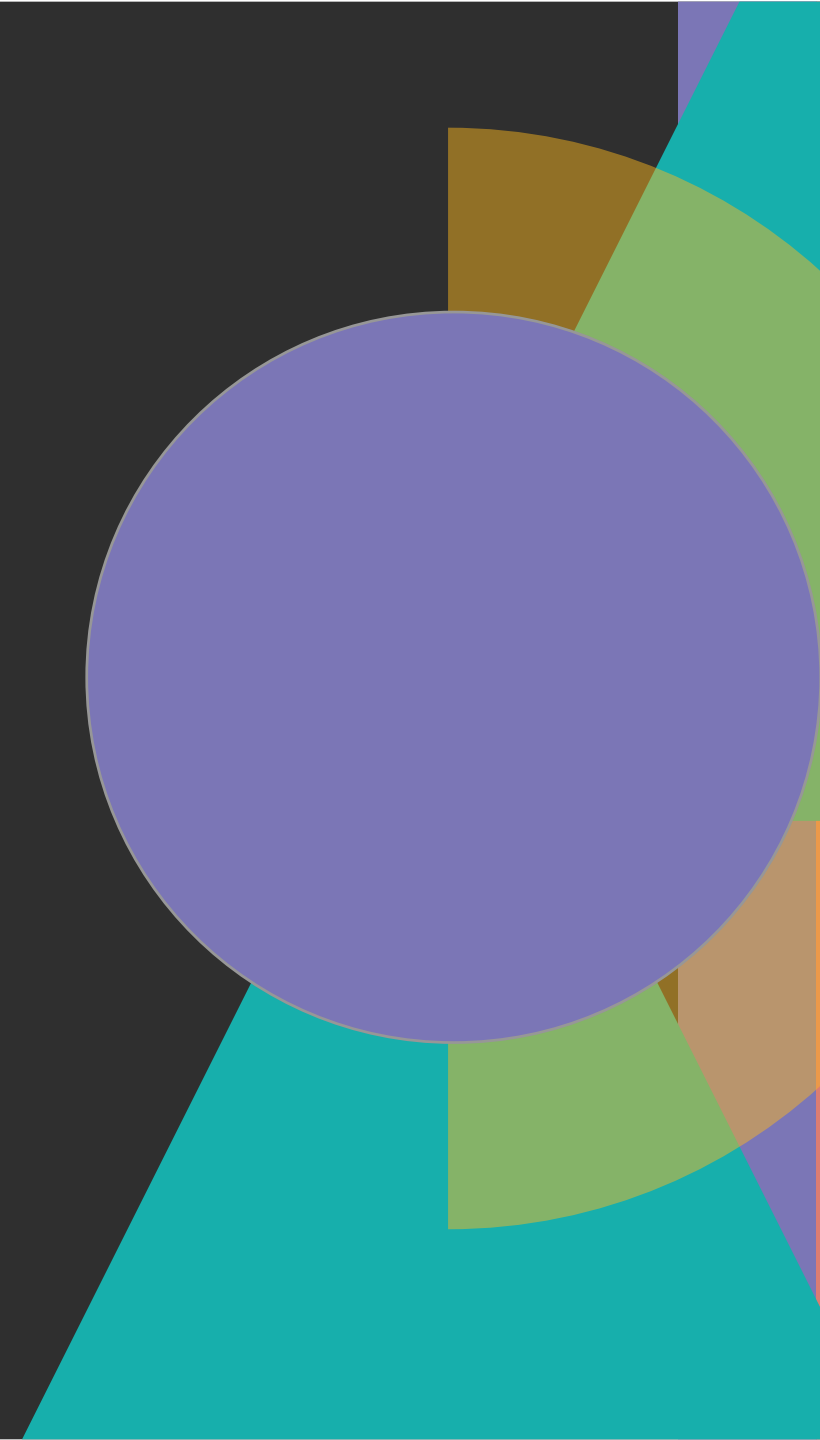


Taking the Politics out of Investment



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Agenda

1

Intro

2

Changing
world
order

3

Geopolitical
Risks

4

Elections
as a risk
factor

5

Q&A

Speakers

- Shanti Kelemen, Chief Investment Officer, M&G Wealth
- Ben Troke, Senior Investment Strategist, M&G Treasury & Investment Office
- Michael Watt, Investment Director, M&G Treasury & Investment Office

Learning Objectives

By the end of this session, you will be able to:

Describe the ongoing shift in the world order and implications of the 2024 election cycle

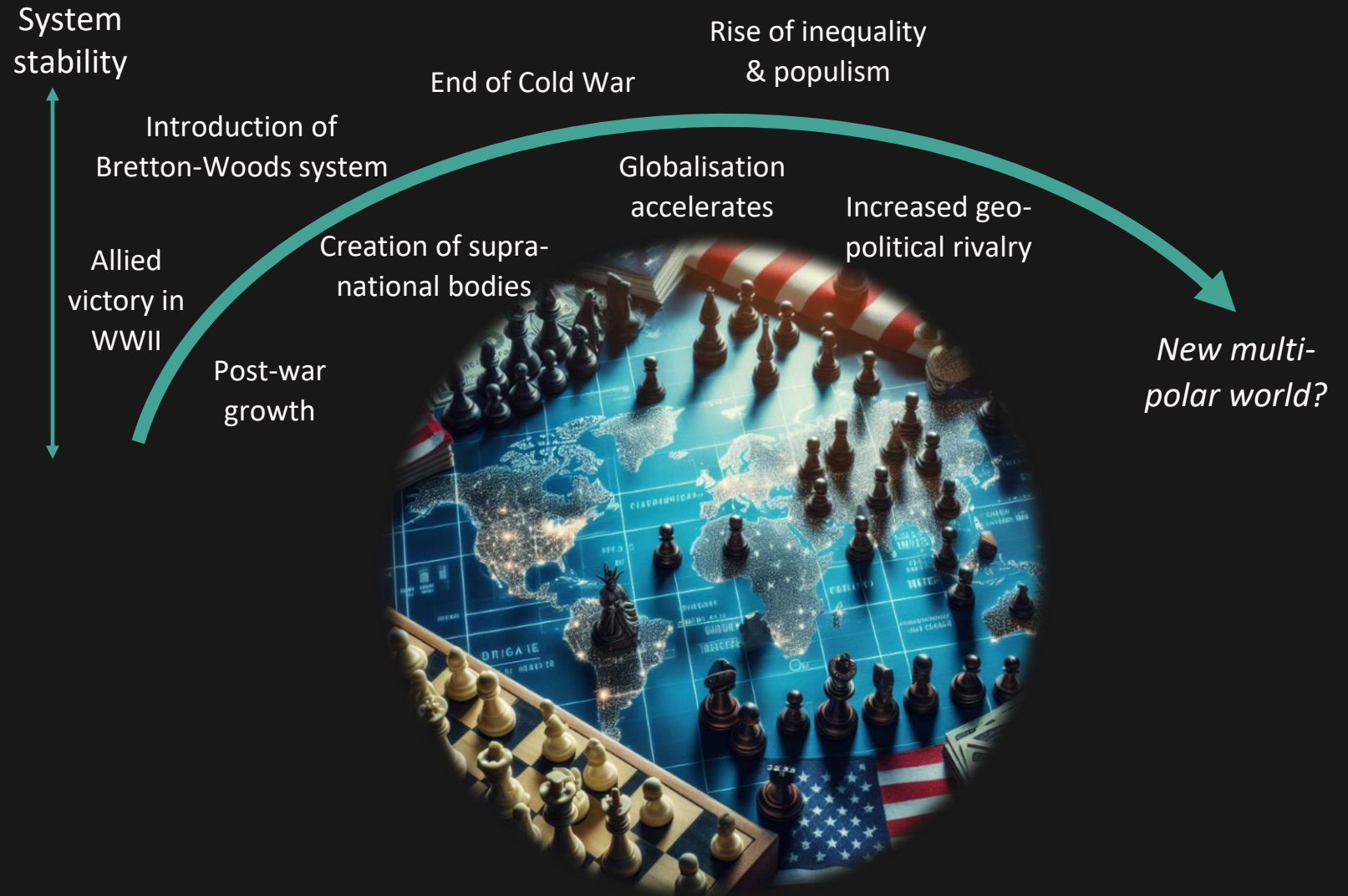
Explain the structural impact we expect the changing geopolitical landscape will have on the global economy and capital markets.

Consider geopolitics as a risk factor and the investment implications .

Discuss the potential outcomes of the US & UK elections from an investment perspective.

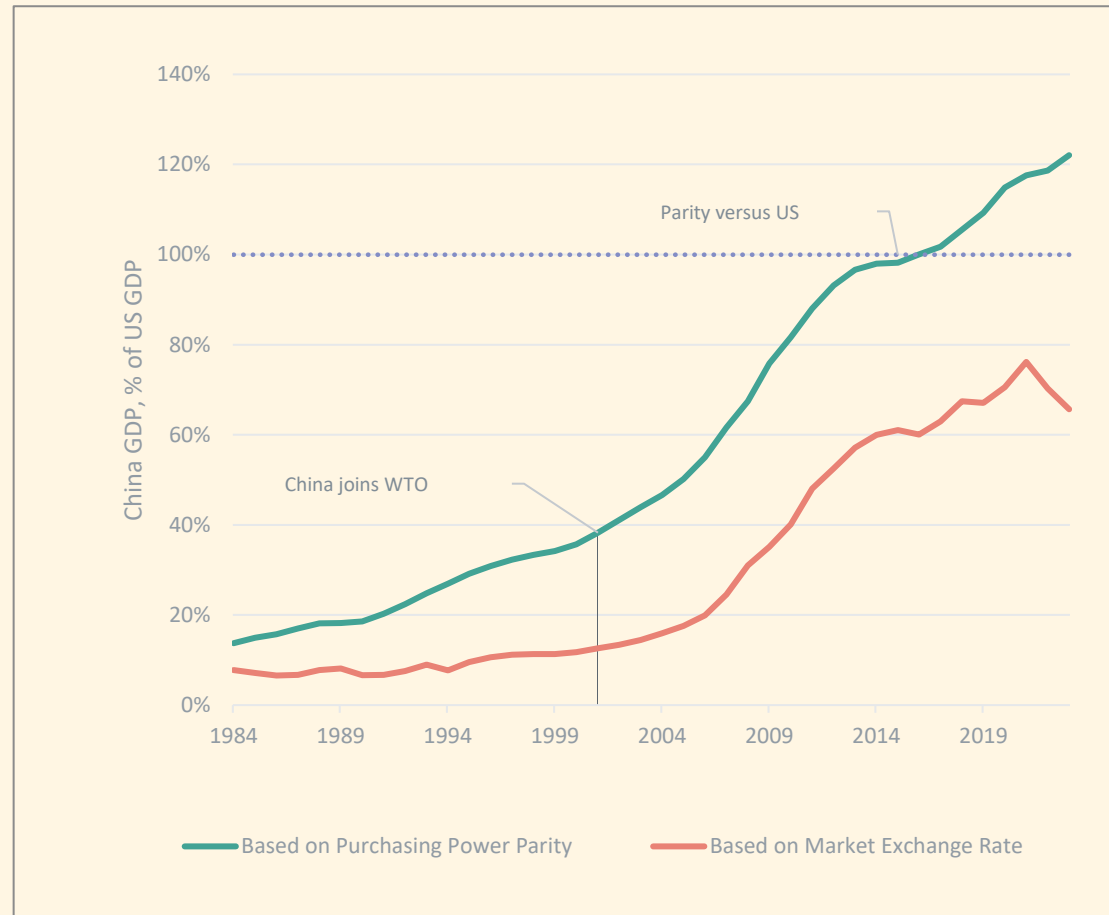
A shift in the World Order

- We have enjoyed an extended period of peace and prosperity.
- Tensions have risen in recent years, and look set to remain elevated relative to the benign pre-pandemic era.
- Sadly, 2023 saw a continuation of the wave of fatalities from conflict.
- Geopolitics will continue to be an important risk factor to manage.



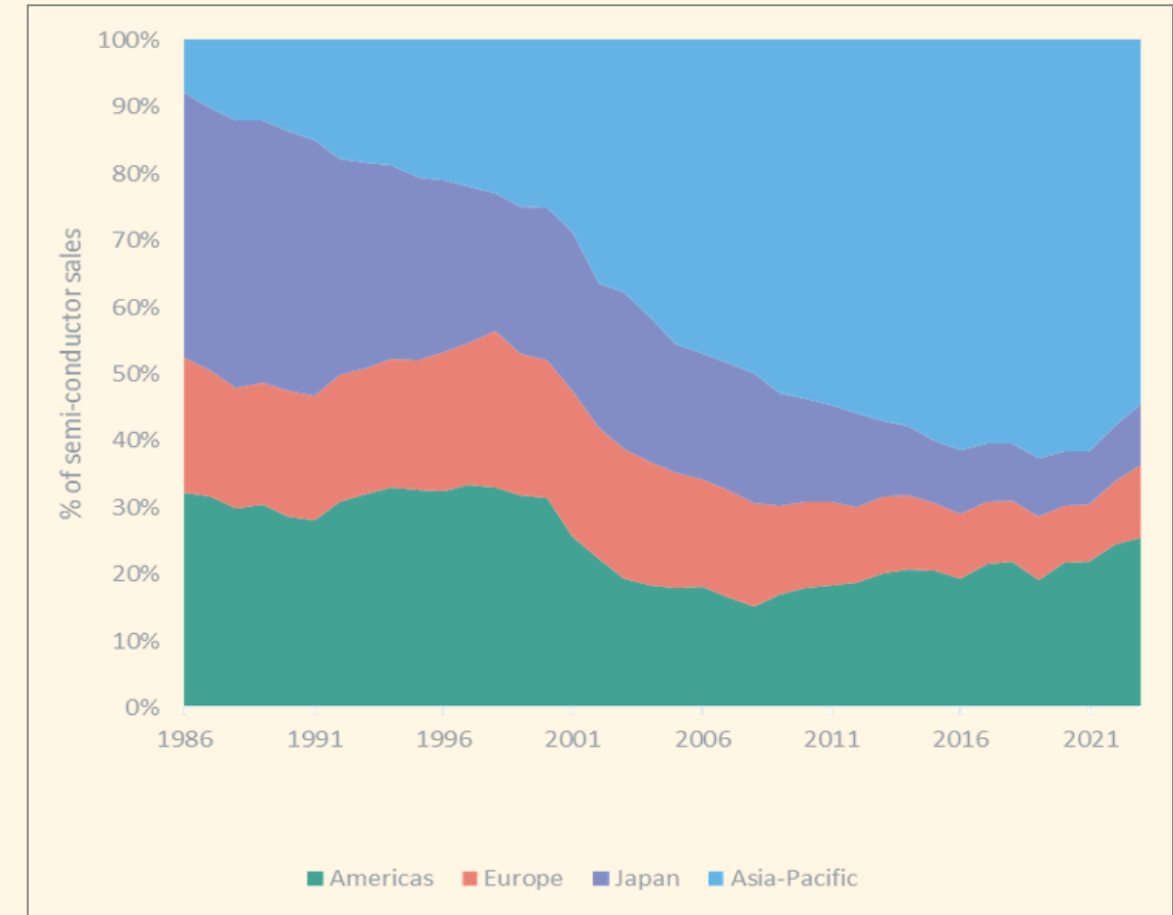
Rising strategic rivalries

China's rise from supplier to strategic rival



Source: Datastream, LTIS. Dec 2023

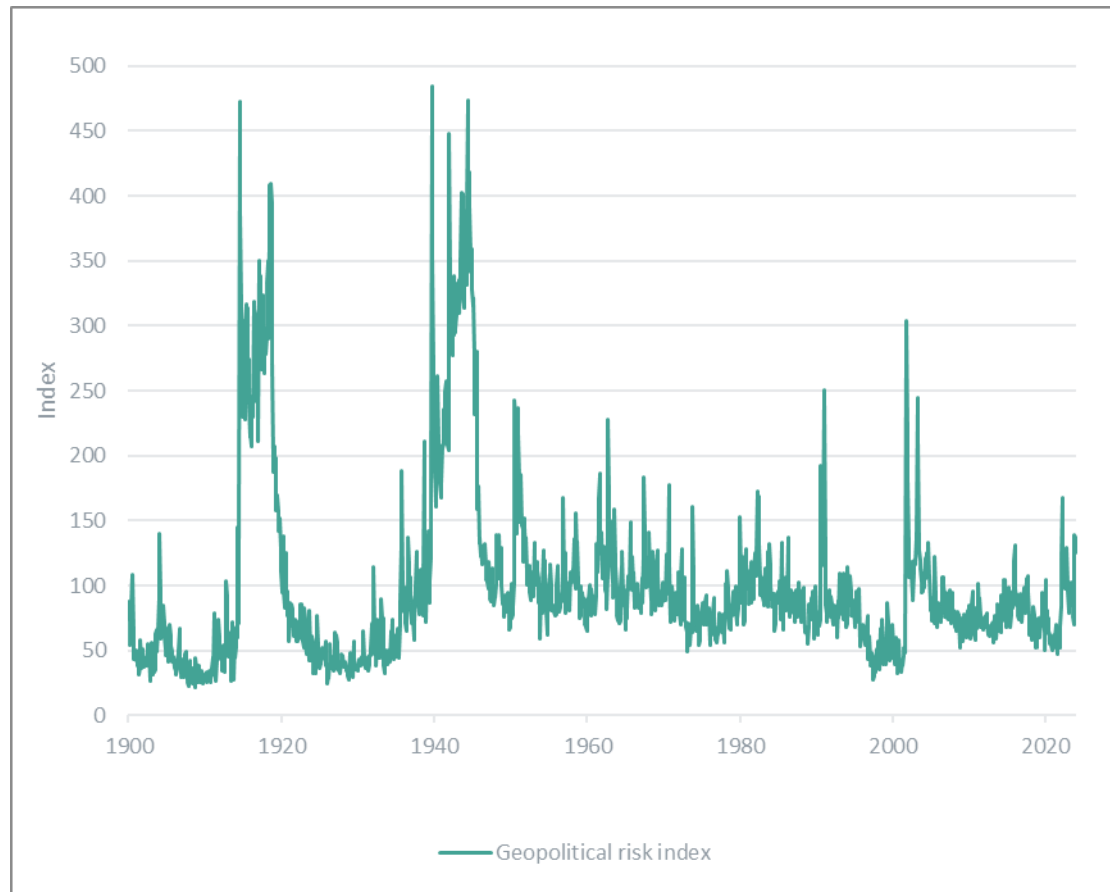
Share of semi-conductor sales



Source: Datastream, LTIS. Dec 2023

Geopolitics as a risk factor

Geopolitical risk characterized by flare-ups



Source: Caldara and Iacoviello (2022), 'Measuring Geopolitical Risk', LTIS. Dec 2023 :

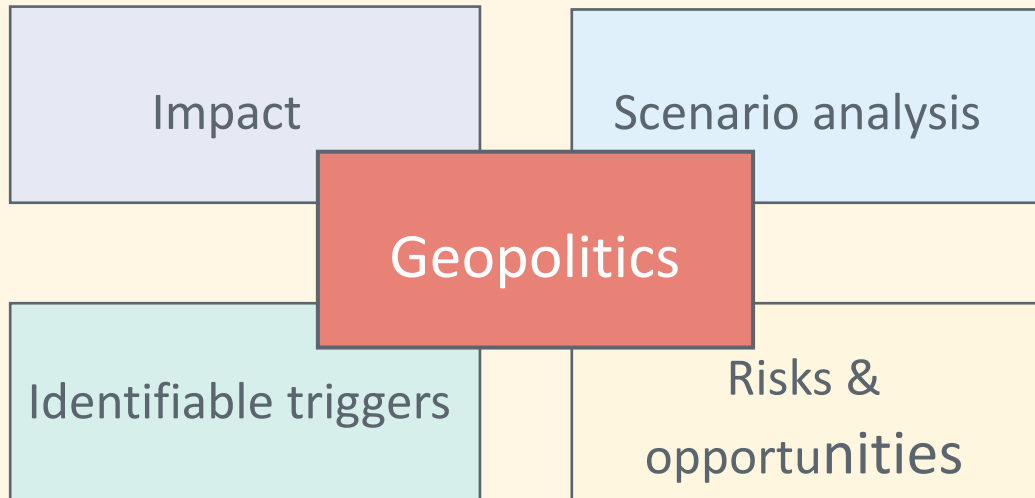
Increased sensitivity during Geo-risk episodes



Source: Caldara and Iacoviello, Global Financial Data, LTIS. Dec 2023

Investment Implications

Managing Geopolitical risk requires a robust framework



Impact: Cutting through headlines to quantify impacts of geo-political developments on channels such as growth, inflation and policy.

Scenario analysis: Exploring several distinct pathways that could play out for emerging risks to assess potential portfolio exposures.

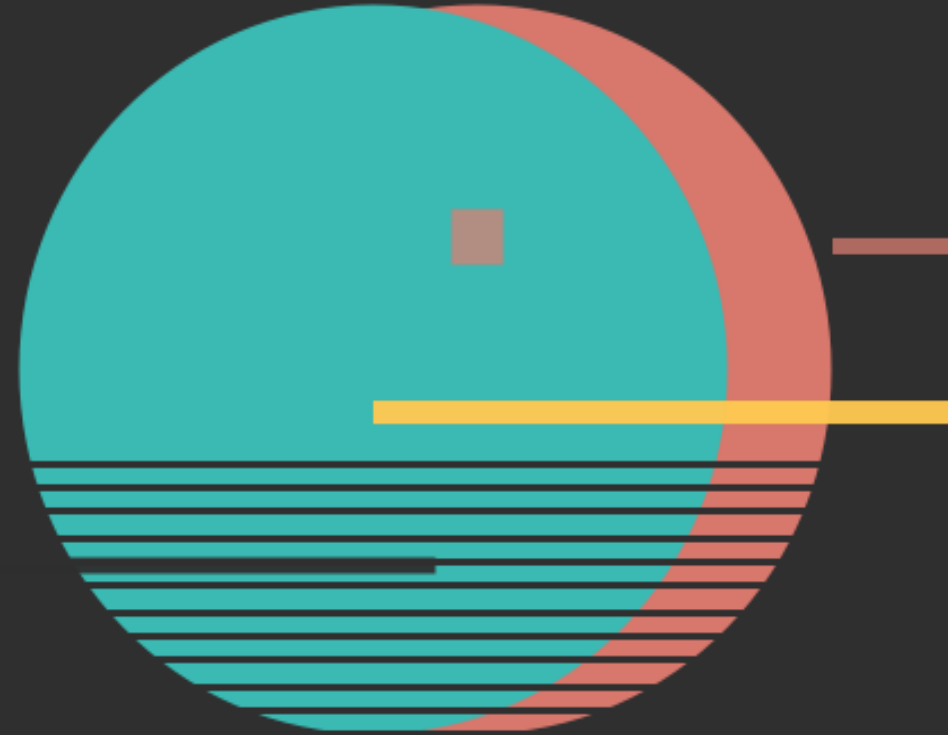
Triggers: Identifying certain “red lines” ex ante that would trigger a reassessment of likelihoods around risks.

Mitigate risks and react to opportunities: steps to reduce exposures where necessary but ready to act if markets overreact to given events.

Political Risk



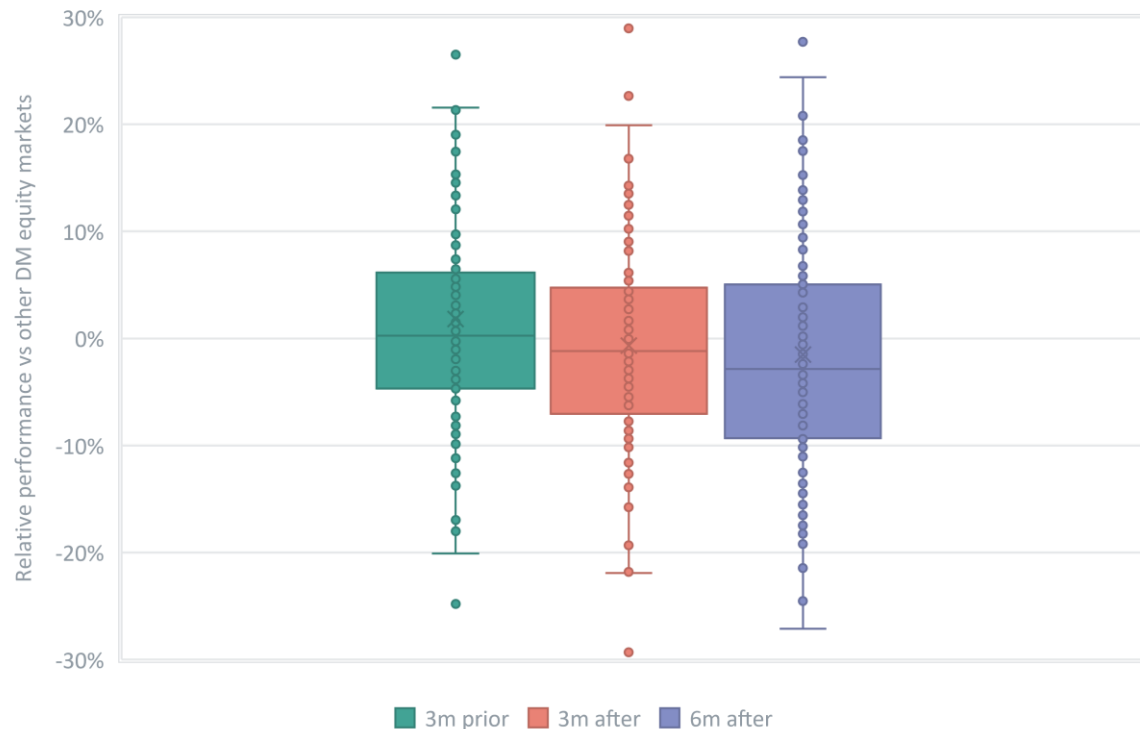
65 Elections Scheduled in 2024
Impacting 3.65 billion people



The election cycle: Impacts on capital markets

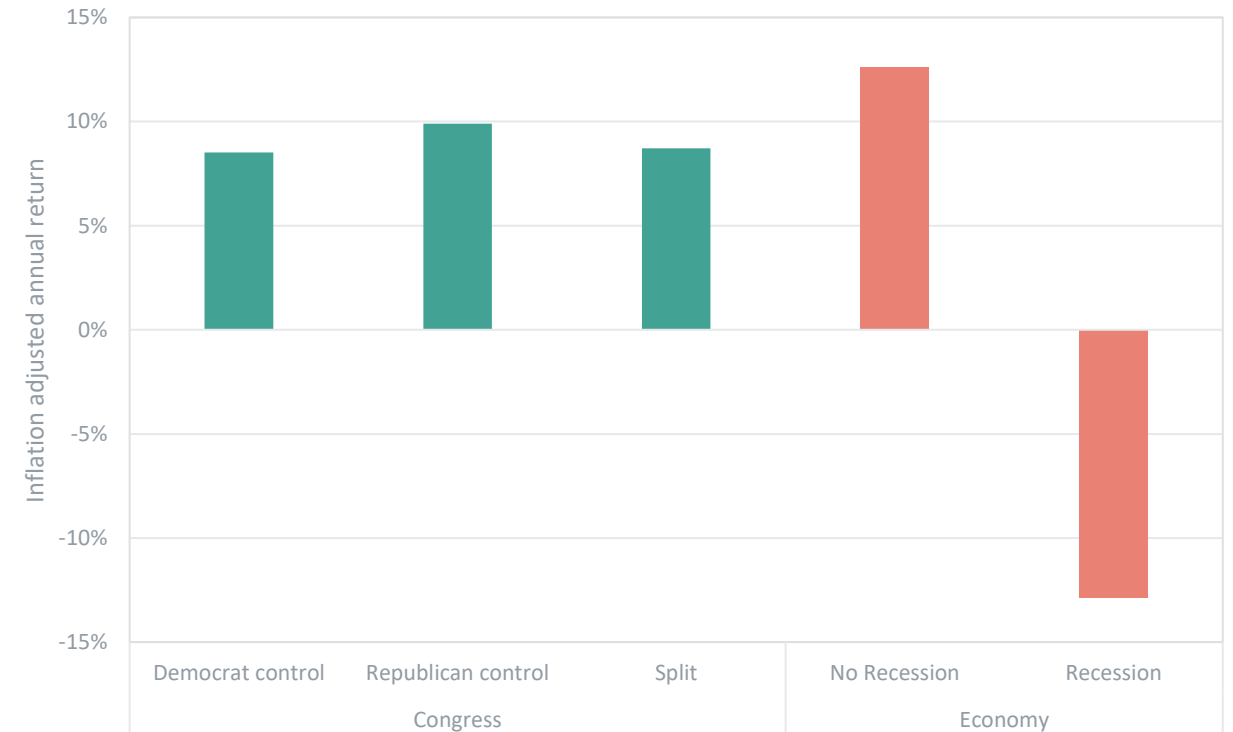
- With around half of the world's population going to the ballot box, the election cycle is prominent risk for capital markets to consider in 2024
- Of the 50 countries expected to hold national elections, the US, UK, India and South Africa will be key markets to monitor for global portfolios
- Each election is different; its difficult to generalize about the impact of elections on markets

Wide dispersion of performance during UK and US election cycles



Box plot shows distribution of quarterly relative returns of US and UK equity markets versus developed market peers (Germany, Japan and Canada) during election cycles since 1950. Data from 1950 to 2020 across US and UK election cycles. Source: Datastream, LTIS.

US equity returns under different political & economic regimes

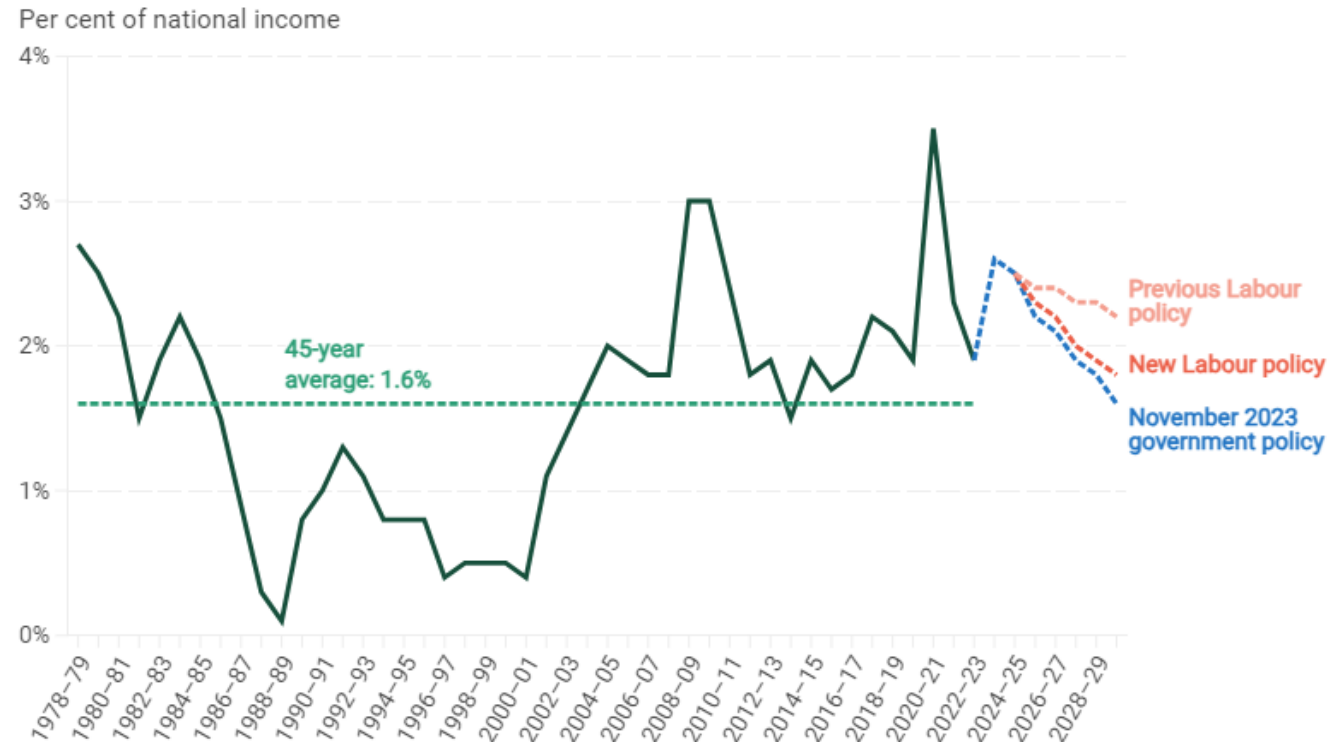


Average calendar year returns for S&P500, adjusted for prevailing inflation rates, under different political regimes (defined by control of the House of Representatives and Senate), and economic regimes (defined by whether the economy was in recession). Data from 1947-2023. Source: Global Financial Data, LTIS.

Meanwhile in the Upcoming UK Elections...

- The Labour and Conservative parties have pledged to reduce the government debt to GDP ratio during their fifth year in office.
- Both face difficulty achieving this due to high debt interest payments and low growth forecasts.
- This means a steady fall in public sector net investment as a proportion of GDP over time.

Public sector net investment



Source: Author's calculations using OBR Public Finances Databank. For details of assumptions on Labour's plans, see Zaranko (2023), 'A look under the hood of Labour's investment plans'

[Download the data](#)

UK Housing in Focus

Labour Party:

- Build 1.5m homes over 5 years. Support for first-time buyers.
- Higher stamp duty for foreign owners.
- Renters' Charter to compete with Reform Bill.
- Planning system reforms.
- More power to local Mayors over housing planning and investment.

Conservative Party:

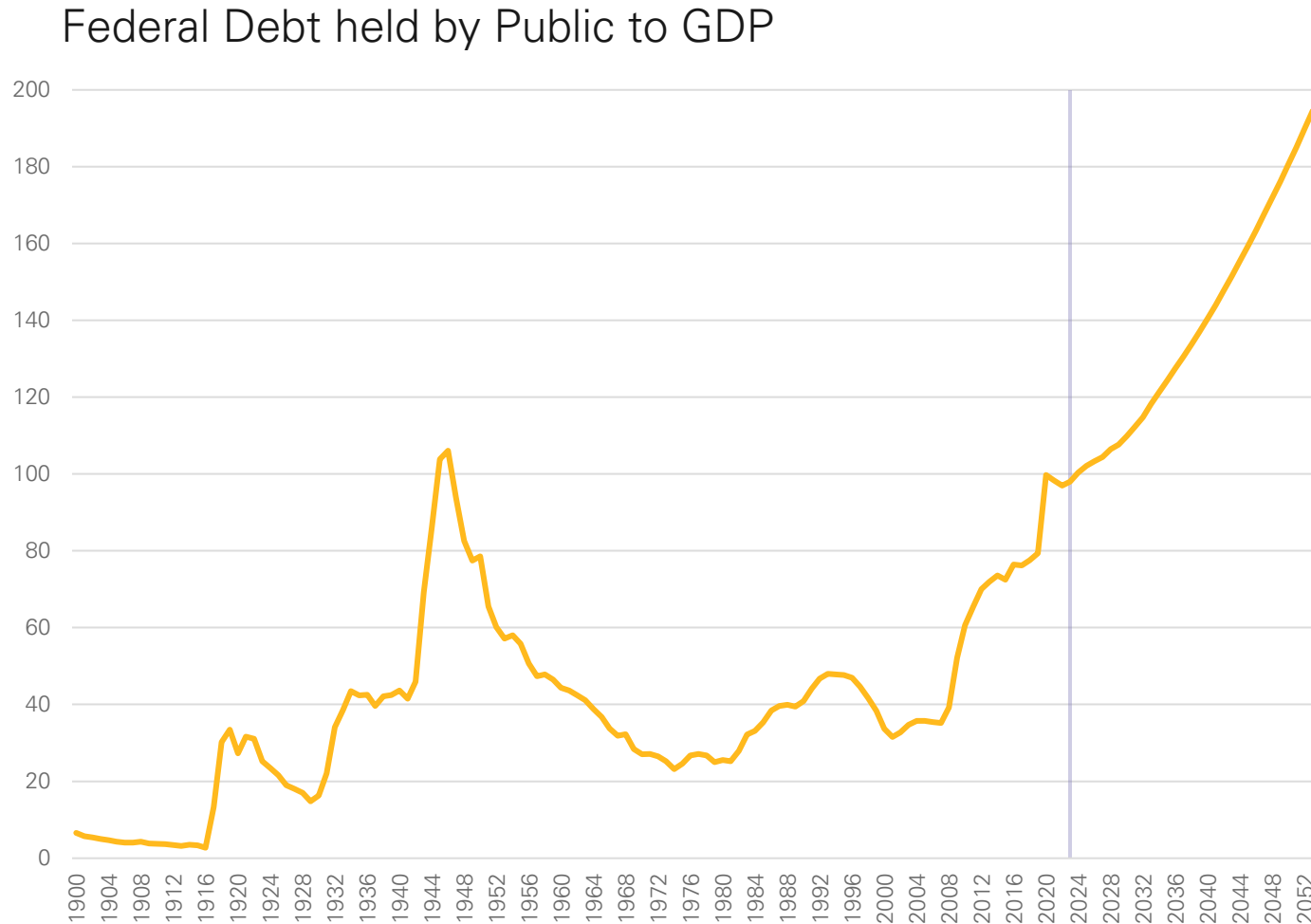
- Build 300,000 homes a year by mid 2020s.
- Renters Reform Bill to provide tenants with more protections.
- Continued stamp duty reduction through Stamp Duty Land Tax changes until 31 March 2025.

A focus on housing investment can improve economic growth, increase employment, build on the wealth effect and improve infrastructure.

US Elections - Potential Implications of key policy positions

Policy Area	Biden	Trump	Potential impact of Trump victory
Economic policy	CHIPS act, Inflation Reduction Act (IRA), American Jobs plan, Tech regulation, possible capital requirement increases for banks	Extension of 2017 tax cuts and further reductions mooted, particularly for sectors such as real estate	Boost to corporate earnings if further corporate tax cuts but likely reduction in fixed investment if parts of IRA are repealed or diminished.
Trade policy	Continued development of non-tariff barriers on China	Review WTO role Possible 60% tariff on imports from China Reciprocal Trade Act (10% global tariff)	Boost US inflation Drag on global trade
Fiscal policy	Seek increases in taxes on corporates and high earners	Modest increase in spending driven by tax cuts offset by receipts from tariffs	Elevated deficits under both candidates, potentially boosting inflationary pressure
Central bank	No change to independence	Possible removal of Powell by '26 in favour of dovish candidate	Potential erosion of central bank independence
Immigration	Stricter enforcement of asylum restrictions and controls on illegal immigration	Large-scale detention and deportation of migrants	Further tightening of labor supply harmful to potential growth and inflation environment
Foreign policy	Support allies (Ukraine, NATO, Israel), maintain dialogue with China	Possible removal of support for Ukraine, ongoing support for Israel and potential flashpoints with Iran, less support for NATO	Continuation of elevated geopolitical uncertainty with heightened risk of escalation
Climate Policy	Target 2/3 of car fleet becoming electric by 2032, continued tax credits for clean energy under IRA	"Drill, baby, drill": roll back car pollution rules, tax incentives for fossil fuels and repeal clean energy tax credits	Further delays to energy transition, which could undermine appetite for change among countries too, especially in emerging markets

Sustainability of US Debt



- For 2023, more than half of the government's mandatory spending was on Medicare and Social Security.
- These programs are also predicted to be the main drivers of increases in debt over the next 30 years.
- Both Biden and Trump are committed to continuing these programs.
- Are more US credit rating downgrades on the horizon?

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- PruFund Cautious
- Risk Managed PruFunds
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from Prudential

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