

24th May, 2023

Fixed Income in 2023

Andrew Eve, Investment Specialist
M&G

novia
global

For investment professionals use only.

M&G Optimal Income Fund

The main risks that could affect performance are set out below:

- The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.
- Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.
- High yield bonds usually carry greater risk that the bond issuers may not be able to pay interest or return the capital.
- The fund may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage). This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.
- Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries.
- The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.
- In exceptional circumstances where assets cannot be fairly valued, or have to be sold at a large discount to raise cash, we may temporarily suspend the fund in the best interest of all investors.
- The fund could lose money if a counterparty with which it does business becomes unwilling or unable to repay money owed to the fund.
- Operational risks arising from errors in transactions, valuation, accounting, and financial reporting, among other things, may also affect the value of your investments. Further details of the risks that apply to the fund can be found in the fund's Prospectus
- Wherever a reference or indication of past performance is shown, please note, past performance is not a guide to future performance.
- The views expressed in this document should not be taken as a recommendation, advice or forecast.
- Please note, investing in this fund means acquiring units or shares in a fund, and not in a given underlying asset such as a building or shares of a company, as these are only the underlying assets owned by the fund.

It is also important to note that:

The fund aims to provide a combination of capital growth and income, net of the Ongoing Charge Figure, higher than the average return of the IA £ Strategic Bond Sector over any five-year period. At least 50% of the fund is invested in bonds issued by government and companies from anywhere in the world, including emerging markets. These bonds can be denominated in any currency. Up to 20% of the fund may be invested in company shares when the fund manager believes they offer better value than bonds. The fund is a flexible global bond fund, seeking to invest in a combination of assets that together provide the most attractive or 'optimal' income stream.

The Fund allows for the extensive use of derivatives.

Andrew Eve

Biography



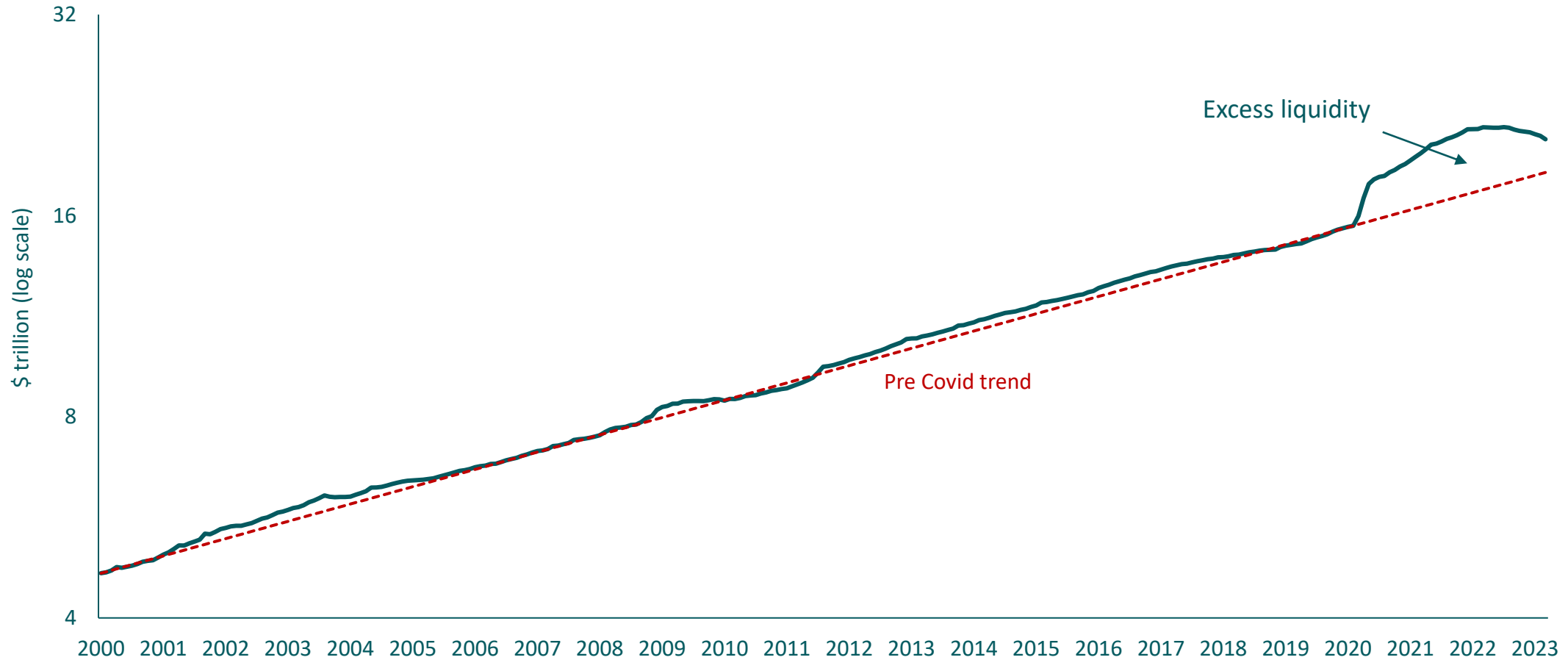
- Andrew Eve is an investment specialist in the fixed income team with a focus on global macro and inflation strategies. He is also Editor of the team's Bond Vigilantes blog.
- Andrew joined M&G in 2017, having gained a four-year Master's degree in Chemistry from the University of Oxford.
- He holds the Investment Management Certificate and is a CFA charterholder.



2023 outlook: 3 pieces of good news

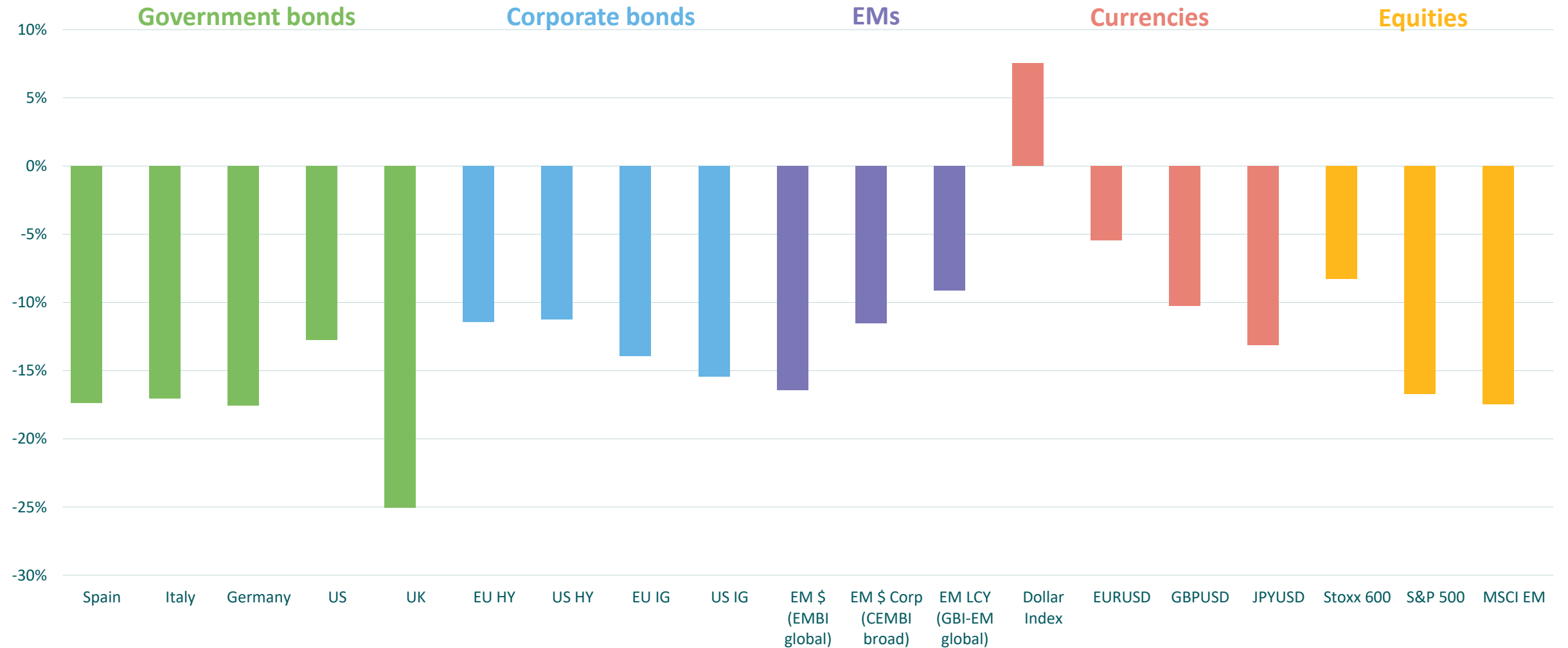
The huge increase in money supply resulted in surging inflation

Money supply (M2)



Source: M&G, Bloomberg, Fed Z-1 financial accounts, 31 March 2023. M2 is a classification of money supply. It includes M1 – which is comprised of cash outside of the private banking system plus current account deposits – while also including capital in savings accounts, money market accounts and retail mutual funds, and time deposits of under \$100,000. M2 is a broader classification than M1. Information is subject to change and is not a guarantee of future results.

2022 asset price performance



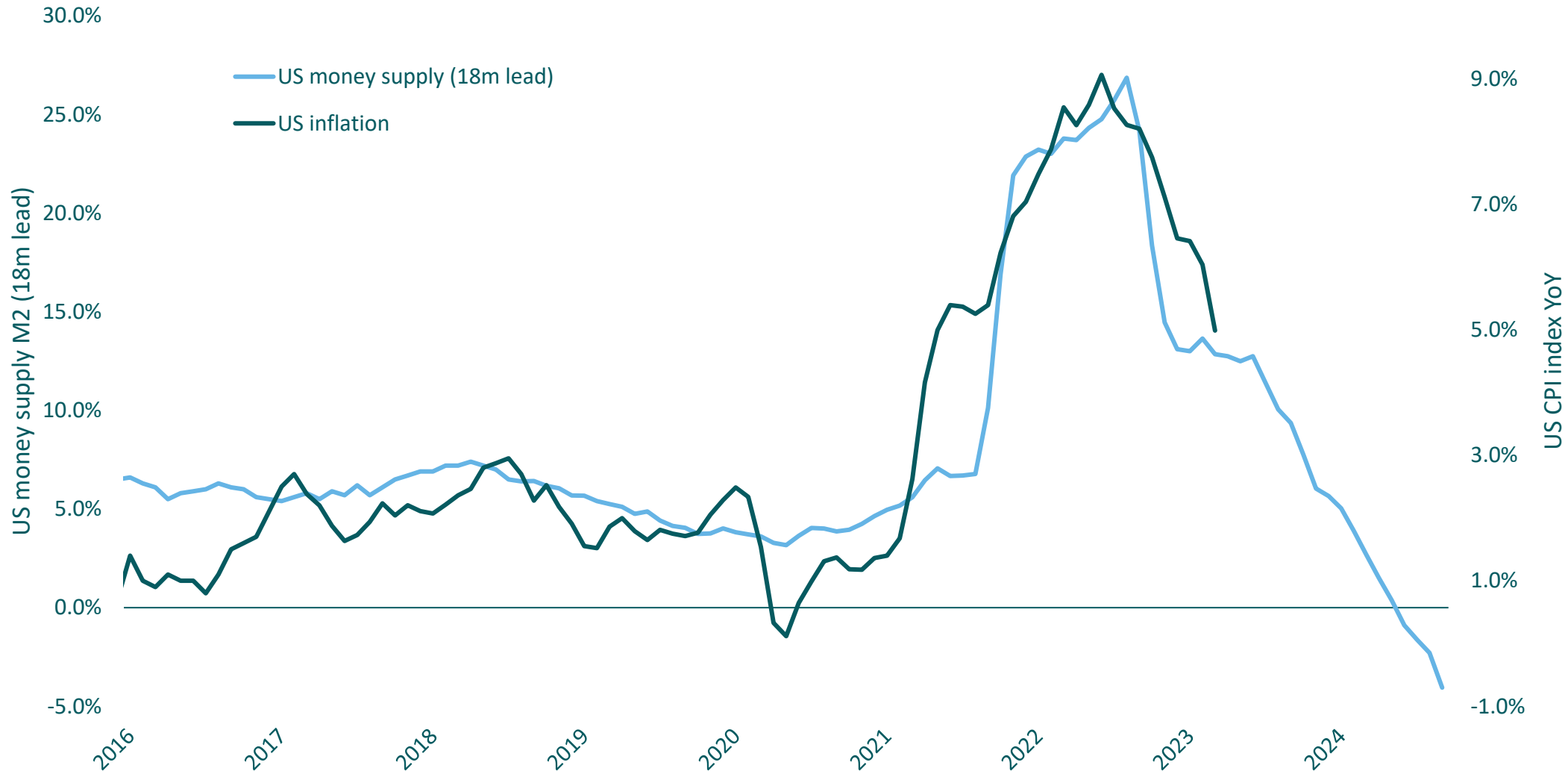
Past performance is no guarantee of future results

Source: Bloomberg, ICE Bank of America, JP Morgan, 31 December 2022

*ICE Spain, Italy, Germany government index. US ICE Treasury & agency index, ICE UK Gilt index. ICE European currency HY index. US ICE high yield index. ICE Euro corporate & pfandbrief index. ICE corporate index. JPM EM \$ JPM EMBI global diversified index. EM \$ corp JPM CEMBI broad diversified composite index. JPM GBI-EM LCY global composite unhedged USD. Spot rate. World currency ranker. Stoxx 600 price index Eur. S&P 500 index. MSCI EM index

1. Inflation is on a downward trajectory

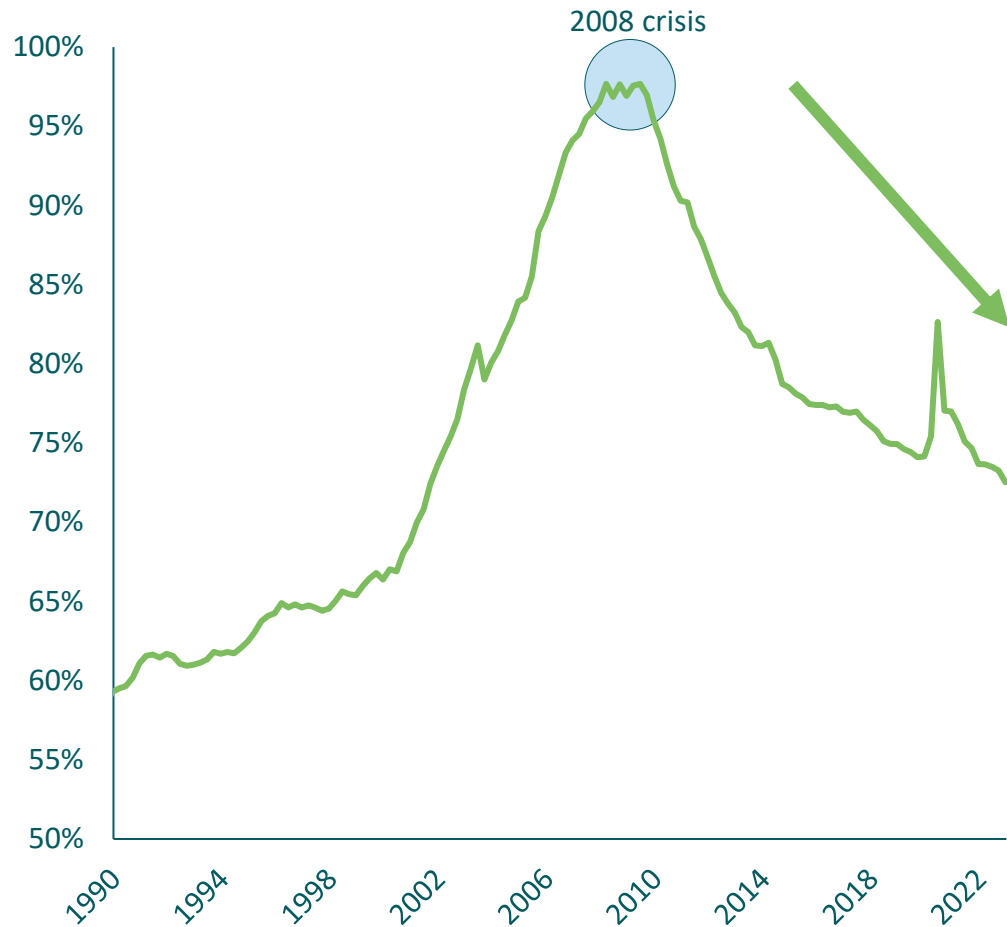
The sharp deceleration in money supply could push inflation lower



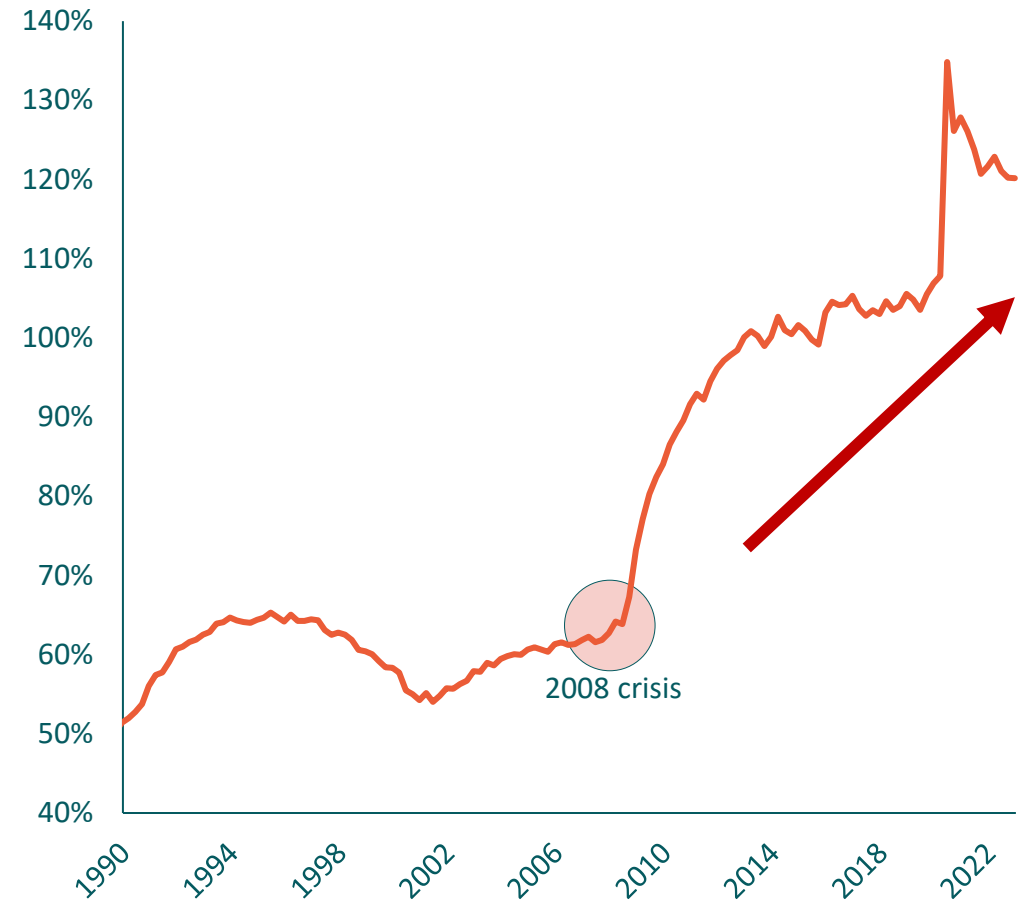
2. The private sector is more resilient than in the past

Since 2008 leverage moved from the private to the public sector

Household debt as % of GDP



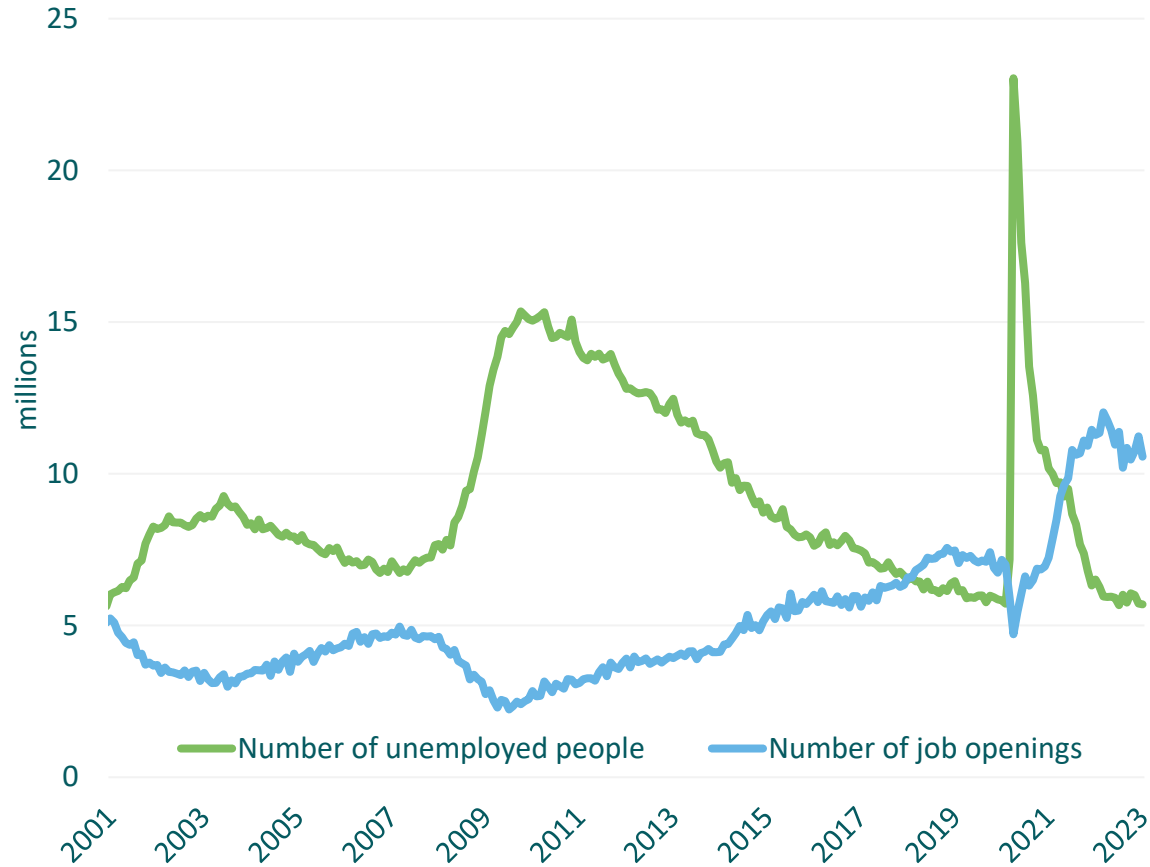
Federal debt as % of GDP



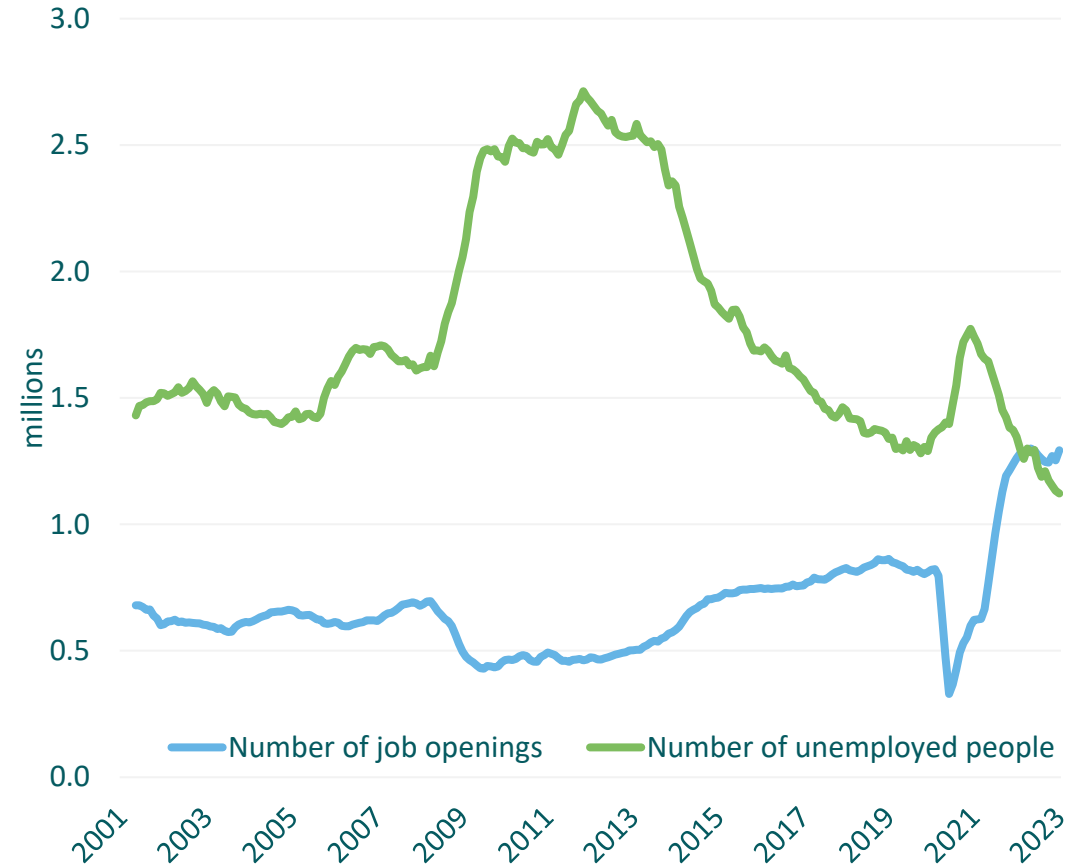
The labour market remains strong

Number of job openings vs number of people looking for a job

United States



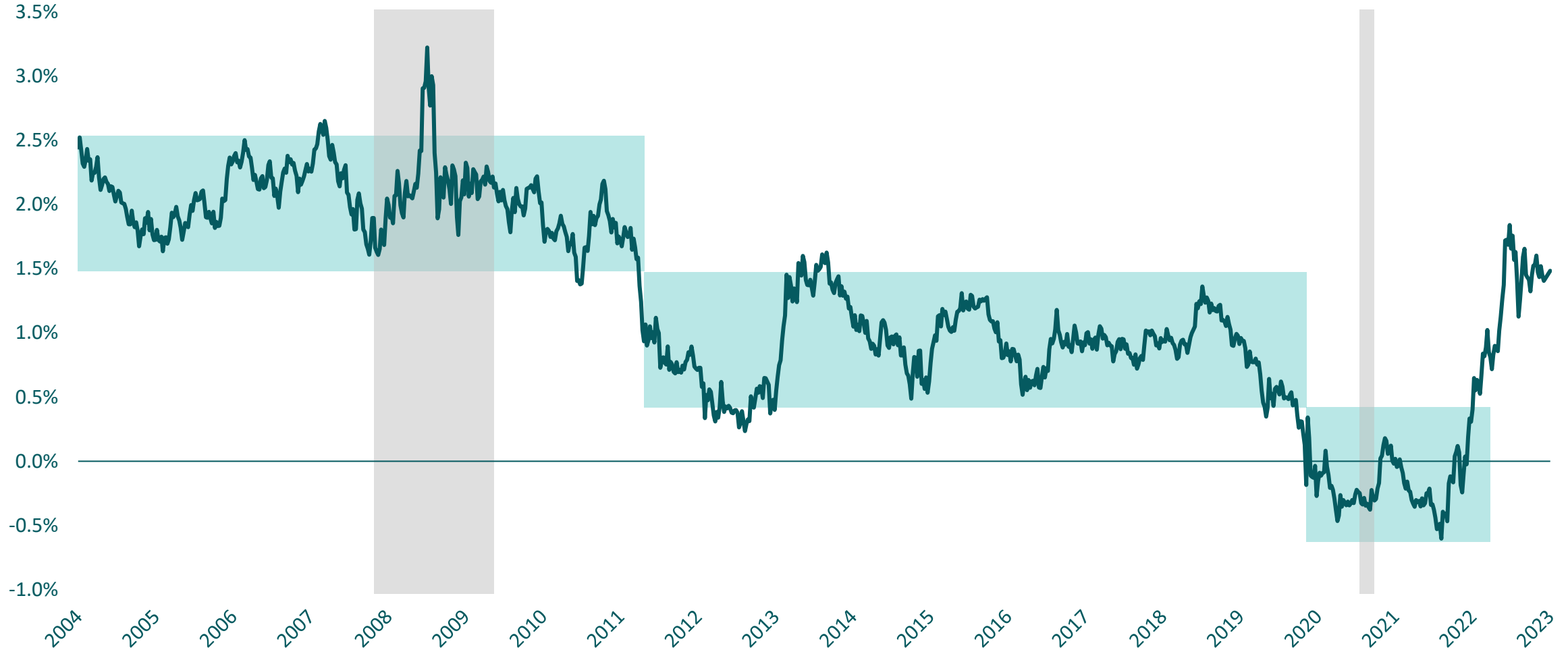
United Kingdom



3. Attractive entry point to start your journey in Fixed Income

30y UST real yield over time

Past performance is not a guide to future performance

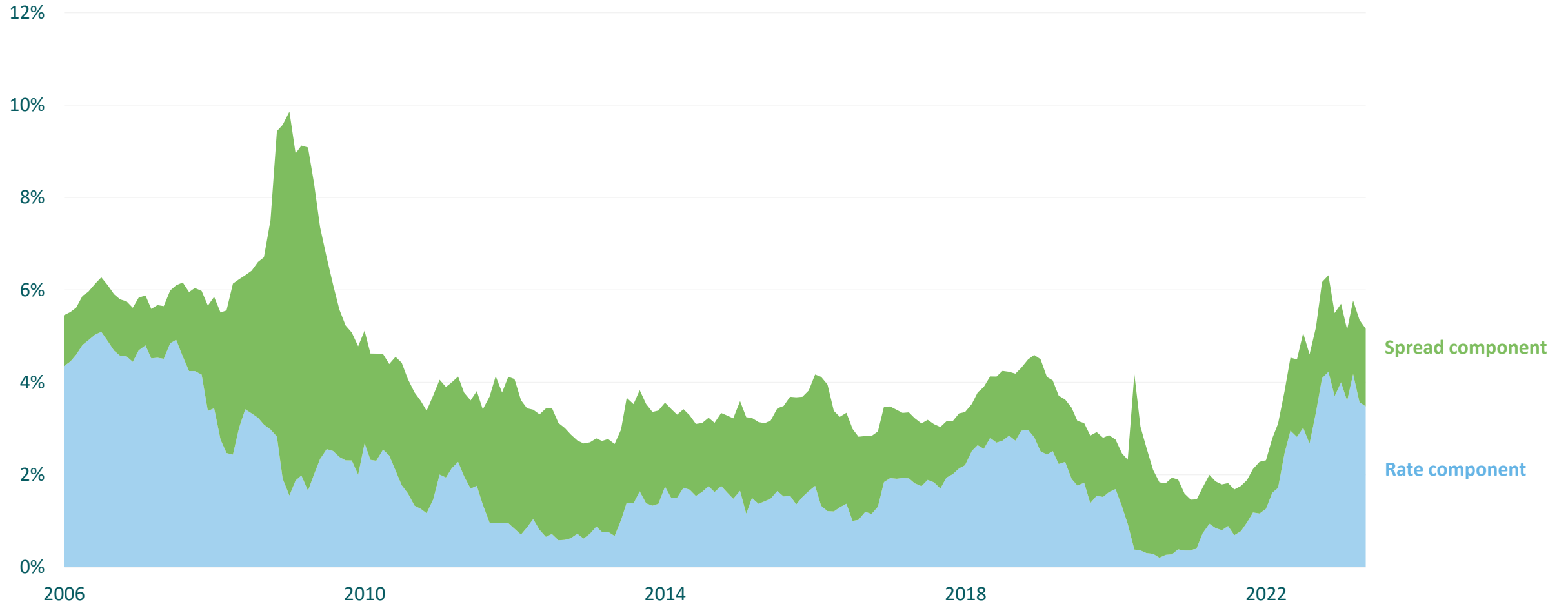


Investment grade corporate bonds provide natural diversification

Rate and spread components provide separate drivers through the economic cycle

Past performance is not a guide to future performance

Investment Grade: yield components - 5 year treasuries and credit spread

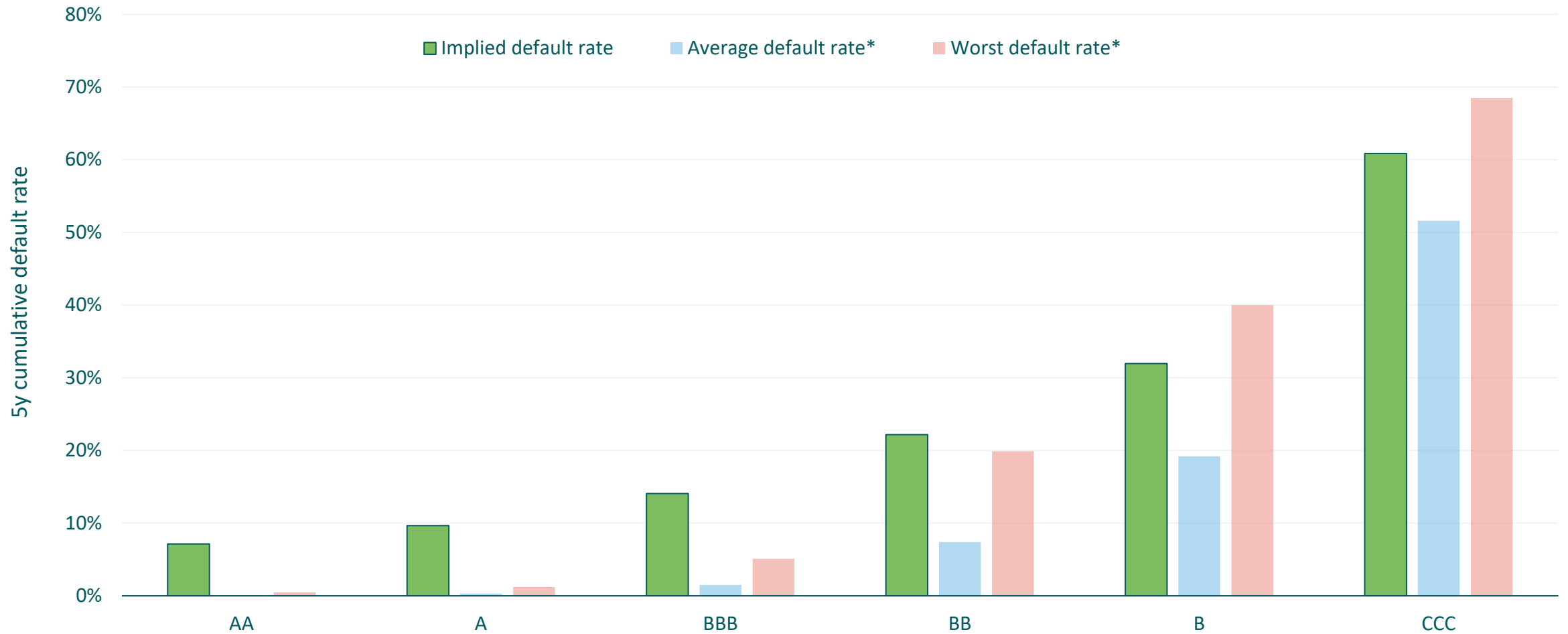


Risk-reward in 5 year Gilts

5y Gilts scenarios



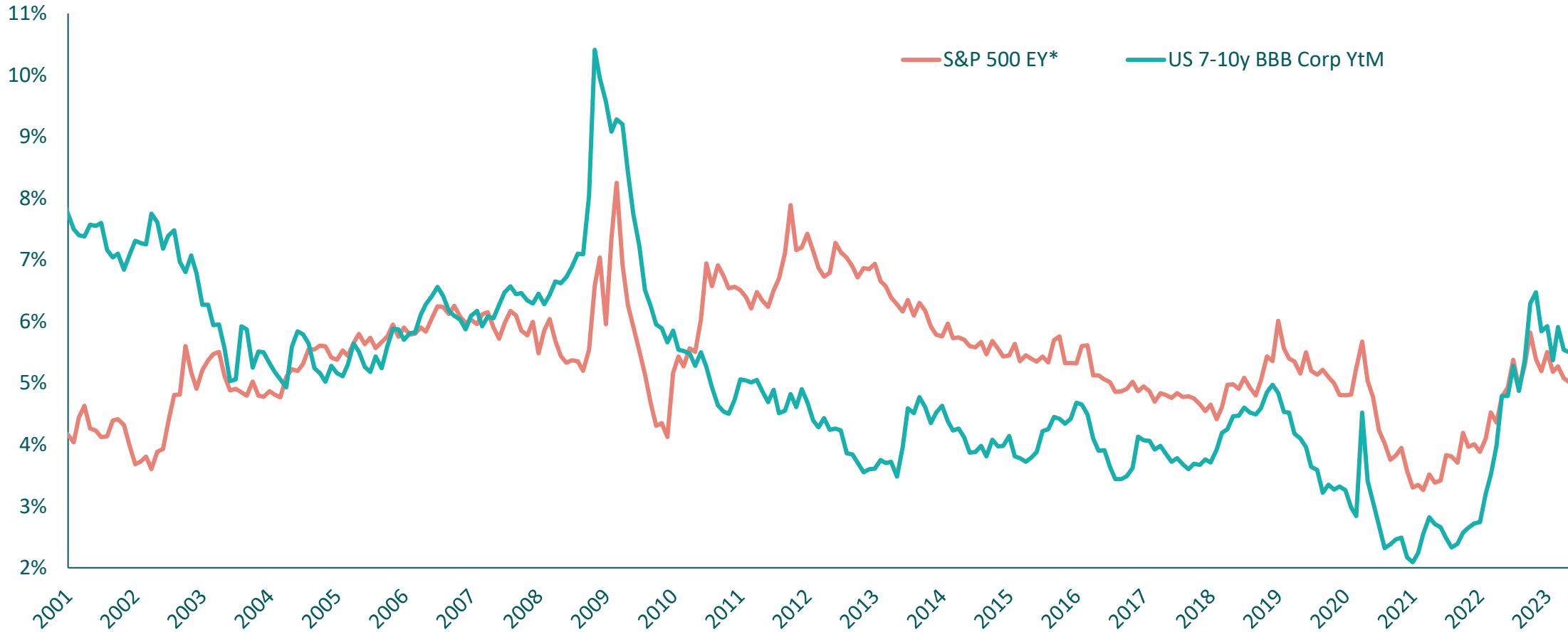
What level of defaults the market is currently pricing in Versus what actually happened historically



From TINA (There Is No Alternative) to TIAA (There Is An Alternative)

S&P 500 EY vs USD Corp BBB YtM

Past performance is not a guide to future performance

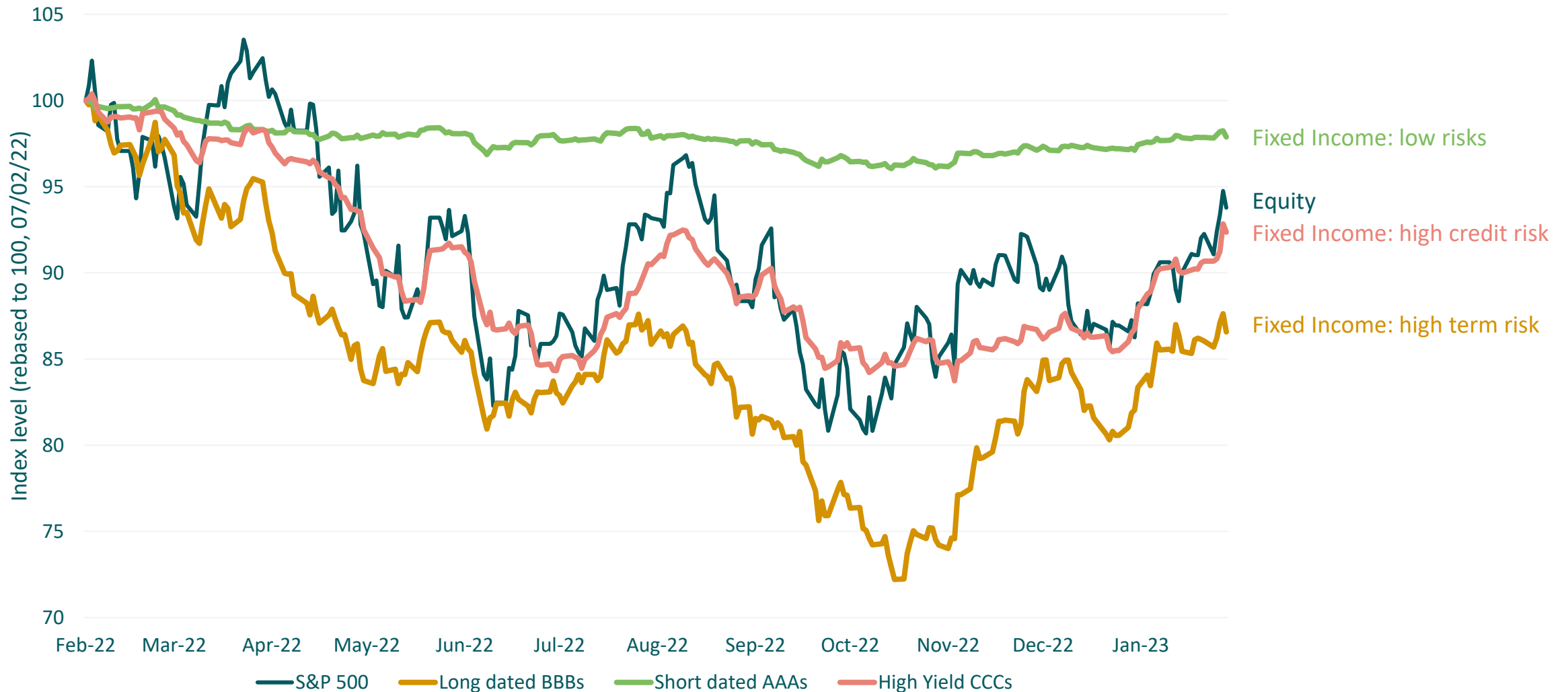




Why we believe an active approach is essential

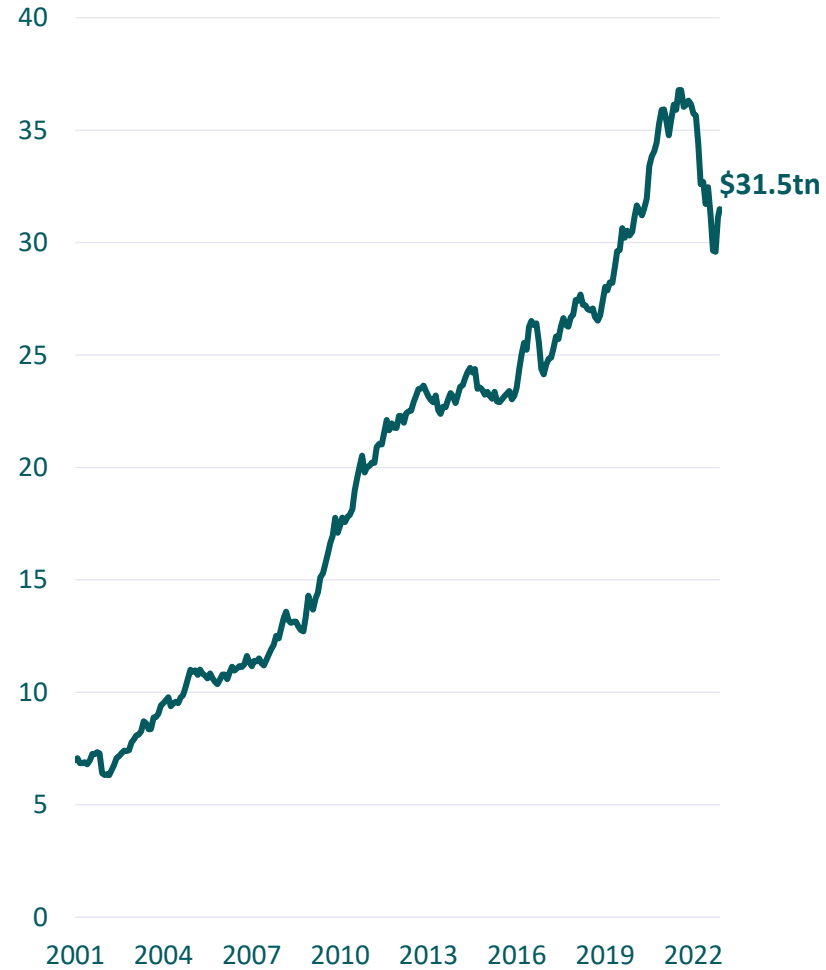
Term and credit risk in practice

Full spectrum of risks for Fixed Income investors

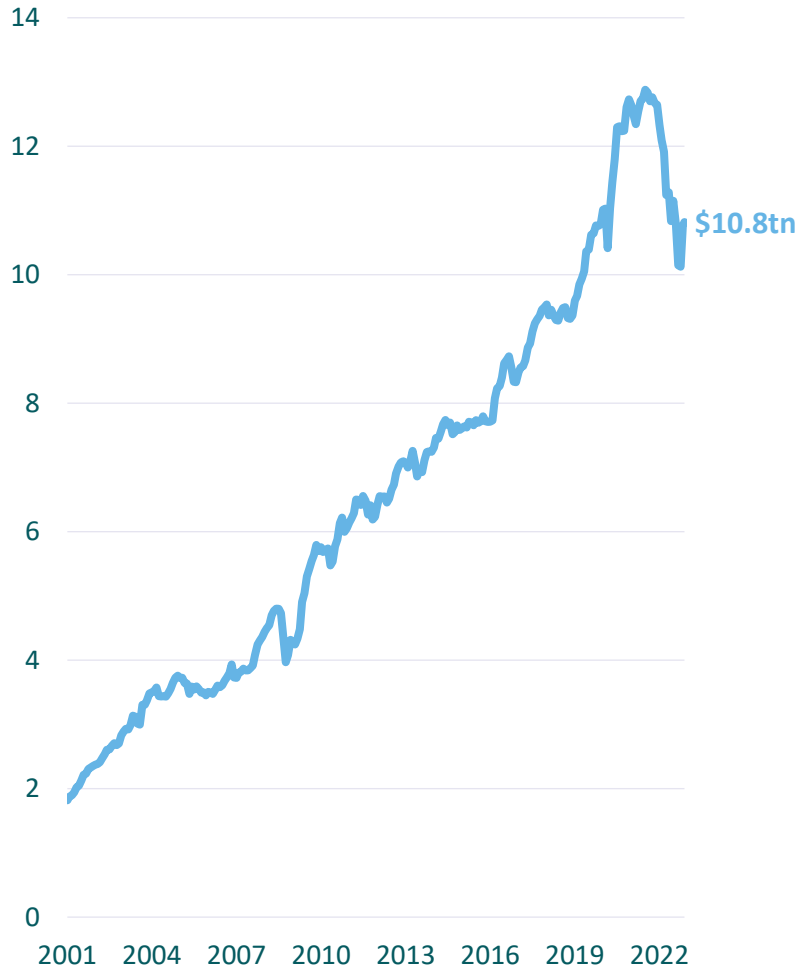


Credit markets: a deep, diverse and growing investable universe

Global Government bonds (USD tn)



Global IG Corporate (USD tn)

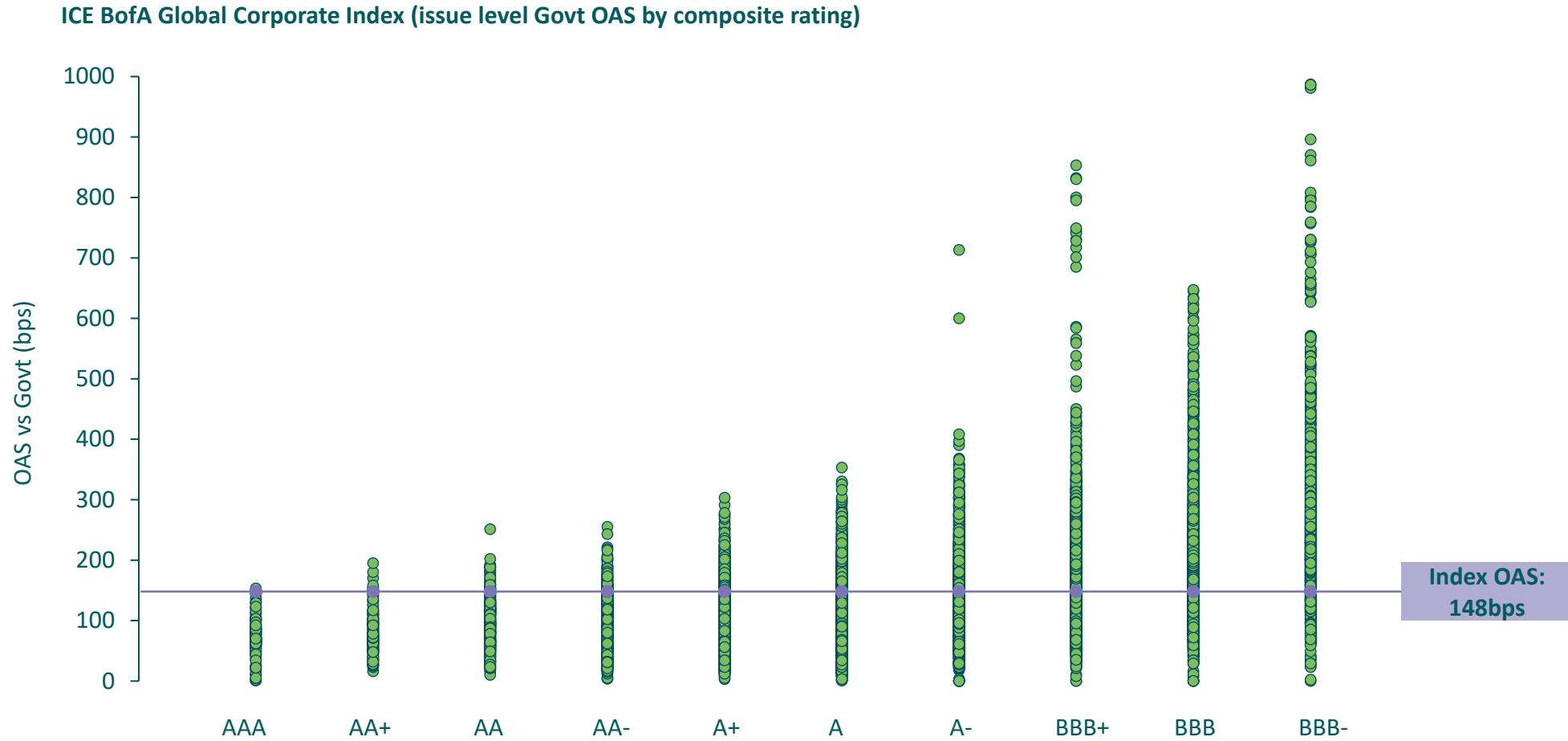


Global HY Corporate (USD tn)



The importance of being flexible

Current dispersion in global investment grade universe



JPM bonds

1 stock...more than 2000 bonds available!

<Search> 98) Export 1-33 of 10000+ results Security Finder

Category Fixed Income

Corp Govt Loan Pfd CDS CDS Idx Muni Futr Opt IRS IRS Vol Gen Govt

60) Excluded Matured/Called 62) Advanced Search | SRCH » 61) Column Settings

R	Name	Ticker	Coupon	Maturity	Serial	BB R.	Mty Type	Announce	Cur.	Ask Px	Source	Issue Date	Ask Modified Du.	Coupon Type	Moody's	S&P	Fitch	DBRS
1)	JPMorgan Chase & Co	JPM	7.900	PERPETUAL	1	BBB-	PERP/CA.	04/16/2008	USD	103.375	TRMT	04/23/2008	0.989	VARIABLE	Baa3	BBB-	BBB-	
2)	JPMorgan Chase & Co	JPM	5.150	PERPETUAL	Q	BBB-	PERP/CA.	04/16/2013	USD	100.000	TRMT	04/23/2013	5.045	VARIABLE	Baa3	BBB-	BBB-	
3)	JPMorgan Chase & Co	JPM	5.000	PERPETUAL	V	BBB-	PERP/CA.	06/02/2014	USD	101.250	TRMT	06/09/2014	2.072	VARIABLE	Baa3	BBB-	BBB-	
4)	JPMorgan Chase & Co	JPM	FLOAT	03/09/2021		A	CALLABLE	03/02/2017	USD	99.761	TRMT	03/09/2017	0.177	FLOATING	A3	NA	A+	
5)	JPMorgan Chase & Co	JPM	5.300	PERPETUAL	Z	BBB-	PERP/CA.	04/14/2015	USD	104.215	CBBT	04/21/2015	2.764	VARIABLE	Baa3	BBB-	BBB-	
6)	JPMorgan Chase & Co	JPM	2.950	10/01/2026		A-	CALLABLE	07/14/2016	USD	95.599	BMRK	07/21/2016	8.165	FIXED	A3	A-	A+	
7)	JPMorgan Chase & Co	JPM	6.000	01/15/2018		A-	BULLET	12/13/2007	USD	103.431	BMRK	12/20/2007	0.755	FIXED	A3	A-	A+	AALu
8)	JPMorgan Chase & Co	JPM	FLOAT	10/24/2023		A-	CALLABLE	10/17/2016	USD	102.384	TRMT	10/24/2016	0.051	FLOATING	A3	A-	A+	
9)	JPMorgan Chase & Co	JPM	3.782	02/01/2028		A-	CALLABLE	01/25/2017	USD	100.896	TRMT	02/01/2017	8.098	VARIABLE	A3	A-	A+	
10)	JPMorgan Chase & Co	JPM	2.972	01/15/2023		A-	CALLABLE	12/01/2016	USD	100.363	BMRK	12/08/2016	4.383	FIXED	A3	A-	A+	
11)	JPMorgan Chase & Co	JPM	2.295	08/15/2021	MTN	A-	CALLABLE	08/03/2016	USD	99.285	BMRK	08/08/2016	4.108	FIXED	A3	A-	A+	
12)	JPMorgan Chase & Co	JPM	3.625	12/01/2027		BBB+	CALLABLE	11/10/2016	USD	97.744	BMRK	11/16/2016	8.615	FIXED	Baa1	BBB+	A	
13)	JPMorgan Chase & Co	JPM	3.250	09/23/2022		A-	BULLET	09/19/2012	USD	102.170	BMRK	09/24/2012	4.980	FIXED	A3	A-	A+	AALu
14)	JPMorgan Chase & Co	JPM	3.375	05/01/2023		BBB+	BULLET	04/24/2013	USD	100.601	BMRK	05/01/2013	5.375	FIXED	Baa1	BBB+	A	AHu
15)	JPMorgan Chase & Co	JPM	6.000	PERPETUAL	R	BBB-	PERP/CA.	07/22/2013	USD	104.943	CBBT	07/29/2013	5.194	VARIABLE	Baa3	BBB-	BBB-	
16)	JPMorgan Chase & Co	JPM	6.100	PERPETUAL	X	BBB-	PERP/CA.	09/18/2014	USD	106.090	CBBT	09/23/2014	6.009	VARIABLE	Baa3	BBB-	BBB-	
17)	JPMorgan Chase & Co	JPM	6.750	PERPETUAL	S	BBB-	PERP/CA.	01/14/2014	USD	111.202	CBBT	01/22/2014	5.461	VARIABLE	Baa3	BBB-	BBB-	
18)	JPMorgan Chase & Co	JPM	3.875	09/10/2024		BBB+	BULLET	09/03/2014	USD	101.799	BMRK	09/10/2014	6.403	FIXED	Baa1	BBB+	A	AHu
19)	JPMorgan Chase & Co	JPM	2.250	01/23/2020		A-	CALLABLE	01/15/2015	USD	100.512	BMRK	01/23/2015	2.610	FIXED	A3	A-	A+	AALu
20)	JPMorgan Chase & Co	JPM	4.260	02/22/2048		A-	CALLABLE	02/14/2017	USD	100.181	TRMT	02/22/2017	16.739	VARIABLE	A3	A-	A+	
21)	JPMorgan Chase & Co	JPM	4.400	07/22/2020		A-	BULLET	07/15/2010	USD	106.678	BMRK	07/22/2010	3.050	FIXED	A3	A-	A+	AALu
22)	JPMorgan Chase & Co	JPM	6.125	PERPETUAL	U	BBB-	PERP/CA.	03/05/2014	USD	106.230	TRMT	03/10/2014	5.600	VARIABLE	Baa3	BBB-	BBB-	
23)	JPMorgan Chase & Co	JPM	1.700	03/01/2018	H	A-	CALLABLE	02/25/2015	USD	100.083	BMRK	03/02/2015	0.809	FIXED	A3	A-	A+	AALu
24)	JPMorgan Chase & Co	JPM	4.250	10/01/2027		BBB+	BULLET	09/23/2015	USD	103.221	BMRK	09/25/2015	8.437	FIXED	Baa1	BBB+	A	AHu
25)	JPMorgan Chase & Co	JPM	3.125	01/23/2025		A-	CALLABLE	01/15/2015	USD	98.936	BMRK	01/23/2015	6.820	FIXED	A3	A-	A+	AALu
26)	JPMorgan Chase & Co	JPM	2.550	03/01/2021		A-	CALLABLE	02/25/2016	USD	100.359	BMRK	03/01/2016	3.611	FIXED	A3	A-	A+	
27)	JPMorgan Chase & Co	JPM	FLOAT	01/15/2023		A-	CALLABLE	12/01/2016	USD	100.923	TRMT	12/08/2016	0.034	FLOATING	A3	A-	A+	
28)	JPMorgan Chase & Co	JPM	4.125	12/15/2026		BBB+	BULLET	12/04/2014	USD	102.666	BMRK	12/09/2014	7.864	FIXED	Baa1	BBB+	A	AHu
29)	JPMorgan Chase & Co	JPM	2.550	10/29/2020		A-	CALLABLE	10/22/2015	USD	100.679	BMRK	10/29/2015	3.278	FIXED	A3	A-	A+	AALu
70)	JPMorgan Chase & Co	JPM	6.300	04/23/2019		A-	BULLET	04/16/2009	USD	108.731	BMRK	04/23/2009	1.889	FIXED	A3	A-	A+	AALu
71)	JPMorgan Chase & Co	JPM	4.250	10/15/2020		A-	BULLET	10/14/2010	USD	106.328	BMRK	10/21/2010	3.219	FIXED	A3	A-	A+	AALu
72)	JPMorgan Chase & Co	JPM	3.300	04/01/2026		A-	CALLABLE	03/18/2016	USD	98.589	BMRK	03/23/2016	7.701	FIXED	A3	A-	A+	
73)	JPMorgan Chase & Co	JPM	3.200	01/25/2023		A-	BULLET	01/17/2013	USD	101.427	BMRK	01/25/2013	5.237	FIXED	A3	A-	A+	AALu

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Significant fundamental credit research and sustainability resources

Fundamental credit analysis is at the core of our value based approach

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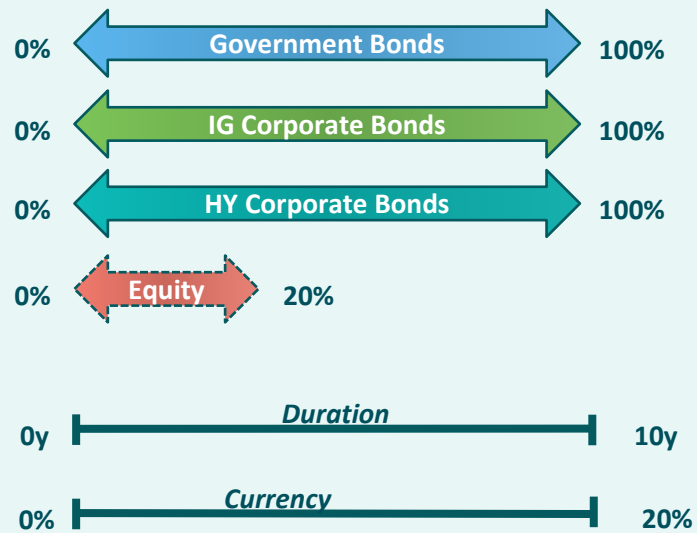
M&G Optimal Income Fund

M&G Optimal Income Fund

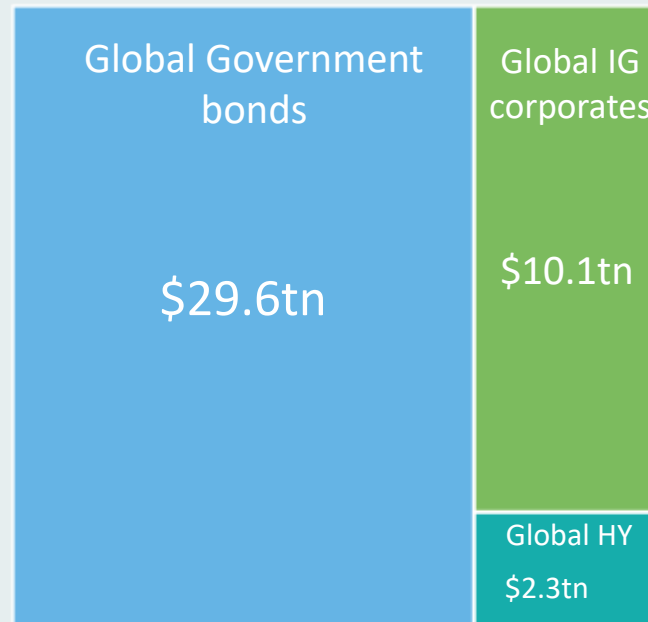
Fund at a glance

A fully **flexible bond fund** with the ability to invest up to 20% in equities

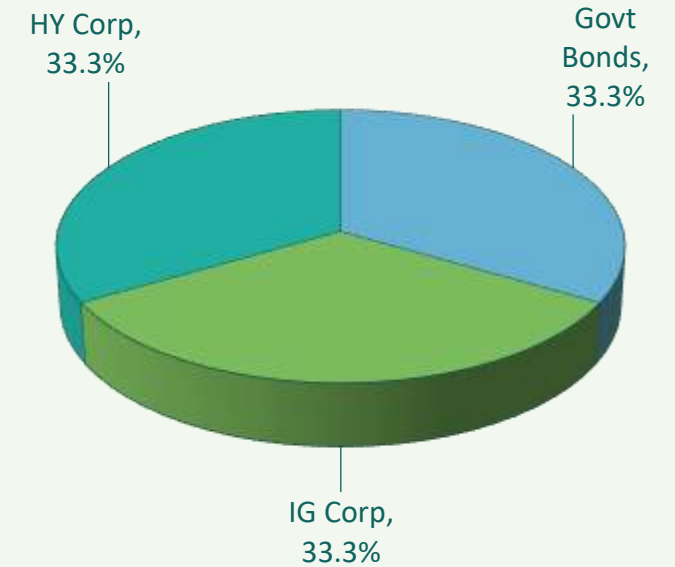
Investment guidelines



Our investable universe



Our style (neutral position)



Performance in Sterling M&G Optimal Income Fund

Past performance is not a guide to future performance

Rolling periods performance

	YTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 years
	%	%	%	%	%	%	%	%
M&G Optimal Income Fund	4.8	1.5	0.5	9.2	1.9	2.2	0.8	2.5
Benchmark*	3.4	0.4	0.4	6.2	-2.6	0.4	1.0	2.1

Annual performance

	YTD MRQ**	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
	%	%	%	%	%	%	%	%	%	%	%
M&G Optimal Income Fund	3.2	-10.5	2.8	3.0	9.0	-3.3	5.8	8.1	-0.9	5.2	7.7
Benchmark*	2.9	-11.7	0.9	6.1	9.2	-2.5	5.2	7.0	-0.3	6.2	2.7

*Prior to 6th March 2023 the benchmark was IA Sterling Strategic Corporate Bond Sector Average. Thereafter it is a composite index comprising 1/3 Bloomberg Global Treasury Index GBP Hedged, 1/3 Bloomberg Global Aggregate Corporate Index GBP Hedged, 1/3 Bloomberg Global High Yield Index GBP Hedged.

The benchmark is a target which the fund seeks to outperform. The sector has been chosen as the benchmark as the fund is a constituent of the sector. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed. The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund.

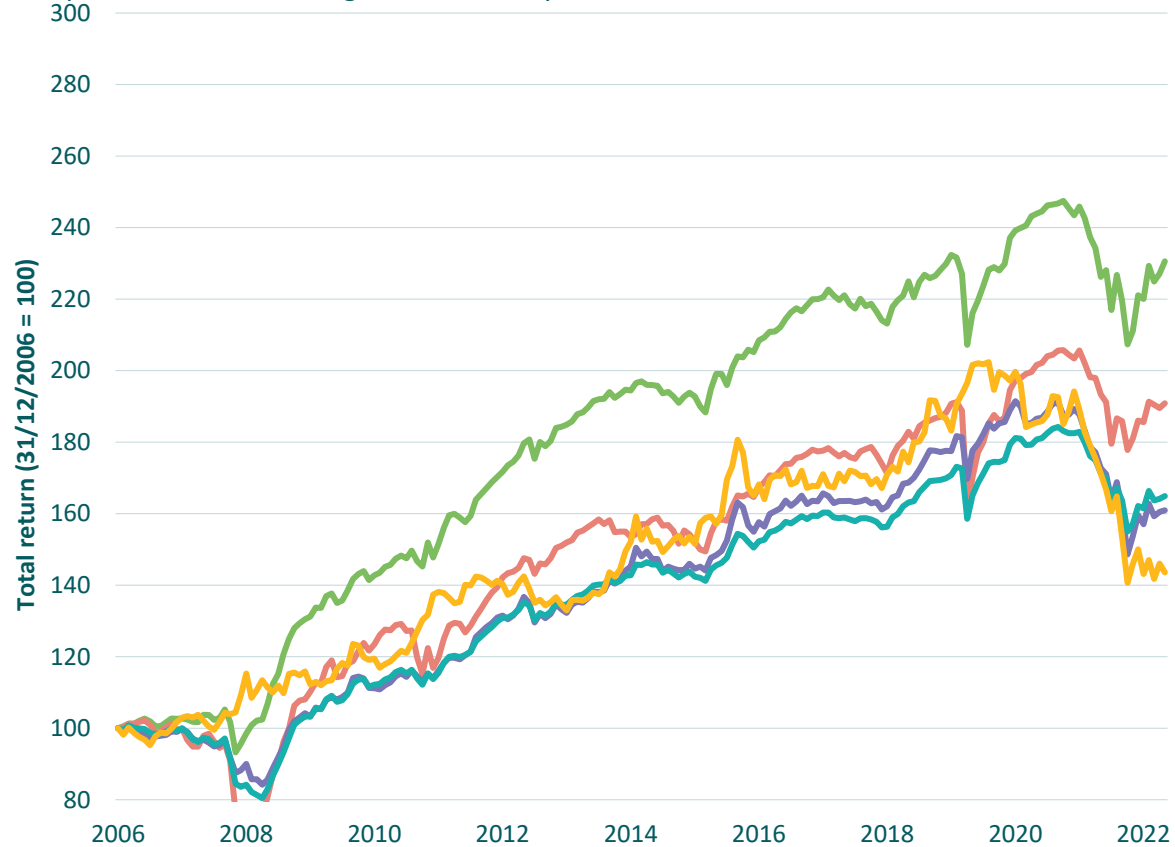
** Year to date performance to end of most recent quarter – 31 March 2023.

Source: Morningstar, Inc. and M&G, 30 April 2023, sterling I share class, Returns are calculated on a price-to-price basis with income reinvested. Benchmark returns stated in GBP terms.

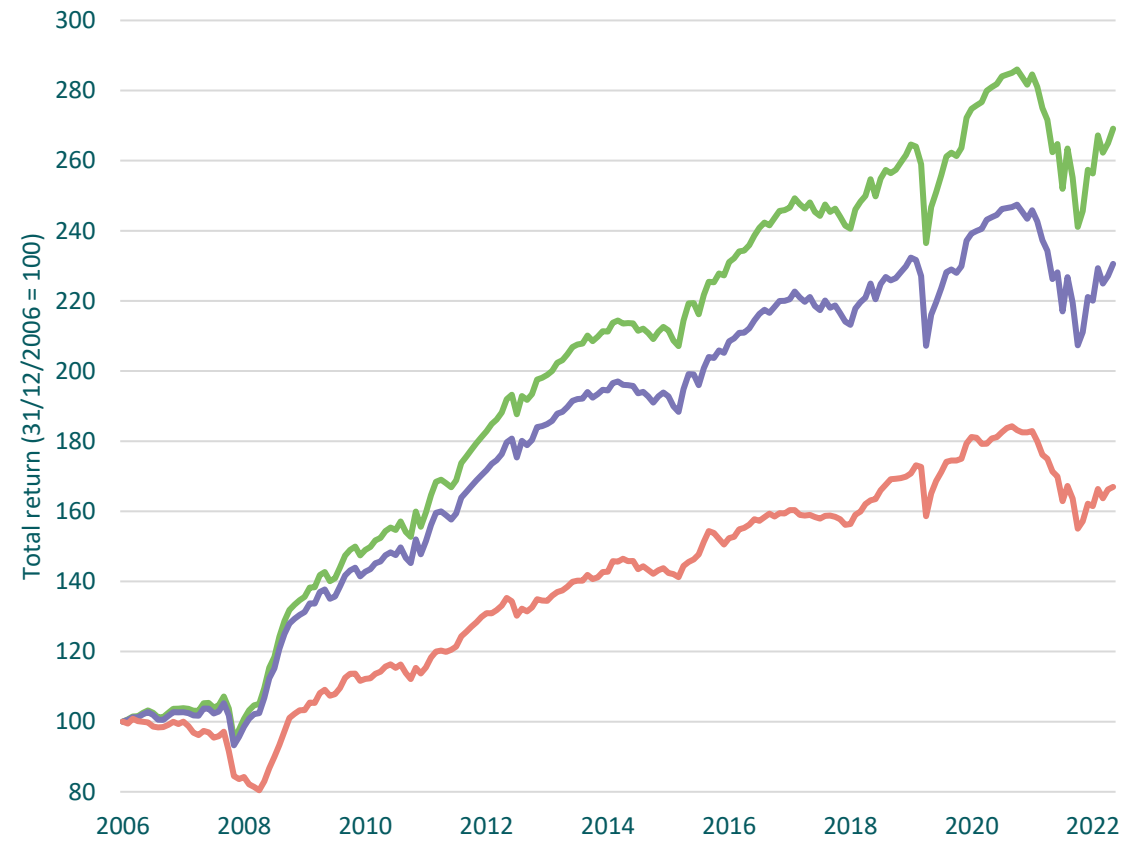
Performance in Sterling

M&G Optimal Income Fund

Past performance is not a guide to future performance



- M&G Optimal Income Fund
- IA £ High Yield sector
- IA £ Corporate Bond Sector
- IA UK Gilts sector
- IA £ Strategic Bond



- M&G Optimal Income Fund (gross of fees)
- M&G Optimal Income (net of fees)
- Benchmark*

*Prior to 6th March 2023 the benchmark was IA Sterling Strategic Corporate Bond Sector Average. Thereafter it is a composite index comprising 1/3 Bloomberg Global Treasury Index GBP Hedged, 1/3 Bloomberg Global Aggregate Corporate Index GBP Hedged, 1/3 Bloomberg Global High Yield Index GBP Hedged.

The benchmark is a target which the fund seeks to outperform. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction. The fund is actively managed. The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund.

Source: Morningstar, Inc. and M&G, 30 April 2023, sterling I share class, price to price, income reinvested, net of fees. Benchmark returns stated in GBP terms. Gross performance includes the actual OCF reinvested back into the price.

Bond Vigilantes

WEDNESDAY 22 FEBRUARY 2023

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QUICK COMMENT

Houston, we have a "sticky" problem

By Carlo Pizzi

After yesterday's US CPI release, the 2% target seems further and further away compared to what the market is currently pricing in. January US inflation came in at 6.4% YoY vs 6.2% expected, while core inflation increased by 0.4% during the month to a 5.6% YoY (vs 5.5% expected). The sticky part of the inflation basket (mainly services) remains extremely elevated, while core goods, which have been deflating over the last few months, made a comeback posting a positive number.

The key take away from yesterday's inflation print though, was that the rise in inflation was very broad based, highlighting that

The Brazilian USD corporate bond market has priced in some of the bad news already. Credit spreads have widened from their Latin American counterparts over the past couple of months.



Brazil Trip Notes – First-Hand Feedback From The EM Desk

By Charles de Quintanas

I just returned from a week-long research trip in Brazil where I met with several local investors and corporate bond issuers. From a fundamental standpoint, I came back more bearish on the country's fundamental outlook. The macro outlook is challenging and low growth and high interest rates are taking their toll on various sectors. Policy risk is elevated with the new Lula government and the bond market is pricing it to various degrees.

20 FEBRUARY 2023

UNCLE JIM'S WORLD OF BONDS

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