

# M&G Global Property Feeder Fund

Global Property ZAR-denominated

Q2 2023

## Market overview

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker. Meanwhile, global bonds were also weaker as the US Federal Reserve surprised with their ongoing hawkish stance by confirming the necessity of additional rate hikes. Investors continued to juggle the risk of the Fed's extra tightening bringing on a short-term recession versus the resilience of consumer spending and other economic growth factors, but June brought a healthy equity rally that helped erase weakness earlier in the quarter.

Other major economies continued their rate hiking cycles as well, with the Bank of England making headlines for its higher-than-expected 50bp increase in June, and Canada and Australia also implementing surprise hikes. Meanwhile, China and Japan maintained their easy monetary policies to support their expansions. Global equity returns outperformed bonds for a second quarter, while developed equity markets outperformed emerging equity markets. For the three months ended 30 June 2023, the MSCI All Country World Index delivered 6.2%, and the MSCI Emerging Markets Index produced 0.9% (in US\$). At the same time, global property stocks (the FTSE EPRA/NAREIT Global REIT Index) returned 0.6% (US\$).

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the markets. However, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents subsequent to the meeting surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. This "higher for longer" view, on top of more hawkish sentiment coming from most other central banks that hiked in late June, weighed on sentiment. However, this was offset by more positive news for equities in terms of meaningful declines in inflation and a sizeable upward revision in US Q1 2023 GDP growth in June to 2.0% from 1.3% previously, underpinned by resilient consumer spending. The labour market also remained strong, defying predictions. These developments helped buoy US equity markets: for the quarter, US equity returns were robust: the Dow Jones produced 4.0%, the Nasdaq 13.1%, and the S&P 500 8.7% (all in US\$).

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled a stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy eked out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction by the BOE's aggressive stance. Similar to the US, resilient

consumer demand and a tight labour market are keeping growth buoyant but also fuelling inflation. For Q2 2023, the FTSE 100 returned 2.5% in US\$.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while also raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September, before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth. In European equity markets, France's CAC 40 returned 4.0% and Germany's DAX delivered 3.8% (in US\$) in Q2.

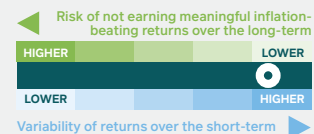
Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected. Price increases have been driven by strong consumer demand and a weaker yen. These positive developments lifted enthusiasm for Japanese stocks, which saw the Nikkei return 9.1% in US\$ for the quarter, making it one of the best-performing developed equity markets in the first half of 2023, along with the Nasdaq.

During the three months, China reported somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound clearly lost momentum in Q2, with inflation falling, new borrowing declining and retail sales growth slowing amid declining consumer confidence. Other reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y previously. The data prompted analysts to revise lower their growth forecasts for 2023 as a whole, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand continues to underpin the current (weaker) expansion, along with consumer services, while the property sector remains weak and youth unemployment high.

In a bid to spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut both short- and medium-term interest rates, and analysts now expect further cuts and stimulus measures from the central bank such as expanded infrastructure financing and easing in lending requirements (like mortgage downpayments). The slowdown and growing pessimism around growth weighed on local stock markets, with Hong Kong's Hang Seng returning -5.9% for the quarter and the MSCI China delivering -9.6%, both in US\$.

Larger emerging equity markets posted a broad range of returns over the quarter in US\$, led by Brazil's Bovespa with 21.8% and the MSCI India at 12.4%. South Korea's KOSPI was also in the black with a 2.5% performance. The MSCI Turkey recorded a -10.6% return, the MSCI South Africa -4.7% and the MSCI China -9.6% for the period (all in US\$).

## Risk profile



## Fund facts

### Investment manager of the underlying fund

M&G Investment Management Limited (UK)

### Fund managers of the underlying fund

Gautam Samarth  
Egidijus Bertulis

### ASISA category

Global - Real Estate - General

### Benchmark

FTSE EPRA NAREIT Global REIT Index (Net)

### Inception date

24 November 2021

### Fund size

R11 447 327

## Annualised performance

	A class	Benchmark	B class
1 year	8.3%	11.6%	8.7%
Since inception	-3.3%	-1.3%	-

The international oil price trended lower during the quarter, with Brent crude ending at around US\$76 per barrel from around US\$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US\$ terms since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the largest loser, down 18.7%, while nickel lost 12.7%, aluminium fell 10.3% and copper was down 8.1%. Among platinum group metals, palladium fell 16.0% and platinum lost 9.1%.

Finally, as a result of elevated risk sentiment towards South Africa on the back of intense loadshedding and worries of financial and/or trade sanctions for the country's seemingly pro-Russian stance, the rand lost 6.5% against the US\$ for the quarter, and depreciated 6.9% against the euro and 9.5% versus the UK pound. So far this year the rand has lost 11.6% versus a weakening US dollar.

### Performance

For Q2 2023, the fund returned 8.9%, compared to its benchmark, the FTSE EPRA/NAREIT Global REITs Net Index's 7.2% return. For the 12 months to 30 June, the fund delivered 8.3% compared to the 11.6% return from the benchmark.

The fund is managed by a machine learning algorithm similar to the M&G Global Equity Fund. This constrains active country, currency and industry risk at the portfolio construction phase, ensuring that style and individual asset risk are the main drivers of active returns.

Stock selection was the major contributor to performance over the quarter, while the net impact from style was muted. Within style, exposures to high beta, cheap valuation and high earnings variability all contributed to returns, while the portfolio's exposure to smaller size companies and high dividend yield detracted.

At the stock level, Civitas Social Housing was the biggest contributor to returns for the quarter with its shares rallying on the back of receiving a bid to be acquired. SBA Communications Corp. and Avalonbay Communities Inc. were the biggest detractors.

### Strategy and positioning

Recent months have been characterised by an 'uneasy calm', with the possible exceptions of AI stocks and assets in Japan. In an environment in which the prevailing economic regime is hard to assess, such conditions could well be vulnerable to a shock.

By definition, it is impossible to predict what form such a shock would take and which assets would be most affected. The fund continues to be cautiously positioned and we wait patiently to respond to any opportunities presented by volatility created by ongoing uncertainty about inflation and economic growth. □

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