

# M&G Global Equity Fund

Global Equity USD-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 unexpectedly 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 equity (as measured by the MSCI ACWI) delivered 11.0% in Q4, emerging market equities returned 7.9% (MSCI Emerging Markets Index) and global bonds produced 8.1% (Bloomberg Global Aggregate Bond Index, both in US\$). For 2023 as a whole, global equities returned an excellent 22.2% in US\$ and 32.3% in rand (due to rand depreciation), with gains fairly concentrated around a handful of giant global AI-related US companies. These outpaced other US shares and, indeed, most other equity markets for the year, making the US meaningfully more expensive than its global counterparts. This also reflected the relative vitality of the US economy versus most other large economies. By contrast, Chinese growth disappointed and equities were in the red.

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. For the quarter, the Dow Jones produced 11.7%, the Nasdaq 13.1%, and the S&P 500 13.8% (all in US\$). The Nasdaq was the top-performing developed equity market in 2023 with a remarkable return of 44.6%.

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. For Q4 2023, the FTSE 100 returned 14.4% in US\$, and for the 12 months it produced 14.4%.

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. In European equity markets, France’s CAC 40 returned 10.5% in Q4 and 24.4% for 2023 as a whole, while Germany’s DAX delivered 13.6% in Q4 and 24.5% for the year (all in US%).

Japan

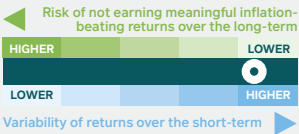
After impressive growth in the first half of the year, Japanese GDP shrank by a more-than-expected 2.9% in Q3 2023 (annualised, revised) as consumer and business spending contracted and real wages fell due to prolonged relatively high inflationary conditions. The sharp slowdown came despite the Bank 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. The Nikkei returned 11.4% (in US\$) for Q4, and 22.6% in 2023.

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. Chinese markets were still in the red in Q4, with Hong Kong’s Hang Seng returning -3.7% and the MSCI China -4.2%, both in US\$. For the year, the Hang Seng produced -10.6% and the MSCI China posted -11.0%

Risk profile



Fund facts

Investment manager

M&G Investment Management Limited (UK)

Fund managers

Gautam Samarth

Morningstar category

Global Flex-Cap Blend Equity

Benchmark

MSCI All Country World Index TR Net

Inception date

9 June 2017

Fund size

USD 406.6 million

Annualised performance

|                 | B Class | Benchmark |
|-----------------|---------|-----------|
| 1 year          | 21.9%   | 22.2%     |
| 2 years         | 1.3%    | -0.1%     |
| 3 years         | 7.8%    | 5.7%      |
| 5 years         | 11.3%   | 11.7%     |
| Since inception | 7.6%    | 8.7%      |

### Emerging markets

With the exceptions of China and Turkey, larger emerging equity markets performed very strongly over the quarter. Brazil's Bovespa soared with a return of 18.6%, followed by South Korea's KOSPI with 13.9%, the MSCI South Africa at 12.7% and the MSCI India at 12.0% (all in US\$). The MSCI Turkey fell 12.1% (both in US\$).

### Performance

For Q4 2023, the fund returned 11.7% (net of fees, in US\$) compared its benchmark, the MSCI All Country World Net USD Index, which returned 11.0%. For the 12 months ending 31 December 2023, the fund delivered 21.9% (net of fees, in US\$), compared to the benchmark's 22.2%.


A key attribute of portfolio construction within the fund's machine learning model is that active country, currency and industry exposures are constrained to ensure that style and individual stock risk are the main drivers of active returns. 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.

The portfolio outperformed on 30 out of 65 days during the quarter, offering an unfavourable hit rate of around 46 %. However, this was more than offset by positive skew (i.e. the contribution from outperforming days more than offsets the lag from underperforming days), resulting in the fund outperforming in the quarter.

The portfolio's style exposure proved to be a significant positive contributor over the quarter, with exposures to high beta, high residual volatility and low momentum all contributing to performance, while exposure to smaller cap companies detracted. Stock selection had a modest negative impact over the quarter.

### Strategy and positioning


The current consensus view is one of slowing US growth and Chinese economic malaise, which will lead to global growth dipping below 3% in 2024. In Japan, investors' eyes will remain focused on the Bank of Japan and a potential end to its so-called "yield curve control" policy and negative interest rates. Western Europe will continue to flirt with recession, with many economists seeing a mild recession in German and a flat-lining UK. In emerging markets, India, Indonesia and the Philippines are seen as better growth prospects.

Against a backdrop of slowing global growth, but a resilient employment market, we expect policy interest rates in developed economies to be on hold in the first half of 2024, with cuts in the second half. At the same time, we believe company profits will slow in line with the economy. 

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