

M&G Global Bond Fund

Global Income USD-denominated

Q1 2024

Market overview

The first quarter of 2024 (Q1) brought a continuation of the relatively bullish investor sentiment towards global equities seen in the last months of 2023, as prospects for growth in the US were buoyed by positive company earnings reports and supportive economic data that increased the likelihood of a “soft landing” for the economy. On the other hand, global bonds were weaker as inflation proved somewhat higher than expected (the price of Brent crude oil rose roughly 14%) and major central banks kept interest rates on hold, prompting pundits to move out their rate cut expectations to the second half of the year. Still, they and the US Federal Reserve are roughly aligned in their forecasts of a 25bp interest rate cut in each of Q2, Q3 and Q4, starting at the Fed’s 11-12 June FOMC meeting. For the quarter, global bonds posted a return of -2.1% (Bloomberg Global Aggregate Bond Index, in US\$).

United States

In the US, stubborn inflation (and the Fed’s unwavering fight against it) was one of the few negative factors denting investor sentiment. At 3.2% y/y, February CPI was marginally higher than its January levels, with rising energy prices making themselves felt. At the same time, the Core PCE Price Index, the Fed’s preferred inflation measure, came in at 2.8% y/y, as expected. Also in line with expectations, the Federal Reserve kept benchmark interest rates on hold at its March FOMC meeting, and is forecast to do the same in May.

United Kingdom

In the UK, the Bank of England (BoE) kept its main interest rate unchanged at 5.25% at its February meeting, saying its next move would remain data-dependent. Similar to the US, the market is pricing in the start of rate cuts from June 2024. February CPI fell sharply to 3.4% y/y from 4.0% in January, helping reinforce the prospect of rate cuts. With Q4 2023 GDP growth reported at -0.3% after -0.1% in Q3, the economy entered a technical recession, and only slight improvement is expected in 2024: the BoE forecasts flat (0%) GDP growth for 2024 as a whole.

Euro area

In the Euro area, CPI fell to 2.6% y/y in February, but was still uncomfortably above the ECB’s target of 2.0%. As expected, the ECB left rates unchanged, even as a softer outlook for inflation and economic growth bolstered expectations for cuts starting in June. Q4 2023 GDP growth in the region was reported at a mere 0.1% (q/q annualised).

Japan

It proved to be a momentous quarter for Japan -- the BOJ announced its first rate hike in 17 years, setting a new short-term rate target of 0-0.1% and ending eight years of negative interest rates. This came amid a rise in March CPI to 2.4% y/y, even as the latest GDP data showed the economy grew by only 0.4% (q/q annualised) in Q4 2023, and personal consumption marked

its third consecutive quarterly decline. The mixed data added to uncertainty around how soon the BOJ could raise rates again.

China

Chinese markets experienced a small recovery in Q1, as the Chinese authorities enacted measures to stabilise the capital market and bolster economic growth. The PBOC cut the bank reserve requirement ratio by 50bps, followed by a historic 25bp cut in the 5-year Loan Rate. These moves significantly boosted market sentiment. GDP growth for Q4 2023 came in at 5.2% y/y, surpassing the government’s 5% target level, and the new 2024 target was set at 5.0%, as expected. This is expected to be even more difficult to achieve, due to prevailing headwinds such as weak consumer demand, industry oversupply and lower consumer and business confidence. Analysts foresee further policy support in the months ahead to further support market confidence and sustainable growth.

Performance

For Q1 2024, the fund returned -3.4% (in US\$, net of fees), versus -2.1% from its benchmark, the Bloomberg Global Aggregate Bond index. For the 12 months ending 31 March, the fund delivered -1.5% compared to the benchmark’s 0.5% return (both in US\$).

The fund’s absolute performance was hurt by holdings in developed market government bonds as investors pushed back their expectations for interest rate cuts by central banks. Some positions in corporate bonds and emerging market sovereign debt, however, aided performance.

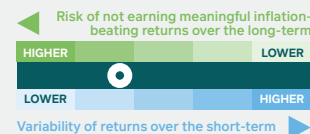
Strategy and positioning

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.

Risk profile



Fund facts

Investment manager

M&G Investment Management Limited (UK)

Fund managers

Jim Leaviss
Eva Sun-Wai
Robert Burrows

Morningstar category

Global Flexible Bond

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

9 June 2017

Fund size

USD 169.4 million

Annualised performance

	B Class	Benchmark
1 year	-1.5%	0.5%
2 years	-4.7%	-3.9%
3 years	-4.9%	-4.7%
5 years	-1.1%	-1.2%
Since inception	-0.9%	-0.6%

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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