

# M&G Global Bond Feeder Fund

Global Income ZAR-denominated

Q4 2023

### Market overview

The final quarter of 2023 saw a synchronized rally across global bonds and equities as falling inflation in many economies led central banks to continue to pause or effectively end their interest rate hiking cycles and start to look towards rate cuts, particularly in the US. And, although a growth slowdown is still expected in 2024, this and the gradually improving outlook buoyed investor sentiment, resulting in strong gains in November and renewed bullishness in December, to end the year with surprisingly good asset performance.

December's returns were dominated by the US Federal Reserve's unexpectedly positive forecasts at their 13 December policy meeting as, besides leaving interest rates on hold, they clearly indicated their expectations for three 25bp interest rate cuts in 2024. This was very good news for both equity and bond markets, helping bolster the 2024 outlook despite the uncertainty still surrounding the cumulative negative impact from the steep rate hiking cycle. Other large central banks also left interest rates on hold at their December policy meetings as expected.

Global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index, in US\$) over the quarter and experienced a very volatile year. This was marked by rapid shifts in the interest rate outlook that pushed the yield on the benchmark 10-year US treasury bond to 5% (briefly) in October and left it trading around 3.8% at year-end, presenting opportunities for active investors to harness attractive above-inflation yields. Ultimately, global bonds returned 5.7% for the year.

### United States

In the US, the Fed's December forecasts for 2024 showed inflation falling gradually toward its 2% target amid a slowdown in growth, without steep job losses -- in other words, a "soft landing" as investors have hoped for. Unemployment is seen rising to 4.1% from its current 3.7% level, still low from a historic perspective, and GDP growth is forecast to average 1.3% for the year. Meanwhile, at 3.1% y/y, November CPI was in line with expectations and down from October's 3.2% y/y, helped by lower energy prices over the period.

### UK

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its December meeting, saying its next move would remain data-dependent, but the market is pricing in the start of rate cuts from June 2024. November CPI fell sharply to 3.9% y/y from 4.6% in October. The UK economy is on the verge of recession, having recorded zero (0%) GDP growth in Q3 2023, and with the BoE downgrading its growth forecast for 2024 to 0% from 0.5% previously.

### Eurozone

In the eurozone, inflation continued to fall during the quarter, with the latest November CPI at 2.4% y/y% nearing the ECB's 2% target rate. However, the central bank's latest forecasts show inflation improving only very slowly going forward and averaging 2.7% in 2024 from 5.3% in July. GDP growth in the area registered a paltry 0.1% y/y in Q3 2023, and is expected to remain very subdued at 0.8% y/y in 2024. In contrast to the Fed, the ECB remained hawkish, continuing to warn of upside inflation risks from energy prices and labour costs, and discounting the possibility of interest rate cuts in the foreseeable future.

### Japan

After impressive growth in the first half of the year, Japanese GDP shrank by a more-than-expected 2.9% in Q3 2023 (annualised, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank of Japan maintaining its ultra-easy monetary policy, which had provided firm support previously and also helped push the local equity market to 33-year highs in December. The latest conditions suggested that the BOJ will continue to keep interest rates exceptionally low, in line with the central bank's goal of keeping inflation sustained at around 2% and avoiding deflationary conditions.

### China

During the three months, the Chinese economy gained traction with Q3 GDP growth reported at a stronger-than-expected 4.9% y/y (vs 4.4% y/y forecast). Although this means that the government is likely to meet its 5% GDP growth target for 2023, the absolute level of growth has continued to disappoint. The country's exports remained under pressure from relatively weaker foreign demand, but looser monetary policy from the People's Bank of China (PBOC) has added stimulus through lower bank rates for its medium-term lending facilities.

There was positive news with November data showing industrial production grew faster than expected at 6.6% y/y (versus 5.6%), up from 4.6% y/y in October, and retail sales growth of 10.1% also improving significantly from 7.6% the previous month. Pent-up consumer demand continues to underpin the expansion, along with consumer services, while the property sector remains in crisis and youth unemployment high.

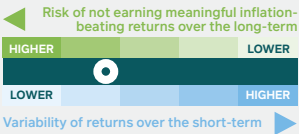
### Currency

The rand gained 2.7% against a weaker US\$ for the quarter, but for 2023 in total depreciated 8.2% against the US\$, 14.1% versus the UK pound and 12.1% against the euro as sentiment toward SA remained depressed.

### Annualised performance

	A class	Benchmark	B class
1 year	13.8%	14.4%	14.1%
3 years	1.5%	1.8%	1.8%
5 years	4.8%	4.6%	5.2%
7 years	4.5%	4.9%	-
10 years	5.4%	6.1%	-
20 years	7.7%	7.8%	-
Since inception	7.6%	7.8%	-

### Risk profile



### Fund facts

#### Investment manager of the underlying fund

M&G Investment Management Limited (UK)

#### Fund managers of the underlying fund

Jim Leaviss  
Eva Sun-Wai  
Robert Burrows

#### ASISA category

Global - Interest Beating - Variable Term

#### Benchmark

Bloomberg Global Aggregate Bond Index

#### Inception date

27 October 2000

#### Fund size

R760 493 430

## Performance

For Q4 2023, the fund returned 7.4% (net of fees) versus its benchmark, the Bloomberg Global Aggregate Bond Index, which returned 8.1%. For the 12 months ending 31 December, the fund delivered 13.8%, compared to the benchmark's 14.4%.

Our long duration positioning aided performance over the quarter given the broad rally in government bonds from the US, UK, and Europe. This was further supported by gains from emerging market sovereign bonds and corporate bonds.

## Strategy and positioning

At the start of the quarter, we took advantage of the weakness in longer-dated yields by increasing the fund's duration and adding to positions that would benefit from a steepening in the yield curve. This was achieved by adding to longer-dated developed market sovereign bonds, while trimming shorter-dated allocations.

Elsewhere, we took profits on select emerging market debt where we felt the outlook was less compelling. We took profits on some corporate names in favour of new issues, for example selling Bunzl and adding Coventry Building Society and Nationwide.

As the quarter progressed, we continued to de-risk the portfolio by selling some holdings, mostly financials. We reduced risk in EM by buying protection on the "CDX EM" credit default swap (CDS) index after a rally in risk assets.

In December, we reduced duration at the margin as government bonds rallied, by selling some euro futures and Canadian sovereign bonds. We continued to reduce positions in some financial names.

## Outlook

We believe there is an opportunity in 2024 for investors in government bonds and duration, as interest rates may be at their peak and valuations look attractive. We think the more likely scenario for next year is not a soft landing, but a slowdown followed by central banks cutting interest rates. Potential concerns for 2024 include the possibility of inflation not being defeated, a wave of government bond supply, and difficulties arising from higher rates for both companies and governments. □

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