Quarterly Commentary

M&G Global Inflation Plus Feeder Fund

Global Multi-Asset ZAR-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).

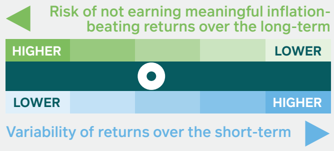
Eurozone inflation showed signs of moderation, with the Consumer Price Index (CPI) for February coming in at 2.3% y/y, slightly below

Annualised performance	A class	Benchmark[1]	B class
1 year	-0.9%	-0.4%	-0.5%
3 years	7.8%	12.3%	8.1%
5 years	5.2%	4.5%	5.5%
7 years	8.1%	9.1%	8.5%
10 years	6.4%	6.8%	6.8%
20 years	7.4%	7.5%	-
Since inception	7.4%	7.4%	-

[1] The Fund's benchmark changed from the ASISA Global - Multi Asset - Low Equity Category Mean to Global Inflation on 1 November 2018.

Sources: M&G Investments, Morningstar & Deutsche Securities

Risk profile



Fund facts

Fund objective

The Fund is priced in rands and its objective, expressed in US dollar terms, is to outperform global inflation while aiming to preserve capital over the medium term.

Investor profile

Investors seeking to preserve the real value of their capital, in US dollar terms, by investing in a diversified portfolio of global assets. The recommended investment horizon is 3 years or longer. Since units are priced in rands, investors can invest without having to expatriate rands.

Investment mandate

The Fund is a feeder fund and, other than assets in liquid form and currency contracts, invests only in one fund – the M&G Global Inflation Plus Fund, a US dollar denominated fund domiciled in Ireland. Through this underlying fund, the Fund has exposure to a diversified portfolio that may include equity and property securities, cash, bonds and commodities. The Fund may invest up to 40% in equity securities (excl. property) and up to 25% in property securities.

Investment manager of the underlying fund

M&G Investment Management Ltd (UK)

Fund managers of the underlying fund

Craig Simpson
Aaron Powell

ASISA category

Global - Multi-Asset - Low Equity

Benchmark

Global inflation

Inception date

1 March 2004

Fund size

R151 315 228

Awards

Raging Bull: 2019, 2021

M&G Investments

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 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).

Currency

The US dollar weakened against a basket of major currencies in the quarter. The rand strengthened 2.5% to the US dollar but weakened against both the euro (-1.5%) and pound sterling (0.5%), but in a very orderly manner.

Performance

The M&G Global Inflation Plus Feeder Fund produced a return of -0.4% (A class, net of fees, in rand) for the quarter, whilst global inflation (based on the OECD G7 CPI index) measured -1.6%. For the 12 months to 31 March, the fund delivered -0.9% and global inflation measured -0.4% (for the rolling year ended 15 February 2025).

Fixed income investments were the main driver of gains over the quarter. Cash and currency exposure in aggregate also supported absolute returns whilst equity and property had modest positive contribution.

Within the fund's fixed income holdings, absolute returns were driven by both core exposure and tactical positions. Fixed income markets recorded positive returns across various sectors, including US Treasuries and US investment grade corporate bonds. Local currency emerging market sovereign debt also performed well. Tactical holdings of long-dated US Treasuries and Brazilian sovereign bonds recorded gains, while positions in long-dated German bunds cost some performance.

Within global equities, our core exposure chosen by machine learning recorded a loss. However, our tactical positions made a positive contribution.

Losses on the portfolio's core equity construction strategy were mainly due to the fall in value of the US equity market in the quarter. Absolute performance was driven by our preference for non-US equities. Over the quarter, the core equity 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.

Tactical holdings in equities aided relative performance, with our positions in non-US equities, outperforming US equities, where we are underweight.

Strategy and positioning

At the start of the quarter, we added to positions in 30-year UK gilts, taking the fund's target weighting from 0.5% to 2.5%. We also began a new position in 30-year German bunds with a target weighting of 2.8%. These investments were in response to episodic price action in UK and German long-dated bonds. Developed bonds offer attractive value given the level of real yields and have exhibited diversification properties during equity weakness.

Outlook

The economic policy environment remains very chaotic, prompting volatility in markets. As ever, it is our aim to use that volatility to our investors' advantage by shifting asset allocation in response to opportunities as we see them.

We are fairly neutral on equities, but we retain our preference for non-US equities versus the US. Non-US equities still appear attractively valued despite the recent price action. However, the speed and magnitude of moves in non-US versus US equities in the quarter gives pause for thought.

We like long-dated US Treasuries as an attractively priced form of portfolio insurance. Long-dated UK gilts also look good value to us, given inflation expectations and as the Bank of England base rate remains elevated. We retain positions in a well-diversified basket of emerging market government bonds in local currency, as they appear to us to be an attractive source of medium-term returns.

Cash real yields are elevated and attractive, in our view, as well as uncorrelated to other asset classes. Higher liquidity provides flexibility to respond to tactical opportunities. □

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Application forms

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