategically diversified portfolio is well placed to exploit new opportunities and deliver resilient performance in the future.

M&G Investments

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Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities