

M&G Global Bond Fund

Global Income USD-denominated

Q4 2024

Market overview

In the fourth quarter, global markets and sentiment were shaped by political shifts and central bank actions.

November was dominated by the US election, starting with the lead up to the election date and results announcement to the subsequent nominations for key office position appointments. The Trump victory led to a further increase in the US dollar accompanied by a strong rally in US equity markets.

Central banks globally continued to adjust their policies well into the latter part of December. Several rate cuts were announced in December, including the US Federal Reserve (Fed), European Central Bank (ECB), Canada, Switzerland, Mexico, and Turkey. The Bank of England (BOE) and Bank of Japan (BOJ) held rates steady. The Fed's rate cut, accompanied by a hawkish tone, suggested that it could be the last cut for a while, and the market reacted by selling off as expected. Meanwhile, China's stimulus package announcement in September resulted in volatility in equity markets continuing into the quarter.

Global bonds were one of the weakest asset classes, with the Bloomberg Global Aggregate Index showing a 5.1% decline for the quarter and a 1.7% decline for the year. This was unexpected, considering the start of a rate-cutting cycle. However, market expectations for a shallow cutting cycle, coupled with concerns over persistent US inflation above the 2% target, dampened bond market performance. Volatility in the bond market was driven by rising inflation expectations and central bank actions, leading to selloffs in key government bond markets, particularly US Treasuries and UK Gilts.

United States

Political developments played a significant role in shaping market sentiment during the fourth quarter. US equities rose in the quarter, driven by President Trump's election victory and Republican control of Congress, which fuelled optimism around expectations of tax cuts, deregulation, and pro-growth policies.

Meanwhile, US inflation rose to 2.7% y/y in November, slightly up from 2.6% y/y in October, in line with expectations. This didn't sway the Federal Reserve's decision to cut interest rates by 25 basis points in both November and December, bringing the target range to 4.25%-4.5%. US third quarter growth reached 3.1%, driven by strong consumer spending, and slightly better than the second quarter's 3.0% growth.

Bonds faced a challenging quarter. Bond yields rose and the fed fund futures curve moving higher following the market expectations for fewer rate cuts in 2025 (due to persistent inflation) led to a sell-off in US Treasuries in December.

Eurozone

Eurozone faced another challenging quarter. Equities declined due to recession fears and political instability in France and Germany. Slightly improved third quarter growth of 0.4% q/q from 0.3% q/q in the second quarter was better than the 0.2% expected. Inflation rose by 2.2% y/y in November, driven by higher commodity prices, from 2.0% in October and slightly below the 2.3% forecast. Despite the slight uptick in inflation, the European Central Bank (ECB) unanimously decided to reduce interest rates by another 25 basis points in December, lowering its deposit rate to 3%. The ECB also signalled further cuts for 2025.

United Kingdom

Inflation in the UK rose by 2.6% y/y in November, in line with forecasts but up from 2.3% in October. As a result, the Bank of England kept interest rates unchanged at 4.75% in December, as expected. Economic growth in the UK disappointed, with quarterly growth at 0% q/q, down from 0.5% in the previous quarter, and falling below the anticipated 0.2%, revised downward from initial estimates. In this environment, UK equities declined, affected by rising bond yields, inflation expectations, and concerns over government fiscal policies following the Autumn Budget.

China

Deflationary pressure continues in China, with the CPI slowing to 0.2% y/y in November, down from 0.3% in October. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, maintaining the one-year loan prime rate at 3.1% and the five-year rate at 3.6%. China's third quarter GDP growth slowed to 4.6% from 4.7% in the second quarter, resulting in a 4.8% growth rate for the first three quarters of the year. In recent months, China has introduced several measures to stabilise its economy, including shifting to a looser monetary policy in December, providing tax incentives for the property market, and unveiling a 10 trillion yuan debt package. Markets were spurred early November following a stimulus package unveiled late in September to support the economy and ailing property market but retraced some of those gains by quarter end.

Japan

Japan's core consumer price inflation rose to 2.7% y/y in November, up from 2.3% in October, in line with expectations and remaining above the Bank of Japan's 2% target. The Bank of Japan kept its benchmark interest rate steady at 0.25% in December. Japan's third quarter GDP was revised upward to a 1.2% annualised growth rate, compared to the initial estimate of 0.9%, though it was lower than the 2.2% annualised growth in the third quarter.

Risk profile



Fund facts

Fund objective

The Fund's objective is to generate investment returns through exposure to global bonds and interest-bearing instruments over the medium term.

Investor profile

Investors seeking returns from a diversified portfolio of global debt and fixed income securities. The recommended investment horizon is 2 years (or longer when used as strategic exposure to the asset class).

Investment mandate

The Fund aims to achieve its investment objective by investing in a diversified portfolio of global debt and fixed income 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

Eva Sun-Wai
Robert Burrows

Morningstar category

Global Flexible Bond

Benchmark

Bloomberg Global Aggregate Bond Index

Inception date

9 June 2017

Fund size

USD 182.5 million

Currency

US Dollar

Share type

Accumulation

Domicile

Ireland

Annualised performance

	B Class	Benchmark
1 year	-5.4%	-1.7%
2 years	-0.3%	1.9%
3 years	-5.5%	-4.5%
5 years	-2.7%	-2.0%
7 years	-1.3%	-0.6%
Since inception	-1.1%	-0.4%

Performance

The Global Bond Fund returned -6.7% (B class, net of fees, in US\$), versus -5.1% from its benchmark, the Bloomberg Global Aggregate Bond Index. For the 12 months ending 31 December, the fund delivered -5.4% compared to the benchmark's -1.7% return (both in US\$).

Absolute performance in the quarter was driven by losses on global bonds, as yields rose.

Relative performance was hurt by the fund's underweight position in credit, which includes an outright short in high yield and positioning in currencies, principally due to the overweight in Japanese yen.

Strategy and positioning

In October, the fund's overweight duration position was adjusted to neutral in anticipation of the US election at the beginning of November. Exposure to 2-year Treasury Inflation-Protected Securities (TIPS) was increased ahead of the election, which subsequently performed well due to the election results and the potential for inflationary policies such as tariffs.

In November, we reduced the fund's non-core euro risk in favour of German bunds, based on a bearish outlook for Europe. We also extended the fund's Japanese duration by selling bonds maturing in 2056 and purchasing those maturing in 2060.

The fund ended the year with a neutral duration overall, and a number of relative value trades across different jurisdictions. In the developed market space, the fund is long UK and Australia duration, where yield levels remain at compelling levels, and short Japan, where we believe there is scope for the Bank of Japan to continue to tighten policy through time.

With spread levels historically tight, the fund retains a cautious approach to credit risk. The fund is underweight investment-grade and has an outright short in high yield. Whilst the catalyst for wider spreads is neither obvious nor necessarily imminent, from a value perspective it is difficult to make a case for even a neutral exposure given current valuation.

In emerging markets, from a duration perspective the fund is underweight China and overweight in select LATAM markets as well as Indonesia, which comes out as broadly neutral on balance. The fund's largest, active, single currency pair across developed markets is the yen vs the euro, which we believe should strengthen over time with economic weakness in Europe contributing to the respective sovereign yield curves converging. In emerging markets, the leading overweight is the Brazilian real, followed by Indonesia rupiah, with the structural short in the Chinese renminbi.

Outlook

As we look ahead to 2025, there are many uncertainties. While markets are currently pricing in a very optimistic outlook for growth, with risk assets at all-time highs and a soft landing widely anticipated, there are risks that this scenario may not materialise. The upcoming inauguration of Trump and other geopolitical tensions only add to the uncertainty.

However, with uncertainty and volatility come opportunity. We believe that the best way to capitalise on this is via a broad and flexible investment strategy. Our approach allows us to invest across nearly the entire fixed income spectrum, including currencies. Our flexibility enables us to dynamically allocate assets across this broad opportunity set, utilising both bonds and derivatives, and taking both long and short positions to benefit from perceived market mis-pricings.

In terms of currency exposures, the fund's largest, active, single currency exposure is in the yen. In emerging market FX, the main long positions are in the Indonesian rupiah and select currencies across Latin America. □

Contact us

- ✉ info@mandg.co.za
- 🌐 mandg.co.za
- 📞 0860 105 775

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