

Article 50

Date: 17th March 2017

TIME IN	TIME OUT	INDIVIDUAL TALKING	TRANSCRIPTION
00:00:17	00:00:56	Adam Palin	<p>With the triggering of Article 50, negotiations on Brexit can begin. Within two years, it's anticipated that the UK will no longer be a member of the European Union. As per the outcome of negotiations, we have to wait and see. The Referendum vote for Brexit last June created a lot of political uncertainty. I'm Adam Palin, and to discuss the continuing effects of Brexit on investors, I'm joined by Steven Andrew, a Fund Manager in M&G's Multi Asset team. As a Multi Asset Fund Manager, Steven invests money for the long term in a range of assets, from bonds to company shares from all over the world.</p> <p>Steven.</p>
00:00:57	00:00:57	Steven Andrew	Hi Adam.
00:00:57	00:01:12	Adam Palin	Thank you very much for joining me. Last June, you said political uncertainty was here to stay. That was even before the election of President Trump. How do you view political risk and how does it inform your investment decision making?
00:01:13	00:02:15	Steven Andrew	Well the prescience and predictive power of my observation that political risk was here to stay was a pretty obvious one frankly, I can't claim too much credit for that, it's merely round the corner. We could see that we had elections around the questioning around the various ideological vacancies about this system, about globalisation, and about fairness, and those things are causing strain and are calling attention to themselves. So the market likes to have its attention pulled here and there in that regard. As investors, we need to make sure we're focussed on two things – Does this change the underlying value of my investment? and then crucially, how much can I know? So how much can I try and deeply understand about this more than the market can. Because as interesting as many of these topics are, and as relevant as many of these topics are, we need to be careful that we're not straying into the grounds of forecasting, asset prices forecasting what happens in politics 'cause we simply don't know.
00:02:16	00:02:22	Adam Palin	OK. Well, looking back, which political moments have really had a lasting impression on markets rather than just being blips?
00:02:23	00:03:09	Steven Andrew	Well there have been many. There have been, and three spring to mind immediately. There's the fall of the Berlin Wall, and then there's the establishment of the Euro as a single currency, and the establishment of the World Trade Organisation, and China joining the World Trade Organisation. All substantial shifts in the underlying regime driving economies, driving markets. So politics is crucial, and it's durable, and it's very important and will never go away, but that doesn't mean that the market should be ebbing and flowing and listening to every utterance, whether it's going to be a hard

			or a soft Brexit, and what the probabilities of those things are going forward. We need to get into the underlying value of these assets and see what's truly driving things.
00:03:10	00:03:17	Adam Palin	Okay. What's actually changed then, since last June and the Referendum and how's it really changed the way that you're looking at investments?
00:03:18	00:04:20	Steven Andrew	The short answer is not much has changed. Going into the Referendum, there were great prognostications of doom. They were going to be heading into a recession, simply because of the uncertainty associated with the UK taking this unprecedented step. The data show that simply hasn't happened. We've had labour market that has continued to grow, the unemployment rate is close to 40 year lows, average earnings growth of households actually accelerated in the second half of the year. So there really isn't any tangible evidence that there has been a meaningful response from the underlying economy. When it comes to asset price, there has been a meaningful response and that's something that we would focus on and so where those company share prices have been punished of those UK facing companies. Now UK businesses do a lot of their business domestically, their share prices are still being offered at a substantial discount because of the fear, and so we see some opportunities in that environment.
00:04:21	00:04:29	Adam Palin	So how confident is your outlook then, for the UK and the Eurozone economies and how much bearing will these important negotiations have on that?
00:04:29	00:05:04	Steven Andrew	Sure, but rather than consider a specific outlook, as investors we like to assess what does the market currently believe and where are the risks for that, where could the potential surprises come from, because if we know one thing about the future, it's that it'll be surprising in some way. So is the probability of that surprise more to the upside or more to the downside? And when we look at how the market is currently priced, when we look at current market expectations which are still anchored in a pretty bleak place from a fundamental perspective, we see more upside risk than downside.
00:05:06	00:05:13	Adam Palin	Okay, and what specifically then? Which kind of metrics should we be watching very keenly to really gauge how it's all going?
00:05:13	00:05:36	Steven Andrew	Sure there are a lot, but wages would be my key, the key metrics. If wages start to grow faster, the Central Banks have already told us they'll come in and raise interest rates. That will be a bit of a jolt to people's expectations. Everyone's expecting slow and steady. We've not really priced for an upside uncertainty there. So I'd say that's the key point of vulnerability from a policy perspective. Watch wages, that'll tell you where interest rates are going.
00:05:37	00:05:41	Adam Palin	Steven Andrew, Fund Manager in M&G's Multi Asset team, thank you very much for joining me.
00:05:42	00:05:42	Steven Andrew	Thank you.