

 M&G wealth

# Market Insights with M&G Wealth

26 July 2023



# Disclaimer

The views expressed herein are subject to change without further notice. Neither M&G Wealth, nor any of its associates, nor any director, or employee accepts any liability for any loss arising directly or indirectly from any use of this presentation.

This presentation must not be edited or reproduced in whole or in part or circulated without the prior consent of M&G Wealth. The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back less than the original amount invested and past performance information is not a guide to future performance.

M&G Treasury & Investment Office (T&IO) includes the team formerly known as Prudential Portfolio Management Group (PPMG). This document has been prepared by T&IO for informational purposes only for the sole and exclusive use of the persons to whom it is addressed and may not be passed on to any other person, as further distribution might be restricted or illegal in certain jurisdictions. This document or report may not be copied, published, circulated, reproduced or distributed without the prior written consent of T&IO.

This document does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any security or other interests, nor shall this document or any part of it or the act of its distribution form the basis of, or be relied upon in connection with, any contract for the purchase of any such securities or other interests. This document does not constitute investment advice.

Information given in this document has been obtained from, or based upon, sources believed by T&IO to be reliable and accurate although T&IO does not accept liability for the accuracy of the contents. Any opinions expressed are our present opinions reflecting current market conditions, are subject to change without notice and involve a number of assumptions which may not prove valid. Past performance is no guarantee of future performance. The value of investments can fall as well as rise.

To the extent available, the industry, market and competitive position data contained in this document come from official or third party sources. Third party industry publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but there is no guarantee of the accuracy or completeness of such data.

Where included, benchmark and index data included in this document are provided for illustrative purposes only. Every effort is made to ensure the accuracy of any information but no representation, warranty or other assurance, express or implied is made or given by T&IO or any of its shareholders, affiliates, directors, employees or any other person as to the accuracy, completeness or fairness of any information, forward-looking statements or opinions contained in this document and no responsibility or liability is accepted by any of them for any such information, forward looking statements or opinions in respect of any omission, and this document is distributed expressly on the basis that it shall not give rise to any liability or obligation if, for whatever reason, any of its contents are or become inaccurate, incomplete or misleading.

Neither T&IO nor any of its shareholders, affiliates, directors or employees undertake any obligation to provide the recipient with access to additional information or to correct any inaccuracies herein which may become apparent. By accepting the document, you agree to be bound by the foregoing limitations.

Prudential Portfolio Management Group Limited, is registered in England and Wales, registered number 2448335, with registered offices at 10 Fenchurch Avenue, London, EC3M 5AG

Prudential Portfolio Management Group Limited is not regulated or authorised by any regulator.

# Agenda

1

Intro

2

Inflation  
Outlook

3

Artificial  
Intelligence

4

Asia

5

Cash

## Speakers

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

# Learning Objectives

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

Explain the drivers of UK inflation and how different scenarios for future inflation could impact financial markets.

Evaluate the risks and potential benefits of investing in Asian equities and bonds.

Describe how technological developments in artificial intelligence could impact financial markets.

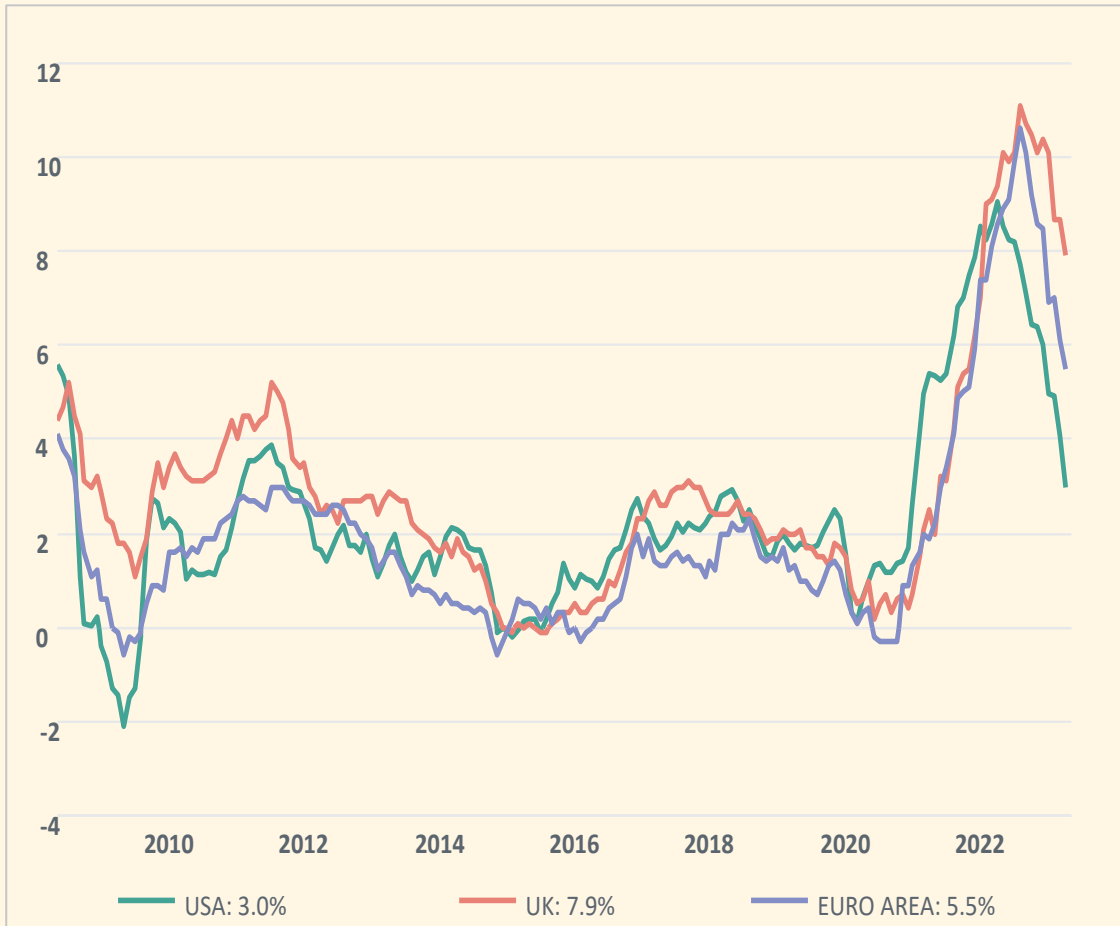
Describe the pros and cons of using fixed rate deposits vs multi-asset investment strategies.



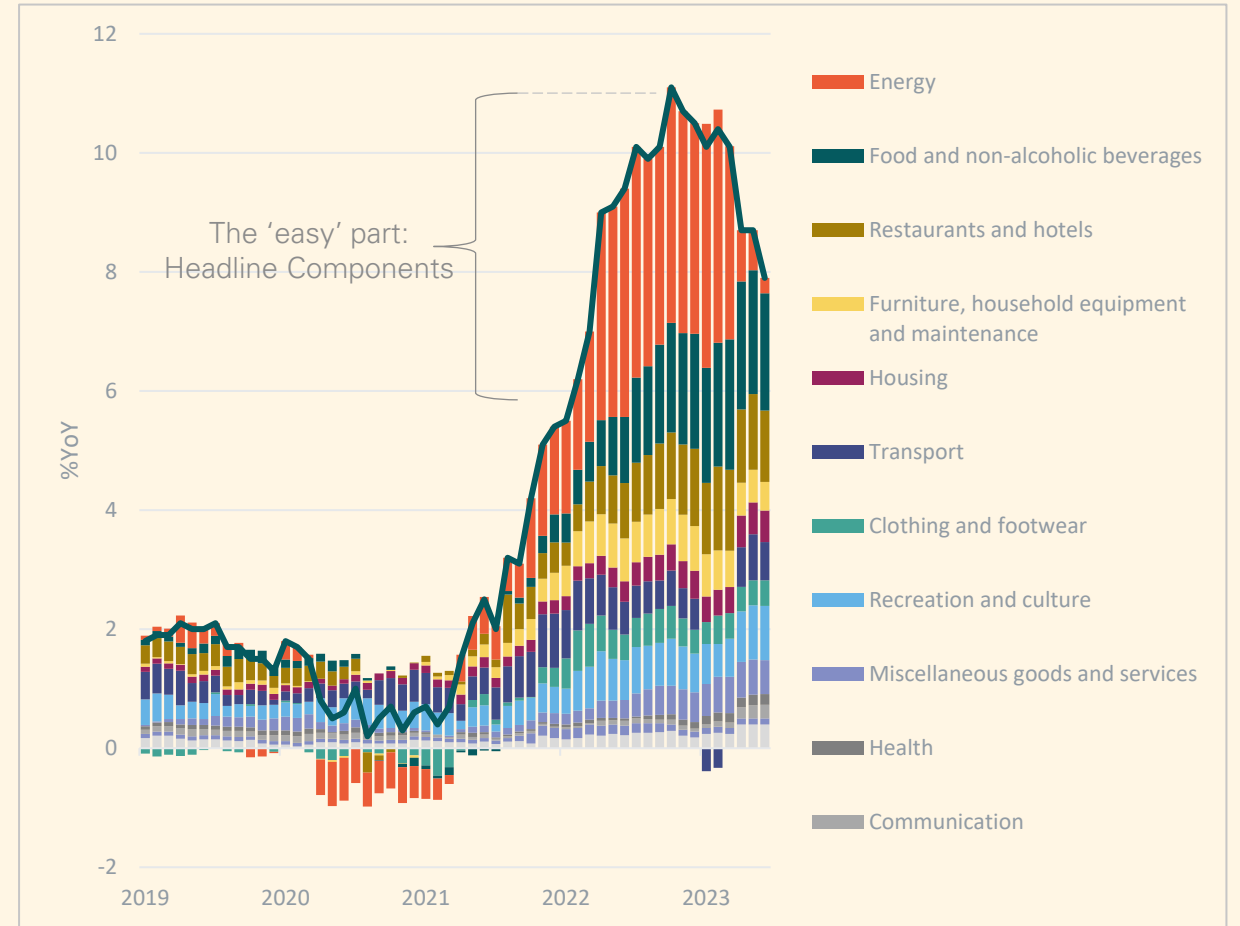
# Inflation Outlook

# Where next for inflation?

## Global Inflation rates (YoY%)



## UK Inflation Components: A breaking wave?



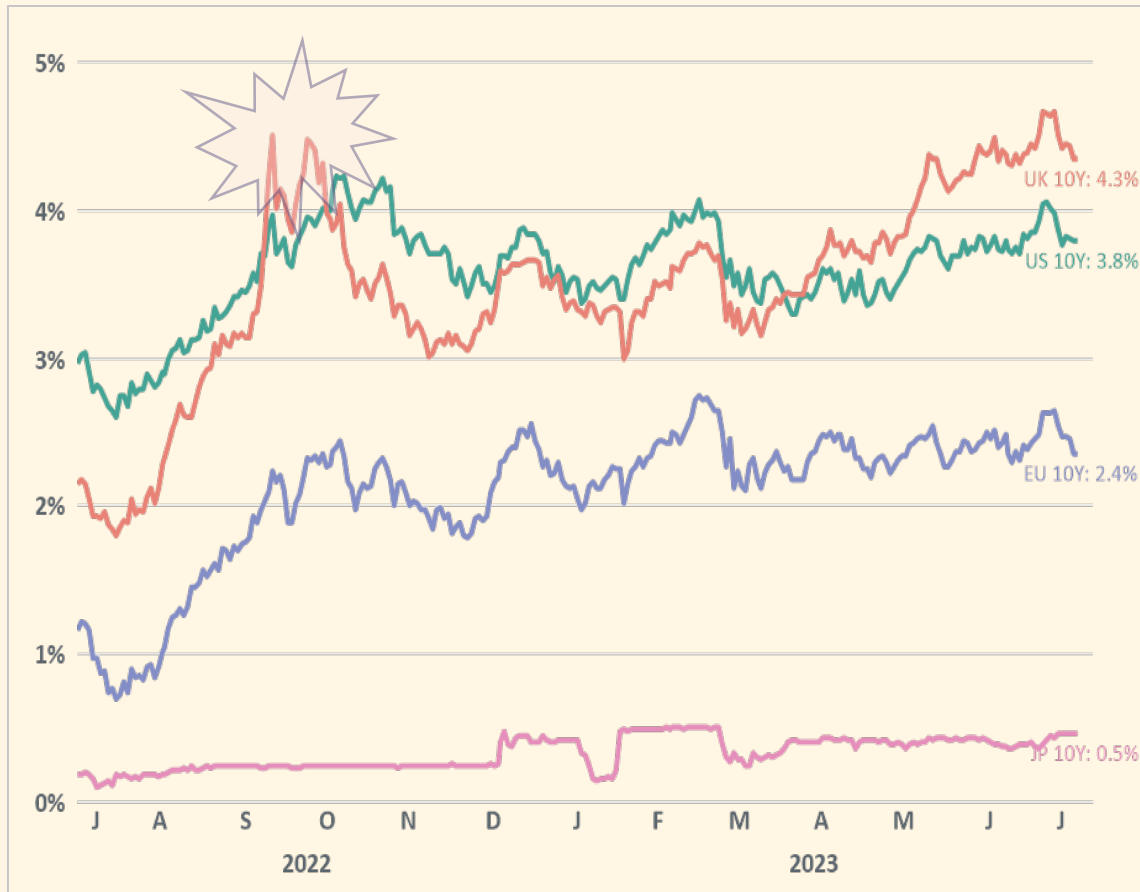
Source: Refinitiv Datastream & MAPM (M&G T&IO). June inflation data

Source: Refinitiv Datastream & LTIS (M&G T&IO). June Inflation data.

For adviser use only - Not for use with retail customers

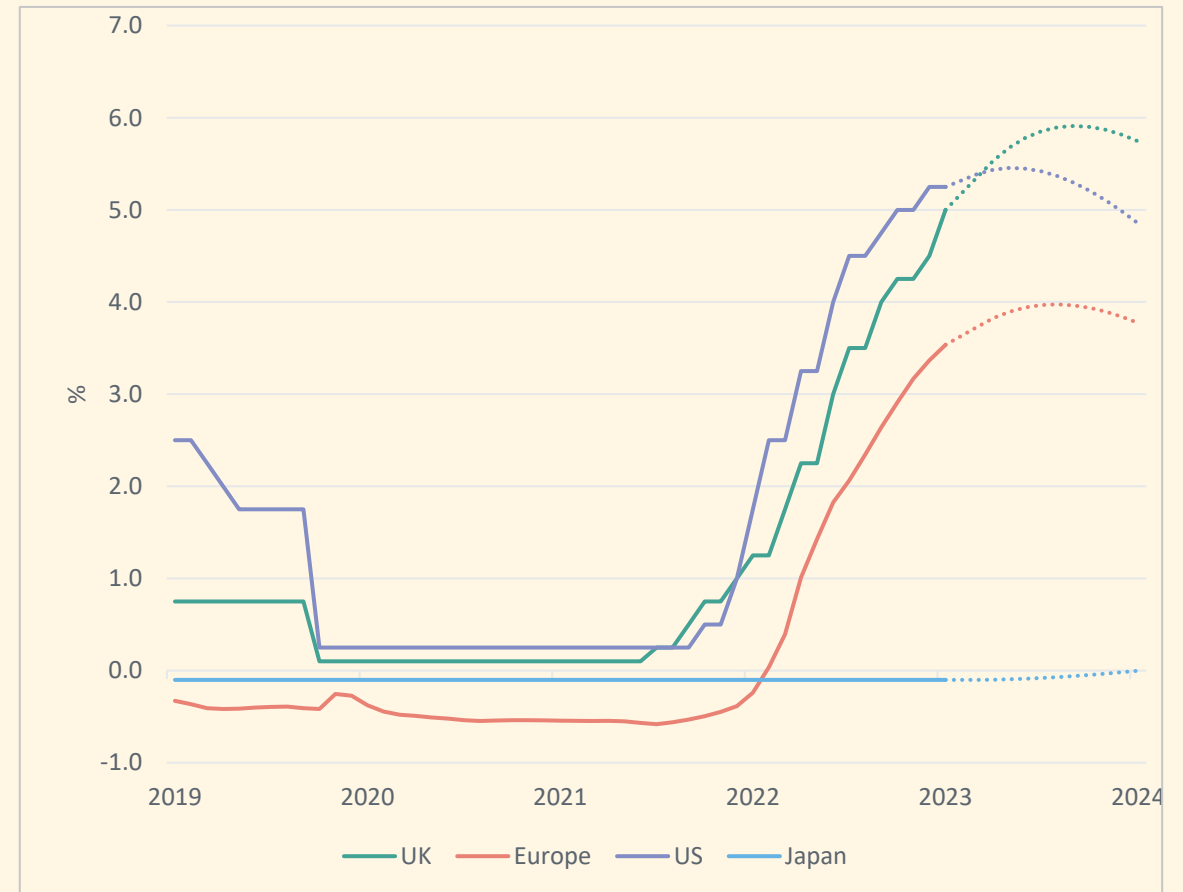
# A return to the peaks for Gilts

## Developed Market Government Bond Yields



Source: Refinitiv Datastream & MAPM (M&G Investment Office). 18.07.2023

## Markets Expect Interest Rates to Fall

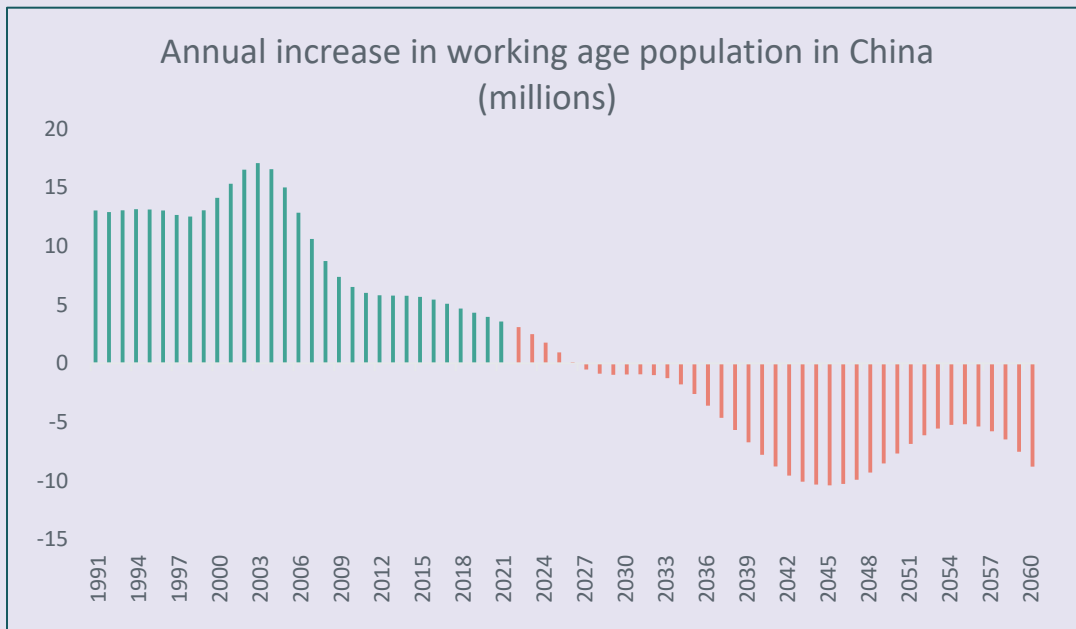


Source: Refinitiv Datastream & LTIS (M&G T&IO). 19.07.2023

# Regime Change

## Demographics

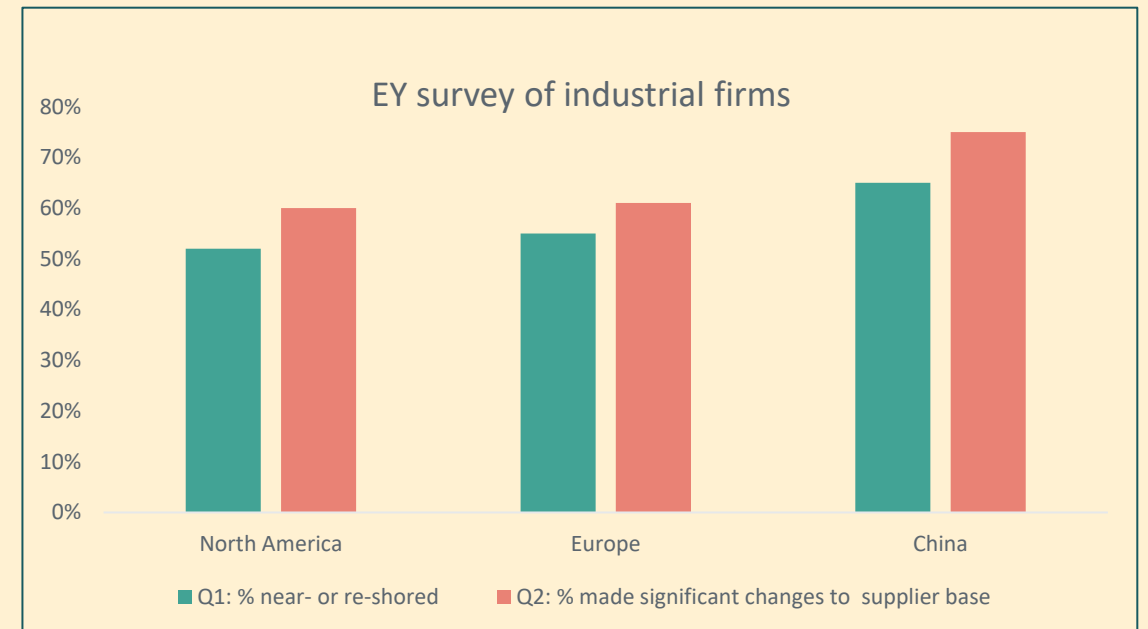
- Falling birth rates, rising longevity
- That's bad for labour growth & productivity
- Even in countries like China, we expect declines in working age population



Source: IMF WEO, as at 4<sup>TH</sup> November 2022

## Globalisation

- Globalisation has kept inflation low over the past two decades
- EY Industrial Supply Chain Survey (June 2022): Majority of firms are already changing supply chains.



Source: EY, as at 3<sup>rd</sup> November 2022

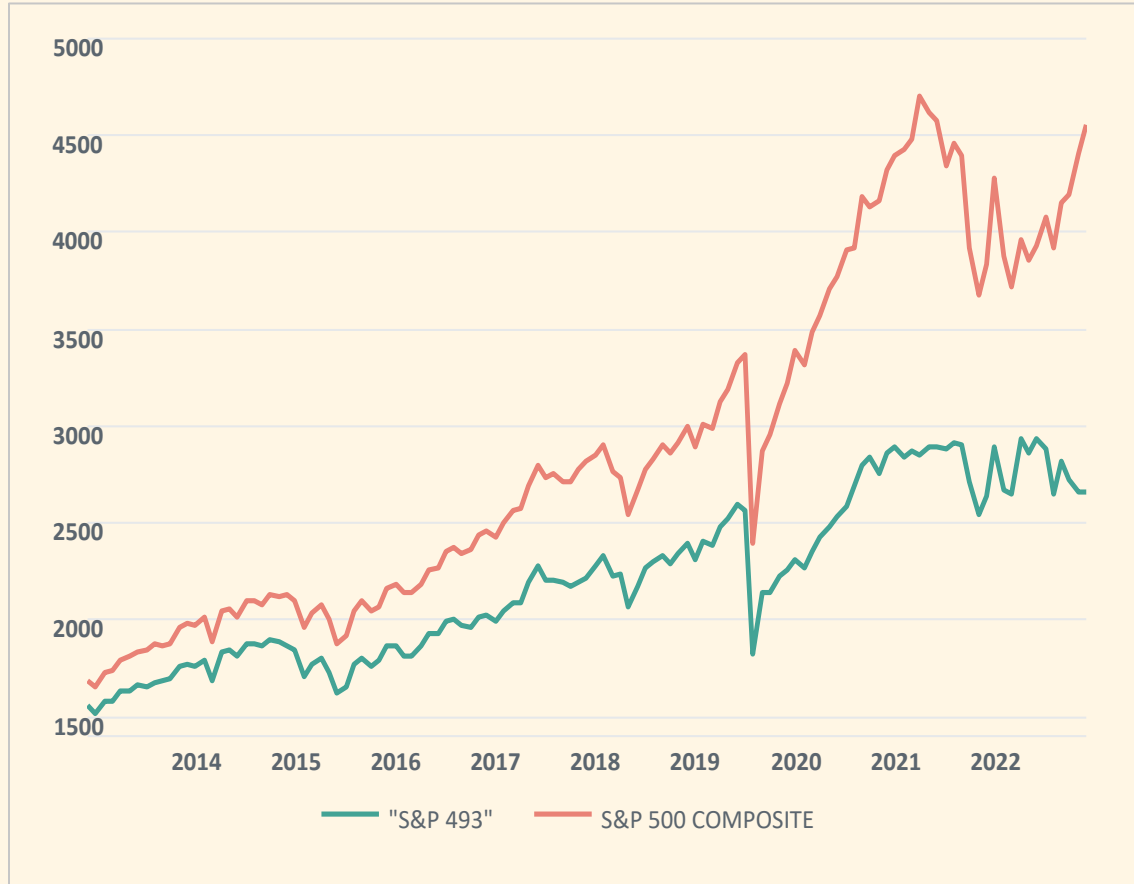




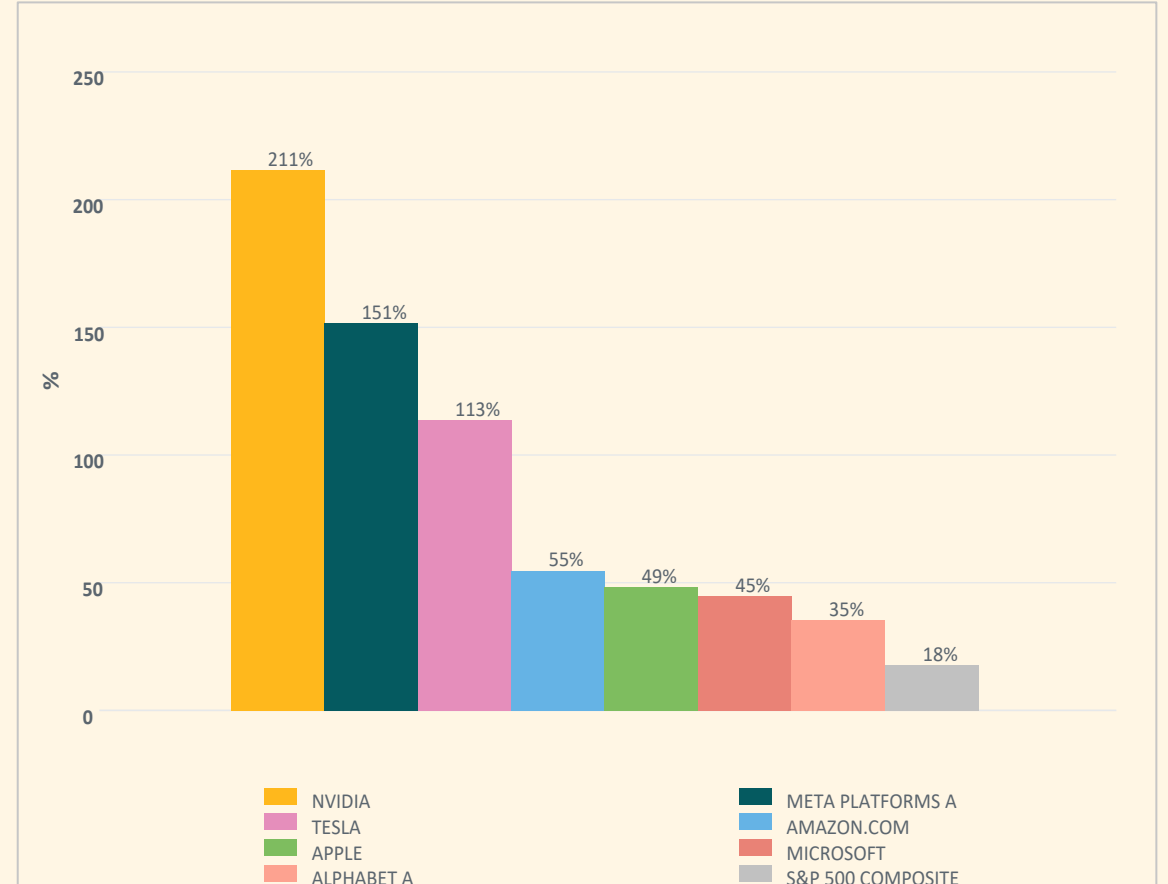
# Artificial Intelligence

# US Equities being driven by AI

## S&P 500 vs 'S&P 493'



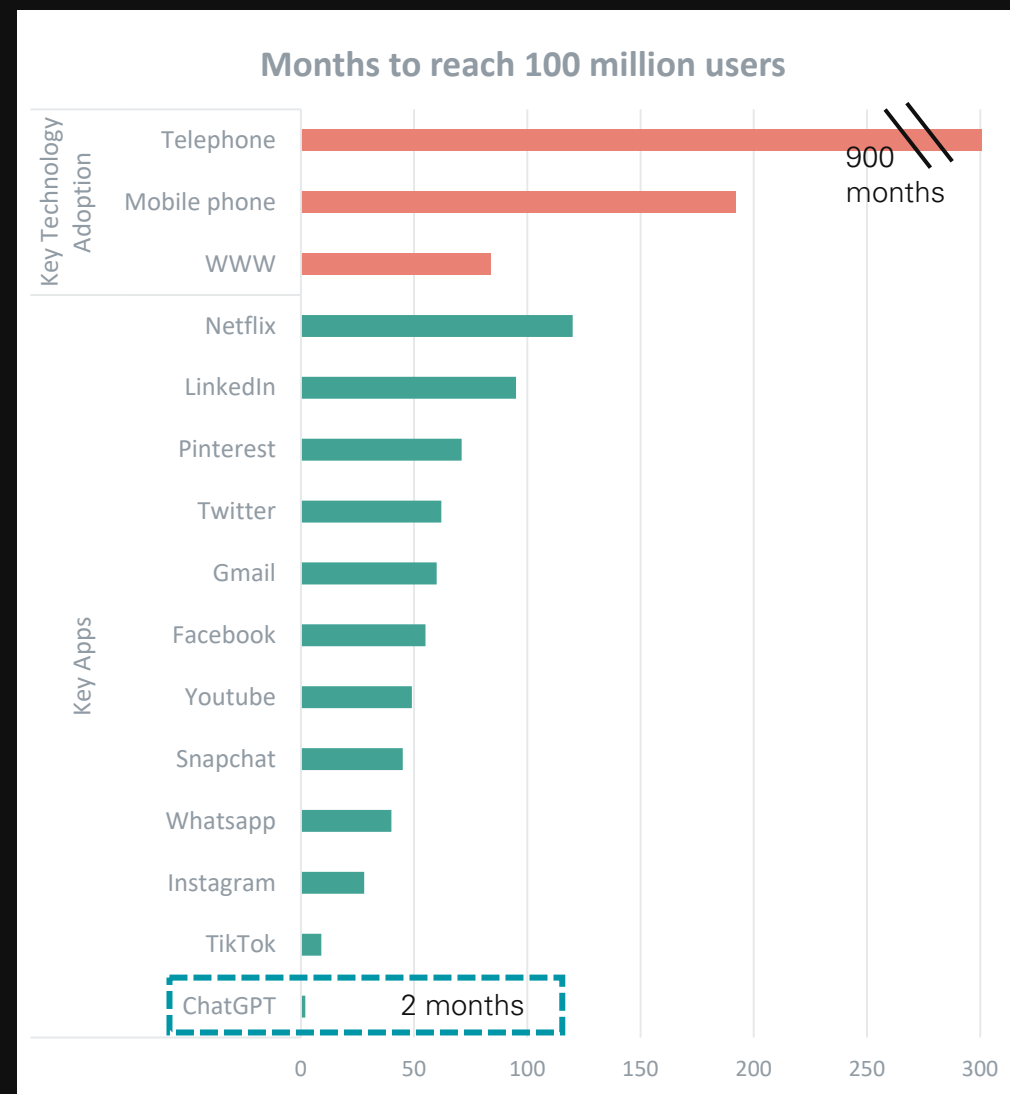
## S&P 500 vs. Selected Companies



Source: Refinitiv Datastream & MAPM (M&G Investment Office). Data to 20.07.2023. Graphs show the price return in USD. 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.

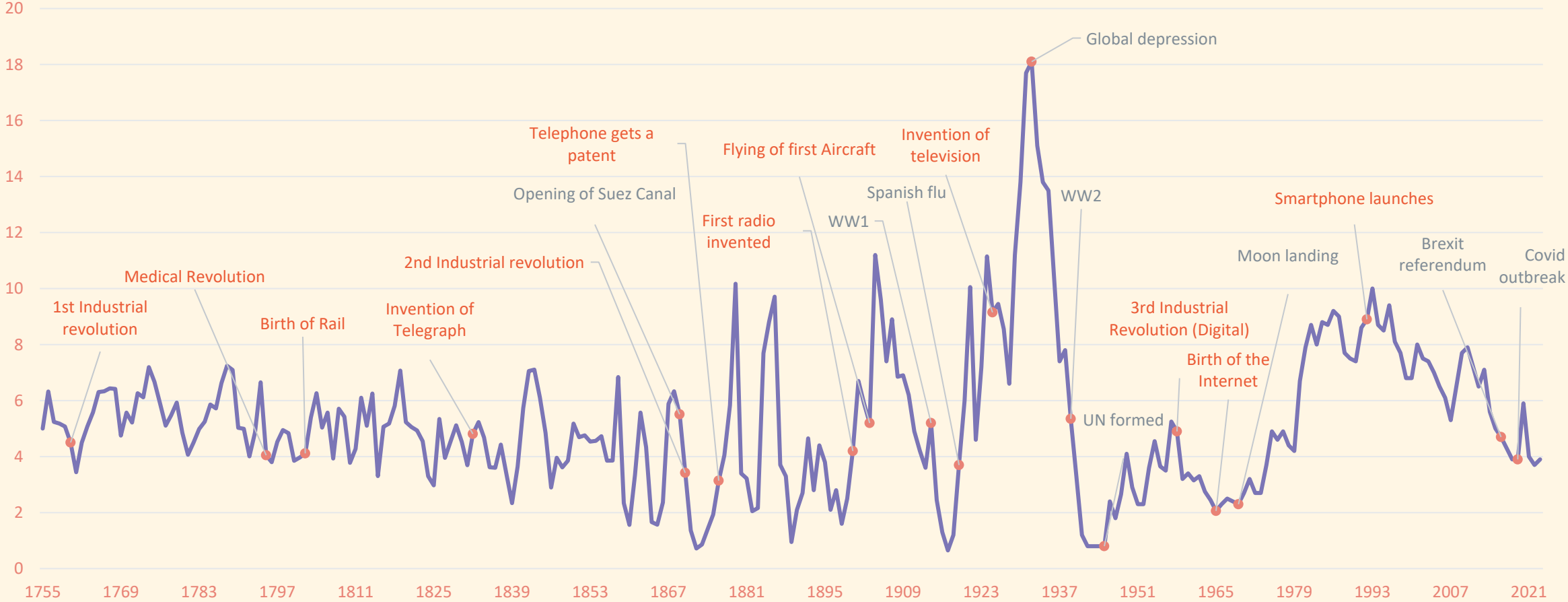
# AI to the rescue?

- AI large language models can process and understand natural language at an unprecedented level
- Humans spend a lot of time on language tasks, so this could change what the labour force spends time on
- Labour productivity is a key input for economic growth. We're thinking about how AI could impact our strategic asset allocation
- This would be through changing the long term returns, correlation and volatility of different asset classes



# Will AI create or destroy jobs?

Median unemployment rate in G7 (%)



Source: GFD & M&G Investment Office calculations, as at 6<sup>th</sup> June 2023. Median calculated based on available data from each G7 country.

# Scenarios for adoption of AI

SCENARIOS

## Upside: Gradual and orderly adoption

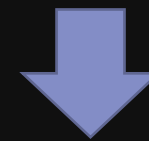
- New job creation outweighs downside of job displacement.
- Efficiency leads to lower costs, which is passed down to customers.
- Most people benefit with no significant impact on inequality or skill gaps.

## Baseline: Adoption without proper guardrails

- Quick adoption without controls as policymakers play catchup.
- First mover advantages increase market share for certain companies.
- Some job displacement.
- Ethical and legal implications increase cost to businesses.
- AI becomes an added source of risk for both the public and private sectors.

## Downside: Disorderly adoption

- Labour market is disrupted.
- Increased wage disparities, and potentially social/political instability
- Governments come under pressure to introduce AI constraining policies.
- Certain industries are heavily taxed to fund support for the vulnerable communities and re-train workers.



IMPACTS

One-off shift up in GDP. Net positive effect on employment over the long-term.

Moderate boost to GDP. AI's low cost enhancements are disinflationary. Lack of proper guardrails and/or abrupt policy change becomes a source of short term disruptions.

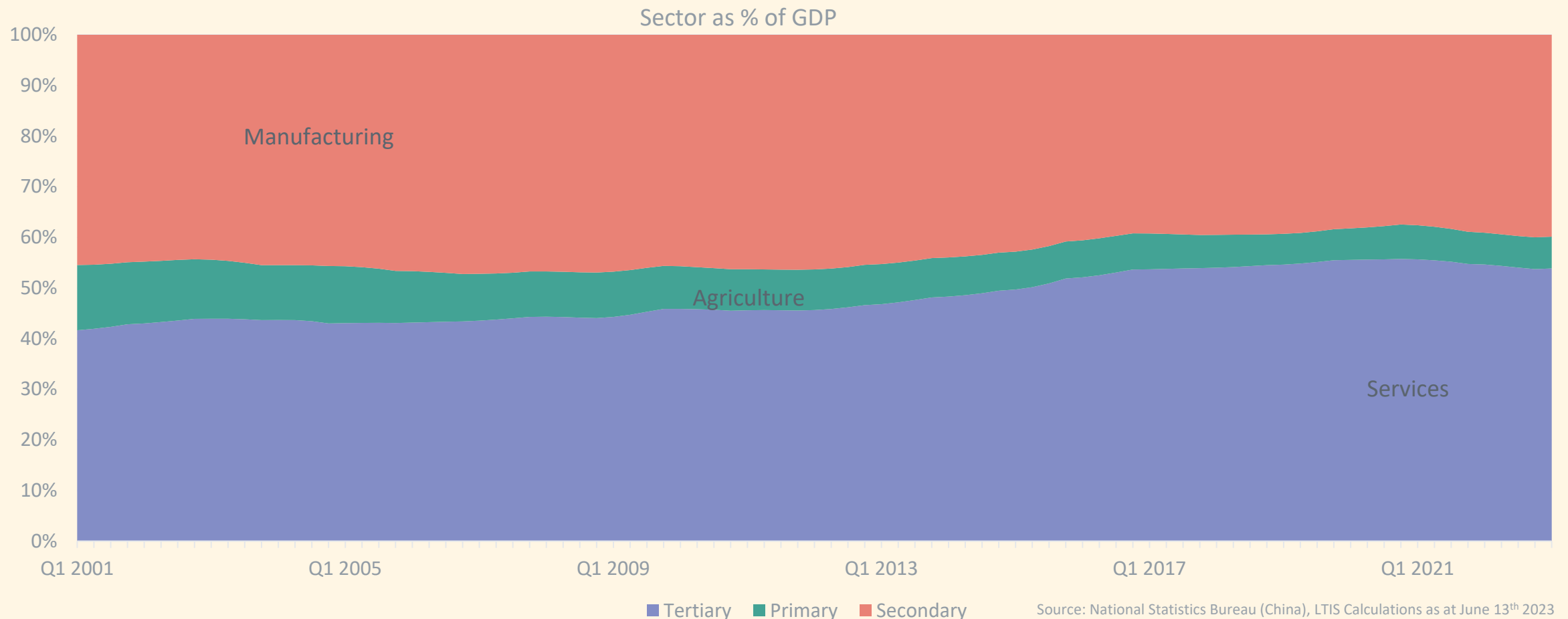
High level of unemployment, leading to social instability. High degree of industry disruption, leading to economic volatility. Potentially social/political instability.



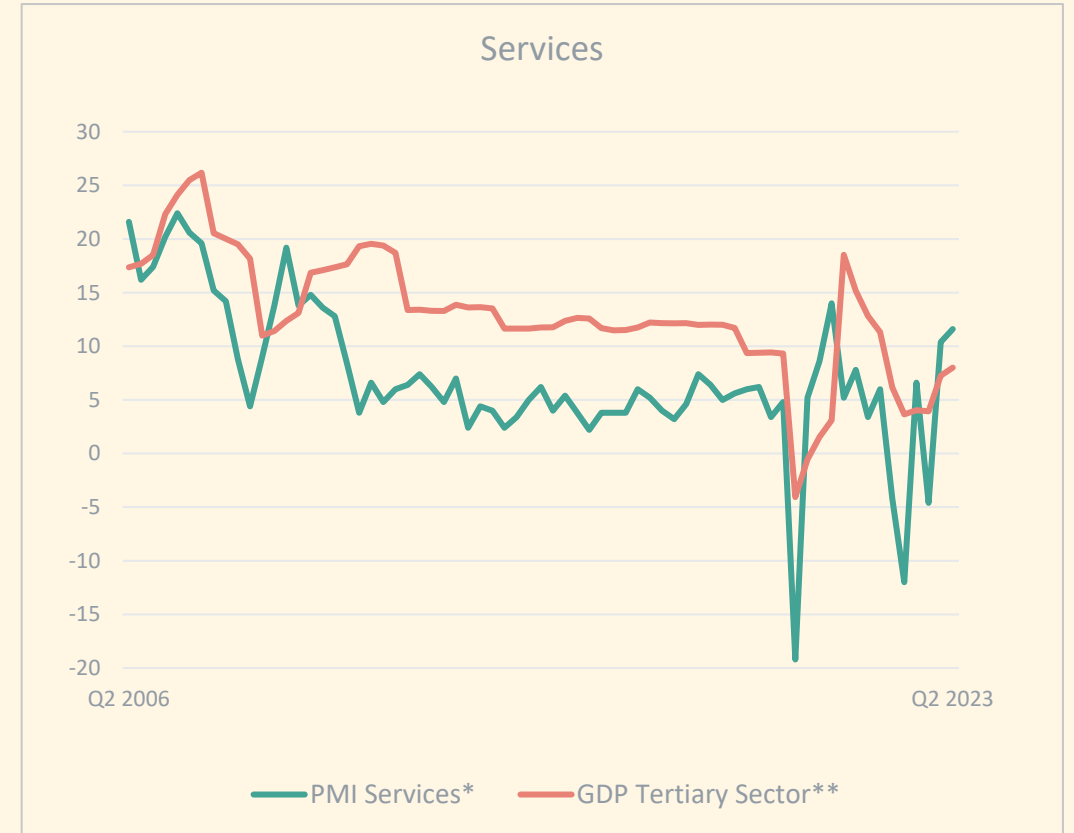
Asia

# China: Services Key for Economy

- Services is now the largest sector in China, at 54% of GDP. Services tend to be more resilient, with less severe contractions than manufacturing.



# Manufacturing and Services Sentiment has been Improving



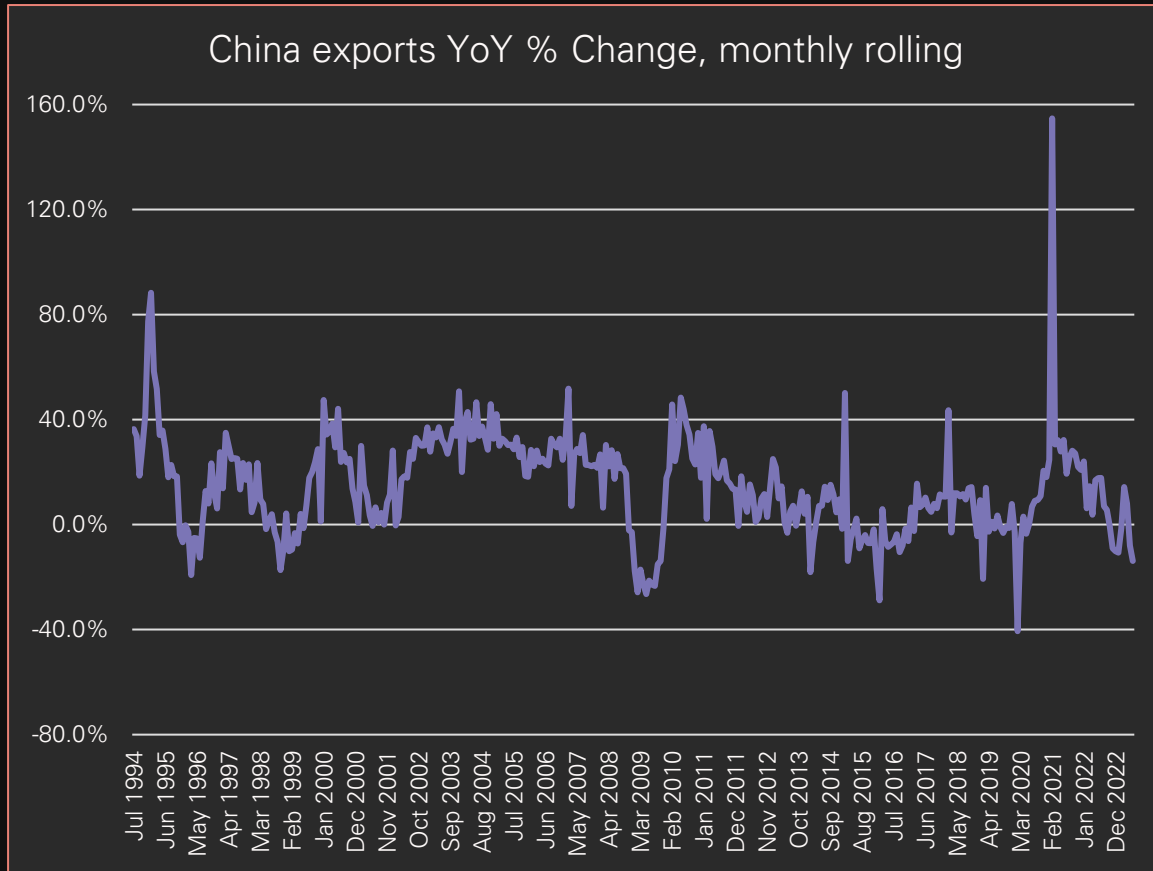
(\*) Caixin PMI - Percentage change from the 'neutral' - 50 mark.  
Average of previous 3 month readings.

Source: Datastream, LTIS Calculations. 24.07.2023. GDP quarterly change YoY.  
PMI stands for Purchasing Manager Indices



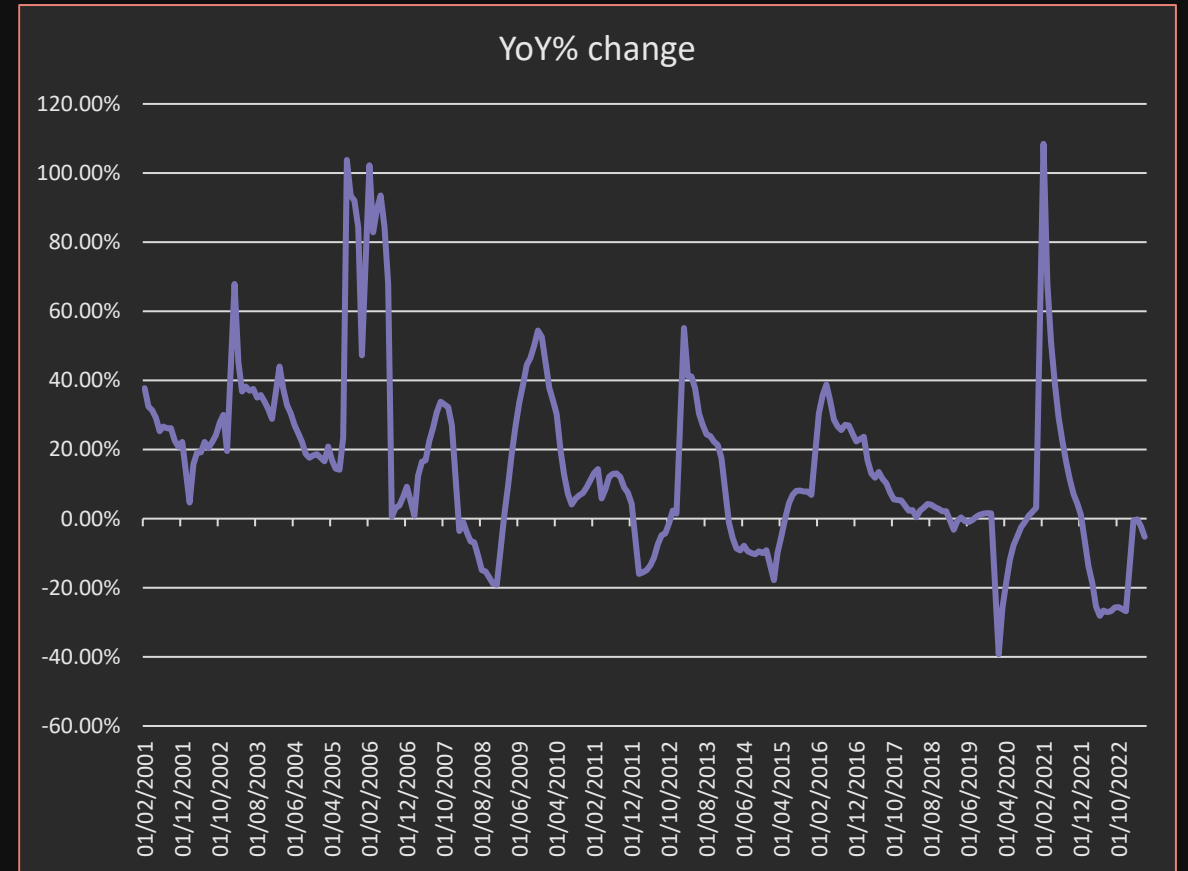
# An uneven recovery

## China Exports (% Change YoY)



Source: M&G T&IO, LTIS/Datastream. End June.

## Floor space of Residential Buildings Sold (% Change)



Source: M&G T&IO, MAPM/ Bloomberg. End May

# Diversification within Asian Equities



Source: FactSet, July 2023. The graph shows the price return (excluding dividends) in GBP. 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.

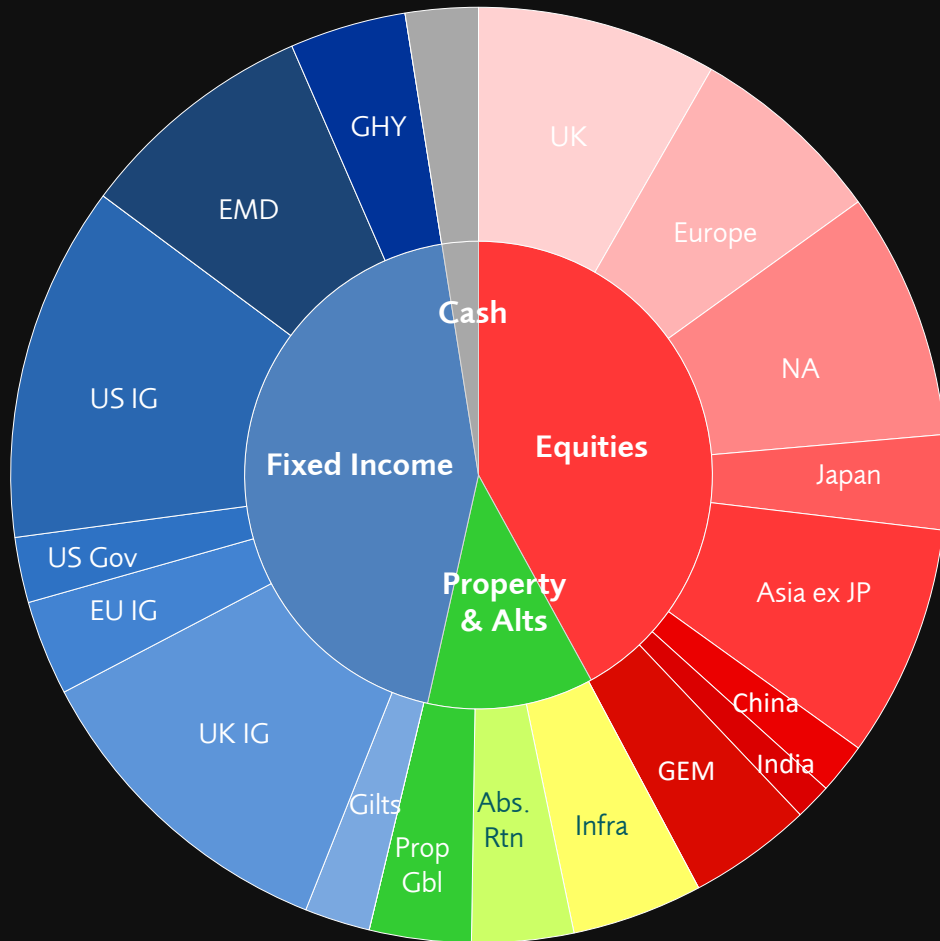
# Asian Equities: The Long-Term Opportunity



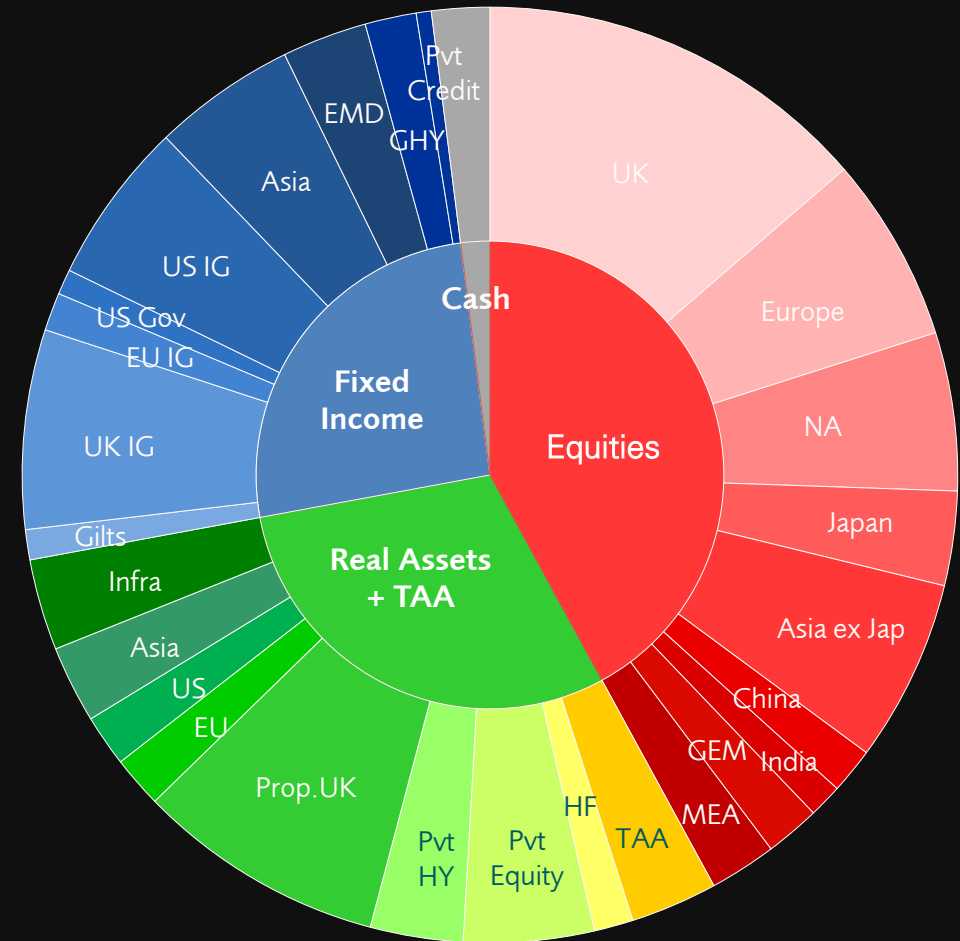
# 2023 Strategic Asset Allocation

## A forward looking approach

MPS Hybrid 3



PruFund Growth





Cash is King?

# Stick or Switch?

Let's assume a client places £100,000 in a one year deposit that pays 5% interest

## Inflation stays high

- Multi-asset portfolio falls 5% \*
- Client outperforms the portfolio, and can invest at a lower point

## Inflation stabilises

- Multi-asset portfolio rises 5% \*
- Performance is in line with the portfolio

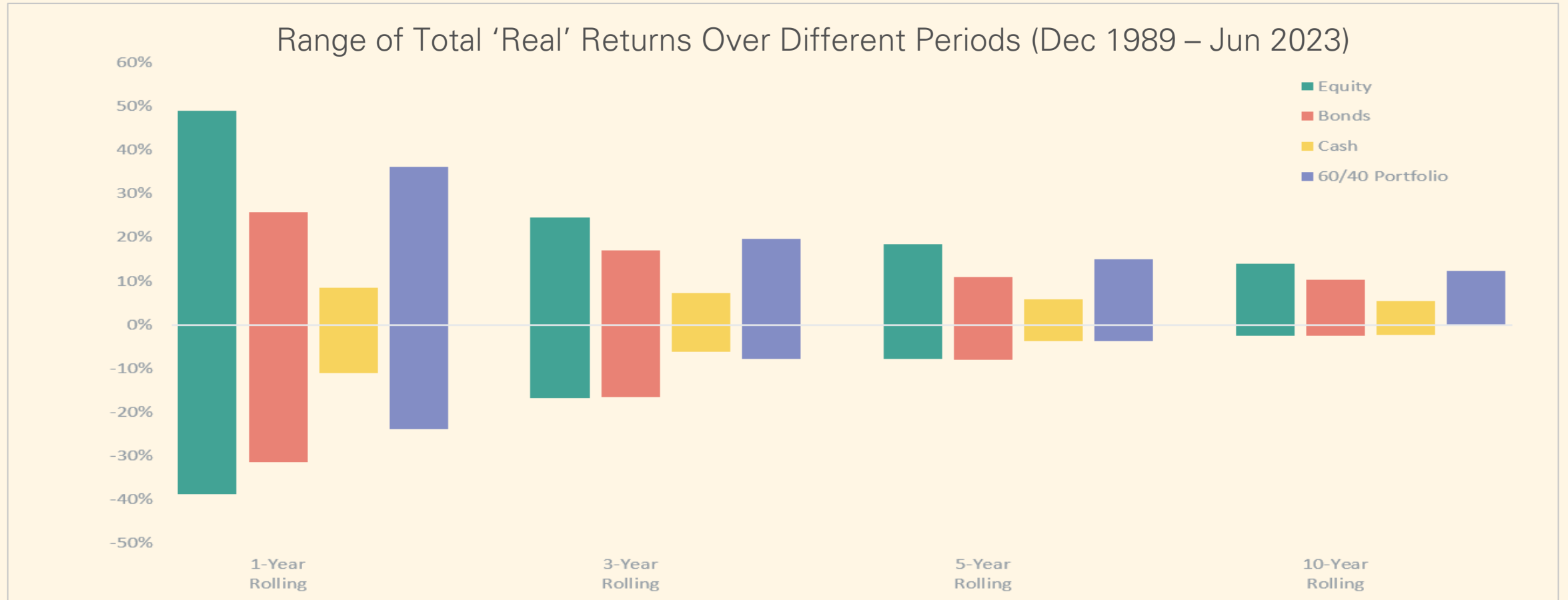
## Inflation falls significantly

- Multi-asset portfolio rises 10% \*
- Client underperforms portfolio and has to invest at a higher point

In which scenarios would you enter another 1 year deposit? When would you switch to the multi-asset fund?

(\*) Hypothetical returns based on the different scenarios

# Investing for the long-term delivers return



Source: Datastream as of 19/07/2023. Month end value of the respective indices: Equity (FTSE All-Share), Bonds (United Kingdom Benchmark 10 Year Datastream Government Index), Cash (JP Morgan 3-Month UK Cash Index) and Inflation (ONS Consumer Price Index). The 60/40 Portfolio looks at real returns if you had 60% of portfolio investment in Equities (FTSE All-Share) and 40% in Bonds(UK 10-Year Gilts). The 1-Year Rolling reflects the maximum and minimum real returns experienced from two month ends 1 year apart since December 1989 . The rolling 3,5 & 10-year show compound annual growth rate required to have made the maximum or minimum real returns in between two month ends 3,5, and 10 years apart respectively. Past performance does not guarantee future performance.

For adviser use only - Not for use with retail customers

# Learning Objectives

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

Explain the drivers of UK inflation and how different scenarios for future inflation could impact financial markets.

Evaluate the risks and potential benefits of investing in Asian equities and bonds.

Describe how technological developments in artificial intelligence could impact financial markets.

Describe the pros and cons of using fixed rate deposits vs multi-asset investment strategies.



# QUESTION TIME



# Products & Services Overview

M&G's Treasury & Investment Office sets the strategic asset allocation and building blocks for each product or service. Similar themes and views are present in each offering.

## PruFund

- Pooled fund with smoothed prices
- Can buy/sell once a month
- Significant exposure to private/illiquid assets
- ESG approach available (PruFund Planet)

## PruFolio

- Pooled fund
- Can buy/sell each day at current market prices
- Passive and Active funds available

## Model Portfolio Service

- Client owns individual funds that make up the model
- Can buy/sell each day at current market prices
- Passive, active and ESG services available

# Thanks for your time

Get in touch with your usual contact if you need further help.





M&G Wealth is a trademarked brand of the M&G plc group, which includes 3 business divisions as follows:

M&G Wealth Advice, provided by M&G Wealth Advice Limited, registered number: 08022795. Model Portfolio Services, provided by M&G Wealth Investments LLP, registered number: 0C305442. M&G Wealth Platform, provided by Investment Funds Direct Limited, registered number: 11444019. Each legal entity is registered in England and Wales and has its registered address at 10 Fenchurch Avenue, London EC3M 5AG. Each legal entity is also a subsidiary of M&G plc and is authorised and regulated by the Financial Conduct Authority.

M&G plc, incorporated and registered in England and Wales. Registered office: 10 Fenchurch Avenue, London EC3M 5AG. Registered number: 11444019. M&G plc is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.