For Investment Professionals only

Equities market perspective

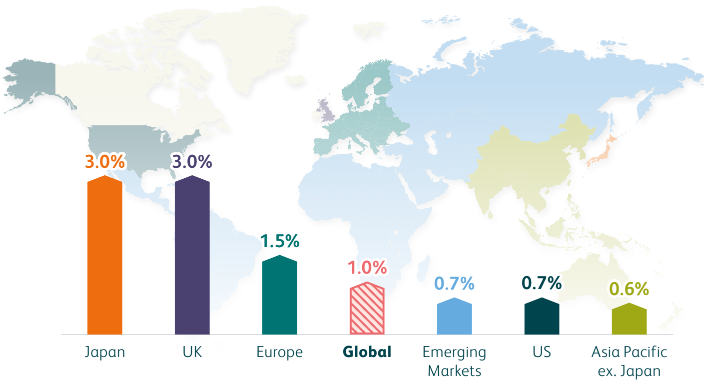
Ritu Vohora – Investment Director

October 2019

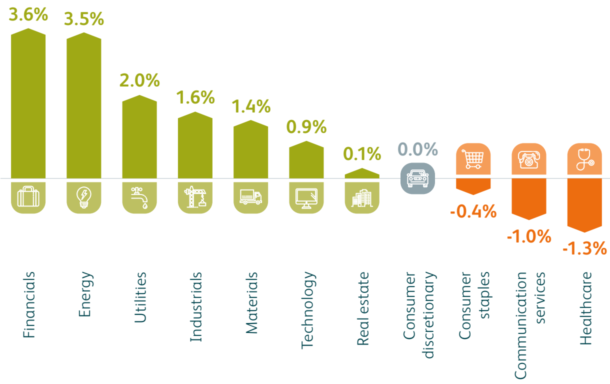
M&G INVESTMENTS

Market summary

Regional performance – September 2019



Global sector performance – September 2019



Global: After last month's flight to safety, global equity markets staged a comeback in September, as the Fed eased monetary policy and the ECB reintroduced quantitative easing. The MSCI AC World index finished up 2.2% (in US$), with policy stimulus offsetting weaker manufacturing data in both the US and Europe. Japanese and UK equities performed well, while the S&P500 lagged amid ongoing political and trade uncertainty in the US. Rising yields and a rotation out of momentum supported financials and value stocks. At a sector level, energy outperformed, while healthcare lagged.
UK: UK equities performed well, as the odds of a 'no deal' Brexit looked to be diminishing. Sterling strengthened against the US dollar.

Europe: The MSCI Europe Index outperformed the wider MSCI AC World Index, helped by the strong performance in financials and energy.
US: The 'whistleblower' impeachment case against President Trump brought by US Speaker of the House, Nancy Pelosi, weighed on US equities. The President was compelled to release a transcript of his call with the President of Ukraine.
EM/Asia ex. Japan: China's manufacturing output shrank for a fifth month in September. Trade war concerns continued to weigh on the region despite the delay of tariff implementation by the US.
Other: Brent crude finished up overall, but climbed down from a sharp spike immediately following the attack on Saudi Arabia's oil production in mid-September. Gold gave back some of its year-to-date gains.

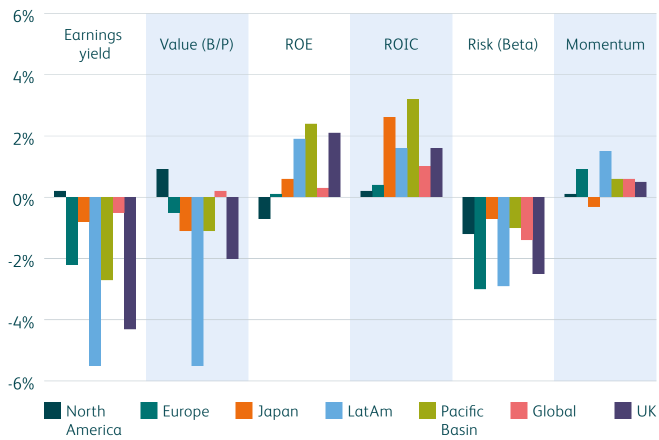
Market data

Total returns (%)	MSCI AC World		FTSE All-Share		S&P 500		MSCI Europe		MSCI Asia Pac x Jap		MSCI EM	
	Sep	YTD	Sep	YTD	Sep	YTD	Sep	YTD	Sep	YTD	Sep	YTD
GBP	1.0	20.6	3.0	14.4	0.7	24.6	1.5	18.2	0.6	11.7	0.8	9.8
EUR	3.2	22.4	4.8	15.6	2.9	26.4	3.8	20.0	2.8	13.3	3.0	11.4
USD	2.2	16.7	4.2	10.7	1.9	20.6	2.7	14.4	1.8	8.0	1.9	6.2

Valuation	MSCI AC World	FTSE All-Share	S&P 500	MSCI Europe	MSCI Asia Pac x Jap	MSCI EM
(P/B)	2.3x	1.7x	3.4x	1.8x	1.6x	1.6x
(P/E)	17.5x	15.1x	20.7x	16.7x	13.7x	12.7x
(P/E FY1)	16.1x	13.2x	18.3x	14.7x	14.0x	12.8x

Source: Datastream & Factset, MSCI indices, S&P indices for the US, as at 30 September 2019. Total returns in GBP.

Style update: what's in vogue? Q3



Source: UBS Global Quantitative Research, 30 September 2019. All returns are relative to the relevant Dow Jones Global Indices regional index.

Currencies: percentage change over month and YTD (Majors vs GBP)

	Aus. Dollar	Yen	Swiss franc	Euro	US Dollar
Sep	-0.5%	-2.6%	-1.3%	-1.6%	-1.0%
YTD	-0.5%	5.6%	2.9%	-0.8%	3.7%

Source: Datastream, 30 September 2019.

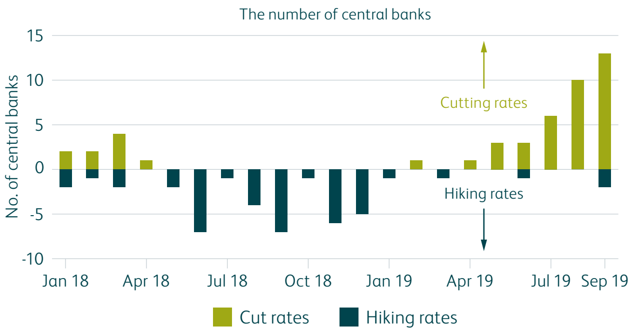
Theme of the month: Central banks turn on the taps

Key points

- September was a month characterised by rising geopolitical tensions and synchronised monetary easing across the globe.
- The US Fed cut rates by 25 basis points while, in the UK, the Bank of England left rates on hold.
- The ECB cut the bank deposit rate to -0.5%, and will start buying bonds again at a rate of EUR20 billion a month.
- There have also been growing calls for countries to embark on greater fiscal stimulus to help reignite growth.

September was characterised by **rising geopolitical tensions and synchronised monetary easing** across the globe. With no US-China trade resolution in sight and as concerns about weakening growth weighed on sentiment, central banks globally extended monetary easing to help shore up their economies.

Central banks engaged in synchronised monetary easing



Source: Haver Analytics, Barclays Research, 29 September, 2019. Data from 29 central banks, only displays the number of central banks that either cut or hiked policy rates.

As widely expected, we saw the **US Fed cut rates by 25 basis points**, but Fed chair Jay Powell was less dovish than some had expected. However, should the data deteriorate, there looks to be scope for further easing from here.

Elsewhere, Brazil slashed rates by half a percentage point. Russia and Turkey also joined in, lowering rates by 25 and 325 basis points respectively. Turkey's sizeable cut comes after the country's currency crisis and recession last year.

In the UK, **the Bank of England's Monetary Policy Committee voted unanimously to leave rates on hold** as the Brexit deadline looms, but the committee revised down its growth forecasts for the third quarter. **The Bank of Japan also stuck to its current rate**, but adopted a more dovish tone. Both central banks are leaving the door open for further easing as we head into the final quarter of 2019.

In Europe, the **ECB embarked on a raft of monetary stimulus measures** amid signs of economic weakness and low inflation. Central bank president **Mario Draghi announced a 10 basis point cut in the deposit rate to -0.5%**, to encourage banks to lend. He also announced the reinstatement of the asset purchase programme from the 1st of November. **The central bank will make purchases worth €20 billion a month** for as long as deemed necessary. The markets had anticipated the reintroduction of asset purchases, although the monthly limit undershot some predictions.

Perhaps more surprisingly, the **ECB also made amendments to the terms of its third round of Targeted Longer Term Refinancing Operations** or TLTRO III as it's been dubbed, a move aimed at further supporting the banking sector.

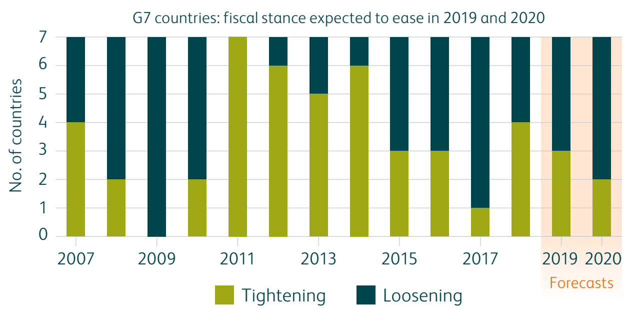
Essentially, the more that banks lend into the real economy, the more favourable the central bank's lending conditions.

From the end of October, qualifying banks will be able to benefit from a so-called tiering system which enables them to borrow at lower, possibly negative rates (in effect, earning interest on borrowings), while also being able to deposit some of their excess reserves, an 'exempt tier', for free.

It is ECB president Mario Draghi's swan song before handing over the reins to former IMF chief Christine Lagarde.

Supporters have praised the central bank's innovative approach to tackling anaemic growth in the region. However, the **latest easing measures were also met with strong resistance from some of the more hawkish members of the ECB's governing council**, concerned about the unintended consequences of chronically low interest rates.

Governments listening to calls for greater fiscal stimulus



Source: OECD, Haver Analytics, Barclays Research. G7 countries: Germany, France, Italy, UK, Japan, Canada and the US.

Alongside monetary easing, there have been **growing calls for countries to embark on greater fiscal stimulus** to help reignite growth, not least in the euro area. In Europe, Mario Draghi has repeatedly called on nations with fiscal headroom to use it. **France has declared that it will cut taxes by more than 10 billion euros** next year, and the country's finance minister has called on Germany to follow suit and loosen fiscal policy.

With growth slowing and Germany heading into a recession, pressure has been mounting on the German government and finance ministry to deviate from its long-standing zero-deficit policy, and there are signs that the country is softening its stance, with **Chancellor Angela Merkel acknowledging that reforms and finance policies had to take the burden off the ECB**.

The IMF has also urged the German government to initiate growth-enhancing investments, so it will be interesting to see if Christine Lagarde maintains this line when she assumes her new role as central bank chief in November.

Where any performance is mentioned, please note that past performance is not a guide to future performance.

M&G INVESTMENTS