AMPERSAND

CAN INVESTORS AND MARKETS EVER REALLY BE JUST FRIENDS?

FROM THE TEAM THAT BROUGHT YOU THE DISRUPTION ISSUE M&G INVESTMENTS PRESENTS

COMMITMENT ISSUES: WHY INVESTORS ARE RETHINKING THEIR RELATIONSHIP WITH THE US

CREDIT SPREADS: IS THERE SOMETHING YOU'RE NOT TELLING ME?

LABUBUS: THE GLOBAL ECONOMY'S SOFT SIGNAL?

HOME AWAY FROM HOME: EUROPE AND APAC ARE CALLING

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COMFORTABLE BEING UNCOMFORTABLE: MAINTAINING CONVICTION

IN IT FOR THE LONG HAUL: THE PRIVATE COMPANIES CREATING THE FUTURE

PHOTONICS: THE NEXT COMPUTE TRANSITION

AND OUR CLASS OF '25: 5 THINGS I ASKED ABOUT YOU

THE COMMITMENT ISSUE

M&G Investments

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Welcome to the fifth issue of Ampersand

Welcome to the fifth issue of Ampersand. In a world where uncertainty has become the norm, commitment – whether to markets, ideas, or each other – has never been more important, or more complex.

The dynamic between international investors and the US is shifting, with Europe and Asia moving sharply into focus as capital seeks a new home. Private markets are set to drive the future economy, with innovation now a strategic imperative. Traditional assumptions about what is truly 'risk free' are being challenged, something we address directly in our article on credit markets and government debt.

For real estate investors, resilience and growth remain front of mind. Do the living sectors across both Europe and APAC offer compelling opportunities from this perspective? At the same time, evolving consumer behaviours are redefining how individuals engage with markets. One striking example is the rise of Labubu in China – a cultural phenomenon that underscores the shifting dynamics of global consumption. Our key takeaway? With legacy relationships being questioned, maintaining investment conviction is vital.

At M&G Investments, commitment to our investment principles is coupled with active engagement – adapting, innovating and delivering new solutions for investors. I hope you find inspiration in the stories and perspectives shared in these pages, and that they spark new conversations about what commitment means for you and your clients.

Joseph Pinto
CEO, M&G Asset Management


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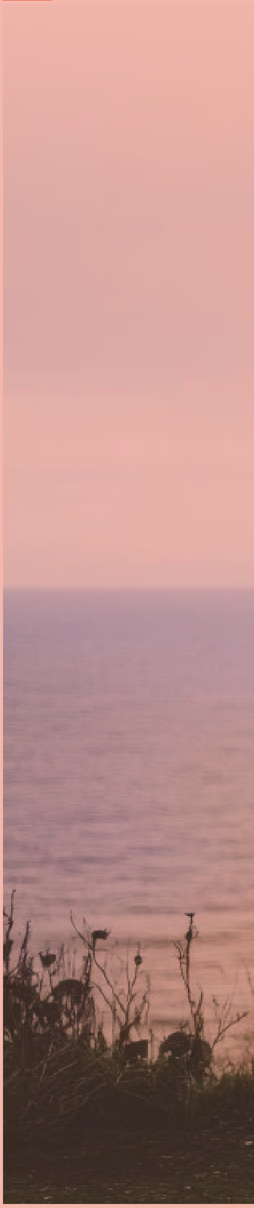
COMMIT-MENT ISSUES



In recent years, the US market has been the darling of global investors. But in 2025, market enthusiasm for the US appears to have cooled. Volatile policymaking and concerns about the nation's fiscal health have shaken the belief in American exceptionalism. At the same time, the allure of other regions, particularly Europe, has grown. Dominic Howell sat down with Tristan Hanson, Stuart Canning and Stefano Amato from M&G Investments Multi Asset team to discuss the dynamics encouraging investors to rethink their commitment to US assets and consider diversifying their portfolios.

Why investors are rethinking their relationship with the US

For several years now, investors have been captivated by the US. The appeal of the world's largest economy and stock market has been hard to resist. Trillions of dollars of overseas capital have flowed into the country.

The one-way direction of this investment can be seen in the US Net International Investment Position, which shows a wide gap between the value of US-owned financial assets in other countries and foreign investments in the US (liabilities).

Global demand for dollars has enabled the US to benefit from lower interest rates than peers, run trade deficits and maintain a dominant financial position. The dollar's role as the world's leading reserve currency has been described as America's 'exorbitant privilege'.

For equity investors, the infatuation with the US has been extremely rewarding: over the past few years, US stocks have delivered returns that far outpace those of many other markets. The S&P 500 advanced more than 20% in 2023 and 2024, driven largely by excitement about AI and technology stocks.

The seemingly relentless rise of the US stock market, combined with the resilience of the economy in an era of high interest rates, arguably cultivated the narrative of 'American exceptionalism'. When Donald Trump was re-elected to the White House in November 2024, promising tax cuts and deregulation, there was a sense that there was no alternative to the US.

Narratives are important drivers of market behaviour – beliefs can fuel trends and price action can confirm the narrative by providing validation. However, at some point all trends end. And when they do, narratives can start to unravel.

As 2025 has progressed, investors' belief in US exceptionalism has been challenged and a new narrative has started to gain prominence, namely the rotation out of the US.

The question facing global investors now is whether the US has changed so fundamentally that they need to rethink their previous commitment. Shifting sentiment has led many investors to consider scaling back their allocations to the US – which are in many cases significant – and seek a broader range of investments in their portfolios.

As with most big issues, the answer is not straightforward. Let's examine the factors that have led investors to reassess their relationship with the US.

"Shifting sentiment has led many investors to consider scaling back their allocations to the US"


HOT!
Menu
FRESH!
OVERSEAS INVESTORS HAVE FLOCKED TO THE US
US Net International Investment Position
Not seasonally adjusted
Trillion (US$)
60
40
20
0
-20
US liabilities
US assets
Net
2016
2017
2018
2019
2020
2021
2022
2023
2024
Source: US Bureau of Economic Analysis, June 2025.
THE US STOCK MARKET HAS BEEN A REWARDING INVESTMENT
Equity market performance, rebased
350
300
250
200
150
100
50
Jan-16
Jan-18
Jan-20
Jan-22
Jan-24
US
Europe
Asia
UK
Source: LSEG Datastream, 1 September 2025. Rebased to 100 at 31 August 2015. US is S&P 500 Index, Europe is Stoxx Europe 600 Index, Asia is MSCI Asia Pacific ex Japan Index and UK is FTSE 100 Index. Returns in local currencies.
Past performance is not a guide to future performance.

We need to talk

America's evolving macro picture

The first test of investors' commitment to the US was President Trump's unpredictable policy announcements, particularly in relation to tariffs. The sweeping import tariffs originally announced were followed by reversals and postponements. Investors generally seek certainty and Trump's inconsistency has shaken their confidence. In addition, worries that tariffs might fuel inflation and weigh on consumption have prompted concerns about the macroeconomic picture.

Trump's "One Big, Beautiful Bill" has also sowed some doubts about the economic outlook. The legislation entails both tax cuts and spending increases for the military and border security, which are predicted to add US$3.4 trillion to the US national debt over the next decade[1].

The prospect of increased government borrowing and higher interest costs have contributed to growing uncertainty about the US fiscal position. The US national debt has just surpassed US$37 trillion and, according to the Congressional Budget Office, the ratio of debt to GDP is expected to rise steadily in the coming years, reaching 156% by 2055[2].

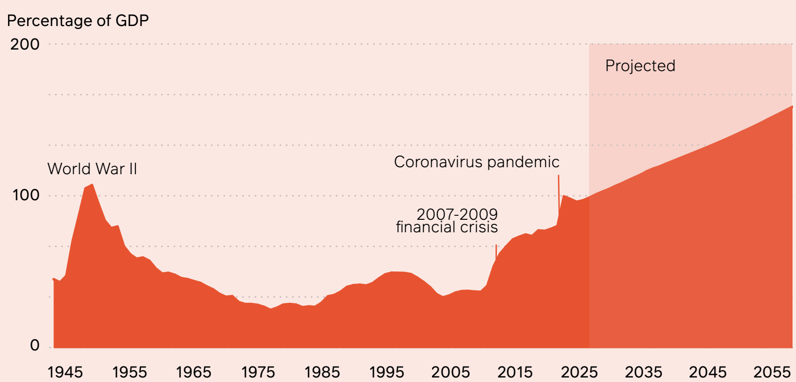
Meanwhile, the president's repeated pressure on the US Federal Reserve (Fed) to lower interest rates and attempt to sack one of its governors, combined with his decision to fire the head of the employment statistics office when the data was disappointing, has raised questions about the integrity and independence of much-heralded US institutions.

In early 2025, the emergence of a cutting-edge AI model from China's DeepSeek challenged the prevailing notion of US technological superiority. Similarly, US economics professors Gordon Hanson and David Autor warned recently in a New York Times essay that China is leading the US in a number of advanced technologies and that the 'second China Shock' may be even greater than the first, when China emerged as a manufacturing powerhouse in the early 2000s[3].

The resilience of the US economy has also been challenged this year by signs of weakening economic activity and a slowing jobs market. Taken together, all these factors have arguably undermined investors' faith in the notion of American exceptionalism.

[1]NBC News, 'Trump's 'big beautiful bill' is projected to add $3.4 trillion to the debt, budget office says', (nbcnews.com), July 2025.
[2]Congressional Budget Office, 'The Long-Term Budget Outlook: 2025 to 2055', (cbo.gov), March 2025.
[3]The New York Times, 'We Warned About the First China Shock. The Next One Will Be Worse.', (nytimes.com), July 2025.

America's growing debt pile



Source: Congressional Budget Office, 'The Long-Term Budget Outlook: 2025 to 2055', (cbo.gov), March 2025.

Competing affections

The clearest indicator that investors have reconsidered their affection for the US has been the decline of the dollar. In the first half of 2025, the dollar fell by nearly 11% against a basket of currencies, the biggest decline in that period since 1973[4]. This move is particularly telling given the economic theory (and the widely held predictions of investors) suggested that the dollar 'should' have appreciated with the imposition of tariffs.

Besides growing doubts about the attractiveness of the US, there have been developments that have increased the appeal of other markets this year. Europe, in particular, has attracted investors' gaze as Germany's massive fiscal stimulus package and plans to increase European defence spending have buoyed optimism about the region's prospects and economic growth.

The rotation towards more attractively valued and promising markets saw European and emerging market (EM) equities outperform their US counterparts in the first half of 2025.

While the dollar and the US stock market may have been expensive and vulnerable to a pullback, there appears to be recognition that the US is now slightly less exceptional than it has been, and that other regions are more worthy of investors' attention.

[4]Financial Times, 'US dollar suffers worst start to year since 1973', (ft.com), 30 June 2025.

It's complicated

Assessing the US equity market

When it comes to the stock market, however, it seems that concerns about Trump's policies and the fiscal deficit don't appear to have much influence on how investors think about US stocks.

After underperforming at the start of the year, the US stock market has staged a powerful recovery since Trump's postponement of reciprocal tariffs. US equities have advanced, even as foreign investors have started to question America's appeal, and the market's price-to-earnings ratio is currently well above its average for the past 20 years.

Of course, there are strategic reasons why equity investors might choose to maintain exposure to the US. The world's largest market is deep and highly liquid. American companies are innovative and entrepreneurial, and are consistently more profitable than companies in other major developed regions.

There is also an established equity culture where dividends and buybacks are an integral part of the shareholder experience. Thanks to their dynamism and superior earnings growth, US equities have typically traded at higher valuations relative to the rest of the world.

However, with the S&P 500 back up around all-time highs, the US market's elevated valuation, relative to its history, could be a reason for investors to be cautious. While being expensive is not in itself a reason for concern, it potentially limits the future returns from US equities relative to other regions that are trading at much lower valuations.

Concentration risk

Many global investors may well have more exposure to the US equity market than they realise – the US represents over 70% of the MSCI World Index, for instance[5]. This might seem appropriate for the world's biggest economy, but in fact the spread of investments is actually very narrow.

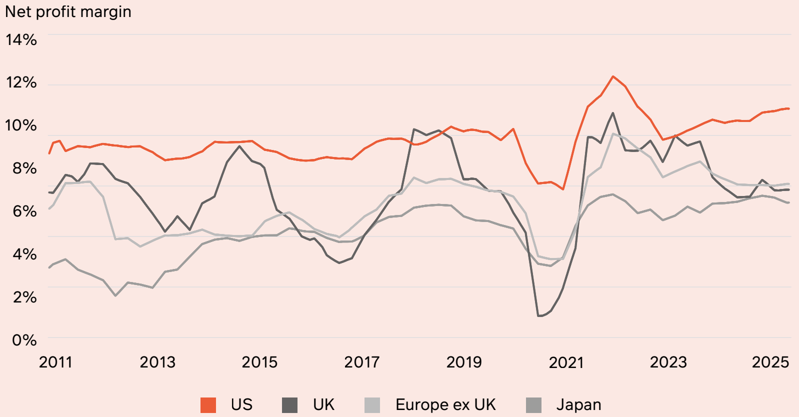
Despite being the largest stock market in the world, by market capitalisation, it is essentially dominated by a handful of mega-cap stocks. The top 10 stocks in the S&P 500 now constitute around 40% of the index, the highest it's ever been, and the largest single stock, semiconductor firm Nvidia, represents 8%[6]. The 10 largest stocks also contribute around 30% of the S&P's earnings, significantly above historical levels.

The most dominant players – commonly referred to as the Magnificent Seven (or Mag 7)[7] – are all technology or internet-related companies and have recently seen their share prices and earnings supercharged by optimism about the future growth of AI.

The reason why this extreme concentration in the market matters is that these companies have become so big that they have an outsized impact on market performance.

[5]MSCI.com, August 2025.
[6]Yahoo!finance, 'The growing risk hidden in the S&P 500 and what investors can do about it', (ca.finance.yahoo.com), August 2025.
[7]The Magnificent Seven are Nvidia, Microsoft, Apple, Amazon.com, Meta Platforms, Alphabet and Tesla.

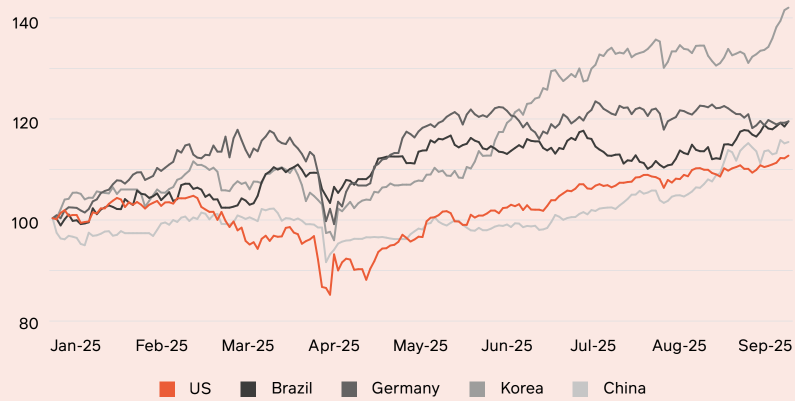
Profitability in the US has been higher than other regions



Source: LSEG Datastream, October 2025. Regions are Datastream markets. Past performance is not a guide to future performance.

Alternatives to the US exist

Equity market performance, rebased



Source: LSEG Datastream, September 2025. Indices are US: S&P 500; Germany: Dax; Brazil: Bovespa; Korea: Kospi and China: Shanghai Shenzehen CSI 300. Returns in local currencies, rebased to 100 on 1 January 2025. Past performance is not a guide to future performance.

It could be argued that they also have an outsized influence on the US economy, given the amount of capital investment they are spending on AI and data centres too.

Just as these stocks have helped drive the market up, they could also drag the market down if they reverse. While the momentum behind AI is currently extremely powerful, earlier this year we saw stocks fall when China's DeepSeek challenged prevailing views about the dominance of US tech. For passive investors in the US, a big drop in a major index constituent could prove costly.

AI is likely to become more important, and these stocks look well positioned for the future. Despite their obvious attractiveness, however, it is worth acknowledging how big an influence these AI-related stocks have on both the US and the global market.

"the largest stock market in the world is essentially dominated by a handful of mega-cap stocks."

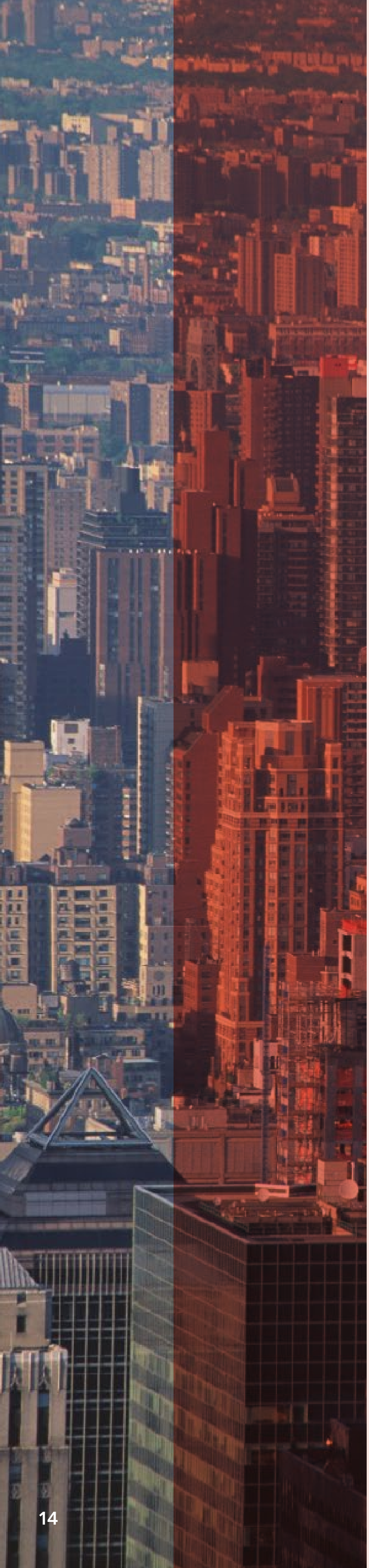
Broadening horizons

From a risk and diversification perspective, investors may start to question whether they are comfortable with so much exposure to such a narrow group of US stocks and the AI theme specifically. One solution may be to actively seek opportunities among the 493 stocks in the S&P that are regularly overshadowed by the Mag 7, and among US stocks outside of the index.

Alternatively, investors could broaden their horizons even further. As we discussed above, there are several other equity markets that have thrived this year, beyond the US.

In Europe, Germany stands out, while Brazil, China and Korea are among the best performers in Emerging Markets (EMs). In fact, Brazilian stocks have gained around 18% this year, in local currency terms, at the end of August, despite Brazil receiving some of the most punitive US tariffs.

So, for investors concerned about concentration risk, policy uncertainty and valuations in the US, there could be potentially rewarding alternatives both within the US itself and across the global market.



Enduring ties

The currency problem

The decline of the US dollar this year has presented a challenge for overseas investors because it has eroded some of the return from dollar-denominated assets. The S&P 500 is up 10% this year, but for euro-based investors the return is negative (at the end of August).

The prospect of further currency weakness, either related to rising debt levels or inflation, could well dampen enthusiasm for investment in the US. This situation echoes the famous quote by US Treasury Secretary John Connally, in 1971, that the dollar is "our currency, but it's your problem."

On a real effective exchange rate basis, the dollar has recently been the most expensive it has been since around 2001. In the past, the value of the dollar has fluctuated and periods of strength have been followed by multi-year declines. It is possible that this may happen again, although worries about the 'death of the dollar' are arguably overblown.

A powerful factor underpinning demand for the dollar is the fact it is the world's reserve currency. The dollar's share of global foreign reserves has been declining gradually for 20 years, but it still remains the dominant reserve currency held by central banks around the world. In 2025, the US dollar represented over 61% of global reserves, far ahead of the euro (20%) and Japanese yen (6%)[8].

As well as being regarded as a store of value, the dollar has a dominant position in the global financial system. This is partly a function of America having the deepest and most liquid financial markets, the most globally accepted currency, the largest economy in nominal terms[9] and the most widely used currency in global trade.

In recent years, there have been calls for 'de-dollarisation' – the idea that other currencies would play a greater role in the global economy, challenging the US's hegemony.

Potential alternatives to the dollar include the Chinese renminbi. Although its share has been growing, there are arguably limits to the currency's uptake, notably China's capital controls as well as confidence in the political regime and respect for property rights.

With regards to the European Union's (EU) single currency, euro financial markets are not deep enough to replace the dollar, while the EU's bond markets are national and trade differently. Meanwhile, demand for other currencies such as the Australian dollar and British pound is only likely to be marginal.

Therefore, despite a gradual erosion in its status, the dollar's dominance looks likely to remain for the time being and it will continue to be a problem for foreign investors to grapple with.

[8]LSEG Datastream/Fathom Consulting, March 2025.
[9]Adjusted for price levels (PPP), China's economy is a third bigger than that of the US.

The value of the US dollar has fluctuated in recent years

Source: Bank for International Settlements, July 2025. *Real effective exchange rates are calculated as weighted averages of bilateral exchange rates adjusted by relative consumer prices.

Time to explore options?

When it comes to assessing whether America is still exceptional and what it means for investors, the situation is not straightforward. On the one hand, there are plausible reasons why investors should stick with the US. Corporate America has many strengths and investing in US equities has proven to be a successful way of generating long-term wealth.

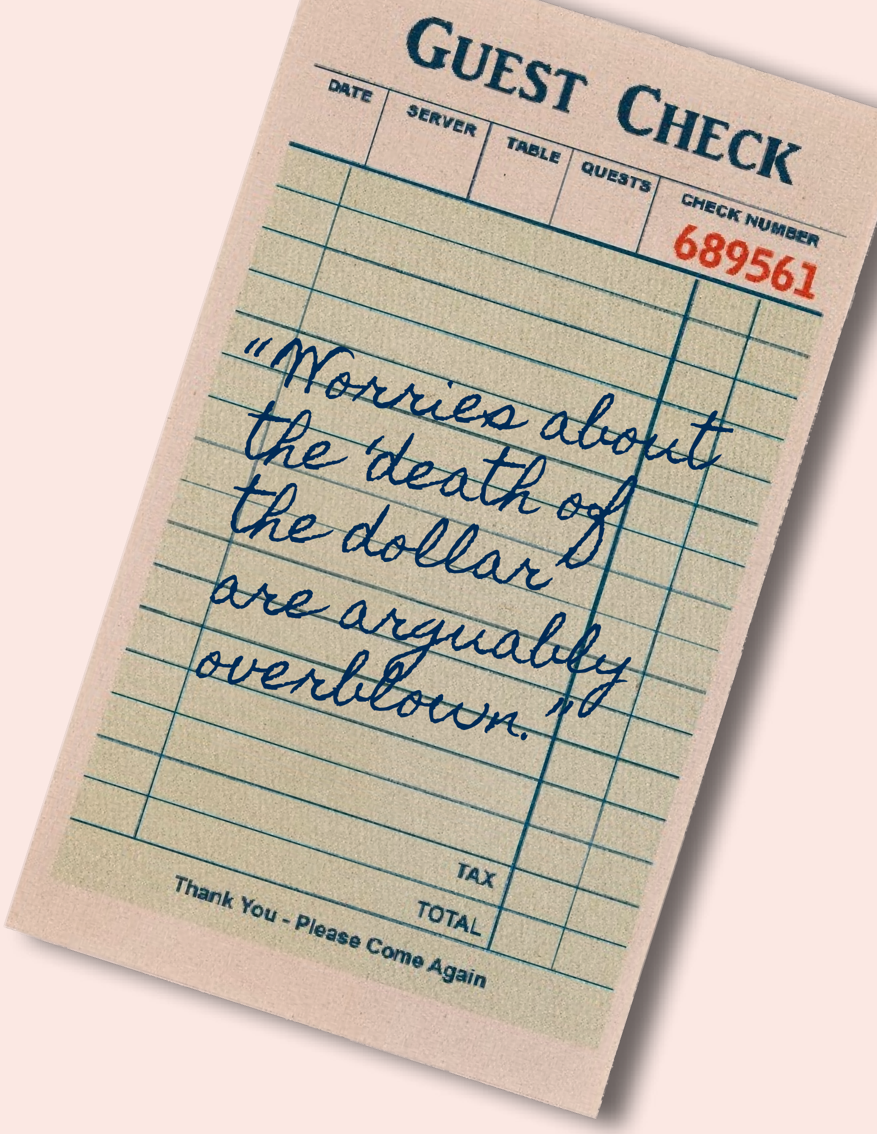
The US market is home to some exciting companies that look well placed to capture the growth of AI technology. However, the US equity market trades at an elevated valuation and performance is being driven by a narrow group of companies. Beyond the Mag 7, there is evidence that some domestically focused firms are facing strain from the slowing economy.

These factors might encourage investors to look more closely at non-US equities, where valuations are more attractive.

However, for non-US equities to catch up over time, there would need to be a narrowing of the earnings growth differential. In the recent earnings season, companies in the S&P 500 were expected to deliver double-digit year-on-year earnings growth, whereas their European counterparts in the Stoxx 600 Index looked set to deliver no growth[10].

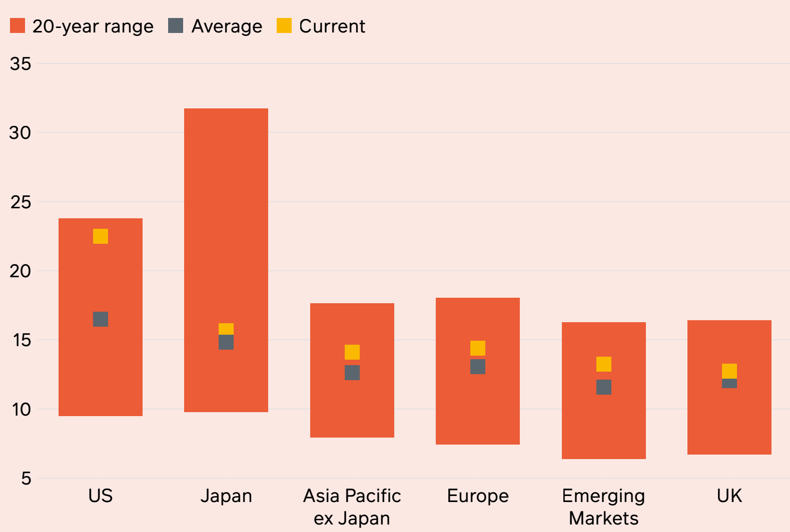
There is a chance that Germany's fiscal stimulus and increased European defence spending could provide a boost to corporate earnings in the coming years. Further afield, corporate reform programmes under way in Japan and South Korea may help earnings growth there, while emerging markets could benefit from a weaker dollar and an improving economic outlook.

Therefore, while US companies have their merits, and some of the overlooked 493 may be potentially interesting investments, there are certainly some plausible options around the globe that could attract investors looking to move on and diversify their portfolios.



US equities are more expensive than other regions

Equity market price-to earnings ratio



Source: LSEG Datastream, September 2025. Regions are MSCI indices.

[10]Financial Times, 'Lessons from an upbeat US earnings season', (ft.com), August 2025.

Debt levels: Nobody's perfect

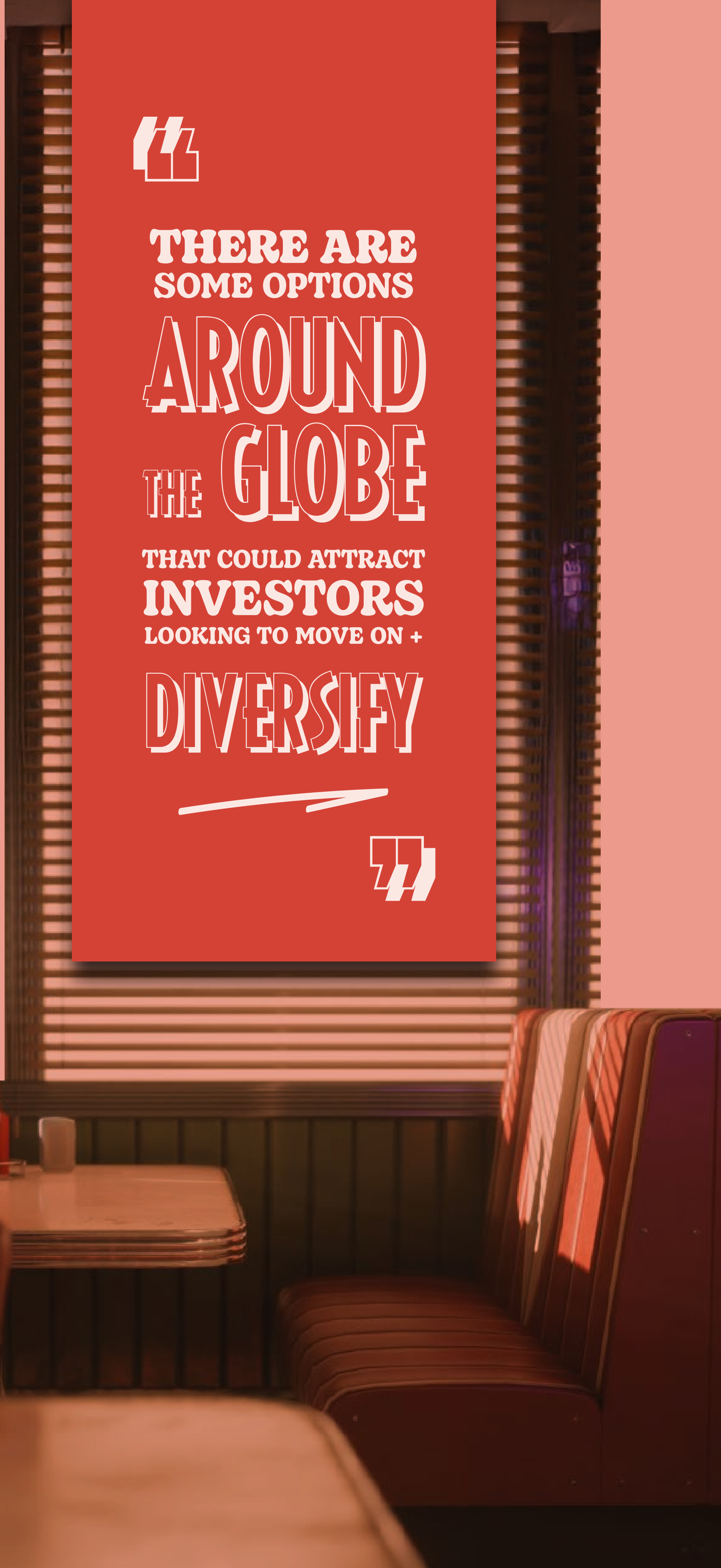
On the macroeconomic front, the picture is less clear. The US economy has been extremely resilient, but President Trump's tariffs could present a challenge by raising costs for consumers and businesses. It is early days yet, but it is possible that inflationary pressures could start to build.

As Trump's tax plans look set to increase the level of government debt in the coming years, these factors could be a source of concern for bond investors. On the other hand, the higher tariffs could actually increase government revenues: it is estimated that the new tariffs have already raised US$88bn this year[11].

Additionally, if inflation is well-behaved in the coming months, then US treasuries may offer attractive real (inflation-adjusted) yields. What is more, they could perform well in an economic downturn as interest rates are cut, despite prevalent fears over debt levels today.

From a relative perspective, the US does not appear to be that different from other major developed economies, which are also battling similar challenges of debt and deficits and ageing populations. The one possible exception to this challenge is Germany.

[11]The Budget Lab at Yale, 'Short-Run Effects of 2025 Tariffs So Far', (budgetlab.yale.edu), September 2025.



"THERE ARE SOME OPTIONS AROUND THE GLOBE THAT COULD ATTRACT INVESTORS LOOKING TO MOVE ON + DIVERSIFY"

> "If inflation is well-behaved in the coming months, then US treasuries may offer attractive real (inflation-adjusted) yields."

The US debt burden may be rising and worry some investors, but the continued dominance of the dollar is arguably a source of reassurance. However, the unpredictable nature of current US policymaking and erosion of institutional norms is a potential threat to the long-run performance of the US dollar.

Reassessing the US – a nuanced picture

In summary, the idea that investors might be rethinking their commitment to the US is nuanced. There are some evident challenges with the US – some of which are shared with other economies – that might motivate investors to explore new opportunities beyond the US and broaden their portfolios.

Conversely, there are also some compelling reasons to stay true to the US market. Warren Buffett once remarked: "Never bet against America," and the US is likely to remain at the heart of many investment portfolios. But for investors who think the odds have shifted unfavourably, it may be time to consider adjusting their allocation and look elsewhere for some promising opportunities. □

Credit spreads:

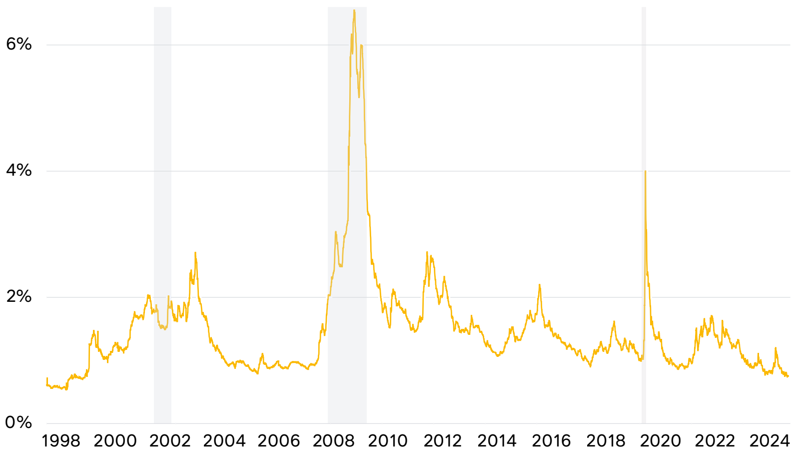
Is there something you’re not telling me?

Corporate bond markets are showing signs of complacency, with tight spreads masking deep macroeconomic and geopolitical risks. In a market facing elevated government debt levels, questions around central bank independence, as well as both macro and micro economic risks, Harriet Habergham unpicks how bond investors can navigate this environment.

Corporate bond markets are playing ostrich. Spreads are tight, valuations stretched and investors are chasing yield with a blissful detachment from risk. Underneath this lies a complex reality.

Credit spreads are at historically tight levels. As at the end of August 2025, the ICE BofA US Corporate Index Option-Adjusted Spread was at 0.78, the lowest since June 1998.

ICE BofA US Corporate Index Option-Adjusted Spread



Source: Ice Data Indices, LLC via FRED®, as of September 2025.
Shaded areas indicate U.S. recessions.

"Spreads over governments are too thin and that's even before you consider what is going on in the world – there are a lot of risks around."

After a decade of ultra-low interest rates and pallid growth, investors were left hungry for yield. In the period following the COVID crisis, which sparked an inflationary uptick and left central banks scrabbling to hike interest rates, investors have piled in, buying up yield. Ben Lord, manager of the M&G Global Corporate Bond Strategy, acknowledges that "all-in yields are attractive", with investment grade (IG) bonds in the US and UK yielding somewhere between 5% and 6% for a high-quality company.

However, Lord highlights that around 4% to 5% of this figure is generated by the government bond yield, meaning only circa 100 bps is generated by the credit spread (the difference between the corporate bond yield and the government bond yield).

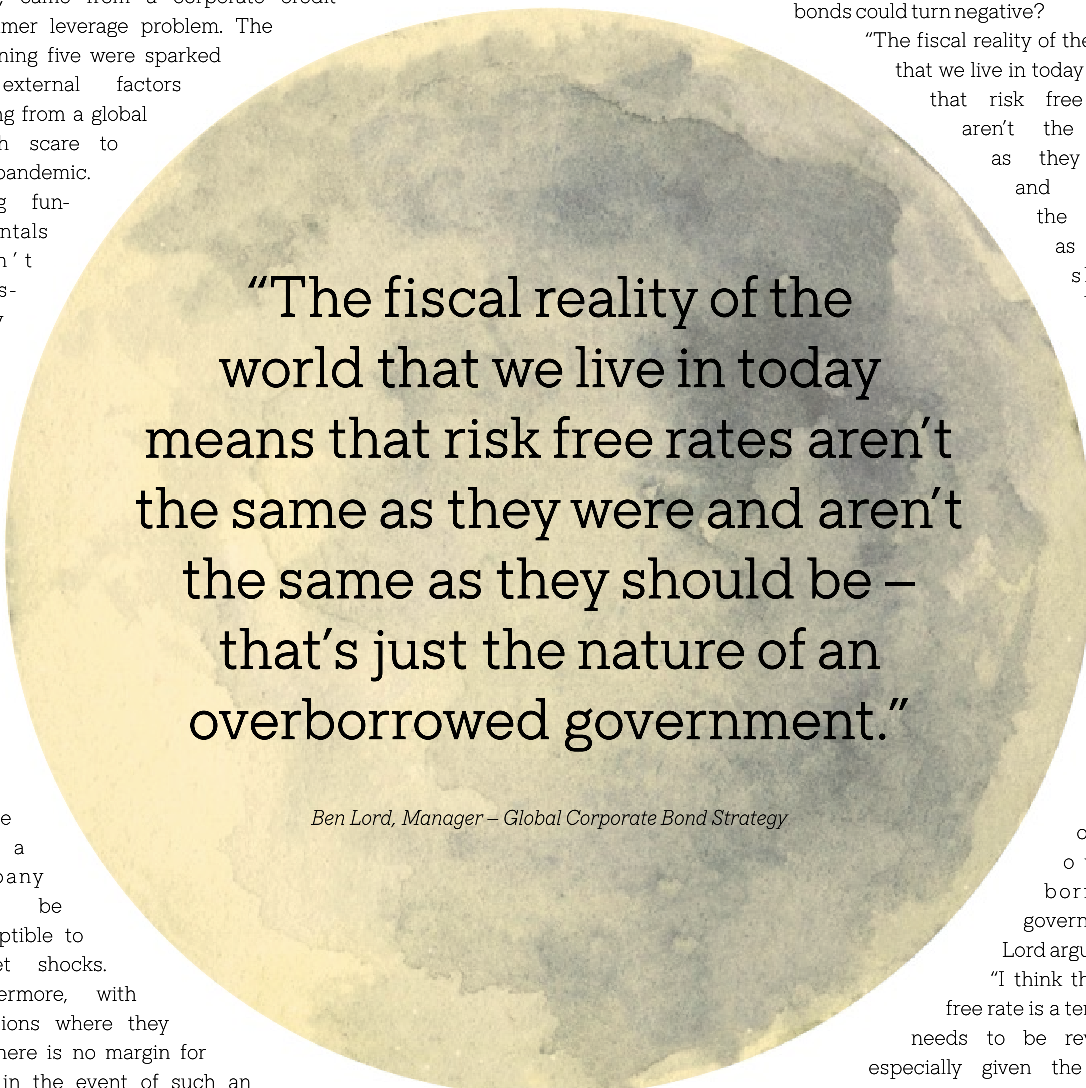
"Spreads over governments are too thin and that's even before you consider what is going on in the world – there are a lot of risks around," he says.

At current levels, spreads paint a picture of strong company fundamentals, a positive macroeconomic backdrop and a sunny horizon.

However, underneath the surface are a myriad of risks, with the largest risks most likely to be those we cannot know yet. In the words of Richard Ryan, co-head of Fundamental Fixed Income, "we are always operating in the grey." He adds: "We can't always know where we're going but we need to know where we are now."

He highlights that over the last two decades, we have experienced six significant credit market sell-offs, of which only one of those, the Global Financial Crisis, came from a corporate credit consumer leverage problem. The remaining five were sparked by external factors ranging from a global growth scare to a pandemic. Strong fundamentals aren't necessarily a guarantee that a company won't be susceptible to market shocks. Furthermore, with valuations where they are, there is no margin for error in the event of such an external shock.

As Nick Smallwood, manager of the Emerging Market Bond Fund, outlines: "The markets are brushing these risks off," but he warns that if we experience an event which causes the market to fall out of bed, "it could fall out of bed quite hard."



"The fiscal reality of the world that we live in today means that risk free rates aren't the same as they were and aren't the same as they should be – that's just the nature of an overborrowed government."

Ben Lord, Manager – Global Corporate Bond Strategy

The risk-free rate

The corporate bond yield is made up of two components: the relevant underlying government bond yield (also known as the risk-free rate) and the credit spread (or risk premium) for lending to a company.

A question weighing on investors' minds is how risk-free is the risk-free rate? In a world where government bond yields have surged as many governments amass more and more debt without a sustainable solution, is there a point where spreads over government bonds could turn negative?

"The fiscal reality of the world that we live in today means that risk free rates aren't the same as they were and aren't the same as they should be – that's just the nature of an overborrowed government," Lord argues.

"I think the risk-free rate is a term that needs to be revisited, especially given the fiscal situation that we ourselves in large parts of the world [are experiencing], and the huge demographic shift as the 'baby boomer' generation retires," says Lord.

The debt-to-GDP ratio in OECD countries reached 111.6% in 2022, compared to 51.3% in 2000 , showing the inexorable rise in debt levels in developed markets (DM). Not only have debt burdens increased, but debt servicing costs have risen, making up 3.3% of national income in 2024, compared to 2.4% in 2021 for OECD countries.

[1]Federal Reserve Bank of St Louis, 'Central government debt, % of GDP', (fred.stlouisfed.org), July 2025.

Central government debt, total (% of GDP) for OECD Members

Source: World Bank via FRED®, as at August 2025.


2010
2015
2020

Given the comparative health of IG corporate balance sheets, could spreads over government bonds turn negative?

Historically in recessionary periods or times of crisis, the widening of corporate bond spreads is offset by a rally in government bonds, providing an element of protection. However, governments have provided a strong fiscal impulse, taking on substantial levels of debt, when growth is still reasonably healthy. As Lord highlights: "The fact we are worried about fiscal risks when the sun is shining is concerning." In a recessionary scenario, tax revenues will drop while government expenses rise, meaning governments would need to borrow more to fill that hole. Ryan likens running a government to running a household budget; the recent leap in debt burdens, he says, is akin to having your mortgage rate doubled or tripled in cost, eating up spending power and rather than reining it in borrowing more and more on the credit card.

If governments continue to take on higher debt loads, it could create a scenario where a risk-off event, such as a recession, could see credit spreads move wider, while government bond yields remain elevated, leaving the developed world in a fiscal crisis. At this point, higher quality names could trade at government bond yields or lower.

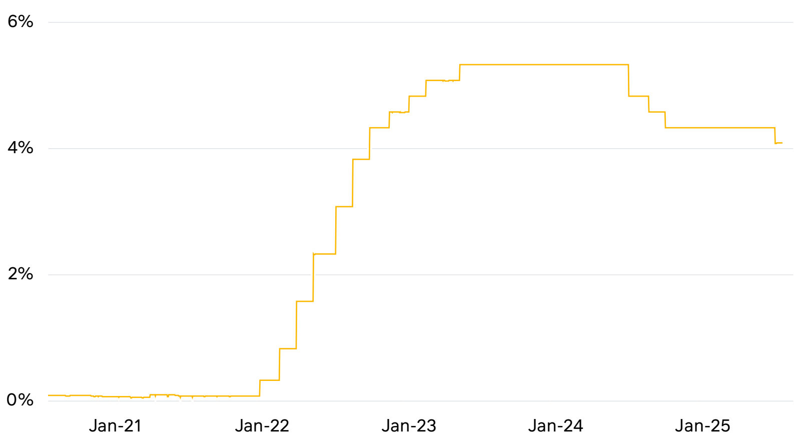
"In this scenario, our long-term valuation framework of taking credit risk when we are paid for it would have reached its extreme conclusion," Lord says.

However, while this scenario could occur, it is unlikely to be long-lasting. Companies operate within a legal framework. If the public sector is struggling for money while the private sector remains relatively strong, governments will turn to both wealth taxes and corporation taxes to take resources.

Furthermore, governments will be able to pull the levers of the printing press and quantitative easing, making a default highly improbable. Instead, the economy would face inflation and the devaluation of currencies, which would present different opportunities and different threats to companies.

Nevertheless, as Lord highlights, it is important to be asking whether government bonds do offer a risk-free rate or whether they will find themselves in the crosshairs of the bond vigilantes in a risk-off event.

Federal Funds Effective Rate



Source: Board of Governors of the Federal Reserve System (US) via FRED®, as of September 2025.

> "Political intervention in the central bank could call into question the credibility of policy in the US, undermining a key stabilising factor in its financial system."

A murky macroeconomic picture

With growth and inflation hanging delicately in the balance in many countries, the future path of interest rates in different regions across the globe remains a key risk for bond investors. The trajectory of both growth and inflation will become clearer as the ramifications of tariffs, heightened geopolitical risk and the impacts of a prolonged period of higher interest rates play out. However, the macroeconomic picture remains murky, with significant divergence across regions.

Smallwood highlights that for most of the world, a lot of the risks are "emanating from the US".

The path of US inflation remains bumpy, coming in at 2.9% in August, higher than the Federal Reserve's (Fed) target rate, and many believe tariff-induced price increases are still working their way through the market.

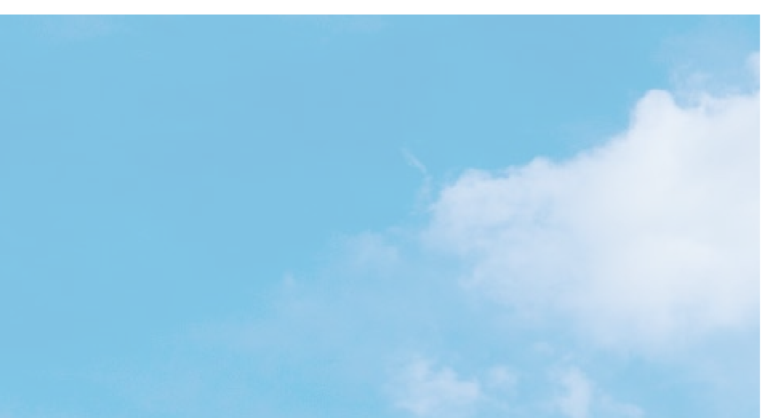
Meanwhile, weakening labour market data, alongside potential tariff-related impacts on US economic activity, caused the Fed to resume its interest rate cutting cycle in September, which has been supportive for fixed income. However, with many investors banking on further cuts, Ryan warns that the markets fixation on easier monetary policy and lower rates could be a risk if these don't transpire.

"We don't know what the effects of trade policy are yet because a lot of the data is backward-looking. We can see some trends, where consumers in the US rushed out to buy their cheap goods on Amazon ahead of the tariff policies and now consumer demand is dropping off," he explains. "So we are in a period of fluctuation, [and] we won't know what the world looks like for a couple of quarters while everything washes through the system and we get some stability."

US monetary policy has received a lot of attention, not just from investors but from the president himself. After bringing interest rates down to 4.5% in December 2024, the Fed subsequently held rates steady for five consecutive meetings. During this period, Trump repeatedly exerted pressure on the central bank to lower interest rates, engaging in various tactics from personal attacks against Fed Chair Jerome Powell to seeking to oust members of the Fed's Board of Governors.

"If the central bank was to lower rates without having the economic backdrop to warrant it, then you start getting worries around Fed independence and so on, [and] that's going to cause problems across all markets – not just emerging markets (EM)," Smallwood argues.

Political intervention in the central bank could call into question the credibility of policy in the US, undermining a key stabilising factor in its financial system.



Muddying the picture further

Another risk facing corporate bond investors lies in assessing the picture of corporate health. There has been an increased prevalence of liability management exercises (LMEs). Default rates are currently elevated but stable. However, this may not be the full picture. LMEs are essentially a debt restructuring technique where a company can alter existing debt, sometimes forcing losses onto creditors. This aggressive company behaviour can distort default numbers. According to Ryan: "If you include LMEs, the default numbers would be elevated and we would see a reaction in spreads, yet they remain low."

As Ryan points out, prior to the GFC there was a belief that economic cycles were a thing of the past and therefore it was possible to take on more leverage without fear of a recession. However, "that leverage built and built, until it cracked," he says.

The advent of private credit has also served to obfuscate the picture, providing borrowers with avenues to avoid "default in the traditional sense, and instead default by the back door," adds Lord.

Zooming in

Having considered the risks posed to corporate bonds on a macroeconomic level, it is equally as important to consider the microeconomic shocks. This was demonstrated in early 2025, as China unexpectedly pulled ahead in the AI race. The release of the DeepSeek AI chatbot in January 2025 demonstrated how a single company can have a profound impact on not just a sector, but a whole market.

Ryan highlights household names that have disappeared such as Kodak, Polaroid and Nokia.

"Companies can come along and change our marketplace, but there is always another company nipping at your heels and the whole world could change again," he argues.

"We need to be humble enough to know that we might not see these things coming, but they will have an outsized effect on the marketplace."

While a single disruptor can pose a risk to a whole market, the remaining companies can still provide opportunities for fixed income investors. Ryan highlights Xerox as a good example; fewer people use its products and there is a visible path of decline. However, if you are being paid a substantial risk premium that takes these factors into account, the firm could still present an attractive possibility. For a bond investor, it is a risk worth taking if you are being paid to do so.

The name of the game

Given the complex, volatile landscape, accompanied by generationally tight credit spreads, how does an investor navigate this?

For Lord, if the largest proportion of IG yield is coming from the government bond yield, then it makes sense to reduce credit risk and add risk through a long duration position in government bonds.

"I've always done the same thing when spreads get down to these levels: sell risk and wait for a correction. It can take a long time or happen quickly, this time it is taking a long time for risk to correct," he says.

However, Lord argues that "something always comes along – you never know what it is, you cannot predict what it is, but you can look at valuations; we use spreads in credit risk terms and when they are this tight you sell and you wait."

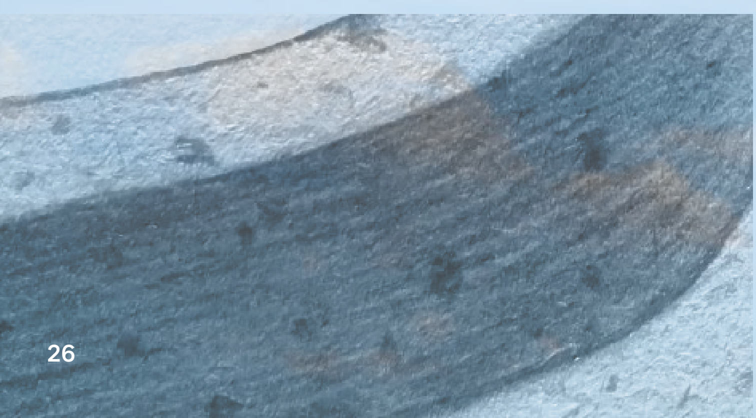
Ryan agrees, adding: "There is a huge amount going on in each jurisdiction and I think people are struggling to assess that risk."

In this scenario, it is important to be nimble and ready to react when valuations reach attractive levels again, because the market tends to sell off suddenly and rapidly.

For example, while certain spreads widened to an extent in the bout of tariff-related volatility in April 2025, markets were quick to retrace and it was a very short window of opportunity. Furthermore, markets didn't experience a full sell-off, with only certain sectors such as autos, pharmaceuticals and to some extent travel selling off to attractive levels, offering a fleeting chance to go out and buy.

"For us at the moment, it is a question of being confident in the knowledge that even if we don't know what is going to happen, something will come along and present an opportunity – it always does," Ryan adds.

The current complacency exhibited by markets, while dangerous, offers active managers a potential to pick up the pieces when something eventually cracks.



"Our goal is to be the last man standing when the market cracks," Ryan explains. "To be the person picking up the pieces and buying into these assets. The great thing about being able to do that is you don't need to buy the riskiest assets at that point, [because] good quality assets are really cheap and you can make decent returns."

In the meantime, Ryan prefers to take advantage of sectoral shifts, "which helps you put runs on the board and keep yourself ticking along, waiting effectively for that opportunity where you can really meaningfully change the risk profile." Discipline and agility is the name of the game.

An emerging opportunity

Similarly to DM, corporate credit spreads in EM are also tight. However, in EM, this is reflective of strong fundamentals: most corporates are not too indebted, balance sheets are strong and local rates are coming down.

However, as Smallwood points out, despite this strength, "you do still get paid more to be in EM, even in IG." He highlights that this has been reflected in flows as DM investors have been "looking to get a bit more bang for their buck out of EM, particularly in IG."

We are seeing this in high yield (HY) markets too, with EM HY corporates giving a spread of circa 440 bps, while US HY has a spread of just under 280/290 bps. This is despite an arguably weaker fundamental outlook for US HY, an asset class more afflicted by tariff uncertainty, which could affect company cost projections and consumer confidence. We believe this presents an opportunity to invest in EM.

"EM corporate bonds offer investors an opportunity to pick up extra yield without forgoing credit quality."

Smallwood highlights strong names, such as Singaporean banks or the Qatar National Bank, which while not necessarily as large as US counterparts, are "rock solid" credits, supported by liquidity and a strong macroeconomic backdrop while providing high yields. The risk/reward profile of EM credits looks stronger than that in DM. For example, if you take Banco do Brasil – a majority state-owned bank diversified across a G20 economy – versus a US monoline oil company, Banco do Brasil likely pays more than the US oil company, despite both being BB rated.

Smallwood argues that this EM premium is likely to remain as it's a less well understood market, diversified across many sectors and countries. This is despite the strong underlying fundamentals.

"It's to do with perceptions," he concludes.

SOFT SIGNAL:

HOW LABUBUS BECAME A BAROMETER FOR THE GLOBAL ECONOMY

In 2025, few would expect a plushie[1] keychain to offer a window into the state of the global economy. Yet, Labubu, by Chinese toymaker Pop Mart, has become an unlikely proxy for shifting consumer behaviour, the rise of cultural commerce and China's expanding soft power, writes Noura Tan. Speaking to Jamie Zhou, a fund manager in the Asia Pacific Equities team, they unpack China's next wave of consumer exports where sentiment drives strategy amid rising protectionism.

Labubu, a US$30[2] collectible toy created by artist Kasing Lung began as a niche curiosity in China's designer toy scene has since become a breakout success in global consumer markets – and arguably the most visible export of a new kind of Chinese branding strategy.

First gaining popularity among Chinese consumers, Labubu's ascent was catalysed by celebrity endorsements and viral TikTok unboxings, propelling it into a global cultural asset. That initial buzz has been sustained by character-driven storytelling, limited product drops and the addictive appeal of the blind box format where buyers don't know which variant they'll receive until opening, pushing the same emotional levers as a McDonald's Happy Meal.

The resale market has further amplified demand, with rare figures fetching substantial sums online[3]. A four-foot-tall version was recently auctioned for US$150,000[4] in Beijing, while fans queue for hours outside retail stores worldwide in anticipation of new releases.

This momentum has translated into an outsized financial performance rarely seen in the toy sector. Pop Mart now commands a market capitalisation of approximately US$40 billion, nearly double the combined value of Mattel, Hasbro and Sanrio. The firm reported a gross profit margin nearing 70% last year, outpacing the 45% margin of industry peer, Miniso, and surpassing high-profile Chinese manufacturers like Xiaomi and BYD, both of which operate closer to 20%[5].

Labubus may be just a toy, but the forces behind it are anything but trivial. What began as designer kitsch has evolved into a commercial juggernaut and more importantly, a proxy for shifting consumer appetites, the rise of Chinese soft power and the growing entanglement of culture and commerce in the global economy.

Soft power in hard times

Labubu's trajectory mirrors past speculative toy crazes like Ty's Beanie Babies and Hasbro's Furbies, but its success is unfolding in a more precarious macroeconomic environment. Where earlier fads reflected exuberant consumer cycles, Labubus are thriving in a climate marked by financial insecurity, post-pandemic behavioural shifts and recessionary headwinds.

This phenomenon represents a modern reprise of the 'Lipstick Index', Estée Lauder chairman Leonard Lauder's theory that consumers gravitate toward small, emotionally satisfying indulgences during economic downturns. Coined during the early 2000s recession, the pattern resurfaced again during the 2008 financial crisis and resonates again today, with Labubus emerging as the plush iteration.

This shift has been amplified by the pandemic, which disrupted traditional links between sentiment and spending. As uncertainty persists, household income is no longer the sole driver of consumption. Instead, purchasing decisions are shaped by savings, the rise of online shopping and a 'value now' mindset where consumers seek maximum emotional return for minimal financial outlay[6]. This logic has favoured low-cost, high-aesthetic products that offer social currency and emotional relief at accessible prices.

At the same time, impulse buying has surged post-pandemic, not despite rising uncertainty but because of it, fuelled by anxiety, a lingering sense of lost control[7] and the frictionless nature of social media-driven commerce.

Chinese firms have proven adept at capturing this behavioural pivot. Accessibly priced yet aspirationally marketed, Labubu's success marks a broader shift across China's consumer sector where firms are looking to build brand equity abroad while navigating the constraints of an increasingly fragmented global trade environment.

However, this shift is not a strategic breakthrough, but rather a continuation of Chinese firms' longstanding, often understated leadership in consumer innovation and market strategy, now becoming more visible on the global stage.

Crucially, success in China's vast and highly competitive domestic market has provided a robust foundation for overseas expansion. With access to a vast, digitally fluent consumer base, companies are able to refine products, scale operations and build brand equity at home before entering international markets, often with a level of maturity and agility that gives them a competitive edge abroad.

[1]Plushie: a soft, stuffed toy typically made from plush fabric. While often associated with children, plushies have also become collectible items and cultural symbols in various consumer markets.
[2]Approximate retail price, standard pocket-sized Labubu figures typically range from US$20 to US$30, depending on design and market.
[3]Joan Verdon, 'Labubu Remains King Of The Collectibles, StockX Reports', (forbes.com), August 2025.
[4]Adam Hancock, 'Human-sized Labubu doll sells for more than $150,000', (bbc.co.uk), June 2025.
[5]Bloomberg News, 'Labubu's Mega Markups Make Pop Mart a $43 Billion Export Giant', (bloomberg.com), June 2025.
[6]See Ezra Greenberg, Kelsey Robinson, Olivia White and Tamara Charm, 'The 'value now' consumer: Making sense of US consumer sentiment and spending', (mckinsey.com), January 2025.
[7]Shuyang Wang, Yun Liu, Yingying Du and Xingyuan Wang, 'Effect of the COVID-19 Pandemic on Consumers' Impulse Buying: The Moderating Role of Moderate Thinking', (pmc.ncbi.nlm.nih.gov), October 2021.

POP MART'S US$40 BILLION MARKET CAP IS ALMOST DOUBLE MATTEL, HASBRO AND SANRIO COMBINED

Source: LSEG Datastream, as of September 2025.

"Chinese consumer influence and cultural exports remain resilient, even as Western governments intensify efforts to decouple."

Repackaging 'Made in China'

Since China's rise as a manufacturing powerhouse in the 1980s, 'Made in China' became shorthand for cheap, fast and often disposable. In recent years, Chinese firms have made a tactical pivot that reflects a deeper structural shift in how they compete globally, shaped by rising protectionism, fractured trade relations and growing uncertainty.

The strategy driving this shift is clear: innovate at home, localise abroad.

Pop Mart exemplifies this shift. Its global success hinges on emotive appeal, not just cost. Labubu, originally inspired by Danish fairy tales, has evolved into a globally adaptable character, with country-exclusive designs tailored to local tastes. This synergy between domestic innovation, supply chain and market-specific localisation is emerging as a defining trait of China's most globally competitive brands, says Jamie Zhou, Deputy Fund Manager of the M&G China Fund.

Other Chinese firms have been applying similar strategies with equal impact. Xiaomi, now ranked third in global smartphone market share[8], delivers Apple-adjacent design and functionality at price points tailored to middle class consumers in markets like India and Spain. BYD, once dismissed as a second-tier EV maker, now outpaces Tesla in global EV sales[9], due to its focus on regional regulatory needs, consumer preferences and strategic government partnerships in Europe, Southeast Asia and Latin America.

Even in unexpected sectors, the same model holds. Mixue, a budget tea and ice cream chain that began as a street cart in Zhengzhou, has become the world's largest food and beverage chain by outlet count, outnumbering Starbucks and McDonald's[10]. Its rapid growth stems not only from its ultra-low prices and fully integrated supply chain, but also from a compelling cultural persona, featuring a beloved snowman mascot, limited-time regional flavours and a TikTok-fuelled fanbase that blurs the line between consumer and community.

Zhou sees this localisation-first approach as a defining feature of the new consumer export model. "Pop Mart develops some of its most successful intellectual property (IP) through foreign designers, leveraging China's manufacturing scale while incubating ideas abroad, like Labubu editions born in Thailand," he observes, adding that this strategy is not limited to design-led firms.

"BYD adapts its vehicles to local preferences and regulatory environments, while Mixue's durian ice cream, developed in Southeast Asia, became a surprise hit in southern China. Meanwhile, traditional giants were slow to respond," Zhou explains.

Zhou argues that these firms collectively represent a new consumer export model, one that blends industrial efficiency with emotionally resonant design, scaled through digital ecosystems and tailored to regional realities.

The market is already rewarding this new model. In March 2025, Mixue debuted on the Hong Kong Stock Exchange with a valuation approaching US$10 billion[11], underscoring investor appetite for companies that pair market fluency with the efficiency and scale of the Chinese manufacturing ecosystem. By competing not only on price but also on aspiration, these firms are setting new benchmarks for global competitiveness where cultural relevance is becoming just as critical as cost control.

"By competing not only on price but also on aspiration, these firms are setting new benchmarks for global competitiveness where cultural relevance is becoming just as critical as cost control."

China adapts as protectionism rises

Whether Labubus extend their reign or are rendered a whimsical outlier in a serious trade environment, they reflect a broader reality: Chinese consumer influence and cultural exports remain resilient, even as Western governments intensify efforts to decouple. This reality has been accelerated – not stalled – by rising protectionism led by the US and increasingly echoed in Europe.

Since returning to office, President Donald Trump has expanded his tariff agenda, imposing sweeping duties on nearly all imports, framed as a national security imperative and a corrective to longstanding trade imbalances.

In parallel, the administration has doubled down on reshoring, offering tax incentives and regulatory support to bring manufacturing back to US soil. Trade agreements with allies such as the European Union and Japan have unlocked billions in investment commitments, reinforcing a broader strategy to reduce reliance on China and build resilience against geopolitical shocks.

Yet while governments tighten trade rules, Chinese firms are not retreating but adapting. In 2025 alone, BYD has opened assembly plants in Hungary, Thailand and Brazil, with more underway in Turkey and Cambodia. These are not detours, they are strategic pivots to serve local markets, sidestep US tariffs and hedge against geopolitical volatility. Xiaomi has similarly restructured its supply chain, embedding production hubs in Vietnam and India to build operational resilience and regional relevance.

This localisation extends beyond logistics. Just as with Pop Mart and Mixue adapting their offering to local tastes and cultural norms, BYD has engineered EVs with European aesthetics and safety standards in mind[12], while Xiaomi has long rolled out software for European devices to meet regional compliance and user preferences.

[8] International Data Corporation, 'Worldwide Smartphone Market Grows 1.0% in Q2 2025, Despite Global Uncertainty and Weak Demand in China, according to IDC', (idc.com), September 2025.
[9] Autovista24, 'What are the global EV market's most successful brands?', (autovista24.autovistagroup.com), February 2025.
[10] Peter Hoskins, 'Bubble tea chain bigger than Starbucks sees shares jump on debut', (bbc.co.uk), March 2025.
[11] Scott Murdoch and Sophie Yu, 'Chinese bubble tea chain Mixue aims to raise $443 million in Hong Kong IPO', (reuters.com), February 2025.
[12] The EV Report, 'BYD ETM6: A Customizable, Eco-Friendly Solution for Urban Logistics', (theevreport.com), September 2024.

"In this reshaped global economy, the winners won't be those who build the highest walls, but those who learn to move around them."

Zhou observes that, "We've seen a proliferation of Chinese brands moving up the value chain, and it's proving favourable to invest in that trend." While inflation continues to squeeze the American middle class, many Chinese companies operating in the US are thriving, thanks to their relative cost advantage, even amidst rising tariffs.

But the implications extend beyond bilateral trade. Zhou points to third markets like Brazil, currently locked in a dispute with the US over economic sovereignty, as key battlegrounds. "Their actions will shape how Chinese and global multinationals, from the US, Japan and Korea, restructure their supply chains," he says.

The new Silk Road

This is not globalisation as usual. It's a post-national business model where R&D remains rooted in China, but production, compliance and marketing are increasingly regionalised. Western tariffs may have slowed traditional exports, but they have accelerated a shift toward services, IP-driven business models and cultural exports – the kind of soft power commerce that is harder to regulate and more agile than steel or semiconductors.

What emerges is a two-speed system where at the top, policymakers tighten trade rules, restrict tech-sharing and pursue self-reliance, while at the bottom, consumers continue to engage with Chinese products – not merely out of necessity but increasingly from genuine preference and emotional attachment. Pop Mart expects over half its revenue to come from international markets this year, with projections rising to nearly 70% by 2030[13].

For investors, the implications are twofold. First, the old metrics for evaluating Chinese consumer brands – price competitiveness, scale and operational efficiency – are no longer sufficient. Today's leading players are competing on emotional affinity, cultural fluency and regional relevance, especially in uncertain times.

Second, these firms are building defensible value not just in hard assets, but in soft ones: IP portfolios, design languages and fan communities. In an environment where physical supply chains are increasingly politicised, cultural products are harder to tariff, regulate or replicate.

From tech to toys, Chinese firms are transitioning from producers to protagonists, their growth models rooted in regional relevance, not just volume.

Labubus will ultimately fade into the ranks of passing fads – plush toys rarely endure. But the strategic infrastructure behind the character's success will remain: an emotionally attuned user experience, a localisation playbook, scalable character IP and manufacturing agility.

In many ways, what we are seeing is the emergence of a new kind of Silk Road, one built on soft power and consumer resonance, designed to ease the geopolitical friction that often shadows China's ascent. In this reshaped global economy, the winners won't be those who build the highest walls, but those who learn to move around them.

For investors, this raises a clear thesis. In a world of rising trade barriers and localised consumer demand, the companies best positioned to lead will be those capable of delivering emotional resonant design, region-specific strategies and adaptive supply chains.

In 2025, the most telling signal of that shift might just be a blind box with a plushie keychain inside. □

[13]Lovey Mangal, 'Pop Mart's viral collectibles to fuel overseas revenue surge', (spglobal.com), July 2025.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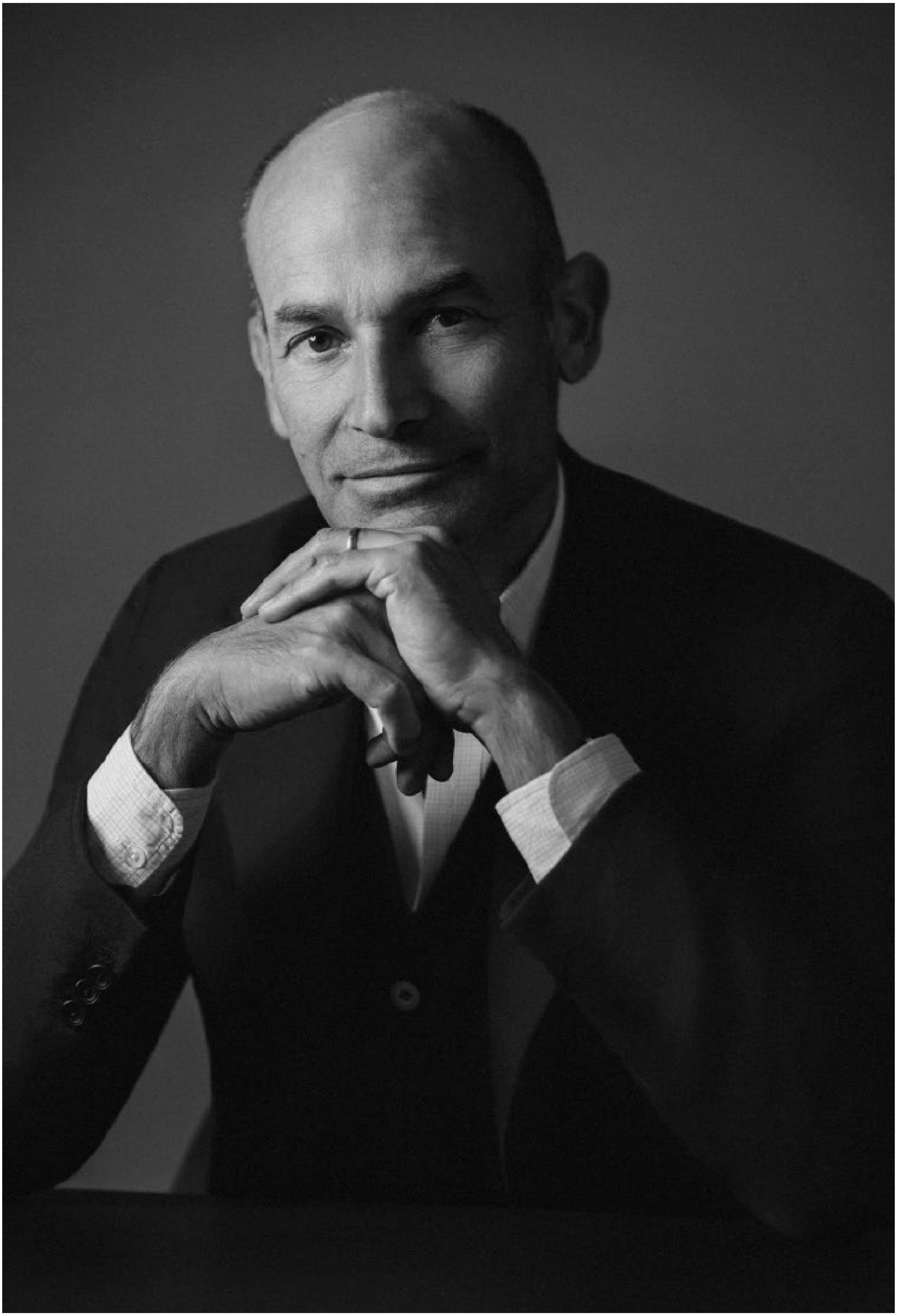


IN CONVERSATION WITH...

DANIEL SACHS

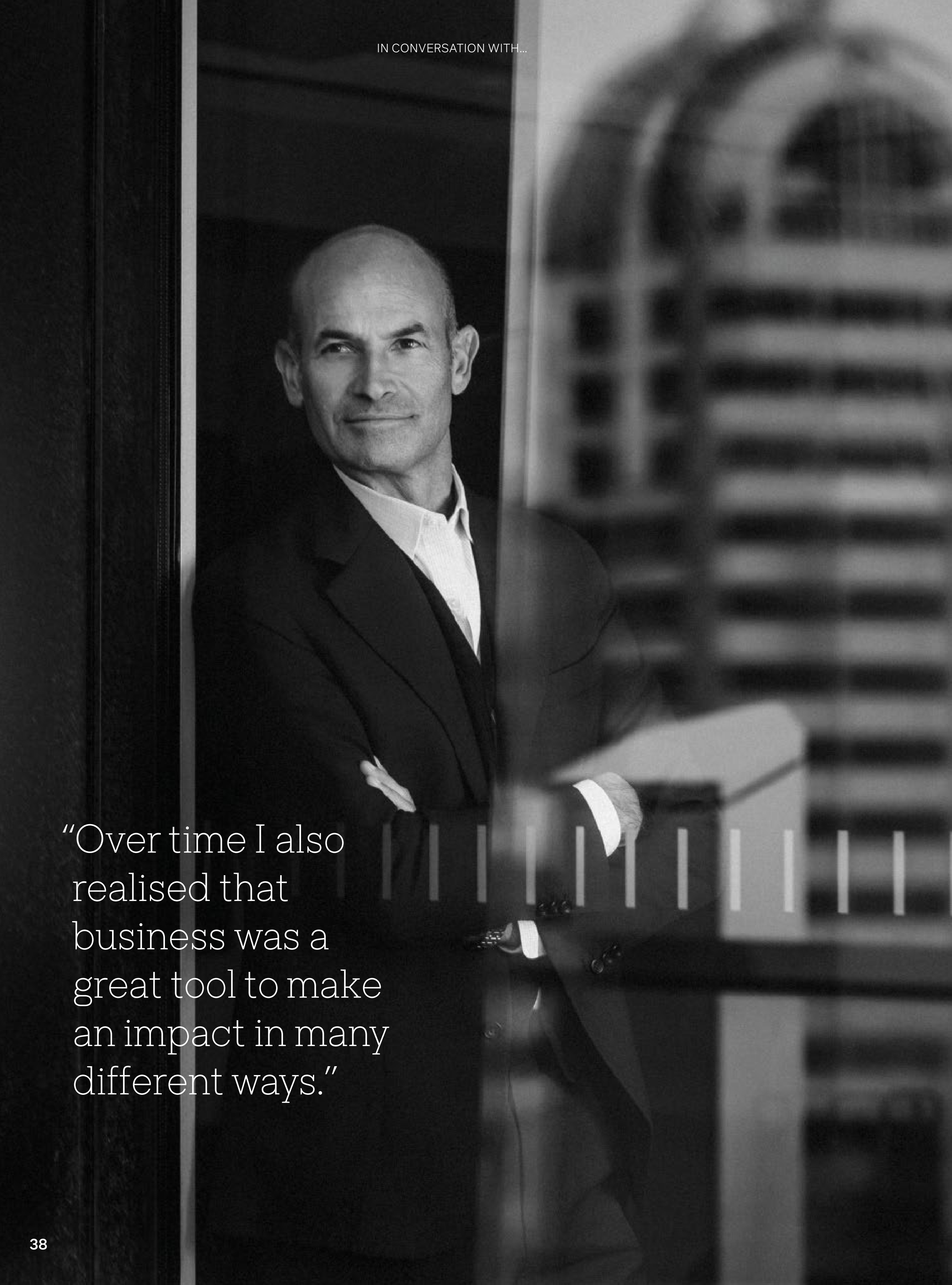
Daniel Sachs is an established figure within the Swedish investment community. For the last 20 years, Daniel has led P Capital Partners (PCP), a provider of private credit solutions to entrepreneurs and family-owned businesses. With M&G Investments recently acquiring a majority stake in this business, Daniel spoke with Simon Sharp about his business career and why he thinks the opportunities within non-sponsored private credit are only set to accelerate.

PCP is based in Stockholm. Has that proven to be either an advantage or disadvantage?

When PCP was founded over 23 years ago, the primary focus was certainly on the Nordic market. Since then, our business has rapidly expanded across Europe with Germany now our largest market after Sweden. Whilst the quality of local talent is exceptionally high, we have always had an international team. In fact, with over 50 employees, we have 14 different nationalities. It is also worth mentioning that PCP works with ambassadors and partners across Europe.

PCP has a particular niche targeting entrepreneurs and family-owned businesses. Is this a particular characteristic of the Nordic market?

It's certainly not unique to the Nordics, in fact Germany, PCP's second largest market, has an extremely large SME sector which underpins a large part of the wider German economy. There is also a lot of cultural similarity between the Nordic region, Germany and the Benelux.



"Over time I also realised that business was a great tool to make an impact in many different ways."

The European private credit market has grown rapidly. Do you think this is likely to continue?

Yes, it has to. Not least because of the very large competitive and productivity gap which continues to exist between Europe and the US. European companies need to substantially increase their investment in entrepreneurship, digitisation, sustainability and energy security.

Funding these investments into European competitiveness requires primary capital, the initial funds invested in a company, so demand will remain high. In terms of supply, the greatest supply of private capital is secondary capital, or buy-out capital, funding transactions from a buyer to a seller – none of that capital goes into the business to fund its development (as opposed to primary capital).

For example, private credit in Europe is 90% sponsored credit with a focus on funding buyouts[1]. There is therefore a very real gap between the supply and demand for primary capital in the private credit market and this is a very real issue for Europe. Over 90% of what PCP does is use private credit to provide primary capital solutions across our strategies. PCP is by far the largest provider of non-sponsored private credit in Europe – this is a niche which remains nascent and therefore provides plenty of growth opportunities.

PCP's ethos is 'investing with purpose'. The focus on ESG/impact/sustainability seems to be weaking, particularly in the US. Do you think this is transitory?

From the start there has always been a dichotomy between those investors who claim they embrace integrating sustainability in their investing versus those who actually do. The pendulum does seem to be swinging, particularly in the US, against these values. However, I firmly believe that in order to build consistently profitable businesses you need to factor in the sustainability transition. ESG and sustainability do not come with a performance cost – quite the opposite, as they often help mitigate business risks and therefore enhance financial performance.

"PCP is by far the largest provider of non-sponsored private credit in Europe."

PCP is a credit provider. Why is ESG/sustainability important as there is no equity upside for PCP?

A core focus for any lender is risk ie, the avoidance of loss. The principal has to be repaid at the end of the loan, so clearly we have an interest in ensuring the borrower is successful. Added to this is the reputation of PCP – we want to be known in the market as a firm that backs and partners with successful businesses.

M&G Investments has recently become majority shareholders in PCP. Why did you decide now was the time to become part of a larger group?

The main catalyst was a realisation that there was a very interesting opportunity to grow our business because of the large needs of primary capital for European competitiveness. In order to do that we felt we needed greater institutional capabilities, particularly in terms of capital formation and fundraising, as well as systems and operational support. Existing PCP management remain substantial minority shareholders, which is important.

You don't come from a financial family. What was the catalyst for you to enter the investment world?

Both my parents were academics and encouraged discussion of politics and social issues around the dinner table. But my great grandfather – Josef Sachs – founded NK, which is Sweden's leading department store, in 1902, so the family did have a business background. I was always very curious about business, and over time I also realised that business was a great tool to make an impact in many different ways, for example allocating capital to parts of the economy important for social development. I have never believed there is any conflict between delivering financial performance and meeting these wider desirable goals – quite the opposite.

In terms of your clients, do they tend to be one-time-only borrowers or do you maintain long-term relationships with them?

The large majority of our deals are one-time transactions, but they are not short-term relationships. Most of our loans have a duration of five to seven years. We tend to provide capital for concrete growth initiatives in a company's development, but over time typically they will transition towards using traditional bank financing or bond markets.

You travel all across Europe on business. Which is your favourite city?

Difficult to answer as in Europe different cities offer very different experiences, but I would probably opt for Milan. I enjoy Italian cuisine and culture but I also find it a really stimulating city, perhaps because it is so different from Stockholm. London would probably be my second choice.

Assuming you have any, how do you enjoy spending your free time?

When I relax my main focus is family, nature and being active. I spend time with my family, I read and I enjoy going to exhibitions – culture is very important for me. I also play a lot of tennis and ski and during the summer you will find me doing something on the ocean. It's good when unwinding to not be overly competitive, though that probably is not the case with my tennis matches! ☐

[1] Private Debt Investor: 'Regional guide: Europe's managers optimistic despite, macro challenges', 30 May 2025.

HOME AWAY FROM HOME?

EUROPE AND APAC LIVING SECTORS' APPEAL AMID US UNCERTAINTY

Amid economic fluctuations and fraying geopolitical ties, investors are reassessing their reliance on US assets. The unfolding 'great rotation' shifts attention toward Europe and Asia-Pacific, where the resilient residential or 'living' sectors within the real estate market present appealing returns in uncertain times. With secular tailwinds in housing supply and student mobility, Noura Tan asks, can these markets lead the way toward future growth?

Over the last decade, the US has been regarded as a preferred destination for global investors, characterised by its exceptional intellectual capital, deep capital markets and dynamic entrepreneurship ecosystem, all anchored by the dependability of the US dollar.

However, recent disruptions from tariff wars and strained alliances mark a potential inflection point for both the US and the broader global framework. The unprecedented volatility in economic and market conditions, compounded by a declining fiscal outlook and threats to Federal Reserve independence, have stirred apprehension about the future stability of the dollar-centric global financial system.

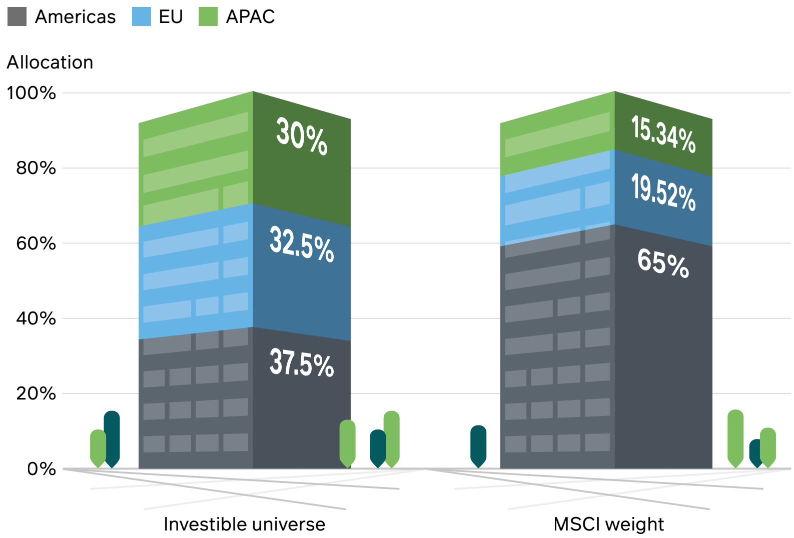
These challenges are prompting critical reflections on the US's role and influence in attracting capital. Investor sentiment is shifting, with many asking whether the US represents a concentration risk rather than a mitigant, and if greener pastures are to be found elsewhere. Notably, US institutional investors have shown a persistent preference for residential properties, which make up 32% of institutionally managed real estate investments in the US as of 2024[1], reflecting a strategy that prioritises stability and resilient returns.

As the notion of US exceptionalism finds itself under scrutiny, global investors are considering similar asset classes abroad, particularly in Europe and Asia-Pacific (APAC), and especially the living sector which offers attractive risk-adjusted returns amid evolving global dynamics.

The US currently accounts for approximately 37.5% of income-generating real estate worldwide, yet it commands a disproportionate 65.1% of MSCI Global Real Estate assets under management[2]. This concentration risk, set against a backdrop of uncertain macro conditions, is pushing investors to diversify by exploring regions that offer greater stability and growth potential.

[1] MSCI, as of January 2025.
[2] MSCI and PMA, as of July 2025.

Disproportionate US holdings? Real estate investors rethink their allocation



Source: MSCI and PMA, as of June 2025.

In the US, residential market yields have been squeezed by extensive institutional ownership and fierce competition, trailing office yields by 100-200 basis points. In contrast, key urban centres across Europe and APAC paint a starkly different picture.

Marcus Eilers, Head of M&G European Residential, elaborates on this disparity: "Unlike office markets, which are heavily tied to the economic success of their surroundings, residential markets remain resilient and enjoy strong rental growth even during economic turbulence."

In Europe and APAC, these markets benefit from a favourable spread above the cost of capital, drawing investors who are in pursuit of superior returns in a stable environment.

Eilers further notes that the perception of living investments as lower-yielding has been increasingly challenged over the last 20 years. Factors such as supply-demand imbalances and regulatory influences have enhanced the value of these investments in Europe, contrasting sharply with the US office market, which faces volatility from overpricing and the shift to remote work.

David Askham, Director of Portfolio Management for M&G's Asia Pacific Living strategy, observes similar trends in Asia, where living assets exhibit low volatility and outperform commercial real estate in terms of risk metrics. He adds that Asia's broader economic indicators showcase strong GDP growth prospects, rivalling that of the US.

"INVESTOR SENTIMENT IS SHIFTING, WITH MANY ASKING WHETHER THE US REPRESENTS A CONCENTRATION RISK RATHER THAN A MITIGANT, AND IF GREENER PASTURES ARE TO BE FOUND ELSEWHERE."

Supply constraints anchor steady rental trends in Europe and APAC

Beyond immediate yield performance, broader structural trends are reshaping the global market. A higher interest rate environment is reshaping demand fundamentals, leading to delayed home-ownership and longer rental durations in major urban areas.

Despite similar global trends, the divergence in regional housing supply is pronounced. In the US, although affordability challenges remain due to gaps between income levels and housing prices, there is a significant surplus of housing units.

From 2000 to 2020, production exceeded household growth by 3.3 million units[3], facilitated by abundant land, efficient construction processes and diverse financing options. Reflecting this excess, rental apartment vacancy rates in the US reached 7% as of June 2025[4], markedly higher than those in other global markets such as the UK (3%)[5], Germany (2.5%)[6], Tokyo (3.2%)[7], the Nordics (4.5%)[8] and Australia (1.2%)[9].

Conversely, Europe and some parts of APAC are experiencing sharp declines in new housing supply, which are expected to persist below immediate demand levels in the short- to medium-term. This ongoing shortfall is further compounded by a historic undersupply that remains unaddressed.

"The general notion that European countries are building less than they should be building is true," Eilers says. He points to external factors, such as the COVID-19 pandemic, geopolitical tensions from the Ukraine conflict and interest rate hikes, which have further intensified the structural challenges already present in the region.

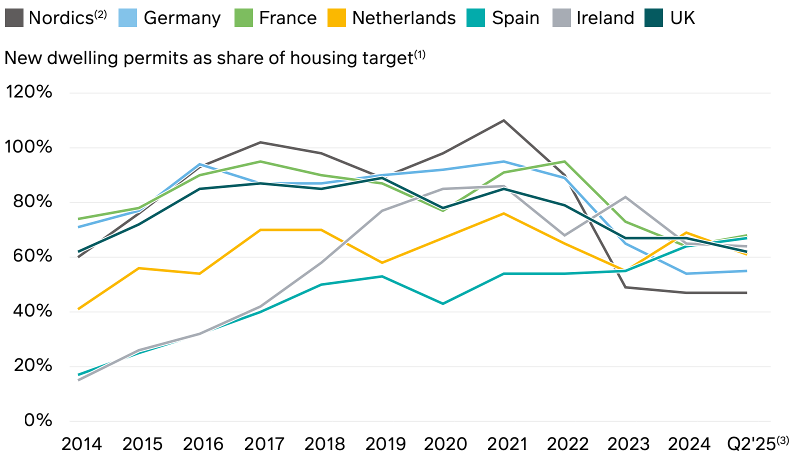
"These issues," he explains, "compounded by inadequate construction and regulatory constraints, result in a persistent imbalance between housing demand and supply, thereby underpinning the investment rationale for entering European residential markets."

Some parts of APAC encounter comparable supply constraints, with Askham particularly noting that historically from 2016 to 2024, Australia's housing stock grew by about 1.7% per annum, whereas the number of households increased by about 2.4% on average[10].

"The biggest factor is encouraging supply," Askham stresses, pointing to initiatives that stimulate development through collaborations between the government and private sector, including tax reductions for Built to Rent (BTR) properties.

This disparity in housing supply dynamics is influencing rental trends globally. In the US, where housing delivery has been extensive, rental prices have largely remained flat, barring pockets of market hotspots like New York or San Francisco. On the other hand, rents across European and APAC cities continue to outpace inflation, driven by acute supply constraints and persistent demand pressures.

Most European countries will fall short of housing demand in the next few years as recent permits have plummeted

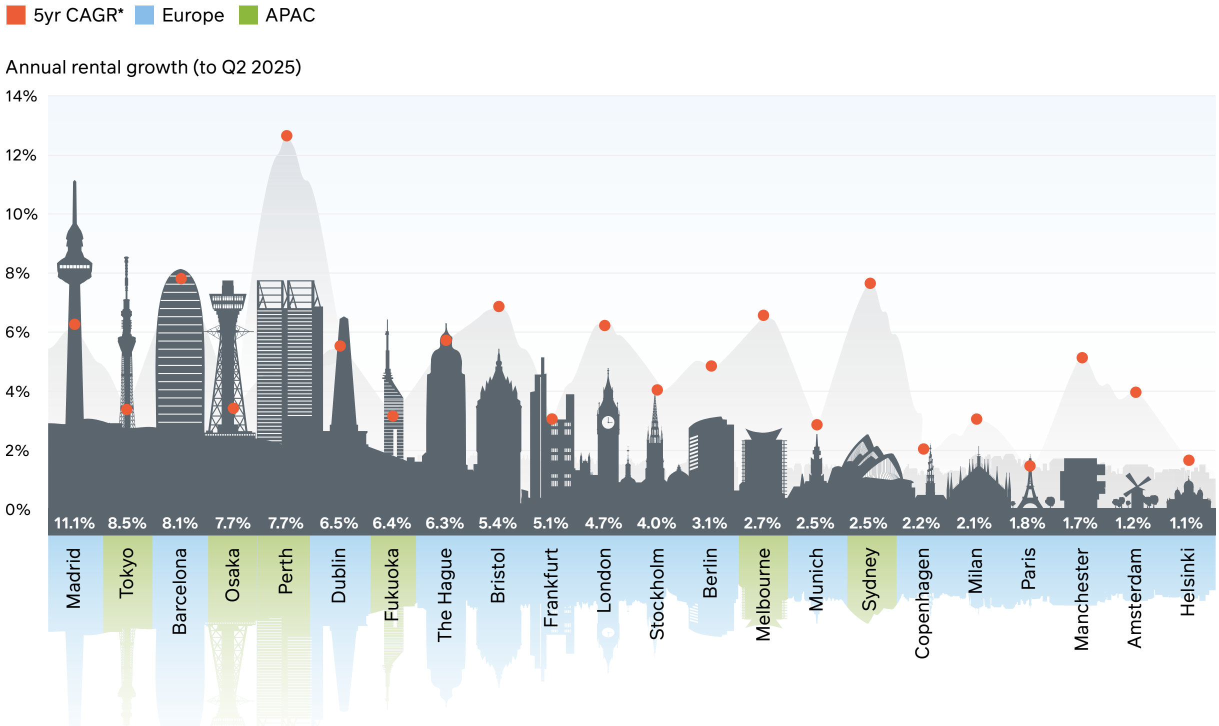


Source: M&G Real Estate based on National Statistical Authorities and Glenigan, as of July 2025.
(1) Housing target is latest identified housing need or officially adopted government target; (2) Sweden, Denmark and Finland; (3) Based on 12 months to June 2025; some Q2 2025 data estimated based on unreleased information as at time of publication.

"UNLIKE OFFICE MARKETS, WHICH ARE HEAVILY TIED TO THE ECONOMIC SUCCESS OF THEIR SURROUNDINGS, RESIDENTIAL MARKETS REMAIN RESILIENT AND ENJOY STRONG RENTAL GROWTH EVEN DURING ECONOMIC TURBULENCE."

[3] Kirk McClure and Alex Schwartz, 'Where Is the Housing Shortage?', (tandfonline.com), April 2024.
[4] U.S. Census Bureau, 'QUARTERLY RESIDENTIAL VACANCIES AND HOMEOWNERSHIP, SECOND QUARTER 2025', (census.gov), July 2025.
[5] CBRE, 'Build-to-Rent (BTR)', (cbre.co.uk), 2023.
[6] Reiner Braun and Jan Grade, 'Significant decline in vacant flats', (empirica-regio.de), December 2023.
[7] Jon Salyards, Andy Hurfurt, Tetsuya Kaneko and Simon Smith, 'Tokyo Residential Leasing Q1/2025', (savills.co.uk), April 2025.
[8] For Sweden, Denmark and Finland. Source: Combination of national data from SCB, Ejendom Danmark and StatFin, as of August 2025.
[9] SQM Research, 'Residential Vacancy Rates', (sqmresearch.com.au), 2025.
[10] Australia Bureau of Statistics, 'Census data', (abs.gov.au), PMA and National Housing Supply and Affordability Council, 'State of the Housing System', (nhsac.gov.au), 2025.

Supply gaps – and other cyclical factors – sustain rental growth in Europe and APAC



Source: M&G Real Estate based on PMA and Idealista, as of August 2025. Past performance is not a guide to future performance.
*CAGR = Compound annual growth rate.

Analysing rental growth across market cycles, data consistently indicates higher volatility in the US compared to most other global markets. Factors contributing to this include economic fluctuations and regulatory shifts affecting market stability, which are even more pronounced now. Europe and APAC, however, tend to offer more predictable growth trajectories, presenting a compelling case for investors seeking steadier returns.

Investor bottom lines, or net operating incomes, have also been impacted by rising operational costs in cities with flat rental growth. Inflationary pressures coupled with escalating demand for sophisticated amenities are driving expenses upward, particularly in the US multifamily sector. High-end, amenity-rich apartments are notably impacted as these costs continue to climb.

Amid these pressures, Japan presents a resilient multifamily market, ranking as the world's third-largest, behind only the US and Germany in size. Known for its liquidity and transparency, Japan's multifamily assets have been favoured by global investors for their low vacancy rates, robust cash-on-cash yield and minimal income volatility. In the last three years, residential rents have started to grow significantly faster due to wage growth. With strategic leveraged positions at a 50% loan-to-value ratio, we believe investors can potentially achieve total returns exceeding 10%[11].

Simultaneously, we believe the Northern European multifamily market offers promising investment opportunities, driven by strong household growth and a high tendency to rent. Cities such as Amsterdam, Copenhagen, Berlin and Stockholm are particularly promising. Even with limited new housing supply, these cities, alongside others, maintain solid occupational profiles and effectively strike a balance between affluence, livability and dynamism. This combination presents compelling prospects for achieving risk-adjusted returns in the sector, in our view.

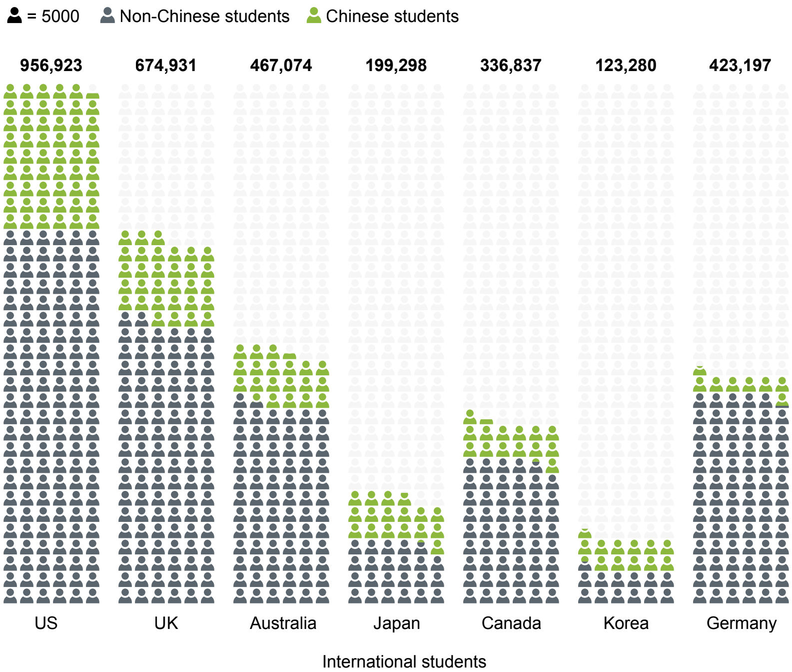
Migration trends could boost demand for student accommodation

In the US, ongoing policy discourse and tensions within higher education stand to deter international students, who may increasingly seek alternative study destinations. With countries such as Australia, Japan and Korea offering increasingly appealing alternatives, combined with supportive policies across various European markets, a shift in preference among international students is likely.

Should half of the Chinese students currently enrolled in US institutions choose alternative destinations, international enrolments in student markets across the APAC region could rise by 10-20%, according to our estimates. Further afield, mature European markets with an existing depth of Chinese student demand could also gain, including the top three countries currently preferred by outbound students: UK (150,000), Germany (39,000) and France (26,000).

[11] This denotes gross returns (pre-taxes) from purchasing a Tokyo multifamily asset in 2025 and selling it four years later. The scenario presented is an estimate of future performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and is not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment. Source: M&G Real Estate estimates, as of May 2025.

Chinese students make up a major share of international students in the US



Source: US Department of State's Bureau of Educational and Cultural Affairs and various government statistics, as of April 2025.

Institutional investors, recognising this trend, are increasingly turning their focus to Purpose Built Student Accommodation (PBSA) as a key area for allocations, especially as this sector matures across Europe and APAC. In Southern Europe, for example, the student housing market remains robust, with demand and supply fundamentals strong in Italy (2.1 million students versus 85,000 beds), Spain (1.8 million students versus 120,000 beds) and Portugal (450,000 students versus 16,000 beds).

International student enrolments here have grown by over 7% annually in the past five years, while an increasing share of domestic students opt to study away from home[12]. Yet, the region faces the lowest provision rates in Europe, if not the developed world, with 19.5 students per bed across Southern Europe compared to 5.6 elsewhere on the continent.

In parallel, Australia, boasting one of the highest population growth rates among OECD countries, has set an ambitious target for a 9% annual increase in international student enrolments by 2026[13]. The country's appeal to international students may lead to a narrowing yield premium over residential properties, driven by enhanced attraction and demand.

Askham highlights Australia's geographical advantage as an attractive destination for students, pointing to Melbourne's vibrant student housing market. This proximity, alongside geopolitical shifts affecting US student flows, has boosted demand and occupancy rates significantly in recent times.

Continuing with Australia as an example, Askham reflects on the initial lack of clarity in the BTR market, with developers oscillating from offering minimal amenities to an extensive array without fully comprehending actual market demands, resulting in higher rents.

He advises focusing on essential amenities, like gyms and social spaces, that genuinely address tenants' needs, while suggesting caution with extraneous features unless in the case of targeted high-end developments. Streamlining amenities can minimise operational costs, leading to reduced rents and improved tenant affordability.

As global student mobility patterns evolves, leveraging local expertise to navigate cultural preferences and regional demands becomes increasingly important. By aligning strategies with these dynamics, we believe investors can position themselves advantageously in the PBSA market.

Regional living markets find room to grow in the 'great rotation'

Globally recognised as a key investment priority for real estate investors, the living sector consistently ranks at the top of investor preference surveys, driven by its capacity to generate robust and expandable cash flows underpinned by enduring structural tailwinds. Spanning PBSA, multifamily housing, single-family, co-living and senior living, the sector captures diverse needs across life stages, catering to younger populations, expanding households and ageing demographics.

A significant shift in investor focus is currently underway, driven by policy changes, increased market volatility and saturation within certain market segments. This evolving narrative, dubbed the 'great rotation', has steered investor attention toward Europe and APAC, where living assets offer compelling risk-adjusted returns, in our view.

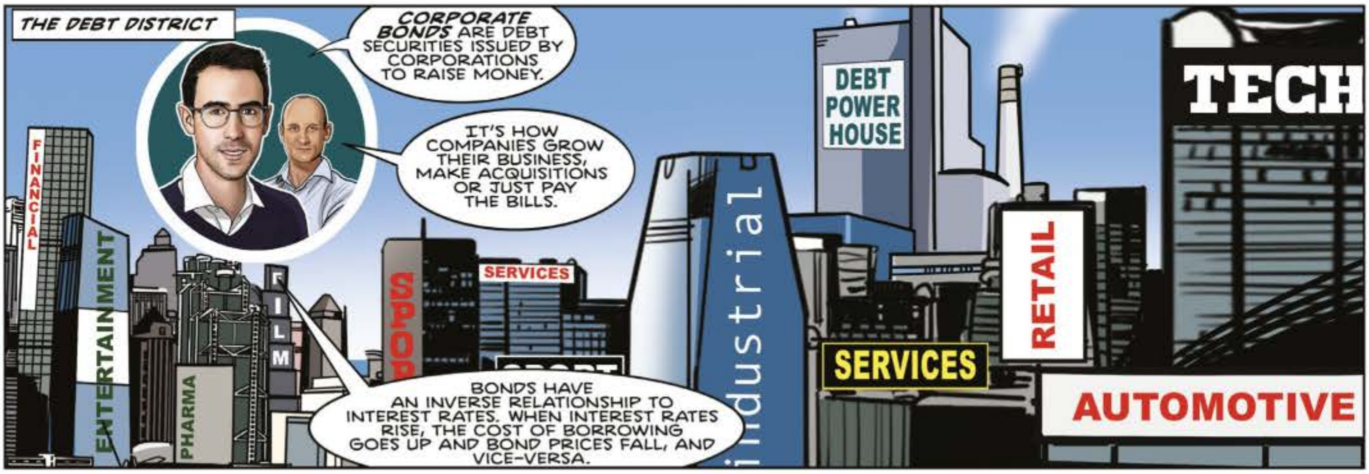
In times of economic and policy uncertainties, the living sector stands resilient, appealing to investors seeking diversification and sustainable growth. As US holdings encounter pressures from concentrated market share, regions like Europe and APAC benefit from favourable demand-supply dynamics and robust growth potential, aligning well with broader demographic trends. Through this transition, investors are finding new avenues to navigate global market complexities. □

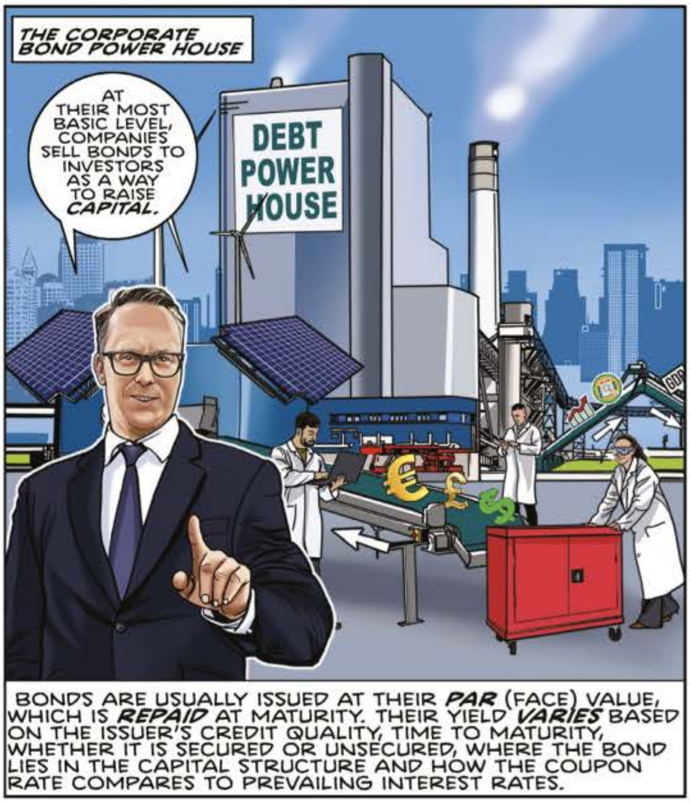
[12] It covers the period from the 2018/19 to 2023/24 academic years (latest available) and includes all international student enrolments, encompassing part-time and distance learning programmes. Source: Based on data from the Ministero dell'Università e della Ricerca (Italy), the Ministerio de Ciencia, Innovación y Universidades (Spain) and Direção-Geral de Estatísticas da Educação e Ciência (Portugal), as of August 2025.
[13] Australian Government, 'Increased student intake for Australia in 2026', (studyaustralia.gov.au), August 2025.

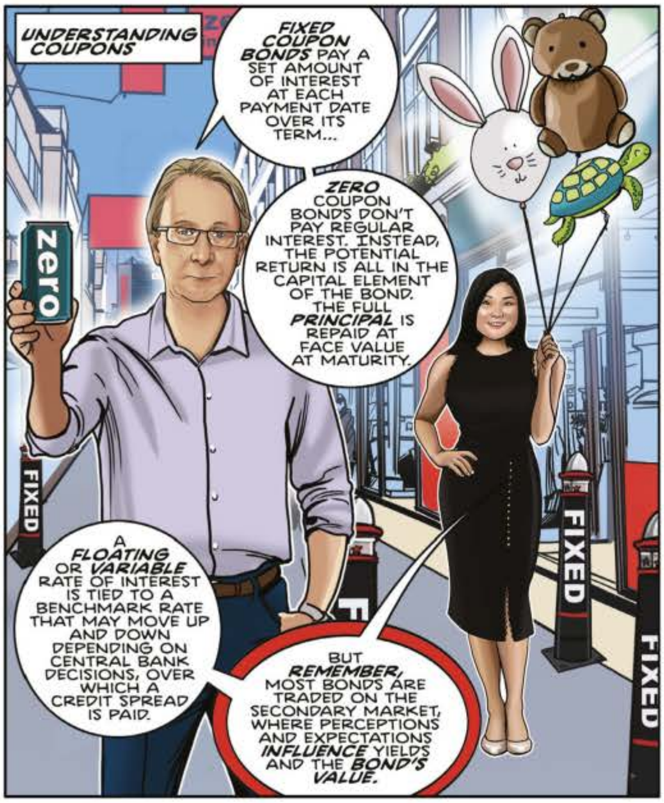
M&G Investments

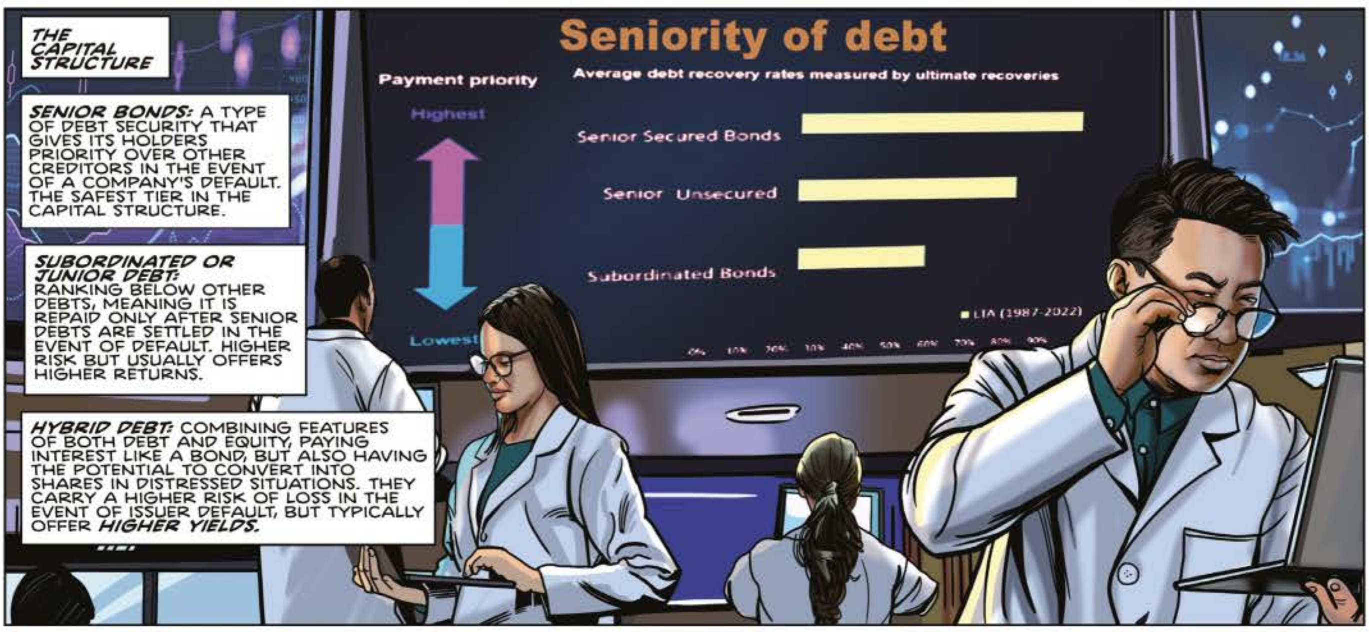
The Bond Vigilantes

BLOG TEAM

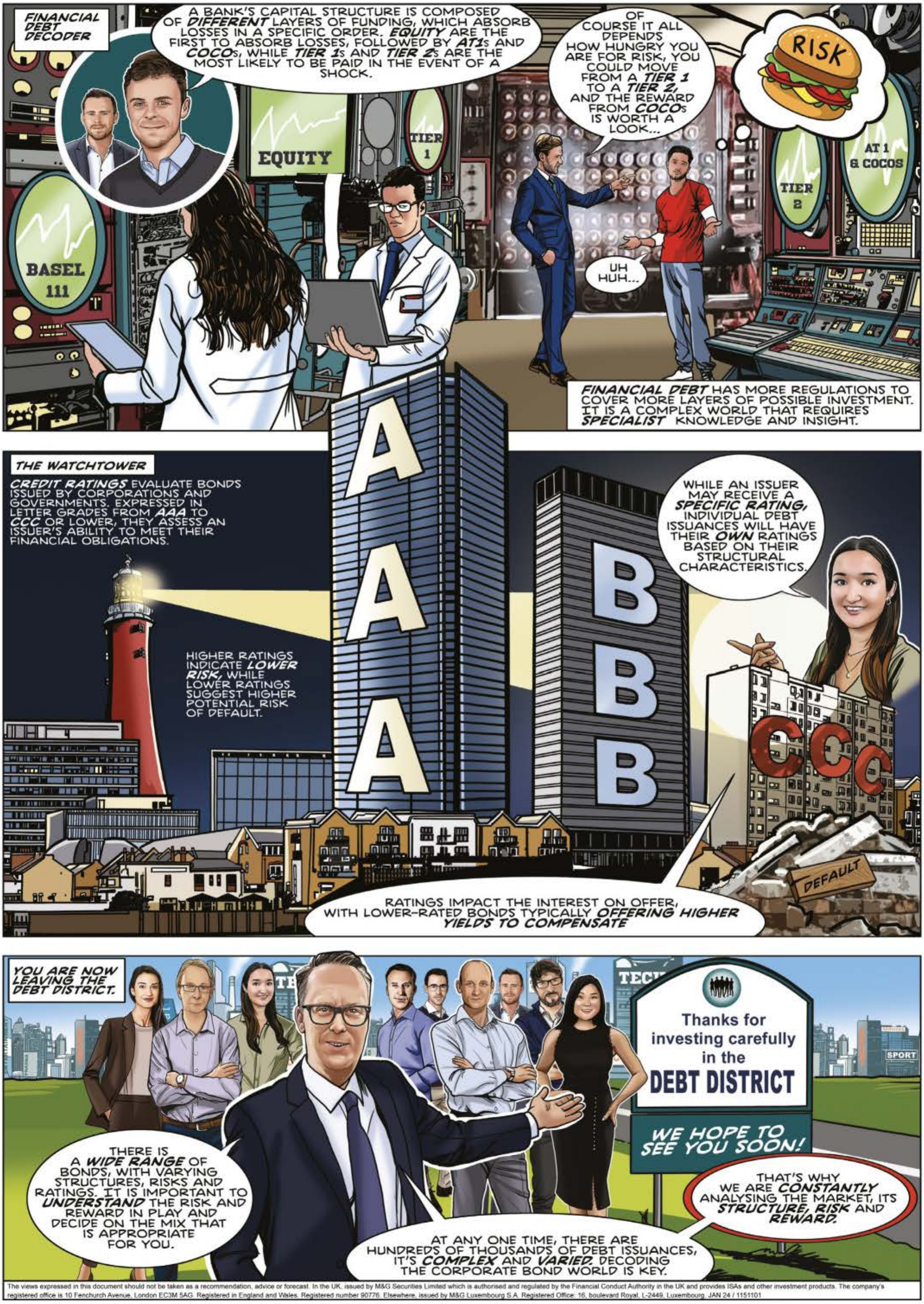

THE DEBT DISTRICT
CORPORATE BONDS ARE DEBT SECURITIES ISSUED BY CORPORATIONS TO RAISE MONEY.
IT'S HOW COMPANIES GROW THEIR BUSINESS, MAKE ACQUISITIONS OR JUST PAY THE BILLS.
BONDS HAVE AN INVERSE RELATIONSHIP TO INTEREST RATES. WHEN INTEREST RATES RISE, THE COST OF BORROWING GOES UP AND BOND PRICES FALL, AND VICE-VERSA.
FINANCIAL
ENTERTAINMENT
PHARMA
FILM
SERVICES
industrial
DEBT POWER HOUSE
SERVICES
RETAIL
TECH
AUTOMOTIVE


THE CORPORATE BOND POWER HOUSE
AT THEIR MOST BASIC LEVEL, COMPANIES SELL BONDS TO INVESTORS AS A WAY TO RAISE CAPITAL.
DEBT POWER HOUSE
BONDS ARE USUALLY ISSUED AT THEIR PAR (FACE) VALUE, WHICH IS REPAID AT MATURITY. THEIR YIELD VARIES BASED ON THE ISSUER'S CREDIT QUALITY, TIME TO MATURITY, WHETHER IT IS SECURED OR UNSECURED, WHERE THE BOND LIES IN THE CAPITAL STRUCTURE AND HOW THE COUPON RATE COMPARES TO PREVAILING INTEREST RATES.


UNDERSTANDING COUPONS
FIXED COUPON BONDS PAY A SET AMOUNT OF INTEREST AT EACH PAYMENT DATE OVER ITS TERM...
ZERO COUPON BONDS DON'T PAY REGULAR INTEREST. INSTEAD, THE POTENTIAL RETURN IS ALL IN THE CAPITAL ELEMENT OF THE BOND. THE FULL PRINCIPAL IS REPAID AT FACE VALUE AT MATURITY.
A FLOATING OR VARIABLE RATE OF INTEREST IS TIED TO A BENCHMARK RATE THAT MAY MOVE UP AND DOWN DEPENDING ON CENTRAL BANK DECISIONS, OVER WHICH A CREDIT SPREAD IS PAID.
BUT REMEMBER, MOST BONDS ARE TRADED ON THE SECONDARY MARKET, WHERE PERCEPTIONS AND EXPECTATIONS INFLUENCE YIELDS AND THE BOND'S VALUE.
zero
FIXED
FIXED
FIXED


THE CAPITAL STRUCTURE
SENIOR BONDS: A TYPE OF DEBT SECURITY THAT GIVES ITS HOLDERS PRIORITY OVER OTHER CREDITORS IN THE EVENT OF A COMPANY'S DEFAULT. THE SAFEST TIER IN THE CAPITAL STRUCTURE.
SUBORDINATED OR JUNIOR DEBT: RANKING BELOW OTHER DEBTS, MEANING IT IS REPAID ONLY AFTER SENIOR DEBTS ARE SETTLED IN THE EVENT OF DEFAULT. HIGHER RISK BUT USUALLY OFFERS HIGHER RETURNS.
HYBRID DEBT: COMBINING FEATURES OF BOTH DEBT AND EQUITY, PAYING INTEREST LIKE A BOND, BUT ALSO HAVING THE POTENTIAL TO CONVERT INTO SHARES IN DISTRESSED SITUATIONS. THEY CARRY A HIGHER RISK OF LOSS IN THE EVENT OF ISSUER DEFAULT, BUT TYPICALLY OFFER HIGHER YIELDS.
Seniority of debt
Payment priority
Average debt recovery rates measured by ultimate recoveries
Highest
Senior Secured Bonds
Senior Unsecured
Subordinated Bonds
Lowest
LIA (1987-2022)

EXERCISING INVESTMENT CHOICES
AS WE HAVE SEEN, THE CAPITAL STRUCTURE IS THE MIX OF A COMPANY'S DEBT AND EQUITY USED BY A COMPANY TO FINANCE ITS CAPITAL NEEDS.
THE GREATER THE SENIORITY OF THE DEBT, THE BETTER THE CHANCE OF RECOVERY IN THE EVENT OF DEFAULT. BUT OVER TIME, THE FIXED INCOME UNIVERSE HAS GROWN, WITH NEW TYPES OF INSTRUMENTS AND DERIVATIVES ARRIVING.
REWARD!
EFFORT
SENIOR VS JUNIOR
THE LEVEL OF REWARD IS ALIGNED TO RISK, IT'S ALL ABOUT HOW YOU WANT TO EXERCISE YOUR PORTFOLIO.
THERE, THERE JUNIOR.
I KNEW THE RISK.
TWO PATHS
FINANCIAL INSTITUTIONS USE DIFFERENT DEBT INSTRUMENTS TO SUPPORT THEIR DIFFERENT FUNDING NEEDS.
FOLLOWING THE GLOBAL FINANCIAL CRISIS, REGULATORS REQUIRED BANKS TO HOLD MORE CAPITAL TO PREVENT ANOTHER CRISIS.
LEADING TO THE CREATION OF ADDITIONAL DEBT INSTRUMENTS TO PROVIDE BANKS WITH GREATER LIQUIDITY AND HIGHER REGULATORY CAPITAL REQUIREMENTS.
Corporate
Financial
THIS IS NOT THE TIME FOR ONE OF YOUR SHORTCUTS.
M Baines


FINANCIAL DEBT DECODER
A BANK'S CAPITAL STRUCTURE IS COMPOSED OF DIFFERENT LAYERS OF FUNDING, WHICH ABSORB LOSSES IN A SPECIFIC ORDER. EQUITY ARE THE FIRST TO ABSORB LOSSES, FOLLOWED BY AT1s AND COCOs, WHILE TIER 1s AND TIER 2s ARE THE MOST LIKELY TO BE PAID IN THE EVENT OF A SHOCK.
EQUITY
TIER 1
BASEL 111
OF COURSE IT ALL DEPENDS HOW HUNGRY YOU ARE FOR RISK, YOU COULD MOVE FROM A TIER 1 TO A TIER 2, AND THE REWARD FROM COCOs IS WORTH A LOOK...
RISK
TIER 2
AT 1 & COCOS
UH HUH...
FINANCIAL DEBT HAS MORE REGULATIONS TO COVER MORE LAYERS OF POSSIBLE INVESTMENT. IT IS A COMPLEX WORLD THAT REQUIRES SPECIALIST KNOWLEDGE AND INSIGHT.
THE WATCHTOWER
CREDIT RATINGS EVALUATE BONDS ISSUED BY CORPORATIONS AND GOVERNMENTS. EXPRESSED IN LETTER GRADES FROM AAA TO CCC OR LOWER, THEY ASSESS AN ISSUER'S ABILITY TO MEET THEIR FINANCIAL OBLIGATIONS.
AAA
BBB
WHILE AN ISSUER MAY RECEIVE A SPECIFIC RATING, INDIVIDUAL DEBT ISSUANCES WILL HAVE THEIR OWN RATINGS BASED ON THEIR STRUCTURAL CHARACTERISTICS.
HIGHER RATINGS INDICATE LOWER RISK, WHILE LOWER RATINGS SUGGEST HIGHER POTENTIAL RISK OF DEFAULT.
CCC
DEFAULT
RATINGS IMPACT THE INTEREST ON OFFER, WITH LOWER-RATED BONDS TYPICALLY OFFERING HIGHER YIELDS TO COMPENSATE
YOU ARE NOW LEAVING THE DEBT DISTRICT.
Thanks for investing carefully in the DEBT DISTRICT
WE HOPE TO SEE YOU SOON!
SPORT
THERE IS A WIDE RANGE OF BONDS, WITH VARYING STRUCTURES, RISKS AND RATINGS. IT IS IMPORTANT TO UNDERSTAND THE RISK AND REWARD IN PLAY AND DECIDE ON THE MIX THAT IS APPROPRIATE FOR YOU.
AT ANY ONE TIME, THERE ARE HUNDREDS OF THOUSANDS OF DEBT ISSUANCES, IT'S COMPLEX AND VARIED. DECODING THE CORPORATE BOND WORLD IS KEY.
THAT'S WHY WE ARE CONSTANTLY ANALYSING THE MARKET, ITS STRUCTURE, RISK AND REWARD.

BEING COMFORTABLE WITH FEELING UNCOMFORTABLE

Richard Ryan

Co-Head of Fundamental Fixed Income

As an investor, you need to have an edge that allows you to build solid performance – if you don't know what that edge is, or how to articulate it, you'll likely deliver the same returns as everyone else.

When I started at M&G back in the early 2000s, Jamie (Hamilton – co-head of M&G's Fundamental Fixed Income team) and I began by running our funds in a very traditional way. We quickly realised there were things we were good at and things we were less good at, so we chose to focus on those elements that we are really good at. That led us to develop what you could call our philosophy.

Our edge is built on a couple of elements. First, we recognise that the world is constantly changing and incredibly hard to predict – and that the biggest causes of market moves often come out of left field. As a bond investor, I used to amuse myself every January by writing a list of things I was worried about for the year ahead. Inevitably, when the market experienced a shock, its cause wasn't on my list. That shouldn't be surprising – if it isn't a surprise, it would already be priced in.

So we stopped trying to forecast what might happen in the marketplace and instead focused on one specific question: are we getting paid to take the risk of investing in an individual corporate bond issue? Or, is there a better combination of risk that pays more elsewhere, or something that pays the same but carries less risk? We stepped away from trying to predict the future and zeroed in on this question.

A single question

Disney's bonds are a classic example. At the start of COVID, when lockdowns began, Disney had to shut all its theme parks. Yet it still had to maintain them operationally, which costs money. At the same time, it was trying to launch Disney+, spending heavily on technology, legal agreements and buying back its titles from other streamers. This may have looked disastrous from many angles, but from a bondholder's perspective, none of it really mattered. The key question instead was: will Disney go bust? The answer was clearly no. It had a strong balance sheet and fantastic assets, and would continue to exist in one, two and three years. So we asked ourselves: should we be buying these bonds, given they were behaving as if the company wouldn't exist in a few years? And the answer was yes.

There are less extreme examples too, like the tariff news in April. While we couldn't predict exactly where tariffs would land, we could look at cross-border trade levels and assess which companies were more or less exposed. That allowed us to strip out the speculation. While all auto manufacturers sold off, we knew the news didn't mean that no one would ever buy a car again, or that manufacturers would stop buying steering wheels and so on. Once we remove that kind of future speculation, we can focus on the actual risks we're willing to run.

The second component of our edge is structural. Typically, large fixed-income asset managers have teams focused on specific market segments – they will have a US investment-grade team in the US, an emerging markets team, a high-yield team, and so on. I believe our biggest differentiator is that instead of having portfolio managers narrowly focused on their individual markets, we each have client responsibilities across portfolios. While there

are specialisations within the team, each of us is aware of what all the portfolios are doing.

When we come across a brilliant idea – for example, a bond that looks really cheap – we immediately ask: what kind of cheap is it? Is it cheap relative to others in its sector? Or is the whole sector still expensive? Maybe it's great value compared to investment grade, or perhaps it's compelling in absolute terms. That determines where it belongs: high yield, investment grade, multi-asset credit or all three.

This is why we use a matrix structure for fund responsibilities. Everyone on the team understands what each portfolio is trying to achieve. So when someone finds an opportunity, they instinctively know where it fits. We encourage people to share even the simplest ideas: "I found this, and I think it's great for high yield – but maybe even better for investment grade." That breaks down silos. It's about which client or fund the opportunity best serves.

And when markets aren't rewarding risk, portfolios naturally de-risk. We look at what we're holding and ask: are we still being paid for this risk? If not, we take profits. And if there's nothing compelling to replace it, we wait. There's no need to force marginal positions. That patience means we're ready to act when new opportunities emerge.

Maintaining conviction is never easy

These two elements: how we think about markets, and how we structure ourselves, are really the only two things an asset manager has in their control. Our ambition is to deliver consistent levels of performance, and doing so differently and – crucially – with discipline, is really important. Discipline means that we can continue chalking up runs on the board, even in periods when performance isn't exciting because the opportunity isn't there. But it does mean that when the opportunity is there – generally when something has happened in the market so the market has fallen in value – because we have been disciplined about valuation, we have the means to get involved.

Maintaining conviction in expensive markets is never easy. The longer it persists, the more natural it becomes to question your decisions, your timing – even whether "this time is different." But experience teaches us that it rarely is. Markets recover, and the world doesn't end. Often, the most uncomfortable decisions are the right ones.

One of the most powerful tools investors have – but often overlook – is time horizon. It doesn't show up on a balance sheet, but it can be a real superpower. In stressed markets, when asset prices are falling, the ability to say, "I know this is cheap, and I don't care what the price is tomorrow because I believe in its long-term value," is incredibly powerful. Many investors are constrained by short-term pressures – collateral calls, risk limits or fear of further losses – which stops them from acting when they should.

"OFTEN, THE MOST UNCOMFORTABLE DECISIONS ARE THE RIGHT ONES."

Clients often have the luxury of time, but don't always use it. What we try to do is help them lean into that strength. They may not see immediate results, but over time, those decisions tend to pay off.

This is where our team structure really matters. In tricky periods, it's hard for any individual to stand firm and act decisively. With our matrix-style team, no one has to do it alone. Ideas are shared, tested and supported. It's not about finding a rare individual with perfect conviction; it's about creating a network that gives everyone the confidence to act.

Turning over the rocks

Credit investing is not particularly glamorous. We have a universe of possible investments, and we turn over those very same rocks every single day, looking for something different. We're looking for movement: in credit fundamentals, in price.

Fixed income has a pattern to it. Companies are constantly borrowing and refinancing. In the morning, we are typically bombarded with a whole series of new issues, so there's a period when it's all hands to the pump and we're all looking through the list. There are some very frequent issuers, whose risks we understand already. At the other extreme, there are some completely new companies, where our analysts will be sharing their research for the very first time.

We have a morning fixed-income team meeting where analysts share brief updates on company results and news. This acts as a kind of teaser for us to go and look at our portfolios and follow up with the analysts to discuss the relevant points in more detail. Then the US market opens at lunchtime, and the whole process begins again. In between all of this, we'll have client enquiries and updates, or we might interact with our stewardship and sustainability team to discuss some company-specific ESG issues.

One of the most interesting parts of the job is how it constantly evolves. Client needs shift, markets move, and we adapt – whether that's refining guidelines or rethinking portfolio approaches. You have to be comfortable with change; some days you wish the world would pause, but most of the time, that pace is what makes it exciting.

Curiosity is essential. If you're someone who wants to understand how trade, politics, economics and corporate finance all connect, this job gives you the space to explore it all. It's not about having perfect foresight – no one does – but about being willing to dive in, ask questions and make sense of complexity.

I got told off the other day for using the word boring. Somebody said: "Stop saying boring, you've got to start saying disciplined!" Markets may be expensive at the moment, but the beauty of fixed income is that there's always something to do. So we keep our heads above water, recognising that the market is expensive, and waiting for it to change. When it does, you won't hear a peep out of us: we'll be hitting the screens, picking up bargains and doing what we love. □


As the
world undergoes
rapid transformation, the
companies shaping tomorrow's
economy can often go unnoticed.
Alex Seddon explores how
private markets are now offering
a unique opportunity for investors
to align their savings with the
economy of the future.

privatemarkets

IN IT FOR LONG HAUL: THE PRIVATE COMPANIES CREATING THE FUTURE

Many people are aware of the huge role that technological innovation will play over the coming years. The transition to a low-carbon economy, the proliferation of artificial intelligence (AI) and increased healthcare demand from ageing populations will all require innovative solutions.

And yet, for the average person on the street, the exciting companies creating these technologies go unnoticed. Pensions and other long-term savings are rarely invested in these fast-moving firms, creating a disconnect between their future expectations and asset allocations – and also removing the potential to support solutions that deliver meaningful social and environmental impacts.

We believe there is currently a unique opportunity for savers to benefit from an investment strategy focused on private companies driving the transition to the future economy – harnessing significant prospects for value creation over the coming years, while helping them to navigate an uncertain future more effectively.

Why private markets?

There are a host of innovative private companies, both in the UK and across Europe, currently flying under the radar of the everyday investor. Within the UK, there are almost 800 venture capital-backed private companies that generate more than $25 million in annual revenue. They are joined by 321 companies in France, 265 in Germany and 139 in Sweden[1]. Europe's innovation is also evident from the large number of 'unicorns' created in the region. These are private companies with a valuation of more than $1 billion. While the US and China lead the way with 793 and 284 respectively, there are currently at least 170 in Europe[2].

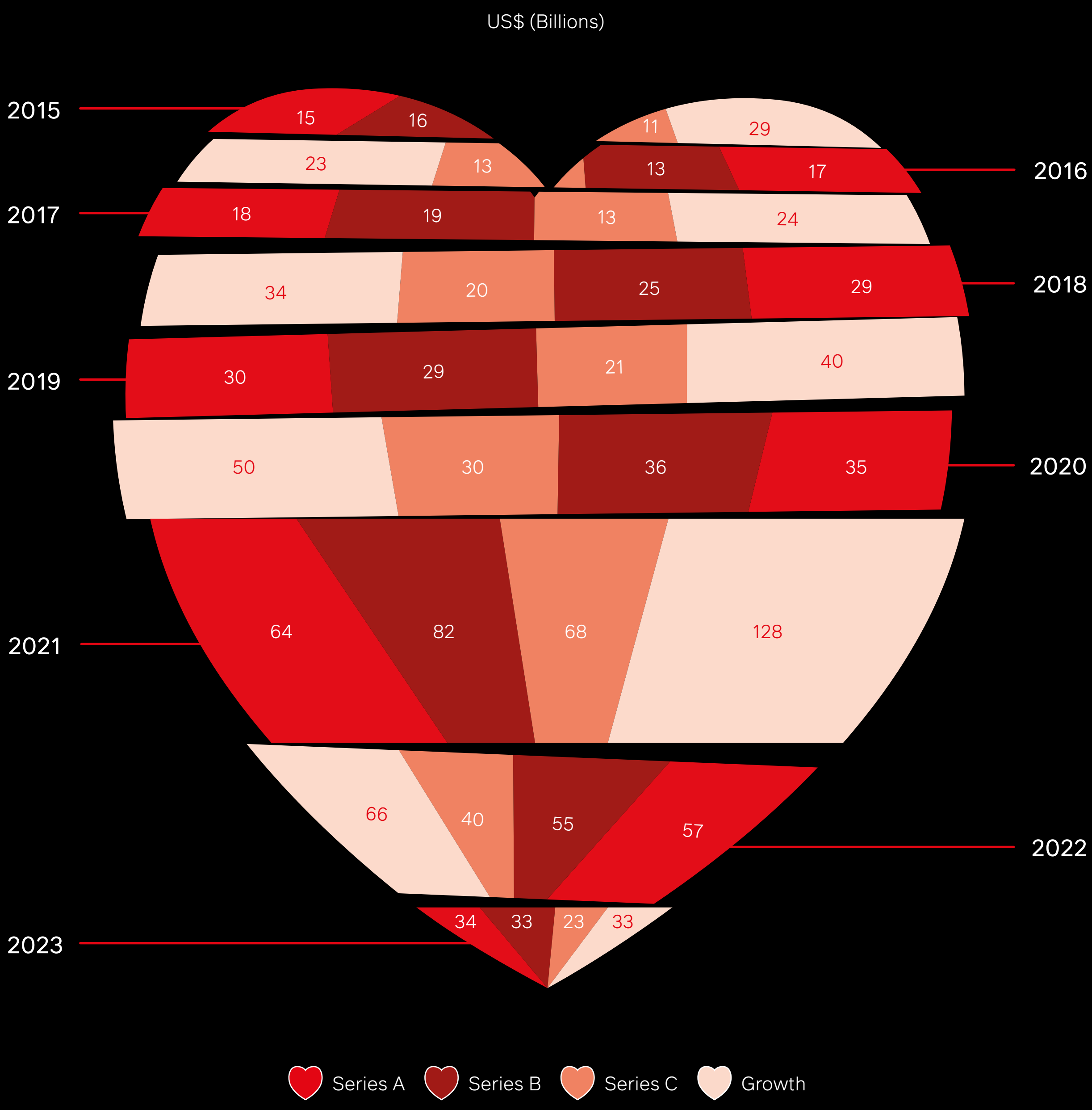
Many of these innovative private companies are disrupting existing value chains and business models, and offering differentiated solutions based on unique technology or intellectual property. They are likely to be the driving force behind the transition to the future economy – and all that it entails.

Financing such companies through public markets poses challenges, and stretched bank balance sheets also mean that funding must come from elsewhere. Fortunately, private markets investing is undergoing a phase of democratisation, with an increasing number of investors now able to direct capital towards these exciting businesses.

We aim to hasten this process through M&G Catalyst, which focuses solely on growth-stage private enterprises that harness technological innovation. These enterprises are not only commercially promising, but also designed to address pressing global challenges, from climate resilience to healthcare access, ensuring that investment returns are coupled with measurable positive outcomes for people and the planet. The strategy invests in line with a number of future economy-focused trends.

[1]Phoenix Court, 'Capital Allocation in the Innovation Economy', (phoenixcourt.vc), November 2024.
[2]Visual Capitalist, 'Visualising Unicorns by Country in 2025', (visualcapitalist.com), August 2025.

Later-stage funding is declining



Source: M&G Investments, March 2024.

This infographic is a creative visual representation of the backing data and is for illustrative purposes only.

THERE ARE A HOST OF INNOVATIVE PRIVATE COMPANIES, CURRENTLY FLYING UNDER THE RADAR OF THE EVERYDAY INVESTOR.

The funding gaps – and opportunities

Once their technology has been proven, these companies usually require significant investment to achieve scale and grow the business. For example, to expand their workforce, manufacturing and operational capabilities, research and development, or geographical reach.

However, unlike the bustling venture capital scene of California's Bay Area, in the UK and Europe there is a notable funding gap in these later-stage fundraising rounds (the difference between targeted and actual funds raised). This poses two problems. First, founders struggle to secure the capital needed to scale their businesses – and expand solutions that reduce emissions, improve health outcomes or create inclusive economic opportunities. Second, investors are left with a narrower universe of assets to choose from, potentially being excluded from some of the most compelling commercial opportunities.

M&G Catalyst aims to fill this gap. We are one of the few institutional investors with the scale and expertise to make significant commitments in later-stage funding rounds. We can help solution providers to drive the transition to the future economy, while opening up previously inaccessible assets to the person on the street.

New potential for the UK and Europe

We are witnessing a structural shift away from the US within this investment space, opening up new opportunities for UK and European investors. It is driven in part by the US administration's assault on top universities – traditional hotbeds for the creation of innovative, future-focused technologies. While Harvard has been the highest-profile target, the Trump administration has taken aim at more than 4,000 grants across 600 institutions[3], and frozen billions of dollars in additional funding. A shift away from climate change mitigation and wider politicisation of sustainable investing have also produced headwinds for companies and investors targeting future trends such as clean energy and electrification.

This shift could see a move of researchers and solution providers away from the US and towards European global financial centres, such as London. In a recent poll by the Nature journal, 75% of the scientists polled said they were considering leaving the US, with Europe as a top destination[4]. What's more, the European Commission has created a €500 million grants package to attract researchers[5]. We believe there will be fresh opportunities for future-focused investors in these regions, and new potential to diversify away from the US in existing private equity portfolios.

Our M&G Catalyst team is based in offices in the UK, Singapore and India. Our local expertise means we are well-placed to capitalise on opportunities in the UK and Europe – but also further afield in the emerging markets, which are not commonly explored by investors in this space, but which offer huge potential over the coming years, in our view.

[3]Center for American Progress, 'Mapping Federal Funding Cuts to U.S. Colleges and Universities', (americanprogress.org), July 2025.
[4]Nature, '75% of US scientists who answered Nature poll consider leaving', (nature.com), March 2025.
[5]European Commission, 'Choose Europe for Science: EU comes together to attract top research talent', (ec.europa.eu), May 2025.

Themes of the future

Investing in the economy of the future is not just about anticipating technological shifts; it's about backing companies that are actively shaping a better world. Whether through cleaner energy systems, more efficient infrastructure or healthcare breakthroughs, these businesses are delivering tangible benefits that align with long-term societal goals. Here we explore two structural themes that will play out over the coming years. For each, we also look at an M&G Catalyst investee providing innovative solutions in these areas.

Compute efficiency

Demand for compute (or processing power) is set to accelerate rapidly over the coming years. It is being driven by the proliferation of AI, where compute demand is set to increase 10,000 times by the end of the decade[6]. Global data centre demand is set to nearly triple by 2030, with the bulk of demand coming from AI[7]. This will place even more pressure on already strained energy and water infrastructure. There is clearly a need for greater efficiency solutions, which can deliver the processing power that the future economy requires while minimising the use of resources.

M&G Catalyst investee, Submer, is helping to tackle the challenge via its liquid cooling technology for data centres. The company's system immerses IT hardware in tanks – filled with a proprietary, non-conductive, non-toxic biodegradable fluid – which are regulated by software algorithms to increase performance and efficiency. The system is 1,400 times more efficient than air cooling solutions[8], using 99% less water and reducing energy consumption by 50% compared to traditional systems[9]. The captured heat can then be reused elsewhere in the facilities, helping to cut energy usage further.

Biological innovation

The significant advances in both AI and computer processing capabilities of recent years have created new abilities to unlock insights into human biology. This is creating huge potential to improve quality and efficiency in many pockets of the global healthcare system. This will be essential over the coming decades, as an ageing population, increasingly prevalent lifestyle diseases, and a growing middle class in emerging economies continue to push up global healthcare demand at a time when there simply aren't enough healthcare workers.

Fortunately, innovative technology is driving new solutions across a host of areas. They include faster and more accurate diagnoses, the early detection of diseases, drug discovery and the development of preventative measures.

M&G Catalyst investee, Nuritas, is one company focusing on the latter. The company discovers and produces bioactive peptides (short chains of amino acids) derived from plant-based sources. They provide a variety of clinically proven health benefits, including enhancing muscular health, increasing bone density, improving sleep quality and improving metabolic health. The company's flagship product, PeptiStrong, is an AI-discovered ingredient derived from fava bean protein. It has been proven to improve muscle strength, muscular endurance and reduce muscle atrophy.

The democratisation of private markets is creating new options for investors to direct capital towards exciting companies driving technological advances. By backing private companies at the forefront of innovation, investors can unlock long-term value while actively contributing to solutions that improve lives, regenerate ecosystems and build resilience for future generations. They can ensure their capital is not only aligned with the future economy, but is also impact-driven. ☐

[6]UK Government, 'UK Compute Roadmap', (gov.uk), July 2025.
[7]McKinsey & Company, 'The cost of compute: A $7 trillion race to scale data centres', (mckinsey.com), April 2025.
[8]Data Centre Frontier, 'LiquidCool Brings Immersion Cooling to the Server Chassis', (datacenterfrontier.com), January 2018.
[9]Submer, 'Submer, global leader in data center immersion cooling, announces investment from Planet First Partners', (submer.com), January 2022.

&Mail

From: Electrons

To: Photons

Arial 10pt B I U S

Attach File

Subject: The next great compute transition

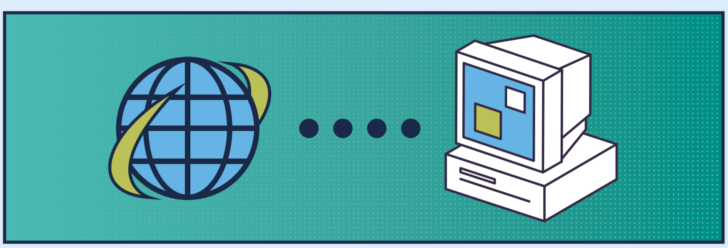
Computing has evolved through significant shifts in the medium and mechanisms of processing information, leading to transformative impacts on industries and economies. Carl Vine, Co-Head of Asia Pacific Equities, argues that another such change is happening now, with the use of photons. He explores what the transition from electrons to photons might mean for today's dominant technology firms and who could win in the new photonics age.

Address Book

Print

"Electrons are becoming the relays of our time – too hot and too power-hungry to scale. The solution is photons."

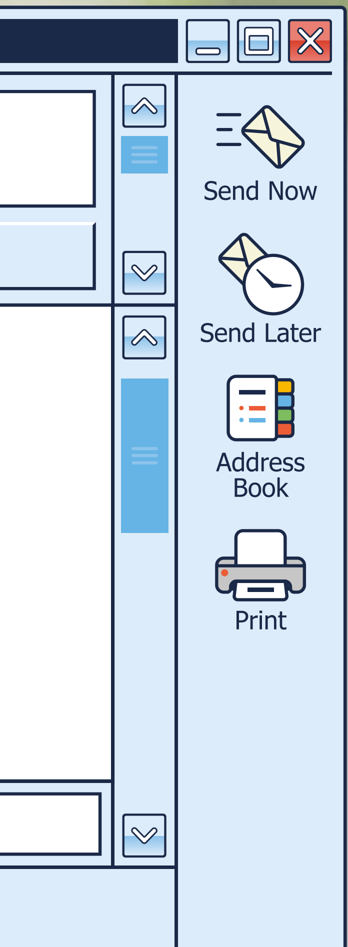
Dialing Progress



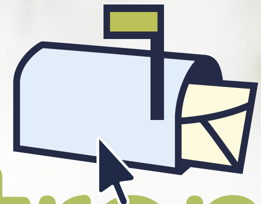
Connect to My Connection

Action

Dialing attempt 1 of 5



From Electrons to Photons



For the best part of a century and a half, computing has progressed at a constant but incremental rate. Within that story, however, are a handful of moments when the change was more drastic. Those moments reordered the fortunes of companies, industries and even nations. Another such moment is now upon us and the consequences will be far-reaching.

Evolution of computing

The history of compute has been defined by two fundamentals: the medium that carries state (information or data), and the mechanism that shapes it into logic. Most upheavals in computing have been mechanism shifts: new ways of manipulating the same medium. Gears and rods gave way to relays, which in turn gave way to valves. Valves to transistors[1]. Transistors to integrated circuits and microprocessors. Each time, old leaders fell, new winners rose, and the economics of the industry were reset.

The medium of compute itself has changed only once: from motion – gears, rods, cams, punched cards – to electrons. That singular change gave birth to modern computing.

In between, there was one great integration and scale revolution: the rise of integrated circuits and microprocessors. Not a new medium, not a new mechanism, but the packaging of billions of switches into a single chip, with consequences just as disruptive.

Today, for the first time since the 1940s, both medium and mechanics are shifting together. The medium is shifting from electrons to photons (light particles). As a consequence, the mechanisms will need to change accordingly. The building blocks of logic will change from transistors to light modulators, interferometers (a high-precision measuring device) and detectors.

As before, the giants of the current era may well find themselves reordered, just as the calculator makers, valve-tube giants, and minicomputer kings once were. Given that global semiconductor stocks currently command in excess of US$10 trillion in collective market capitalisation, the impact could be seismic.

[1]Invented in 1947, transistors are tiny electronic components that act like a switch or amplifier for electrical signals. They can turn current on or off, increase the strength of signals and process information. Modern memory chips contain billions of transistors.

1

THE FIRST MEDIUM SHIFT: FROM MOTION TO ELECTRONS

For centuries, the medium was motion. Gears, rods and cams powered devices from Pascal's calculator to Babbage's Analytical Engine to IBM's punched-card tabulators[2]. The mechanisms were linkages and levers.

By the 1940s, motion had run out of road. It was too slow, too fragile, and impossible to scale. Electrons replaced motion as the new medium. Relays, then valves, became the mechanisms that shaped them.

[2] Pascal's calculator, or the Pascaline, was a mechanical calculator designed and built by Blaise Pascal in 1643. The machine could perform addition and subtraction.
English mathematician Charles Babbage developed the idea of the Analytical Machine in the 1830s. It was designed to perform mathematical calculations by reading punched cards but was never fully built.

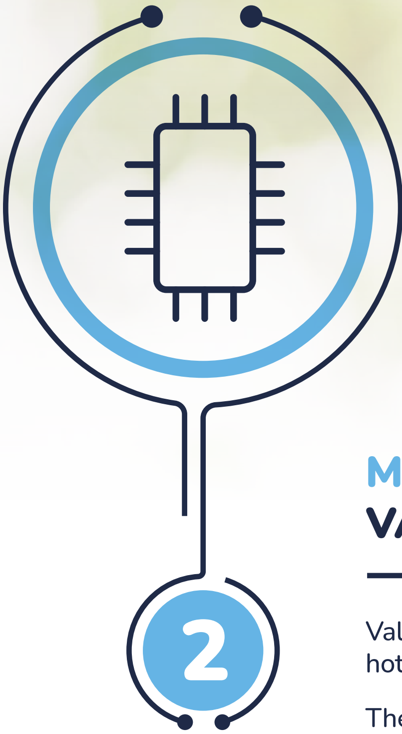
ELECTRON ERA:

WINNERS:

RCA, **Bell Labs**, **Ferranti**, and **IBM**, which managed a hard pivot. National labs also gained: **Bletchley Park** in the UK and the **US Army Ballistics Research Lab** absorbed and advanced the new medium.

LOSERS:

Mechanical calculator companies like **Brunsviga** and **Monroe**, and with them much of Europe's precision instrument industry.



MECHANISM SHIFT: FROM VALVES TO SEMICONDUCTORS

Valves proved electrons could compute, but they were fragile, hot, and power-hungry. Sound familiar?

The world's first general purpose electronic computer, ENIAC, or Electronic Numerical Integrator and Computer, which was built by the US during the Second World War, filled 1,800 square feet, weighed 30 tons, and consumed 150 kilowatts. Valves burned out constantly.

The transistor – a new mechanism for the same medium – solved those problems. Cooler, smaller, and more reliable, it made computation practical and scalable. The transistor era enshrined scale as destiny, with Moore's Law as its North Star[3].

[3] Moore's Law is the observation by Gordon Moore, the co-founder of Intel, in 1965, that the number of transistors on an integrated circuit would double every two years.

TRANSISTOR ERA:

WINNERS:

IBM cemented dominance with the System/360 family of mainframe computers in 1964. **Digital Equipment Corporation (DEC)**, founded in 1957, created the minicomputer. **Fairchild** and **Intel** turned transistor know-how into integrated circuits. Consumer electronics firms like **Texas Instruments**, **Motorola**, and **Sony** built new empires.

LOSERS:

RCA, once a tube giant, and many British firms – **Ferranti**, **Elliott**, **ICL** – which were technologically advanced but commercially fragmented. Nations without semiconductor industries lost global influence.

3

INTEGRATION AND SCALE: INTEGRATED CIRCUITS AND MICROPROCESSORS

The medium was still electrons. The mechanism was still the transistor. But the way transistors were packaged changed everything. Integrated circuits (IC) allowed thousands, then millions, of switches on a single chip. Microprocessors went further, pulling an entire CPU (central processing unit) into one die. This was not a new mechanism, but an industrial revolution in scale and economics.

INTEGRATED CIRCUIT ERA:

WINNERS:

Intel's 4004 (1971) unlocked the personal computer. **Microsoft** standardised the software layer. **Apple** defined the consumer experience. **Compaq** and **Dell** built the Wintel ecosystem. Software giants, like **Oracle**, **Adobe** and **SAP**, rode the wave as PCs proliferated.

LOSERS:

Minicomputer firms like **DEC**, **Wang**, and **Prime**. Mainframe holdouts like **Burroughs** and **Univac**. Even **IBM** faltered in PCs. **Xerox PARC** invented the graphical user interface (GUI), mouse, and Ethernet but failed to capitalise. Japan's Fifth Generation Computing project became a national-scale casualty. Scale, not switching physics, reordered the industry.

Photons: The next great leap?

Moore's Law has already slowed. GPUs (graphics processing units) are devouring megawatts. Data centres are hitting cooling and energy walls. Electrons are becoming the relays of our time – too hot and too power-hungry to scale. The solution is photons[4].

The photonic revolution started more than 30 years ago but it stopped at the door of the processor. In 1988, fibre-optic cables leapt across the Atlantic, and through the internet boom photons displaced electrons in global transmission. Copper had reached exhaustion; light kept scaling.

Yet compute itself stayed stubbornly electronic. Transistors were still shrinking, power was cheap, and the tools for logic in light simply didn't exist. Photonics solved the between problem – how to move information – but never the inside problem of how to process it.

That is now changing. Inside hyperscale data centres, electrical interconnects are already being replaced with optical ones. Beyond interconnects, new photonic mechanisms are being forged: modulators to shape light, interferometers to process it, detectors to extract results.

For the first time since the 1940s, the medium and the mechanism are shifting together.

[4] Photons are the basic unit of electromagnetic energy and also the smallest particles of light. They exhibit wave-particle duality, meaning they have the characteristics of both waves and particles.

"If the photon is the next medium, then the new mechanisms of logic are unapologetically analogue."

"...it's far more likely that photonic compute will live and work side-by-side electronic compute, sharing workloads."

The analogue comeback?

To be clear, photons don't merely offer the promise of faster digital machines. Photons re-open the door to analogue computing, a dream as old as Babbage and Vannevar Bush[5].

Babbage's gears were analogue in their way, embodying polynomials (mathematical expressions) in brass. Bush's Differential Analyzer in the 1930s was a room-sized analogue machine, solving equations by spinning wheels and shafts. Both were ingenious, but both were doomed by scale and accuracy.

The shift to transistors more than half a century back required a bargain to be struck with physics: digital over analogue. Transistors gave us repeatability, precision, and the comforting certainty of bits (binary digits).

The price was ever-growing complexity, power consumption, and layers of abstraction. This overhead was accepted because Moore's Law kept paying the bill.

Photons change the equation. Waves superpose[6], interfere, diffract – and in doing so they compute. A lens performs a Fourier transform. An interferometer multiplies matrices. A phase mask is a program.

Photons therefore offer a new bargain: trade a sliver of precision for orders-of-magnitude gains in throughput and energy. Machine-learning inference is perfectly happy with that exchange. The heavy lifting (matrix multiplication, convolutions, Fast Fourier Transforms) maps naturally to light. The rest (memory, control, non-linearity) can stay electronic. Call it what it is: hybrid compute. Electrons keep the book; photons do the sums.

If the photon is the next medium, then the new mechanisms of logic are unapologetically analogue: modulators to shape the wavefront, interferometers to process it, detectors to read it out.

Whether they live in free space, on III/V semiconductor platforms[7], or in silicon photonics is the open contest. But the direction is clear: back to analogue – this time at the speed of light.

[5] Vannevar Bush (1890-1974) was an American engineer, inventor, and science administrator who played a central role in shaping modern computing, wartime research, and US science policy.
[6] Superpose is where waves combine – they can either combine to increase or cancel each other out.
[7] III/V platforms are semiconductor platforms made up of elements from the third and fifth columns of the periodic table. They are considered more efficient than silicon-based semiconductors for devices that emit light.

Future winners and losers?

Previous computing shifts have followed the same brutal logic: the old medium or mechanism hits a wall, a new one scales better, incumbents who cling to the old order fail, and winners are those already fluent in the new or bold enough to pivot hard.

RCA owned vacuum tubes but missed transistors. DEC dominated minicomputers but dismissed the microprocessor. Britain led in early computers but failed to industrialise, ceding the industry to the US. History is not gentle with those who hesitate.

How will the landscape evolve from here? Companies with strong optical heritage are well positioned to win if they can seize the moment and organise around it. Intel has spent two decades building a silicon photonics portfolio – could it re-emerge as a leader in a photonic age, after falling behind in silicon?

Japan has a deep reservoir of intellectual property (IP) and know-how: Sony's dominance in optical sensors is an underappreciated advantage, in our view; camera and lenses firm Nikon's IP sits at the intersection of optics and semiconductor compute (perhaps why EssilorLuxottica, the maker of Ray-Ban sunglasses and Meta's Augmented Reality lens partner, took an interest), and telecommunications firm NTT's IOWN (Innovative and Optical Wireless Network) roadmap is one of the most ambitious and co-ordinated bets we see on photonic compute.

Elsewhere, Corning, with its fibre franchise, and Cisco and Ciena, who built the optical internet, are also worth watching. Startups like Lightmatter, Ayar Labs, PsiQuantum, and Flux are fluent in photonics-first compute and may define the new primitives.

The analogue angle widens the field further. Companies adept at calibration, sensing, and control could find themselves unexpectedly central, since analogue compute must be tuned and stabilised. Defence primes, already steeped in lasers and sensing, could find that their analogue heritage positions them to compete in compute. Might an EDA toolmaker build the 'Optical CUDA' to become a new kingmaker[8]?

And what of today's GPU incumbents? Nvidia, AMD, and the band of beneficiaries riding their ecosystem are winning big now, but will they pivot as IBM did in the 1950s, or will they be eclipsed like DEC and Wang?

Relative features of electronic and photonic computing:

Feature	Electron-based	Photon-based
Medium	Electrons – electrical signals travel through circuits made of semiconductors (usually silicon)	Photons – uses light waves to transmit and process data, through optical fibres or photonic chips.
Speed	Slower	Faster (speed of light)
Heat generation	High	Low
Energy efficiency	Moderate	High
Data density	Limited – electrical pulses (on-off states)	Potentially much higher as light pulses can carry more data
Maturity	Well-established but physical constraints/ Moore's Law slowing down	Emerging/experimental but potential for ultra-fast processing and higher bandwidth

TSMC and Samsung Electronics, titans of electron-based chip manufacturing, face the same question if photonics scales outside silicon. And hyperscalers, such as Microsoft, Google, and Amazon, must decide whether to back photonics at the core of their AI infrastructure or risk locking into yesterday's economics.

To be clear, it's too early to count the powerhouse incumbents out. As per the recent article in Nature magazine, Microsoft is already exploring free-space optical/analogue compute architectures[9]. For its part, Nvidia is investing heavily in co-packaged optics.

The playing field, at this stage, remains wide open. New entrants, however, have a window to shake things up.

In terms of timelines, we should also note that none of this will happen overnight. Photonic compute will take years to scale; we are in the early innings. In addition, it's unlikely that one will replace the other. Just as Hard Disk Drives co-exist with Solid State Memory (NAND), it's far more likely that photonic compute will live and work side by side electronic compute, sharing workloads. The stakes, however, remain high.

Battle for optical capacity

At the national level, optical manufacturing capacity will become a battleground of industrial policy. The US is seeding startups through DARPA (the Defense Advanced Research Projects Agency) and CHIPS (Creating Helpful Incentives to Produce Semiconductors) Act channels; China is pouring resources into III/V foundries; the EU and Japan are scrambling to secure their own supply chains. Countries with traditions in optics and precision instrumentation – Japan, Germany and Switzerland – may find themselves advantaged if analogue compute takes root.

And what of the UK? It may have famously missed the transistor age, but the UK retains deep academic depth in photonics and quantum optics: Southampton, Cambridge, Oxford, and UCL are all world leaders in this field. It has industrial niches in fibre, lasers, and metrology, and a defence sector with long optical experience. Britain cannot out-TSMC Taiwan in silicon, but if the next medium is light, it may yet play a role more like the fibre era, when its scientists helped lay the foundations.

The Information Age was born with electrons. The Cognitive Age may only be possible with photons — and perhaps, with the return of analogue. ◻

[8] Electronic Design Automation or EDA is the software used in designing and manufacturing semiconductors. CUDA (Compute Unified Device Architecture) is Nvidia's platform and programming model that allows developers to use the power of GPUs.
[9] Nature, 'Analog optical computer for AI inference and combinatorial optimization', (nature.com), September 2025.

5 things I asked about you

Ever wondered what drives the people behind the portfolios? In this feature we pull back the professional curtain to reveal the personalities and philosophies of investors and leaders at M&G Investments. Pull up a chair and get some popcorn as we meet the minds behind the money!

We asked the following questions:

1. What is your favourite 'romantic comedy' movie?

2. If not asset management, which career choice would you most likely have made?

3. Which investment icon would you say most reflected your investment approach/beliefs?

4. What piece of advice would you give to your younger self?

5. What do you see as the biggest investment opportunity in the next decade?

And they replied:

Maria Municchi,
Fund Manager,
Sustainable Multi Asset

1. Love Actually – the airport scene is my favourite!

2. An architect and a designer of 'Made in Italy' furniture.

3. Howard Marks. His book, 'The Most Important Thing', provides wonderful insight into 'second-level thinking' and the importance of psychological discipline in investments. I enjoy listening to his podcast 'The Memo', even if I don't always agree with his market views!

4. Aim high, work hard, be kind.

5. Resource scarcity – including energy efficiency, materials recycling, monitoring and management of resource usage – could be an area that provides attractive long-term returns. Also, after 10 years of underwhelming returns, and given current yields, some Western government bonds might surprise to the upside!

Amy Cho,
Head of Asia Pacific

A+

1. Pretty Woman.

2. I started as a corporate banker before moving to asset management. I'm still loving asset management.

3. Howard Marks, for his calm, clarity and common sense. When common sense sometimes is not very common, I admire how he distils complex cycles into practical wisdom without ever sounding like he is trying too hard.

If investing is partly about temperament, then his is one I would bottle.

4. You don't need to have it all figured out – go with your heart, do your homework before asking questions and raise your hand. Don't be afraid to start over again, it gives you a chance to build something even bigger/better. Give yourself grace.

5. Asia, of course, given my role. It is not just the demographics or the wealth growth. It is where ambition meets purpose, and we are only just getting started.

Maria Municchi
Amy Cho
Carl Vine



Andrew Chorlton
Emmanuel Deblanc
Daniel White



David Perrett
Eva Sun-Wai
Alex Seddon



Neil Godfrey
Fiona Hagdrup
David Askham



Carl Vine,
Co-Head of Asia Pacific Equities

1. Love Actually. Pure British Cheese. Love it.

2. There was only ever one choice and I've never looked back.

3. Joel Greenblatt, the American academic, value investor and author of books, such as 'You Can Be a Stock Market Genius' and 'The Little Book That Beats the Market', and Dave Fishwick, the creator of M&G's Episode Macro Strategy.

4. Resolve conflict avoidance earlier in life.

5. What do I know, but just for fun: Photonic Compute.

Andrew Chorlton,
CIO Fixed Income

1. Four Weddings and a Funeral.

2. Something finance related as my DJ skills just weren't good enough to go down that path!

3. Bill Gross. He brought bonds out of the shadows and played a major role introducing active bond management to a much wider audience.

4. Take your time.

5. Of all the megatrends out there, the impact of long-term demographics is the least fashionable but the most inevitable as populations age, particularly in developed economies. With my fixed income hat on, it's hard not to see value in inflation-linked bonds offering real yields above 2% for government risk.

Emmanuel Deblanc,
CIO Private Markets

1. When Harry Met Sally.

2. A writer.

3. Li Ka-shing, the Hong Kong billionaire business magnate, investor and philanthropist.

4. It is a marathon.

5. I think emerging markets for the question of where to invest and the biotechnology sector for the question of what area to invest in.

Daniel White,
Head of Global Equities

1. Groundhog Day (and yes, it IS a rom-com!)

2. Marine Biologist – one of my first 'jobs' (unpaid) was 2 months rescuing baby sea turtles in Greece.

3. I have huge admiration and respect for Seth Klarman – he keeps a low profile, has an incredible investment track record, and his out-of-print book 'Margin of Safety' has a cult following among the investment community.

4. Be pragmatic – when investing but also along one's own career path. I think the latter is now especially important as industries, the workplace and roles evolve with the adoption of AI.

5. Unconstrained and actively managed equities.

David Perrett,
Co-Head of Asia Pacific Equities

1. My Cousin Vinnie.

2. I would have loved to be a professional footballer, but I don't think the industry would have had me!

3. Not necessarily a pure investor, but I would say behavioural finance thought leader Daniel Khaneman. I was also very fortunate to work with some excellent investors early in my career, like M&G's Dave Fishwick.

4. Don't sweat the small stuff and with time it is all mostly small stuff.

5. Asian mid- and small-cap equities. Valuations are compelling, in my view, and there are many excellent companies that are currently being completely overlooked.

Eva Sun-Wai,
Fund Manager, Fixed Income

1. How to Lose a Guy in 10 Days was a firm favourite for me growing up, but the twist in Crazy, Stupid, Love (if you know you know) makes it a very close second.

2. A fitness instructor/have my own boutique fitness studio. I already teach Spin and Reformer Pilates outside of M&G, so this won't surprise anyone who knows me!

3. Claudia Calich, the head of our emerging markets debt team, who is retiring this year. There aren't many legendary female investment icons, but I feel fortunate to have worked alongside someone who has been both an inspiration and a mentor in fund management.

4. Buy Bitcoin.

5. I think fixed income genuinely has a more appealing entry point compared to other asset classes, and emerging market debt, in particular, offers differentiated opportunities, shaped by global supply chain realignments, shifting capital flows, and improving resilience to external shocks.

Alex Seddon,
Head of Impact and Private Equity

1. Four Weddings and a Funeral.

2. Anodising aluminium – my Dad's business but I wanted to strike out on my own.

3. Howard Marks – his book is a must read.

4. Take more risk. You need to get comfortable stepping into uncertainty. That is the only way you can learn and progress.

5. Probably Blockchain and Cryptocurrency – I think the impact on finance and markets is being underestimated by most people.

Neil Godfrey,
Global Head of Client Group

1. Groundhog Day – it is a bit of a rom-com.

2. I'm a keen sports person, so commentating on sport or sports journalism.

3. As a leader, Reed Hastings, the co-founder and chairman of Netflix. From the investment world, Carl Icahn.

4. If you don't understand, ask. You should seek to learn every day, and continue to do so throughout your career. This industry is incredibly cerebrally stimulating.

5. Infrastructure and emerging markets.

Fiona Hagdrup,
Head of Leveraged Finance Fund Management

1. Some Like It Hot. I must have watched it 100 times... genre-defining (and defying).

2. Scriptwriter. Like my Dad.

3. Icon might be pushing it, but the epitome of keeping it simple is Howard Marks, arguably the Buffett of Private Credit. And, for her ground-breaking in overly 'bro' sectors, I admire fintech Venture Capitalist, Blythe Masters.

4. Discover Daniel Kahneman way sooner than you did.

5. Female-founded lifestyle and wellness concerns.

David Askham,
Portfolio Manager, Asia Living

1. Bridget Jones (don't tell anyone!).

2. Still in real estate or the built environment, likely urban planning, focused on revitalising neighbourhoods and affordable housing.

3. Ray Dalio. I love his systemised approach to investing and life. Living and working in Asia, his emphasis on Asian business cultures resonates with me.

4. Don't worry about things you can't change; focus energy on the things you can change, for example, your own performance, rather than factors outside your control.

5. As a real estate investor I would say senior housing, given the associated demographic trends of ageing populations. Outside of real estate I would say AI (no surprise) or some form of 'clean energy'.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