M&G Investments

M&G Equity Fund

Equity

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

In South Africa, the FTSE/JSE All Share Index returned 5.6% (in rand) on the back of strong performance in the precious metal and mining space. The resource sector rallied 33.7% in the quarter, with gold and PGM names delivering strong returns due to those commodities being up significantly in the month of March. The strong rally in SA equity for the quarter has been very concentrated in a few bigger names, such as gold companies, Naspers/Prosus, MTN and a few other rand-hedge stocks, like British American Tobacco and Richemont. Industrials delivered 3.1% while financials ended the quarter down 1.8%. SA bonds had a more muted quarter but managed to add small gains of 0.7% as per the All Bond Index. Concerns around the budget have led to a steeper yield curve with yields on long-dated bonds rising somewhat during March compared to flatter levels on the short-end of the curve. For inflation-linked bonds, the Composite Inflation-Linked Bond Index also delivered 0.7% for the quarter, with a similar steepening of the curve for those instruments (all in rand).

Fiscal uncertainty increased following the delay of the National Budget Speech, initially scheduled for 19 February, due to coalition disagreements. The budget was eventually re-presented on 12 March, with the proposed 2% VAT hike scaled back to 50 basis points over the next two years. The most significant impact was the effect this had on the Government of National Unity (GNU), as the ANC and DA clashed over the budget proposal, undermining the stability of the government.

On the economic front, South Africa's GDP showed modest growth of 0.6% q/q in Q4 2024, narrowly avoiding a technical recession, following a contraction of 0.3% in Q3. Annual consumer price inflation held steady at 3.2% y/yr in February 2025. As expected, the South African Reserve Bank (SARB) kept the repo rate unchanged at 7.5% in March, maintaining a cautious stance after the rate cut in January.

Performance

During the quarter the M&G Equity Fund returned 0.6% (A class, net of fees) compared to the average fund in the sector, which returned 1.9%. Over one year, the fund has returned 17.6% (A class, net of fees) compared to 17.7% for the average equity fund.

Contributing towards performance are long-standing overweights in MTN and zero positions on Mr Price, AVI, Truworths and Nedbank. Detracting from performance for the quarter were the fund's underweight positions to the gold sector, Foschini and Spar, as well as the M&G Global Equity Fund.

Strategy & positioning

During the quarter, MTN received good news in the sense that the Nigerian telecommunications regulator afforded all telco operators a regulated price increase of 50%. This follows the sharp depreciation of the naira and associated pressures this brought on MTN by way of costs and margin pressure, from which the price increase would bring some relief. This was the first price increase afforded to the telcos in Nigeria in over a decade and should permit the company to continue to maintain the necessary spend for the network and to recover some margins lost. The 50% increase in tariffs saw the share rally from R90 to R123 by the end of the quarter.

Chinese stocks enjoyed a strong rally over the quarter (albeit they have fallen in the current global sell off) but the shift in sentiment saw Tencent enjoy a strong recovery, after it had fallen in January after being designated a Chinese Military Company by US Department of Defense. Tencent, however, ended the quarter up 19%, on the back of a strong set of financial year 2024 results reported on 19 March. The fund's combined holding in Naspers and Prosus benefitted from the underlying price performance of Tencent.

Among the notable changes to the portfolio over the quarter was the decision to narrow the gold sector underweight and exit Glencore. The gold price remains supportive of earnings upgrades for SA gold producers, while geopolitical uncertainty provides ongoing support for gold. In contrast, Glencore remains in an earnings downgrade cycle with coal prices having fallen.

Anything that happened over the past quarter has been largely overshadowed by the announcement on "Liberation Day" by President Trump of the imposition of widespread tariffs. Within South Africa, the DA voted against the budget proposed by the Minister of Finance announcement thus calling into question

Annualised performance	A class	Benchmark	B class	F class
1 year	17.6%	17.7%	17.9%	17.8%
3 years	7.8%	7.1%	8.2%	8.8%
5 years	19.9%	16.5%	20.3%	20.9%
7 years	10.4%	7.9%	10.8%	11.4%
10 years	8.5%	6.1%	8.9%	-
20 years	13.9%	10.8%	-	-
Since inception	15.4%	12.6%	-	-

Risk profile

Risk of not earning meaningful inflation-beating returns over the long-term

HIGHER			LOWER
LOWER			HIGHER

Variability of returns over the short-term

Fund facts

Fund objective
To provide broad-based exposure to shares that offer value and medium- to long-term growth. The portfolio managers seek to invest in those companies where returns can be achieved from any or all of (a) growth in earnings, (b) growth in dividends and (c) a re-rating by the market of the company's share price.

Investor profile
Investors with a higher risk tolerance who are looking for out-performance of the average South African General Equity Fund without taking on greater risk of loss. The recommended investment horizon is 7 years or longer.

Investment mandate
The Fund invests in companies that meet the portfolio managers' value criteria. The Fund seeks out value by attempting to capture all components of return over time, including high dividend yield, earnings growth and possible market re-rating. The intended maximum limits are Equity 100%, Listed Property 10% and Foreign 45%.

Fund managers
Chris Wood
Yusuf Mowlana

ASISA category
South African - Equity - General

Benchmark
ASISA South African - Equity - General Category Average

Inception date
2 August 1999

Fund size
R6 784 370 428

Awards
Raging Bull: 2006, 2007, 2008
Morningstar/Standard & Poor's: 2007, 2008

Sources: M&G Investments, Morningstar & Deutsche Securities

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the stability of the Government of National Unity in its current form. A discussion of the tariffs is perhaps beyond the scope of this fund commentary but suffice to say that it would likely be negative for global growth, asset prices and perceived certainty of earnings forecasts within equity markets. The managers have been focusing on selecting companies which will not be adversely affected by the imposition of tariffs but at the same time predicting second-order effects, and how other participants (read: countries imposing reciprocal tariffs) may react, is a guessing game at best. While it's not an ideal time to take on risk, it is fair to say that asset prices have declined and are more attractive than they were before.

Contact us

info@mandg.co.za

mandg.co.za

0860 105 775

Invest now

Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities