M&G Investments

M&G Insights

Navigating fluid global markets

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Market overview

With the first quarter of the year behind us, global investment return and an important local election ahead of us, South African investors are thinking about global investments and pressing advisers for solutions. To get it right, global investing requires a long-term view, careful analysis and diversification, and patience in the face of the continuous, unpredictable fluidity of financial markets. So what does this fluidity look like at the moment? How are we at M&G Investments viewing it and investing for the best outcomes in our global balanced portfolios?
At M&G we don't rely on forecasts in making our investment decisions. Instead we use consistent, valuation-based analysis to build robust, well-diversified portfolios that can deliver strong returns no matter what scenario plays out in the global markets. Then we take advantage of short-term market mispricing to add extra value. Here's how our global balanced portfolios are currently positioned.

Leaning into the East

Looking at China, not too long ago it was considered that it would lead the global economy out of the Covid recession. But now, many investors consider it irrelevant due to its relatively slow recovery. Of course, we like narratives such as these because that's often when we find tactical investment opportunities. Indeed, believing in the country's stronger long-term growth prospects and following the large and indiscriminate sell-off in Chinese stocks in late 2023 and early 2024, we found some excellent opportunities to buy high-quality global companies at cheap valuations. We are maintaining a tactical overweight Chinese equity position in many of our global funds.

There are also some interesting aspects to Japan at the moment. The strong performance of Japanese equities in the past year has proved beneficial for our global balanced portfolios, where we have been tactically overweight these assets. In March, the Bank of Japan's historic interest rate hike to implement a positive real interest rate, and the easing of its yield curve control policy, have presented more opportunities for investors. However, these changes also merit some caution.

One of the pernicious things about financial repression is that it exerts downward pressure on what you can earn from a safe asset, which pushes investors in search of higher yields further up the risk spectrum – into longer-dated assets and equities. In turn, this tends to reduce the risk premium because there are more buyers. So, the moment government starts easing limits on the term premia on Japanese bonds, allowing them to rise to reach more appropriate yields for the risk involved, you should start seeing a cascading downward effect on the pricing of riskier assets like equities.

An eclectic mix of equities

Beyond Asia, we are overweight European stocks on valuation grounds, but try to avoid the UK for the same reason. We are also overweight Latin America, where we're invested in a diverse range of companies. We have had opportunities to buy companies trading on attractive P/E ratios of anywhere from 9X earnings, provided the country's macro backdrop is positive for growth, inflation is under control, and the currency is quite cheap.

We're tilted away from sectors with high valuations, such as financials in Europe and banks in the US. During Q1 2024 we moved to be slightly more defensive in our overall portfolio positioning. Given the phenomenal rally in equities in the fourth quarter of last year, without fundamentals really improving as well, we became more cautious. As a consequence, we took some profits in global equities and used the proceeds to buy more global bonds and increase our cash holdings.

30-year US Treasuries offer rare real return

Currently about 25% of our portfolio is invested in global bonds, of which around 60-65% are US securities, even though the US Treasury has been issuing bonds quite aggressively. We have found that the relationship between supply and demand has very little to do with where actual spot rates or yields are trading. Currently, 30-year US Treasuries are paying a real yield (of 1.5%-2.0%) for the first time in a very long time; and they perform well when interest rates are falling and the world is worried about risk.