M&G Investments

M&G Insights

Selectivity needed in global equities in 2024

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As the year 2023 began, the outlook for equity markets – both local and global – was not promising. The macroeconomic outlook was faced with significant challenges -- stubbornly high inflation, ever-increasing interest rates, geopolitical tensions (namely Russia's invasion of Ukraine earlier in the year) and its negative impacts, as well as fears of a looming global recession -- all fanning negative sentiment and predictions for equity markets for the year ahead.

Yet contrary to what many had anticipated, most equity markets were in strong positive territory at the end of 2023. The prospects of interest rates having reached their peak and the recession seemingly averted boosted investor confidence and sentiment, with global equities having delivered a robust 22.2% (in USD – MSCI ACWI Index) for the year.

US equity was a large driver of global equity returns. However, outsized returns in the US market were highly concentrated in AI-related technology stocks, which means that there could still be very good opportunities for active investors who are willing to dig a little deeper.

Local investors would have been particularly well-positioned in global equities, not only due to markets being in positive territory but also the depreciation of the rand against the major global currencies which further boosted returns.

While the risk of an economic downturn, or persistently high inflation, could put global equities under pressure in 2024, we believe that being selective will be key, especially by focusing on companies that are able to benefit from longer-term structural growth drivers, rather than those with more cyclical exposure. There is evidence of a return to greater value dispersion across stocks globally, even within the same sectors, providing support to an active investment approach for the new year.

For South African investors, global equity can act as a strong diversifier of local SA-specific risk and an important building block in a portfolio. For those looking to add global equity stocks to their portfolio, rather than trying to do research themselves on the thousands of global companies available to choose from, they should consider investing in global equity unit trusts, such as the M&G Global Equity Fund, which provide tremendous diversification across different regions and sectors. Such funds are managed by professional portfolio managers who actively seek to mitigate the downside risk and capitalise on the opportunities presented by global equity markets.

The M&G equity team managing the M&G Global Equity Fund, for example, has been navigating 2023's narrow global performance (concentrated in the US) and taking advantage of the resilience of global economic growth amid ongoing interest rate pressure and geopolitical instability. They are able to analyse the thousands of stocks included in the global equity universe by using the vast power of artificial intelligence (AI), combined with human oversight and expertise, to help select stocks for the fund.

The AI output provides a streamlined view of the best ideas and gives what we call an 'alpha score' upon which we conduct further research and human oversight and overrides before constructing a portfolio. Human overrides provide a filter to the buy list in applying expertise and deeper understanding that an AI may overlook. In recent years, unprecedented events have transpired that have underscored the importance of human oversight in the AI-backed investment process, from the COVID-induced market crash in March 2020, to one of the best years in equity performance in 2021, to a complete reversal for equities in 2022.

So, when adding global equity exposure to a portfolio amid the vastness of the investment universe. it makes sense to consider global equity unit trusts managed by experts using the power of AI to produce the best possible investment outcomes. Stock-picking is likely to prove valuable in 2024, given the dispersion of valuations, and unit trust funds can add valuable diversification and growth potential to a South African portfolio.