

# M&G Balanced Fund

Multi-asset

Q1 2023

## Market overview

So far in 2023, global financial markets have experienced wild swings – particularly in the normally less volatile fixed income markets – dictated by the guessing game over the path of US interest rates, inflation and growth. January’s sentiment was relatively bullish, dominated by expectations of a weaker US economy going into 2023, which would have increased the likelihood of softer inflation, lower-than-expected interest rates and a relatively imminent pause to the US Federal Reserve’s rate hiking cycle. This was all up-ended in February by surprisingly strong economic data, including more widely embedded inflation than previously thought. With the Fed signalling its intention to continue hiking, this sent market uncertainty higher and global asset prices lower, an environment that continued well into March.

Then the emergence of banking sector turmoil sparked by the sudden failure of specialist Silicon Valley Bank and the engineered buyout of Swiss banking giant Credit Suisse by UBS shocked markets even further, with swift central bank and government interventions preventing contagion to other sectors. Gold benefited and risk-off sentiment prevailed as global financial stocks sold off. Central banks suddenly had an even tougher policy balancing act, having to choose between their duties of fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led back to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

In fact, the US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats. Looking back, investment managers have rarely seen such sharp changes in market views in such a short period of time. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from around 4.0% to 3.5% between February and March – an exceptionally big move in that market.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion still made itself apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging equity markets. For the three months ended 31 March 2023, the MSCI All Country World Index returned 7.3%, the MSCI World Index (developed markets) delivered 7.7%, and the MSCI Emerging Markets Index produced 4.0% (all in US\$). Bonds also posted meaningful gains: the Bloomberg Global Aggregate Bond Index delivered 3.0% (in US\$). Global property stocks continued to generate among the weakest returns, with the FTSE EPRA/NAREIT Global REIT Index returning 1.4% (US\$).

## South Africa

In South Africa, the SARB surprised with a larger-than-expected 50bp interest rate hike on 30 March, citing strong inflationary pressures from food, administered prices and a depreciating rand. February CPI came in at 7.0% % y/y, aided by substantial increases in food, transport and medical services prices. Many had thought the Bank would follow the US and UK with a 25bp rise, especially given very weak local economic growth: Stats SA reported that Q4 2022 GDP contracted by 1.3%, more than expected, due to intensifying load-shedding. At the same time, National Treasury revised downward its projection for annual real GDP growth, now expected to average 1.4% from 2023 to 2025, versus 1.6% previously.

The 50bp rate increase did help to reinforce the SARB’s global credibility, while the rand reacted by strengthening below the key R18/1USD level, at least temporarily. The SA forward rate market is now pricing in a further 50bps in interest rate hikes from the SARB this year before the central bank pauses and then starts cutting rates again. Meanwhile, S&P Global downgraded the sovereign credit rating outlook to stable from positive, citing load-shedding and the fragile economy as the primary drivers.

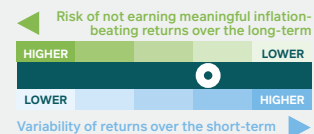
Also during the quarter, investors welcomed the 2023 National Budget’s improved fiscal trajectory and the government’s plans for Eskom debt relief, as markets reacted marginally favourably. Eskom remained in the spotlight for much of the period as its departing CEO reported high levels of corruption within the utility, prompting more intensive investigations from journalists and the government.

Meanwhile, South Africa was grey-listed by financial watchdog FATF, so that more scrutiny of the country’s international transactions is necessary to root out money laundering and financing of terrorism. Higher costs and administrative hurdles will likely result, experts said, and banking shares fell 2% in reaction to the announcement. Bonds and the rand were little moved, however.

The SA equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter, and impacted by the global sell-off in Financials, but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4% (both in rands). Industrial counters returned 13.6%, while Financials produced 0.4%, Resources -4.4% (Resources 10 Index) and the All Property Index -4.8% (all in rands).

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4% in rands, while inflation-linked bonds (ILBs) produced 0.9% and cash returned 1.7%. Finally, despite some late-March gains on the back of the SARB’s larger-than-expected

## Risk profile



## Fund facts

### Fund managers

David Knee  
Michael Moyle  
Sandile Malinga  
Leonard Krüger

### ASISA category

South African - Multi-Asset - High Equity

### Benchmark

ASISA South African - Multi-Asset - High Equity Category Average

### Inception date

2 August 1999

### Fund size

R22 775 423 170

Annualised performance	A class	Benchmark	T class	X class	B class
1 year	7.1%	5.0%	7.4%	7.1%	7.6%
3 years	18.9%	15.1%	19.2%	19.0%	19.5%
5 years	8.2%	7.6%	8.6%	8.4%	8.8%
7 years	7.3%	6.2%	7.7%	7.5%	8.0%
10 years	9.1%	7.5%	-	9.3%	9.8%
20 years	13.3%	11.6%	-	-	14.2%
Since inception	12.8%	11.1%	-	-	-

rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US\$, 7.3% against UK sterling and 6.5% versus the euro over the quarter.

### Performance

The fund returned 4.1% (after fees) for the first quarter of 2023, while for the 12-month period ending 31 March 2023 its return was 7.1%. The Fund has delivered a return of 12.8% per annum since its inception in 1999 (after fees), compared to its benchmark of 11.1% per annum over the same period.

Looking at the fund's asset allocation, global equities added the most value to absolute performance for the quarter, while SA equities and bonds also added good value, as did global bonds to a lesser extent. SA listed property was the only (very small) asset class detractor from absolute returns for Q1.

Within SA equities, the fund's Industrials exposure was a positive contributor to absolute returns during the quarter, given that sector's strong performance. Holdings like Naspers, Prosus, Richemont, AB InBev and other stocks with global earnings added value. Detractors from absolute performance stemmed largely from our Resources holdings (Northam Platinum, Glencore, Exxaro and Sasol, for example) and certain bank shares to a lesser extent.

### Strategy and positioning

Starting with our view on offshore vs local asset allocation, during the quarter we slightly increased our global exposure at the expense of our local cash exposure as a risk mitigation measure.

Within our **global holdings**, we remained largely neutral in global equities and global bonds, preferring to hold global cash for liquidity purposes, to take advantage of any mis-pricing opportunities that might arise. Despite the volatility over the quarter, corporate earnings were mixed and reasonably resilient, beating expectations in developed markets. With GDP forecasts being revised upwards, equity prices rallied, but in our view it is still too soon to be taking large directional bets, since no one knows the extent and depth of any global downturn that might occur.

While **global equities** are still trading at relatively attractive levels, they became more expensive over the quarter: the MSCI ACWI forward P/E rose to 15.4X from 14.7X previously. Because there are still unresolved questions around risks to earnings going forward, we remain selective. We are still leaning away from US equities due to their relatively expensive valuations versus other markets. We prefer Japan, the UK, China and, to a lesser extent, other markets that are relatively cheap.

Within global bonds, we stayed broadly neutral in the fund and maintained our exposure to 30-year US Treasuries, as well as sovereign EM bond markets where the real yields are high and the currency is trading at fair-to-cheap levels. Real global bond yields are now relatively attractive and offer compensation for the risk involved – that of higher-than-expected interest rate hikes. US Treasuries are also solid diversifiers for SA equity risk.

The M&G Balanced Fund still favoured **SA equities** at the end of Q1 2023. Early in the quarter we trimmed our SA equity exposure slightly to take some profit after the roughly 20% rally in the local market in late 2022 and into January, using the profits to increase our SA bond exposure. SA equity valuations (as measured by the 12-month forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) re-rated slightly over the quarter, rising from around 9.2X to around 9.5X at quarter-end. Much of this re-rating was attributable to share price gains, as earnings estimates changed only marginally.

During the quarter, we trimmed our **SA listed property** exposure further in favour of SA cash, as cash yields became more attractive on a risk-adjusted basis, while property risks remained high. We still prefer exposure to non-property shares that we believe offer better value propositions for less risk. Conditions in the local property sector remain uncertain given the rising local interest rate cycle (many property companies are reliant on finance to expand their portfolios) and relatively weak growth prospects, among other fundamental factors.

The fund also benefitted from our ongoing preference for **SA nominal bonds** in Q1 2023 due to their positive returns despite a very volatile period. During the quarter we added slightly to our SA bond holdings out of SA equity. The 10-year SA government bond rallied approximately 20bps during the quarter, falling to 10.7% at quarter-end, which is still at a relatively high level on a historic basis. Meanwhile, the 20-year bond lost 20bps, leading to a steepening of the yield curve in the long end, even as the curve below 10 years flattened as a result of the SARB's interest rate hikes. We continue to believe SA nominal bond valuations remain attractive relative to both other income assets and their own longer-term history and will more than compensate investors for their associated risks.

Lastly, the SARB's interest rate hikes during the quarter made **SA cash** relatively more attractive as an asset class. However, apart from SA property, we still prefer most other local asset classes for the higher real yields available on both an absolute and relative basis. Therefore, the fund remained tilted away from SA cash. □

### Contact us

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

### Invest now

### Application forms

An electronic copy of this document is available at [www.mandg.co.za](http://www.mandg.co.za)

### Disclaimer

**MandG Investments Unit Trusts (South Africa) (RF) Ltd** (Registration number: 1999/0524/06) is an approved CISA management company (#29). Assets are managed by MandG Investment Managers (Pty) Ltd, which is an approved discretionary Financial Services Provider (#45199). The Trustee's/Custodian details are: Standard Bank of South Africa limited – Trustees Services & investor Services, 20th Floor, Main Tower, Standard Bank Centre, Heerengracht, Cape Town.

Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. Past performance is not necessarily a guide to future investment performance. Unit trust prices are calculated on a net asset value basis. This means the price is the total net market value of all assets of the unit trust fund divided by the total number of units of the fund. Any market movements – for example in share prices, bond prices, money market prices or currency fluctuations – relevant to the underlying assets of the fund may cause the value of the underlying assets to go up or down. As a result, the price of your units may go up or down. Unit trusts are traded at the ruling forward price of the day, meaning that transactions are processed during the day before you or the Manager know what the price at the end of the day will be. The price and therefore the number of units involved in the transaction are only known on the following day. The unit trust fund may borrow up to 10% of the fund value, and it may also lend any scrip (proof of ownership of an investment instrument) that it holds to earn additional income. A M&G unit trust fund may consist of different fund classes that are subject to different fees and charges. Where applicable, the Manager will pay your financial adviser an agreed standard ongoing adviser fee, which is included in the overall costs of the fund. A unit trust summary with all fees and maximum initial and ongoing adviser fees is available on our website. One can also obtain additional information on M&G products on the M&G website. The Fund may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks. The volatility of the fund may be higher and the liquidity of the underlying securities may be restricted due to relative market sizes and market conditions. The fund's ability to settle securities and to repatriate investment income, capital or the proceeds of sales of securities may be adversely affected for multiple reasons including market conditions, macro-economic and political circumstances. Further, the return on the security may be affected (positively or negatively) by the difference in tax regimes between the domestic and foreign tax jurisdictions. The availability of market information and information on any underlying sub-funds may be delayed. The Manager may, at its discretion, close your chosen unit trust fund to new investors and additional investments by existing investors to make sure that it is managed in accordance with its mandate. It may also stop your existing debit order investment. The Manager makes no guarantees as to the capital invested in the fund or the returns of the fund. Excessive withdrawals from the fund may place the fund under liquidity pressure and, in certain circumstances, a process of ring-fencing withdrawal instructions may be followed. Fund prices are published daily on the M&G website. These are also available upon request. The performance is calculated for the portfolio. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Purchase and repurchase requests must be received by the Manager by 13h30 (11h30 for the Money Market Fund) SA time each business day. All online purchase and repurchase transactions must be received by the Manager by 10h30 (for all Funds) SA time each business day.