For Investment Professionals only

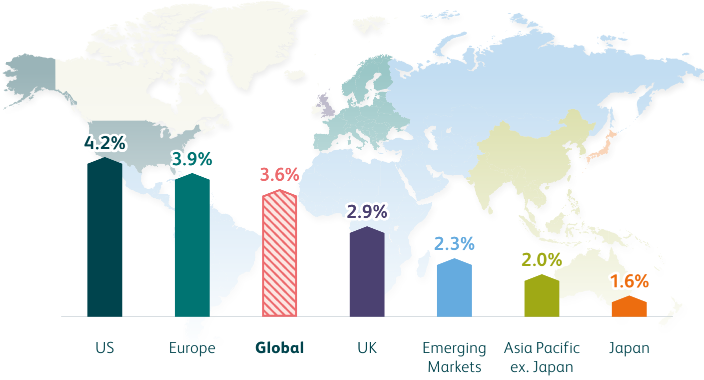
Equities market perspective

Ritu Vohora – Investment Director

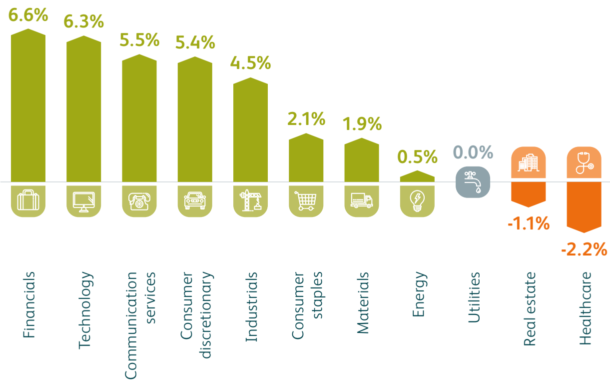
May 2019

Market summary

Regional performance – April 2019



Global sector performance – April 2019



Global equities: Global equities performed well in April with a broad-based rally across all major regions and most global sectors. Positive economic data surprises and a slowdown in the rate of downgrades to corporate earnings estimates helped to support equity markets. The US continued to lead regional performance and cyclical sectors outperformed defensives. Technology outperformed during the month and remains the best performing sector year to date. Financials stocks also bounced back after a difficult March, supported by stronger than expected first-quarter earnings. The laggards were healthcare and utilities.
UK: As concerns around Brexit eased, UK stocks managed to stay in positive territory. During the month, small and mid-cap stocks outperformed their large-cap peers.

Europe: Stronger than expected growth data for the region and confirmation that Italy's economy had returned to growth boosted European returns.
US: The S&P 500 had its best April rally in a decade and hit a fresh record high. The latest batch of corporate earnings and optimism over US-China trade talks supported performance.
EM/Asia ex Japan: Chinese shares gave back some of their earlier gains in April amid concerns that authorities may reignite a campaign against shadow banking.
Other: Improved sentiment saw sovereign bonds including US 10-year Treasuries and German bunds sell off in the month. Brent crude continued its upward climb, briefly rising above US$75 a barrel before retreating in the final week of the month.

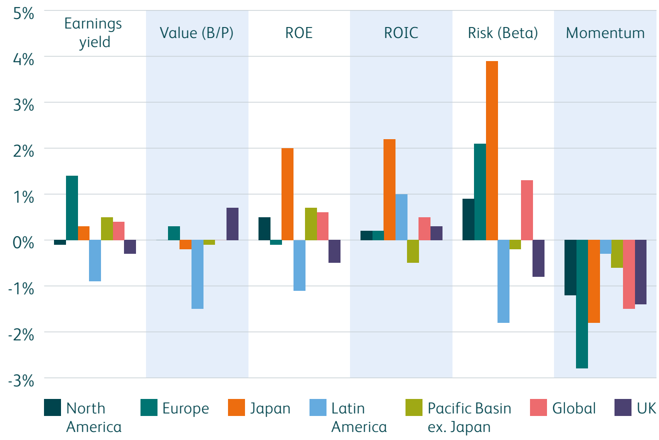
Market data

Total returns (%)	MSCI AC World		FTSE All-Share		S&P 500		MSCI Europe		MSCI Asia Pac x Jap		MSCI EM	
	Apr	YTD	Apr	YTD	Apr	YTD	Apr	YTD	Apr	YTD	Apr	YTD
GBP	3.4	13.5	2.7	12.3	4.0	15.5	3.7	12.5	1.7	10.9	2.1	9.7
EUR	3.6	18.5	2.9	17.0	4.2	20.6	3.9	17.4	2.0	15.7	2.3	14.5
USD	3.4	16.2	2.7	15.0	4.0	18.2	3.7	15.1	1.8	13.5	2.1	12.3

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	3.5x	1.7x	1.7x	1.7x
(P/E)	17.3x	15.1x	20.7x	15.9x	13.9x	12.9x
(P/E FY1)	15.8x	13.2x	17.9x	14.2x	14.3x	12.8x

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

Style update: what's in vogue?



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

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

	Aus. Dollar	Yen	Swiss franc	GBP	US Dollar
Apr	-0.7%	-0.5%	-2.1%	0.0%	0.2%
YTD	2.0%	0.5%	-1.3%	4.5%	2.0%

Source: Datastream, 30 April 2019.

The value of investments, and the income from them, will fall as well as rise and you may get back less than you originally invested. Where any performance is mentioned, please note that past performance is not a guide to future performance.

Theme of the month: Could the eurozone surprise to the upside in 2019?

Key points

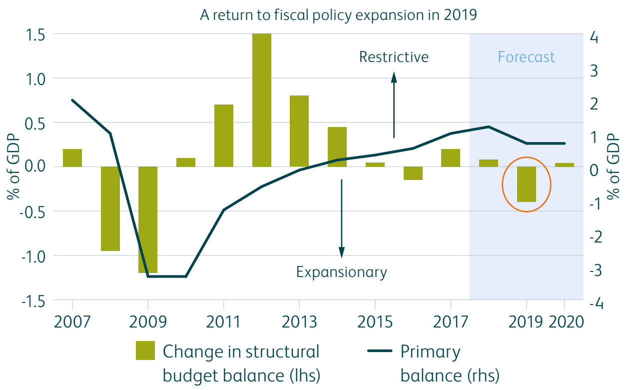
- After a sharp slowdown in the second half of last year, eurozone GDP growth accelerated in the first quarter of 2019
- External factors have weighed on euro area growth, but fiscal stimulus in 2019 could provide a welcome boost
- The greatest stimulus is expected to come from the 'Big Three' – Germany, France and Italy
- Expansionary fiscal policy should provide a respite from the austerity drive of the recent past

Prospects for growth in the euro area have, once again, been in focus this year. Encouragingly, **eurozone GDP growth accelerated in the first quarter of 2019** after a sharp slowdown in the second half of last year.

The economy was supported by domestic demand; however, **external factors** such as trade disputes and ongoing Brexit uncertainties **continued to weigh on growth in the region**.

With talk of a sustained recovery still some way off and amid the rising anti-austerity rhetoric, there have been renewed calls, including from governing bodies such as the IMF, for **coordinated fiscal easing** across the euro area to stimulate economic growth – and authorities have been listening. In 2019, **the region looks set to embark on its most accommodative fiscal policy of the last decade**.

Euro area: most accommodative fiscal stance since 2009

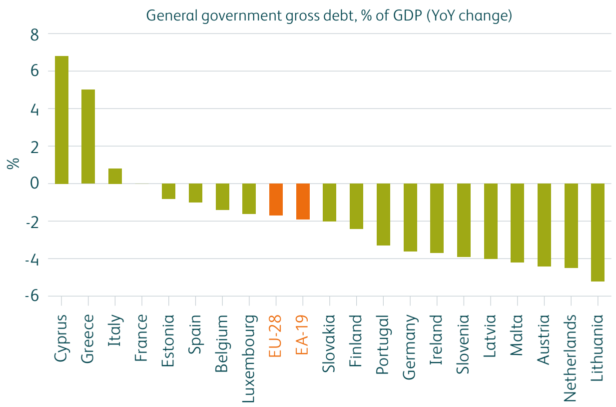


Source: Haver Analytics, Barclays Research, March 2019.

While sovereign debt remains higher than it was before the crisis, the debt burden has come down in recent years, partly due to the lower interest rates. In aggregate, **debt in the euro area is on a downward trend**, which should allow for greater fiscal stimulus without jeopardising debt sustainability.

The fiscal stimulus efforts are being led by **Germany, France** and **Italy** in particular.

Euro area: government debt burden on downward trend



Source: Eurostat, 24 April 2019.

Despite Germany's 'black zero' policy of maintaining a balanced fiscal budget, the country has the most scope to undertake fiscal easing, and is **expected to provide the greatest stimulus**. In addition to measures already agreed by the ruling coalition, the government is embarking on higher social spending and further tax cuts in 2019.

In **France**, President Macron has also announced a **raft of tax cuts and pension reforms**, combined with measures designed to increase purchasing power.

In **Italy**, **'universal income'** is the main pillar of the coalition's fiscal policy in 2019. After a lengthy stand-off with European officials in Brussels, the populist leaders eventually reached a compromise on their public spending initiatives.

Planned public investment is highest in Portugal, where the country's economic turnaround has led to faster growth than the eurozone average over the past two years.

Overall, **expansionary fiscal policy** should support business and consumer confidence in the euro area. Tax cuts should also boost domestic demand, while accelerating wage growth continues to support consumers' purchasing power.

The **combined fiscal stimulus measures should boost eurozone GDP growth in 2019** and also provide a tailwind into 2020.

At the same time, we expect a **progressive moderation in the external factors** that have been dragging on the economy, offering a further tailwind for growth.

The eurozone continues to face cyclical and structural challenges, and **sentiment** towards the region is likely **to remain fragile in the run up to European elections** and ahead of a change at the helm of European Central Bank as Mario Draghi's tenure draws to an end. Uncertainty around these events could bring **further bouts of market volatility** as we move through the year.

Still, **given the current weak sentiment** towards the region, **a low bar has been set for positive surprises**.

Although it may be premature to suggest that Europe is 'turning the page' on austerity, this renewed round of **fiscal stimulus** should, at the very least, **stave off concerns of an imminent recession** and provide **a respite from the austerity drive** of the recent past.

The measures, combined with continued loose monetary policy, a healthy labour market and a resilient corporate backdrop, may yet see the eurozone bring **some welcome surprises in the months ahead**.

M&G INVESTMENTS

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

For Investment Professionals only. Not for onward distribution. No other persons should rely on any information contained within. This information is not an offer or solicitation of an offer for the purchase of shares in any of M&G's funds. **Distribution of this document in or from Switzerland is not permissible with the exception of the distribution to Qualified Investors according to the Swiss Collective Investment Schemes Act, the Swiss Collective Investment Schemes Ordinance and the respective Circular issued by the Swiss supervisory authority ("Qualified Investors"). Supplied for the use by the initial recipient (provided it is a Qualified Investor) only.** This financial promotion is issued by M&G International Investments S.A. Registered Office: 16, boulevard Royal, L-2449, Luxembourg. The Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários, the "CMVM") has received a passporting notification under Directive 2009/65/EC of the European Parliament and of the Council and the Commission Regulation (EU) 584/2010 enabling the fund to be distributed to the public in Portugal. **MAY 19 / W359504**