M&G **Insights**

M&G Investments

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Global equities looking attractive for SA portfolios

Following the substantial sell-off across global equities so far this year amid prospects of a global recession, almost all the world's equity markets have fallen to cheap levels, trading below their average 10-year price/earnings (P/E) valuation measures. In November, many investors finally appeared to believe that these valuations were cheap enough to reward them for the risks involved in holding them, as developed equity markets rebounded on good buying appetite. The MCSI All Country World Index returned 7.8% in US dollars for the month. So should South African investors follow their lead? Is it a good time to buy global equities?

First, South African investors have experienced unusually elevated levels of volatility across global equity and bond markets in the past year, and this makes global assets particularly important to hold for their portfolio diversification benefits. Developed market assets are especially worthwhile amid the highly risk-averse sentiment that has dominated in 2022, with emerging market equities and currencies having sold off much more than their developed market counterparts.

Secondly, global investors appear to have reassessed both valuations and some of the risk associated with a looming global recession after companies broadly reported lower earnings expectations, giving potential buyers somewhat more certainty over what to expect during a 2023 recession. This included M&G Investments, where we opted to use some US cash holdings to selectively buy more developed market equities for our multi-asset portfolios.

The M&G Global Equity Feeder Fund's top 10 holdings include such global heavyweights as Apple, Amazon, Microsoft and Alphabet, with added diversification from Fujikura, Migros Ticaret, Sanima Corp and Shockwave Medical. However, these counters account for only around 12% of the fund's total exposure, with 2.7% in global listed property as well. The fund is managed using a combination of artificial intelligence and fund manager skill: the former is necessary to conduct in-depth analysis on the universe of over 8,800 stocks that exists to choose from, and the latter to identify data errors, determine environmental, social and governance risks and apply their deep sector expertise to the portfolio. The inclusion of multiple investment styles and factors allows for strong diversification.

It is important to note that, in our view, market conditions still merit caution. We cannot say that inflation is no longer a risk, or that growth will not slow more than expected, or that the downturn will not be prolonged. These risks remain. Diversification is important, and we prefer well-valued companies with pricing power, strong balance sheets and the proven ability and means to perform well in difficult conditions. We have been identifying such companies and adding them to our client portfolios, which make us optimistic that they will add value to client returns over time. Patience and selectiveness will be key in the coming months as the market continues to weigh the pace of the growth slowdown against interest rate policy and inflation, and factors the latest data into its views.

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