M&G wealth

MODEL PORTFOLIO SERVICE (MPS)

CLIENT QUARTERLY INVESTMENT UPDATE

April 2025

Our MPS Solutions

Passive

A range of six risk-managed portfolios predominantly invested in passive funds.

Hybrid

A range of six risk-managed portfolios invested in a blend of active and passive funds.

Global ESG Themes

A range of five actively managed multi-asset portfolios with Environmental, Social and Governance (ESG) objectives.

This report is for client use. For further information on MPS speak with your financial adviser.

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Introduction

Welcome to the April 2025 Investment Update for the M&G Model Portfolio Service (MPS). In this quarterly report we summarise our views on markets. It's been a challenging start to the year, particularly for US stocks which have impacted the global stock market index. Uncertain policy is creating a more uncertain environment for companies to operate. We look at the role active asset allocation can play in times like now as well as give our take on US stocks.

A look back at Q1 2025

Commentary reflects the general views of individual fund managers and should not be taken as a recommendation or advice as to how any specific market is likely to perform. Returns are in Sterling, unless we've added a note stating otherwise.

'America First' inadvertently boosts European stocks

President Donald Trump and Vice President JD Vance's 'America First' policies for trade, defence alliances and Ukraine have galvanised European leaders. Germany is increasing spending on defence and infrastructure, which has led economists to raise growth forecasts for Europe, causing markets to follow suit. There is a shift in market trends, with investors selling US stocks and buying more European stocks. In Q1, the Euro appreciated 4.5% against the dollar, the European stock market rose +7.8%, and US stocks fell -7.1%.

A mindset shift in Europe to boost growth

European industrial companies, especially defence firms, have prospered due to expected increases in government spending. Banks are also performing well, reaching levels not seen since 2008. It's too early to say if this marks an economic renaissance for Europe. What investors are acknowledging, though, is a mindset shift from German politicians that have been reluctant to use spending as a tool to boost growth.

China's technology companies lift emerging markets

China stocks were up 11.0% in Q1 which boosted the Asia stock index (+7.8%). China has been a deeply unloved area of the stock market. The arrival of DeepSeek's AI model in January reinvigorated the prospects for Chinese technology. Chinese Leader Xi Jinping helped lift confidence in China's technology companies. Having shunned companies like Alibaba (China's largest ecommerce company and one of the largest global Artificial Intelligence companies), recent meetings with industry leaders were seen as a show of support. It's a big U-turn given the previous regulatory crackdown on technology firms, which was a key reason behind the stock market's slump.

US technology companies lose steam

In contrast, American businesses and households are feeling uncertain due to fluctuating trade policies and cuts to government services. The amount people are spending and number of people employed remain stable, however economists at the bank Goldman Sachs have cut their forecast for Gross Domestic Product (GDP) growth for the US from 2.2% to 1.7%. Stocks, particularly technology companies, have declined as investors take profits and react to developments in AI from China. Against this backdrop of market volatility it was a decent quarter for the MPS models.

[1] Goldman Sachs Macroeconomics, 13 March 2025.

An active asset allocation to navigate markets

US equities have had a challenging start to 2025. It's important to remember how we got here. The decline this quarter of -7.1% should be viewed in the context of a stellar final quarter of 2024 where the S&P 500 Index was up 9.3% and outperformed the rest of the world by 11%. Since the equity market rally began in 2023 we've seen a period of unusual calm in stock prices. It's common for equities to fall 10% within a year. Since 1965, the US stock market has fallen 10% on 32 occasions, averaging a 10% fall around once every two years. What periods like this show though is the heavy reliance of global stocks on the US.

The falls in US stocks in Q1 are normal relative to history but the impact on portfolios is greater than before because of how the S&P 500 Index dominates the global stock market. Today the US is 67% of the global stock market and 73% of developed market stocks. In 2008 it was 40% of the global index. Earlier we mentioned the potential benefits to German companies from changes in European policy. The global stock market has a higher weight to Microsoft alone than Germany, so this positive impact is unlikely to boost global equities. A global equity passive index holds more in Tesla, which has a price to earnings multiple of 132x forward earnings, than the entire Korean stock market. The global stock market isn't very global. We think active management is essential to avoid too much riding on the performance of a small number of companies.

Our portfolios have about 40% of the equity exposure invested in US stocks – still the largest single region but less than the global stock market with close to 70% in the US. Instead we have more in Europe, emerging markets like China and India and Asia equities such as Taiwan and Korea.

> A 10% drop in markets happens most years

> But declines in the US stocks impact portfolios more than previously

What are our views on US stocks now?

Recent economic data is showing that the 'America First' policies are hurting American's confidence in the economic outlook. This means the US economy is expected to grow at a slower rate in 2025 because households and businesses are in a 'wait and see' mindset rather than spending and investing. There is some concern this could create a recession. The valuation on US stocks has fallen a bit to reflect this. Investors have sold US technology stocks the most because they're taking some very good profits from recent years. The valuations of these businesses have also been impacted by AI developments in China.

We think it's right to expect slower economic growth in the US. We don't foresee US recession though. The US economy was in a decent place which gives a good buffer. Also, the new administration still has the option to shift to a moderate agenda and business-friendly policies if they see the outlook deteriorating. On US technology specifically, investors still expect 20%+ growth in profits from these companies. We haven't heard anything yet to doubt this but if companies signal growth might not be as strong, the high expectations could lead to more volatility.

An active approach to asset allocation will help manage what we see as a more uncertain time for US stocks. The policy in the US is proving a challenge but it's being met with new government spending in other regions such as Europe. Asia equities have good exposure to technology and AI themes but valuations are cheaper and in Japan and China we've seen economic sentiment improve in recent months. Investors should be aware of the dominance of US stocks in passive investments which wasn't the case 15 years ago. We think the best approach is to have an asset allocation that looks ahead rather than at what has already happened.

> Slower growth but no recession

> Risks can be managed by having a view on regions outside of the US

Performance – Passive

The Passive models returned between -2.2% and +0.4% in Q1. Portfolios with more equities performed worse than those with more bonds. Passive 1 has the least exposure to equity and Passive 6 has the most.

Performance was worse than multi-asset peers in the higher risk models where we have more equities relative to the peer group. Our models hold more in developed Asia equities such as Japan which haven't performed as well as emerging Asia equities. The lower risk models have a larger allocation to bonds than their peer group benchmarks and bonds performed better than equities.

Passive Model Performance

	31.03.24 to 31.03.25	31.03.23 to 31.03.24	31.03.22 to 31.03.23	31.03.21 to 31.03.22	31.03.20 to 31.03.21
Passive 1	**3.18**	**6.07**	**-4.99**	**2.28**	**9.62**
Passive 2	3.22	7.51	-4.41	5.17	15.66
Passive 3	**3.23**	**8.37**	**-3.48**	**7.32**	**21.75**
Passive 4	3.26	9.16	-2.42	7.67	23.88
Passive 5	**3.34**	**10.05**	**-1.63**	**8.04**	**26.03**
Passive 6	3.33	10.78	-1.15	8.95	29.96

Absolute and relative to IA sector peers

	Q1 2025	1 Year	3 Years*	5 Years*
MPS Passive 1	**0.35**	**3.18**	**1.31**	**3.11**
Rel to IA 0 – 35%	0.09	-0.15	0.36	0.26
MPS Passive 2	**-0.31**	**3.22**	**1.98**	**5.22**
Rel to IA 20 – 60%	-0.50	-0.48	-0.09	-0.31
MPS Passive 3	**-0.81**	**3.23**	**2.59**	**7.12**
Rel to IA 20 – 60%	-1.00	-0.47	0.52	1.59
MPS Passive 4	**-1.34**	**3.26**	**3.22**	**7.96**
Rel to IA 40 – 85%	-0.14	-0.10	0.41	0.31
MPS Passive 5	**-1.72**	**3.34**	**3.81**	**8.78**
Rel to IA 40 – 85%	-1.04	-0.03	1.39	2.23
MPS Passive 6	**-2.24**	**3.33**	**4.20**	**9.88**
Rel to IA 40 – 85%	-1.04	-0.03	1.39	2.23

Source of performance data: FE Analytics. Performance is to 31.03.25.

We can't predict the future, past performance isn't a guide to future performance. The figures are intended only to demonstrate performance history of the portfolio over the period shown.

Investing comes with risk. The value of your investment can go down as well as up and you may not get back what you put in. If you're invested in a M&G Wealth Investments model portfolios, then please speak to your financial adviser if you have questions about the risks.

*3 year and 5 year performance figures are annualised.

Performance – Hybrid

The Hybrid models returned between -2% and 0.8% in Q1. Portfolios with more equities performed worse than those with more bonds. Hybrid 1 has the least exposure to equity and Hybrid 5 has the most.

Model 1 and model 4 performed better than multi-asset peers where they have comparatively less equity than their respective benchmarks. Other models lagged due to holding more equity. Bonds performed better than equities in the first quarter of 2025 which drove differences in performance.

Hybrid Model Performance

	31.03.24 to 31.03.25	31.03.23 to 31.03.24	31.03.22 to 31.03.23	31.03.21 to 31.03.22	31.03.20 to 31.03.21
Hybrid 1	**3.83**	**6.11**	**-4.17**	**1.66**	**8.60**
Hybrid 2	3.86	7.45	-3.44	3.87	14.82
Hybrid 3	**3.76**	**8.02**	**-2.70**	**5.22**	**21.31**
Hybrid 4	3.92	8.65	-2.02	5.04	24.10
Hybrid 5	**4.05**	**9.17**	**-1.32**	**4.87**	**26.93**
Hybrid 6	4.08	9.48	-1.37	5.03	31.30

Absolute and relative to IA sector peers

	Q1 2025	1 Year	3 Years*	5 Years*
MPS Hybrid 1	**0.77**	**3.83**	**1.82**	**3.11**
Rel to IA 0 – 35%	0.33	0.50	0.87	0.26
MPS Hybrid 2	**0.00**	**3.86**	**2.52**	**5.14**
Rel to IA 20 – 60%	-0.19	0.16	0.45	-0.39
MPS Hybrid 3	**-0.52**	**3.76**	**2.93**	**6.83**
Rel to IA 20 – 60%	-0.71	0.06	0.86	1.30
MPS Hybrid 4	**-0.96**	**3.92**	**3.42**	**7.59**
Rel to IA 40 – 85%	0.24	0.56	0.61	-0.06
MPS Hybrid 5	**-1.39**	**4.05**	**3.87**	**8.33**
Rel to IA 40 – 85%	-0.19	0.69	1.06	0.68
MPS Hybrid 6	**-2.02**	**4.08**	**3.97**	**9.18**
Rel to IA 40 – 85%	-0.82	0.72	1.16	1.51

Source of performance data: FE Analytics. Performance is to 31.03.25.

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*3 year and 5 year performance figures are annualised.

Performance – Global ESG Themes

The Global ESG themes models returned between -1.7% – 0.8% in Q1 2025.

Performance was behind multi-asset peers. The thematic equity funds in the ESG Themes models have more in smaller companies as well as more in sectors such as healthcare, biotechnology and renewable energy which underperformed the equity market index in Q1.

Global ESG Themes Model Performance

	31.03.24 to 31.03.25	31.03.23 to 31.03.24	31.03.22 to 31.03.23	31.03.21 to 31.03.22	31.03.20 to 31.03.21
GESGT 1	**3.70**	**6.63**	**n/a**	**n/a**	**n/a**
GESGT 2	2.82	7.38	n/a	n/a	n/a
GESGT 3	**2.26**	**7.75**	**n/a**	**n/a**	**n/a**
GESGT 4	1.80	8.06	n/a	n/a	n/a
GESGT 5	**1.07**	**8.44**	**n/a**	**n/a**	**n/a**

Absolute and relative to IA sector peers

	Q1 2025	1 Year
MPS GESGT 1	**0.81**	**3.70**
Rel to IA 0 – 35%	0.37	0.37
MPS GESGT 2	**-0.07**	**2.82**
Rel to IA 20 – 60%	-0.26	-0.88
MPS GESGT 3	**-0.55**	**2.26**
Rel to IA 20 – 60%	-0.74	-1.44
MPS GESGT 4	**-1.08**	**1.80**
Rel to IA 40 – 85%	0.12	-1.56
MPS GESGT 5	**-1.68**	**1.07**
Rel to IA 40 – 85%	-0.48	-2.29

Source of performance data: FE Analytics. Performance is to 31.03.25.

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For more information

Please speak to your financial adviser for specific information on your investments. If you know which strategy you're invested in, then you can access more information in our Client Guides and Monthly Factsheets.

Client Guides:

These documents provide an overview of the key aspects of the model portfolio service.

M&G Wealth Investments offers three strategies, each with different risk profiles. The investments within each portfolio are designed to align with a specific attitude to risk and time horizon for investing.

- Passive Client Guide
- Hybrid Client Guide
- Global ESG Themes Client Guide

Monthly Factsheets:

These documents provide an overview of each strategy, including the costs, underlying investments, geographic exposure and past performance.

Passive 1	Hybrid 1	Global ESG Themes 1
Passive 2	Hybrid 2	Global ESG Themes 2
Passive 3	Hybrid 3	Global ESG Themes 3
Passive 4	Hybrid 4	Global ESG Themes 4
Passive 5	Hybrid 5	Global ESG Themes 5
Passive 6	Hybrid 6	

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