Quarterly Commentary

M&G Global Property Fund

Global Property USD-denominated

Q2 2024

Market overview

The second quarter of 2024 (Q2) saw a moderation in the bullish investor sentiment towards global equities during the previous two quarters, as stubbornly persistent inflation in the US prevented the US Federal Reserve (Fed) from starting to lower interest rates, despite an expectedly high number of companies reporting strong fundamentals in their results across a variety of sectors. Election uncertainties also weighed on market sentiment in France and the UK, but positive results in South Africa and India encouraged equity rallies. Other central banks like the European Central Bank did enact cuts, however, helping both developed and emerging market equities record moderately positive returns. Meanwhile, global bonds were weaker as US investors moved out their rate cut expectations significantly: the majority now forecast either 25bps or 50bps of reductions starting in September at the earliest.

Global equity (as measured by the MSCI ACWI) recorded a total return of 2.9% in Q2 compared to 8.2% in Q1, while developed market equities produced 2.6% and emerging market equities returned 5.0% (MSCI Emerging Markets Index – all in US$). Global bonds posted -1.1% (Bloomberg Global Aggregate Bond Index, in US$).

United States

In the US, positive investor sentiment toward equities cooled slightly as the US Federal Reserve (Fed) continued to keep interest rates on hold for the quarter amid stubbornly high services inflation. At its 12 June meeting it raised its inflation forecast slightly and the "dot plot" guidance indicated its members' interest rate expectations now comprised only one 25bp rate cut this year, although several members did foresee two 25bp cuts. This important adjustment indicated rates would end 2024 at 5.1% compared to 4.6% in their March guidance.

This came as May CPI was recorded at 3.3% y/y, softer than the 3.4% expected, as goods inflation and certain other CPI components were broadly lower. Core PCE, the Fed's preferred inflation measure, was 2.6% y/y, as expected, down from 2.8% in April and the lowest since March 2021. At the same time, US GDP for Q1 2024 was revised down to 1.3% from 1.6% previously, a disappointing result as manufacturing activity, business investment and demand, and consumer demand are constrained by high borrowing costs. As for 2024 growth, the Fed kept its forecast at 2.1% for the year. For the quarter, the Dow Jones produced -1.3%, the Nasdaq 8.5%, and the S&P 500 4.3% (all in US$).

United Kingdom

In the UK, the Bank of England (BoE) again kept its main interest rate unchanged at 5.25% at its May and June meetings, even as May CPI fell to 2.0% y/y from 2.3% in April. The chances for a cut in interest rates improved, with the market pricing in a 25bp rate cut in August and more expected. The economy emerged from a technical recession: Q1 2024 GDP growth was reported at 0.6% y/y. Meanwhile, with the latest data indicating improving economic conditions, Conservative Prime Minister Rishi Sunak called a National Election for 4 July, much sooner than expected. However, polls show Labour leading by a substantial 20% margin, and expectations are for the Conservatives to lose power, injecting higher levels of uncertainty into the local financial market. In Q2 2024, the FTSE 100 returned 3.8% in US$, but lost 1.8% in June.

Euro area

In the Euro area, the European Central Bank (ECB) lowered its benchmark interest rate by 25bps at its June meeting to 3.75%, as had been expected. May CPI came in at 2.6% y/y, just above the 2.5% consensus and still higher than the ECB's target of 2.0%. However, inflation is projected to soften further despite stubborn services inflation. Meanwhile, GDP growth improved to 0.3% y/y in Q1 2024 versus a downwardly revised -0.1% y/y the previous quarter. The French equity market sold off in June after President Emmanuel Macron announced a snap parliamentary election for 30 June/7 July following his centrist coalition's resounding defeat in the European parliamentary elections by the far-right National Rally party headed by Marine le Pen. The first round of the French parliamentary elections showed both the far-right and far-left parties defeating Macron's centrists, and the election will be completed on 7 July. France's CAC 40 returned -7.3% in Q2 after losing 7.4% in June, while Germany's DAX delivered -2.1% for Q2 (both in US$).

Japan

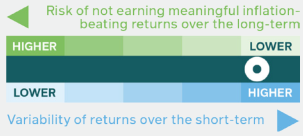
After having hiked interest rates for the first time in 17 years in March, the Bank of Japan sounded a cautious note at its subsequent policy meetings, saying in June that it would be considered around further hikes given the fragile state of Japanese consumer demand. This came amid downward revisions to GDP growth for both Q1 2024 and Q4 2023: the former was lowered to -2.8% y/y from -1.9% y/y, and the latter to 0.1% y/y from 0.3% previously. May CPI came in slightly lower than expected at 2.5% y/y versus 2.6% y/y. With global economic growth slowing, Japan's export-reliant economy is facing more headwinds. After a strong 13.2% return in Q1, the Nikkei retraced some of its gains in Q2 with a return of -7.6%.

China

In Q2, China's Q1 GDP growth surprised significantly to the upside at 5.3% y/y versus the 4.6% expected. However, the latest fundamental data showed renewed weakness as new bank lending was softer than expected in the wake of the PBOC's key interest rate cuts in Q1, exacerbated by ongoing soft consumer demand, and lower consumer and business confidence, among other headwinds. Declines in new home prices accelerated despite the government's ongoing efforts to reduce oversupply in the property sector and provide support for overleveraged property companies. May CPI was recorded at only 0.3% and calls for more interest rate cuts grew. However, the PBOC refrained from enacting any further cuts during the quarter, constrained by the weakness of the yuan. Chinese equities rebounded in the quarter after the PBOC's Q1 rate cuts, with Hong Kong's Hang Seng returning 9.2% and

Annualised performance	B Class	Benchmark
1 year	5.3%	3.8%
2 years	1.0%	0.2%
3 years	-3.3%	-3.7%
Since inception	-3.3%	-3.7%

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 property securities.

Investor profile

Investors seeking long-term capital growth from a diversified portfolio of global property securities. The recommended investment horizon is 7 years or longer.

Investment mandate

The Fund aims to achieve its investment objective by investing across a diversified portfolio of global property securities. Quantitative analysis of individual companies, proprietary data analysis and machine learning are used to identify securities for potential inclusion by the fund managers. This includes real estate investment trusts and equity securities of companies engaged in real estate activities. The Fund may invest in other collective investment schemes, financial derivative instruments and debt securities.

Investment manager

M&G Investment Management Limited (UK)

Fund managers

Gautam Samarth
Michael Cook

Morningstar category

Property - Indirect Global

Benchmark

FTSE EPRA/NAREIT Global Property Index REIT Net

Inception date

8 June 2021

Fund size

USD 8.9 million

Currency

US Dollar

Share type

Accumulation

Domicile

Ireland

Sources: M&G Investments, Morningstar & Deutsche Securities the MSCI China delivering 7.2%, both in US$.

Emerging markets

The MSCI Turkey was among the strongest performers for the quarter with a robust return of 21.6%, while South Africa and India enjoyed improved sentiment from their successful national elections, delivering 12.5% and 10.4%, respectively (both in US$). The rebound in China boosted the MSCI China and offered investors a 7.2% return. Weakest with a return of -12.8% was Brazil's Bovespa, while South Korea's KOSPI was largely flat at -0.1% (all in US$).

Performance

The M&G Global Property Fund produced a return of -2.2% (B class, net of fees in US$) for the quarter, versus the -1.7% recorded by its benchmark. For the 12 months to 30 June, the fund delivered 5.3% compared to the benchmark's 3.8% return.

Absolute performance was driven by the weakness in real estate investment trusts in the quarter.
The portfolio outperformed on 34 out of 65 trading days during the quarter, offering a positive hit rate of around 52%. This was offset by a modestly negative skew, resulting in the fund underperforming 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 proved to be a positive contributor over the quarter, partly reversing some of the style headwinds from Q1. Within style, exposure to mid-cap and cheap valuation stocks contributed to performance, but this was partly offset by active exposures to high earnings yield and high dividend yield. Stock selection had a negative impact over the quarter.

Outlook

Many major equity and credit markets offer limited compensation for growth disappointment. Investors will be watching closely for any signs, that what has so far been benign disinflation in many economies, remains so, and does not become a challenge to economic growth.

Any pockets of asset price weakness, such as those in France and Mexico in June, have thus far been contained. It remains to be seen whether this reflects a genuinely more supportive set of underlying conditions, or an optimism engendered by the recent experience of strong returns.

Overall equity valuations look demanding in aggregate (most notably in the US), although not detached from recent robust earnings/fundamentals. □

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Application forms

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Sources: M&G Investments, Morningstar & Deutsche Securities