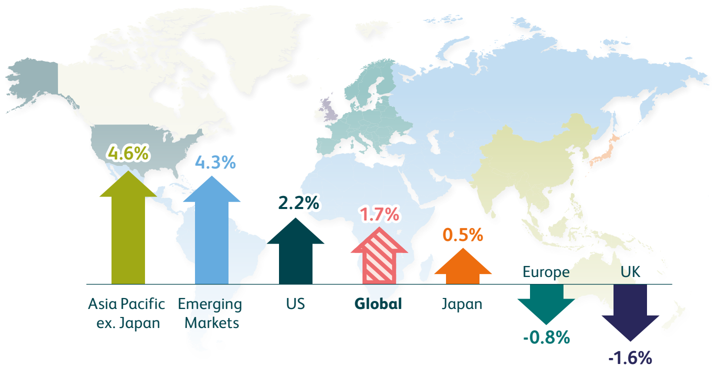
FOR INVESTMENT PROFESSIONALS ONLY

Equities market perspective

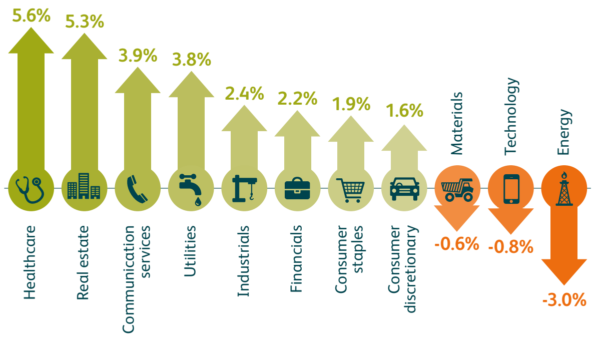
Ritu Vohora – Investment Director December 2018

Market summary

Regional performance – November 18



Global sector performance – November 18



Global equities: Most equity markets rallied during the month, with cyclical regions including Asia Pacific ex Japan and emerging markets the best performers, led by Turkey and Indonesia. However, emerging markets remain the worst performing region year to date, while the more defensive US continues to lead. From a sector perspective, defensives drove November's rebound, with healthcare, real estate and communication services leading the rally. Cyclical sectors energy, technology hardware and materials fared the worst in the month. Style performance saw quality outperform in most regions, whilst momentum underperformed.

UK: UK stocks finished the month in the red. Continuous worries over whether Theresa May's Brexit deal will get approved by Parliament weighed down on the market. Mining stocks fell on worries about China's economy.

Europe: Brexit and Italy's budget-linked standoff with the European Commission alongside a weaker-than-expected PMI from Germany, all put pressure on the European market.

US: A dovish Fed and tentative signs of improvement in US/China trade relations helped to propel the US stock market back into the black for 2018.

EM/Asia ex Japan: MSCI EM index posted its best month since January 2018. Market sentiment was largely driven by hope of a reduction in trade tensions between the US and China at the G20 summit.

Other: Oil posted its worst month in a decade falling more than 21% in dollar terms. US crude was battered by supply concerns, global politics and demand fears.

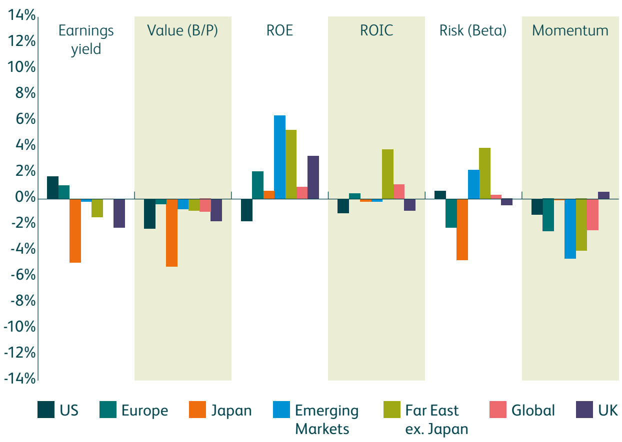
Market data

Total returns (%)	MSCI AC World		FTSE All-Share		S&P 500		MSCI Europe		MSCI Asia Pac x Jap		MSCI EM	
	Nov	YTD	Nov	YTD	Nov	YTD	Nov	YTD	Nov	YTD	Nov	YTD
GBP	1.7	3.8	-1.6	-5.9	2.2	11.4	-0.8	-4.8	4.6	-5.9	4.3	-6.7
EUR	1.6	3.9	-1.7	-6.0	2.1	11.5	-0.8	-4.8	4.5	-5.9	4.2	-6.6
USD	1.5	-2.1	-1.8	-11.3	2.0	5.1	-0.9	-10.2	4.5	-11.2	4.1	-12.0

Valuation	MSCI AC World	FTSE All-Share	S&P 500	MSCI Europe	MSCI Asia Pac x Jap	MSCI EM
(P/B)	2.2x	1.6x	3.3x	1.7x	1.5x	1.5x
(P/E)	15.6x	11.4x	19.1x	13.6x	11.9x	11.5x
(P/E FY1)	14.8x	12.4x	17.0x	13.4x	12.3x	11.4x

Source: Datastream & Factset, MSCI indices, S&P indices for the US, as at 30 November 2018. Total returns in GBP.

Style update: what's in vogue?



Source: Macquarie, as at 30 November 2018. Long minus short portfolio – ex-financials (market cap weighted).

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

	Aus. Dollar	Yen	Swiss franc	Euro	US Dollar
Nov	3.2%	0.0%	0.8%	0.1%	0.2%
YTD	-1.3%	4.5%	3.2%	-0.1%	5.9%

Source: Datastream, 30 November 2018.

Theme of the month: Nowhere to hide – a testing year for investors

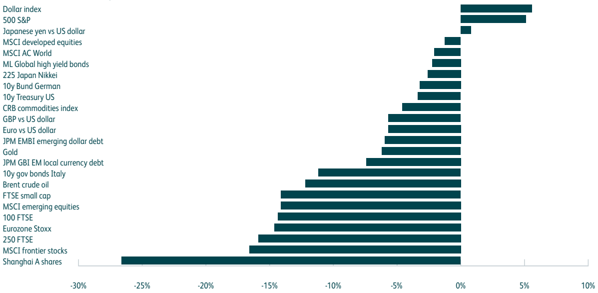
Key points

- As we draw to the close of 2018, it's on track to be a painful year for an unusually wide range of assets
- Reliable safe havens have not provided much relief and the US dollar is one of the few areas in the black year to date
- Global equities have de-rated meaningfully and the risk-reward trade-off for stocks looks attractive

After an unusually tranquil 2017, we have seen the return of volatility in 2018. There has been **nowhere to hide year to date.** Reliable safe havens such as gold, the Japanese yen and US Treasuries have not provided much relief. We have seen significant **falls across global equities as well as stress in credit markets.** Bitcoin is down more than 80% from last year's high and crude had its worst month in a decade. **Periods in which most asset classes decline in tandem are usually brief, but can be disconcerting.**

Nowhere to hide

Asset class performance (USD) – YTD 2018



Source: Datastream, 30 November 2018, MSCI AC World Index returns in USD.

There have been plenty of **concerns** for investors to grapple with, from **growth topping out, to removal of central bank stimulus, trade tariffs impacting margins** and derailing earnings, rising rates upsetting emerging markets and, more recently, weakness in US housing and autos.

Corrections can cause anxiety. But it's important to keep things in perspective. The **S&P 500 Index has seen four declines of 3% in 2018, more than in the prior three years combined.** It has **endured two corrections** – declines of at least 10% from a recent high – largely due to the unwinding of crowded trades. The frequency of big moves relative to recent history has soared. **But on a longer timeframe, they're not particularly extreme.**

The unwinding of crowded trades...

S&P 500 index

Source: Datastream, 30 November 2018.

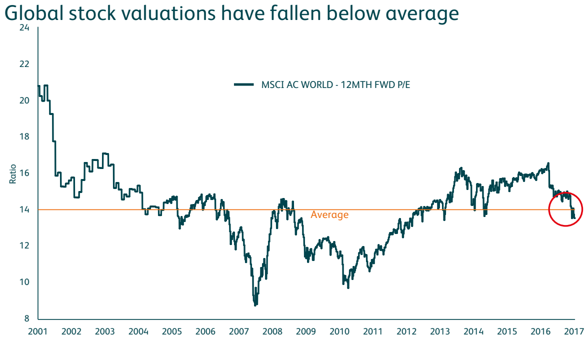
Volatility experienced over the past few years has been subdued by historical standards, suppressed by easy monetary policies globally. The VIX volatility index, also known as the fear index, rises during periods of market stress. **In 2017, it set record lows** amid an ever-rising market. In fact, from January 1990 through December 2016, the VIX fell below 10 on only nine days in 27 years. **But in 2017 it stayed below 10 for 52 days.** The VIX was around 20 at the end of November. We're **now returning to a more normal volatility regime** and should expect heightened volatility at this late stage of the cycle.

Some investors remain on edge, especially amid **a flurry of predictions that the next recession is coming.** But volatility is not the same as risk. The recent **sell-off seems to be a bull market correction** as markets adjust to a slower growth environment. The US economy is still healthy, albeit plateauing. And corporate profits are projected to grow solidly next year, even if it's at a slower pace. **Equities should continue to enjoy a modest leg up before the cycle ends.**

It's important to **focus on long-term valuations** of an asset class, rather than the volatility of its market price. Valuations on assets that were beaten up look more enticing today and **provide a better risk-reward profile. Global equities have de-rated meaningfully** across all regions, and are now below their long-term averages.

Bull market correction

Global stock valuations have fallen below average



Source: Datastream, 30 November 2018.

Investors can still find attractive opportunities, but given the maturity of the current cycle, **robust portfolio construction offers the best protection. Keep calm and stay invested.**

M&G INVESTMENTS