M&G Global Balanced Fund

Global Multi-Asset USD-denominated

Q3 2024

Market overview

The third quarter of 2024 (Q3) witnessed notable fluctuations in global financial markets, driven by diverse economic signals, a shift among major central banks toward easing monetary policies and geopolitical tension. In mid-September, the US Federal Reserve (Fed) implemented a sizable interest rate cut of 50 basis points, lowering the target range to 4.75%-5.00%. This shift propelled global equity markets to new heights, while weakening the US dollar to major currencies.

In the US, Treasuries rallied leading up to the Fed's decision, while rate cuts pressured the U.S. dollar and led to a rally in US equities. This environment contributed to a rally in global bond markets, particularly reflected in the Bloomberg Global Aggregate Bond Index delivering 7.0% (US$) for the quarter.

Equity markets continued to perform well in the third quarter. Global equities (as measured by the MSCI All Country World Index) recorded a total return of 6.6% in Q3 compared to 2.9% in Q2, while emerging market equities (MSCI Emerging Markets Index) rallied another 8.7% in Q3 from 5.0% in Q2 (all in US$).

Emerging market equity returns were led by strong performances from China, South Africa and India. South Africa and India are still benefiting from a market-friendly election outcome while China saw a rebound amid the stimulus measures announced to aid its economy.

United States

In the US, investor sentiment toward equities cooled slightly in anticipation of the Federal Reserve's rate decision. While the much-anticipated rate cut was no surprise, the Fed did, however, surprise markets by cutting rates by a sizable 50 basis points in September, marking the start of its first easing campaign in four years. This significant cut reflected signs of moderating inflation and a weakening labour market. The focus has shifted towards the quantum of future rate cuts before the market will get too worried about a possible US recession. Comments from Fed chair Powell also helped ease any market concerns as it suggested future rate cuts should be more muted depending on economic data and inflation reporting.

August's CPI came in at 2.5% y/y, aligned with expectations and down from 2.9% in July, while the core PCE price index, the Fed's preferred inflation measure, rose to 2.7%y/y. Q2 GDP exceeded expectations at 3% (q/q annualised), largely driven by consumer spending, while the downwardly revised Q1 GDP stood at 1.3%. The Fed maintained its growth forecast for 2024 at 2.1%. During the quarter, the Dow Jones gained 8.7%, the Nasdaq increased by 2.8%, and the S&P 500 rose by 5.9% (all in US$).

United Kingdom

In the UK, the Bank of England (BOE) kept its main interest rate steady at 5 % during its September meeting, following a reduction from 5.25% to 5% in August. UK CPI held steady at 2.2% y/y in August, aligning with expectations as the BOE aims to return inflation to its 2% target.

UK GDP grew by 0.7% in Q2 2024, slightly below expectations, following 0.3%y/y growth in Q1, with underlying growth showing weakness in the first half of the year. In the UK National Election on 4 July, the Labour Party achieved a decisive victory, unseating the Conservatives after 14 years. Pre-election uncertainty caused some volatility, but the outcome was anticipated in the local financial markets. In Q3 2024, the FTSE 100 Index returned 8% (in US$).

Euro area

In the Euro area, the European Central Bank (ECB) lowered its main refinancing rate to 3.65% during its September meeting, as anticipated. August CPI was reported at 2.2% y/y, down from 2.6% in July and, aligning with the consensus, with the preliminary September number printing at 1.8%, below the ECB's 2.0% target.

Q2 2024 GDP growth surpassed expectations at 0.6% y/y but was revised down to 0.2% q/q, compared to 0.3% in Q1. France's CAC 40 rebounded with a 6.5% return in Q3 after a 7.3% decline in Q2, while Germany's DAX delivered a strong 10.4% return for Q3 (both in USD).

Japan

The Bank of Japan (BOJ) unexpectedly raised rates by 15 basis points from 0-0.1% to 0.25% on the last day of July, the highest level since 2008, and signaling a more hawkish stance than anticipated. This decision led to significant volatility in local equities and high-carry currencies, with the Nikkei 225 Index experiencing a sharp decline in early August but recovering by month-end. After a strong return of 13.2% in Q1, the Nikkei retraced some gains in Q2 with a -7.6% return, followed by a 8.5% USD gain in Q3.

Japan's August core CPI rose to 2.8% y/y, aligning with forecasts and accelerating for the fourth consecutive month. In a widely anticipated move, the BOJ maintained its benchmark interest rate at 0.25% at its September meeting, in its efforts to normalise monetary policy. The BOJ's decision came as it seeks to transition away from a long-standing ultra-easy monetary stance while safeguarding the economy. Japan's economy grew at an annualised rate of 2.9% in the second quarter, surpassing the projected 2.1%.

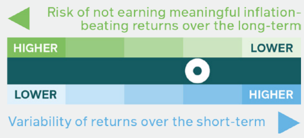
China

China's economy is showing signs of a modest recovery, but a slow start to the second half of the year is increasing pressure on the world's second-largest economy to implement additional stimulus policies. This came amid ongoing challenges, including a prolonged housing downturn, persistent deflation, rising debt issues, and escalating trade tensions.

The People's Bank of China (PBOC) announced broad policy easing measures to shore up a flailing economy. The central bank cut the rate on one-year medium-term lending facility (MLF) loans to some financial institutions to 2% from 2.3%. Additionally, the reserve requirement rate was reduced from 10% to 9.5%. Some questions around the Chinese economy remains, such as the

Annualised performance	B Class	Benchmark
1 year	20.7%	25.1%
2 years	16.9%	19.5%
3 years	4.0%	4.8%
5 years	6.8%	8.0%
7 years	5.5%	7.2%

Risk profile



Fund facts

Fund objective
The Fund's objective is to provide investors with capital growth over the long-term by investing in a diversified portfolio of global assets.

Investor profile
Investors seeking long-term capital growth from a diversified portfolio of global assets. The recommended investment horizon is 5 years or longer.

Investment mandate
The Fund aims to achieve its objective by investing across a diversified portfolio of global assets. This includes exposure to equity securities (including property), cash, bonds, currencies and commodities. The Fund may invest up to 75% in equity securities (excluding property) and up to 25% in property securities. The Fund may invest in other collective investment schemes and in financial derivative instruments.

Investment manager
M&G Investment Management Limited (UK)

Fund managers
Craig Simpson
Aaron Powell

Morningstar category
Aggressive Allocation

Benchmark
65% MSCI All Country World Index TR (Net), 5% FTSE EPRA/NAREIT Global REIT Index, 25% Bloomberg Global Aggregate Bond Index, 5% US 1m Treasury Bill

Inception date
19 June 2017

Fund size
USD 137.8 million

Currency
US Dollar

Share type
Accumulation

Domicile
Ireland

Sources: M&G Investments, Morningstar & Deutsche Securities health of their property market and the impact these changes will have on the recovery in that sector, but the market clearly thinks the initial actions were positive.

China's August CPI increased to 0.6% y/y from 0.5% in July but came in lower than the forecasted 0.7%. The uptick was mainly due to higher food costs from weather disruptions, rather than a recovery in domestic demand as producer price deflation worsened. After years of stagnation, Chinese stocks surged in September, marking a significant turnaround from earlier in the quarter. The rally was driven by the government's aggressive stimulus plan, which included rate cuts and support for the struggling real estate sector. Hong Kong's Hang Seng Index returned 22.3% and the MSCI China Index rose 23.6% in Q3 2024 (both in US$).

Emerging markets

The MSCI Emerging Markets Index achieved a robust 8.9% return, primarily fuelled by gains in China and South Africa. The MSCI China Index ended the quarter as one of the top performers, surging 23.6%, while South Africa and India benefitted from positive sentiment following their market-friendly national elections, returning 16.3% and 7.4%, respectively (both in USD). Conversely, the MSCI Turkey Index fell from its position as the previous quarter's top-performer, ending the period down 12.5%. Brazil's Bovespa gained 8.5%, while South Korea's KOSPI declined by 2.2% (all in US$).

Performance

The M&G Global Balanced Fund produced a return of 6.5% (B class, net of fees in US$) for the quarter, versus the 6.9% recorded by its benchmark. For the 12 months to 30 September, the fund delivered 20.7% compared to the benchmark's 25.1% return.

The fund's allocation to global equities was the main driver of returns, with support from fixed income and property.

Within global equities, our core exposure chosen by machine learning and our tactical positions contributed to returns. The portfolio outperformed on 26 out of 66 trading days during the quarter, offering an unfavourable hit rate of around 39%. The poor hit rate was offset by a favourable skew, as average outperformance was larger than average underperformance over the period.

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

The portfolio's style exposure provided a modest tailwind over the quarter, with exposure to high beta and smaller size factors, more than compensating for a modest drag from the portfolio's high residual volatility exposure.

In terms of tactical (non-core) positions, holdings in Asia ex Japan (particularly China/Hong Kong/Indonesia/South Korea) were beneficial. However, holdings in Japan and a short position in the S&P 500 Index (which is part of a relative value trade) cost some performance.

Looking at the fund's fixed income holdings, its core exposure was the main driver of returns supported by tactical positions. Absolute performance in the third quarter, was driven by the strong returns from global bonds, particularly long-dated US Treasuries. Eurozone sovereign bonds, UK gilts, emerging market sovereign bonds and corporate bonds also aided returns. In terms of our tactical positions, the main contributor to returns were US Treasuries and emerging market sovereign bonds.

Within property, absolute performance was driven by the strong returns from real estate investment trusts, which reflected investor optimism regarding the future path of interest rates. The portfolio outperformed on 32 out of 66 trading days during the quarter, offering a hit rate of around 48%. There was very little difference in magnitude of outperforming versus underperforming days, as skew was relatively flat over the quarter. The fund is managed by constraining active country, currency and industry risk at the portfolio construction phase. This ensures that style and idiosyncratic stock risk are the main drivers of active returns. The portfolio's style exposure was a significant headwind over the quarter. Within style, exposure to high growth stocks proved to be the greatest detractor to performance.

Strategy and positioning

At the beginning of August, in response to weakness in the Korean stock market, we began a new equity position in MSCI Korea ETF.

Towards the end of the quarter, we rebalanced the tactical equity positions in the fund, by increasing exposure to Latin America, Italy and the World ex US. At the same time, we reduced exposure to equity holdings in European, Asia ex Japan and Indonesia.

As a result of activity in the quarter the fund has a small net equity active position of -1.95%.

Outlook

Looking forward, it seems there will be plenty to occupy investors in the final quarter of the year. With no US Federal Reserve meeting in October, investors will no doubt be carefully digesting upcoming employment and inflation data, as well as any remarks from policymakers, for clues on the future path of interest rates.

The US third-quarter earnings season will need to be sufficiently upbeat to support the recent strength in US equities. Finally, with no clear favourite between the two candidates in the upcoming US presidential election, we are reminded about how surprising market reactions can be to election outcomes. We remain alert and ready to respond to future bouts of volatility.

Overall, equity valuations look demanding in aggregate, although not detached from recent robust earnings and fundamentals. We favour equity exposure outside the US. Within fixed income, developed market bonds offer attractive real yields and have potential diversification qualities if growth disappoints, whilst emerging market sovereign bonds present attractive real and nominal yields. Credit spreads, like equity valuations, reflect a comfort with the corporate backdrop, so we are cautious in aggregate, and are focused on selected industries and geographies. Cash real yields are elevated and attractive, as well as uncorrelated with other asset classes. Liquidity provides flexibility to respond to tactical opportunities.

M&G Investments

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Invest now

Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities