Market Overview – November 2023

M&G Investments

December 2023

The strong rally across global and local assets in November represented a welcome turn-around in investor fortunes for 2023 as a whole, helping erase much of the losses of previous months. Investor sentiment turned bullish following a number of positive data releases in the US, and gathered even more strength after the US Fed signalled that, while it remained vigilant against inflation, it was at the end of its interest rate hiking cycle (depending on the data). With US CPI falling sharply and growth remaining robust, investor views converged around a "soft landing" scenario in 2024, including quicker interest rate cuts and avoiding recession. However, many pundits do still see relatively high chances of a recession next year as the lagged effects of the previous sharp interest rate hikes build up and take a bite out of consumer and business incomes. Global equity (as measured by the MSCI ACWI) delivered 9.2%, while global bonds produced 5.0% (Bloomberg Global Aggregate Bond Index, both in US$). In South Africa, the FTSE/JSE Capped SWIX Index posted an 8.3% return in rand, boosted by 10.1% from Industrials, 9.0% from Property and 8.3% from Financials, while Resources shares lagged with 5.3%. South African bonds delivered 4.7% for the month. This saw the yield on the 10-year SA government bond tumble from 10.7% at the start of the month to briefly break below 10% on 30 November, at 9.98%. Meanwhile, the rand depreciated some 3%-4% against the major global currencies, and has now lost 11.6% against the US dollar, 16.6% versus the UK pound and 13.8% against the euro so far in 2023.

At M&G, while welcoming the rebound across global financial markets, we are guarding against complacency in our outlook given such a large and sudden shift in sentiment. Current market pricing, with its sizeable downward shift in yields and interest rate expectations, is likely to be overoptimistic, and we must be skeptical and tactical in our approach when managing client portfolios. For one thing, although core inflation rates have fallen, they remain elevated in many countries compared to central bank targets and could still prove to be sticky – so the inflation threat has not been resolved. Equally, the impact of the sharp monetary tightening is still being digested by economies, and if history is any guide, it would be surprising not to see things break under the pressure at some point.

Thus our caution in managing our clients' funds in November, where in the M&G Balanced and Inflation Plus Funds, as well as in the M&G Global Funds range, we reduced our duration (interest rate risk) in global bonds into the rally. Importantly, our funds were well-positioned to take advantage of the market gains across asset classes: the M&G Balanced Fund delivered an 8.0% return (net of fees) versus 6.5% from its benchmark (the average fund return in its ASISA category), giving it a ranking of 19 out of 223 peer funds. The Inflation Plus Fund's performance was similar: its 6.7% return (net of fees) beat the 4.6% of its benchmark (CPI +5% over rolling three-year periods), ranking #3 out of the 155 funds in its category.

Looking ahead, we are confident that investors can benefit from further gains should economic data remain supportive and market sentiment positive, and barring unforeseen mishaps locally. Our funds remain positioned to take advantage of the excessive pessimism towards South Africa – current depressed valuations in both SA equities and SA bonds should deliver very attractive returns as the cycle turns, but it does require investor patience for these returns to be realised.

Read more on our global outlook for 2024 here.

For investors, while markets will remain uncertain going forward, it's important to remember that we build all our client portfolios to perform well in most scenarios that might unfold, rather than trying to predict the future. We carefully consider both the risks and potential returns associated with each holding, such that their combination can deliver the performance clients expect over time.

Disclaimer.