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PPMG STAYS OVERWEIGHT IN EQUITIES DESPITE ‘FROTHINESS’

- **2018 multi-asset equity outlook favours Japan, Emerging Markets, Asia and Europe**
- **PPMG advises a tactical approach to ‘very expensive’ Government bonds and looks to be underweight on credit**
- **Global growth will remain broadly similar to post-crisis highs of 2017**

Prudential Portfolio Management Group (PPMG) is continuing to make the case for remaining overweight in equities “despite some frothiness in markets” in its 2018 Investment Outlook.

PPMG, which manages over £180 billion on behalf of Prudential UK & Europe, says the global economic cycle is showing signs of increased maturity while valuations are stretched but points to opportunities in cyclical markets and favours Japan, Emerging Markets, Asia and Europe.

It’s advising a “tactical approach” to Government bonds which remain “very expensive”, while it assesses investment grade bonds as broadly neutral, but says high-yield bonds are very expensive and is looking to underweight the asset class.

David Shairp, head of investment research at PPMG, said: “On a macro level we expect global growth to be broadly similar to the post-crisis highs of 2017 supported by an expected acceleration in US growth, driven by fiscal stimulus, and continued strengthening of growth in emerging markets, including Brazil and India. We believe the UK economy will continue to slow during the year.”

PPMG has identified three key investment themes to watch in 2018 – **the impact of US Quantitative Tightening, the risk of a US dollar U-turn, and whether Emerging Markets are relatively cheap for a reason.**

It stresses that Quantitative Tightening may not have the same impact as asset purchases as the Federal Reserve's balance sheet will remain high and Quantitative Easing will continue to be used but points to risks from unexpected rises in inflation and inexperience.

Leila Butt, senior economist at PPMG, said: "We're expecting at least three Fed rate hikes in 2018 but only one rate rise from the Bank of England and no rate rises from the European Central Bank, which will continue asset purchases at a lower level into Q4 2018. Our forecast is that the Bank of Japan is likely to continue easing at a slower pace."

PPMG urges a tactical approach to fixed-income exposure. **Jean-Paul Jaegers, senior investment strategist at PPMG, said:** "For US government bonds we expect negative returns over the next six to 12 months as interest rates may drift higher a bit faster than the market prices in. This is likely to be driven by monetary policy and market-based inflation expectations, as we currently observe that inflation expectations have become quite benign in the US."

However, PPMG anticipates that gilt returns will be better than for US Treasuries, while returns across European bonds are likely to vary but should be superior to (real) negative cash returns.

PPMG remains positive on Emerging Markets but recognises there are question marks over the main drivers, with potential risks from global and Chinese economic growth; US real interest rates; the US dollar; and cheap markets and currencies.

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Notes to editors

About the Spokespeople

David Shairp, head of investment research at PPMG: David joined PPMG in July 2015 as head of investment research and is responsible for managing and developing Prudential's research and asset allocation process. David has over 35 years' experience in fund management and investment banking. David joined Prudential from J.P.Morgan Asset

Management, based in London, where most recently he was managing director, global strategist and portfolio manager. His previous roles include head of regional research, regional strategist and chief economist in Asia. David holds an MSc in Management from the London Business School, on the Sloan Fellowship programme, and a B.A. in Economics from Exeter University.

Leila Butt, senior economist at PPMG:

Leila is responsible for developing and providing the global economic and policy research offering at Prudential, with a focus on the US, UK, euro zone and key emerging markets. Prior to joining PPMG, Leila worked at Standard & Poor's (S&P) and the Economist Group. As Director at S&P, she was the lead analyst for the UK sovereign rating, in addition to several other European sovereign credits. While at the Economist Group, she was the Deputy Manager for the company's East European sovereign risk service, and participated in the construction of a proprietary sovereign ratings model. Leila holds a BSc and MSc in Economics from the London School of Economics.

Jean-Paul Jaegers, senior investment strategist at PPMG: Jean-Paul joined PPMG in May 2015 as senior investment strategist in multi asset and is involved in managing and developing Prudential's research and driving the asset allocation process. Jean-Paul has over 10 years' experience in asset management and asset allocation. Jean-Paul joined Prudential from BNP Paribas Investment Partners based in London, where most recently he was deputy head of research in multi asset solutions. Before that he had roles as senior portfolio manager. Jean-Paul holds an MSc in Finance from Maastricht University and is CFA charterholder.

About PPMG:

PPMG is a team of around 80 experienced investment professionals with specialist expertise in capital markets research, investment strategy design, liability management, alternative investments and portfolio management. The team manages over £180 billion on behalf of Prudential UK & Europe (as at 30 September 2017) including Prudential's With-Profits Fund – the largest in the UK.

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