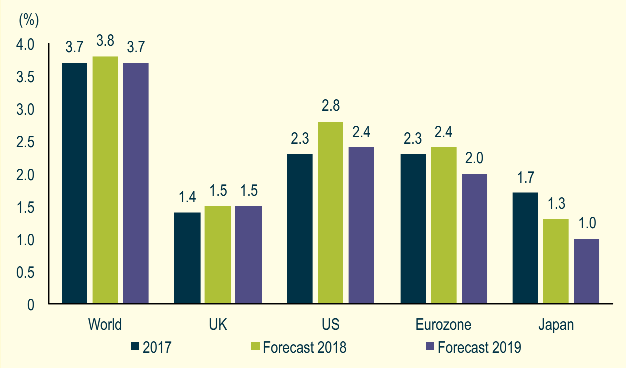
Quarterly market summary

1st Quarter 2018

Economic overview

Late in the first quarter of 2018, a potential global trade war dominated the headlines. President Trump imposed tariffs on various imports into the US, and China, the main target, vowed to retaliate. Economic data was generally positive, with measures of activity revised upwards in the US, Japan and the eurozone. The UK proved an exception as growth was revised downwards, albeit remaining positive. Corporate earnings showed healthy growth and, on the whole, inflation remains muted. However, a jump in wage growth in the US triggered concerns that more interest rate increases will follow. The US Federal Reserve (Fed) raised interest rates in late March by a quarter point to 1.75%, but signalled that further increases would be gradual. The Japanese yen, sterling and the euro all strengthened relative to the US dollar. The price of oil rallied during the quarter.

Real GDP growth

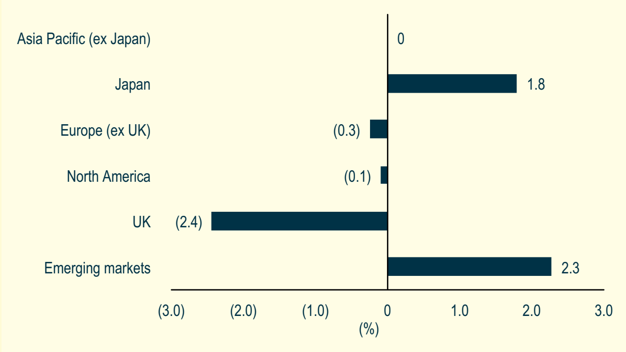


Source: Bloomberg Consensus Global Rate Forecasts, 3 April 2018

Market overview

The quarter began strongly for most stockmarkets; many reached record highs before falling sharply, seemingly on concern about US inflation. Investors were then buffeted by unsettling factors, including potential interest rate increases, political uncertainty in the US, growing trade tensions and possible regulatory changes for leading technology companies. Most stockmarkets ended the quarter firmly in negative territory. The biggest fallers included India, the UK and Germany, while Brazil, Russia and Italy rose. Sterling strength against several currencies reduced the returns from those countries to UK investors. Demand for assets perceived as 'safe havens', such as gold and the Japanese yen, increased. Improving economic data and the likelihood that central bankers will soon reduce their asset purchases weighed on government bonds, although they later benefited from being seen as less risky than company shares.

Equity market performance v. FTSE World Index (1st quarter 2018)



Source: Thomson Reuters Datastream

Sterling

UK equities

UK shares were among the weakest during the quarter. Investors had to contend with continued uncertainty over the UK's withdrawal from the European Union, a potential reduction in the levels of economic activity and a possible trade war. The stronger pound was also seen as negative for the multinational companies that make up a large proportion of the FTSE 100 Index. The more domestically focused FTSE 250 declined as well, with several high street retailers reporting lower profits. The collapse of engineering firm Carillion dampened sentiment too. Technology businesses ranked among the worst performers. One bright spot was a resurgence in takeover activity, with several UK firms, including GKN, Shire and Fenner, attracting bids.

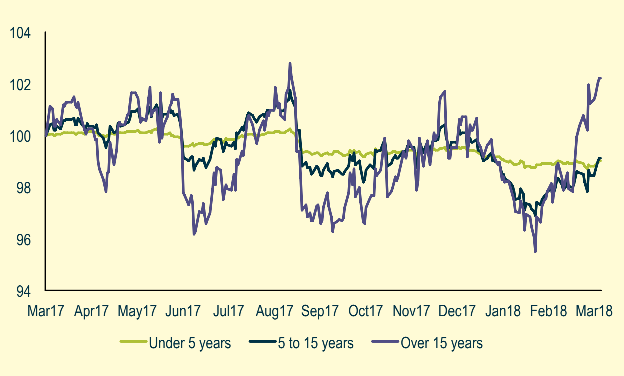
UK equity market indices (12 months to 31.03.18)

Source: Thomson Reuters Datastream — Rebased to 100

UK bonds

Although the Bank of England's monetary policy committee left UK interest rates unchanged at their latest meeting, two members voted for an increase in borrowing charges, which led investors to speculate that the likelihood of a rate rise in May had risen. The prospect of higher interest rates weighed in particular on the prices of government bonds due to be redeemed in 5-10 years, which underperformed those with a longer time before repayment, making the returns from UK government bonds (gilts) almost flat over the quarter. Index-linked gilts were also broadly unchanged as UK inflation declined from the peak hit in late 2017. As investors' appetite for risk waned during the quarter, bonds issued by companies declined in price as they tend to be riskier than government bonds.

Gilt indices (12 months to 31.03.18)



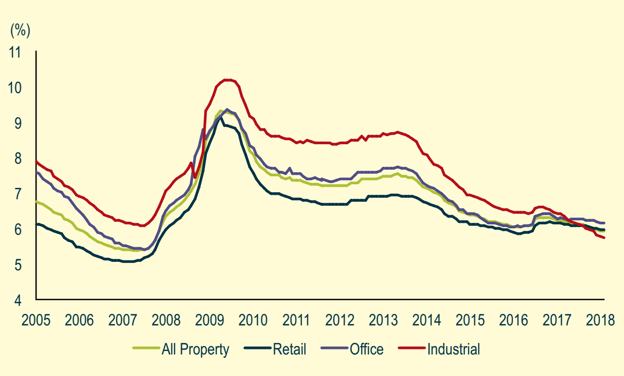
Source: Thomson Reuters Datastream — Rebased to 100

UK property

UK commercial property made a steady start to 2018, although the pace of expansion was somewhat slower than in the final quarter of 2017. Capital value growth was strongest in Industrials, which was also the only sector to see a meaningful increase in rental values. Meanwhile, Retail capital value growth lagged the broader market.

Looking ahead, UK commercial property is expected to generate a mid-single-digit total return in 2018, of which rental income would represent a significant proportion. The investor market remains healthy, buoyed by overseas demand following the decline in sterling. Within the market, investors are attracted to those assets that display resilience, international appeal and the ability to adapt to an evolving economy.

Equivalent yields (to 28.02.18)

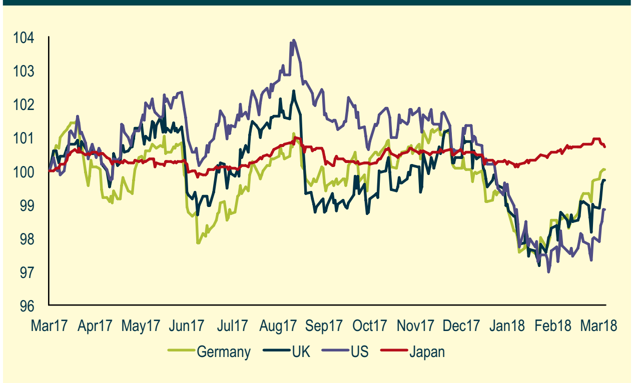


Source: IPD

International bonds

The Federal Reserve raised US interest rates again after the new Fed chairman signalled his optimism about the US economy. This was taken to indicate further hikes in US borrowing costs. Earlier, higher US wage growth had raised concerns about increased inflationary pressures, which caused a sharp sell-off in US Treasuries. The yield on US government bonds rose to the highest level for many years. On the other hand, emerging market bonds performed well, while bonds from peripheral Europe, including Portugal and Spain, also rose in price. As risk aversion built up later in the period, government bonds benefited from their safe haven status, meaning that the yields on bonds issued by Japan and Germany returned to remarkably low, or even negative, levels. Corporate bonds underperformed government bonds.

10-year government bond markets (12 months to 31.03.18)



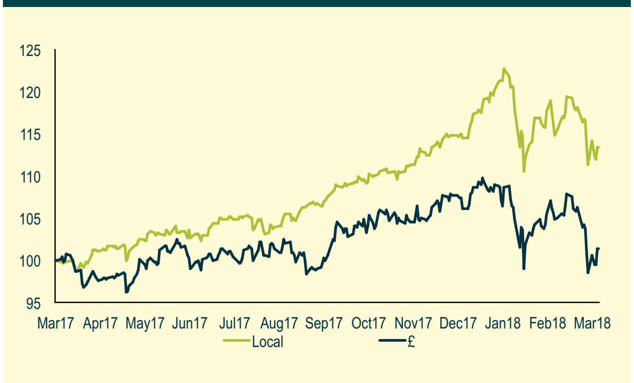
Source: Thomson Reuters Datastream — Rebased to 100

Local currency

North America

US stockmarkets reached record highs in late January as technology companies continued their remarkable rally. But things changed rapidly when investors decided that an increase in wage growth could signal higher inflation, prompting faster Fed interest rate hikes. Falls in the bond markets were more than reflected in share prices. Investors were further unsettled by President Trump's imposition of tariffs on imports, which threaten to unleash a global trade war. Later, the prospect of greater regulation on the largest technology groups weighed on their share prices. However, the US economy continues to grow and company profits remain robust. Despite the late sell-off, IT companies remained the best-performing industry sector, while the shares of consumer staples and telecommunications groups lagged. The Canadian stockmarket fell sharply, as President Trump attempts to renegotiate the North American Free Trade Agreement.

FTSE World North America Index (12 months to 31.03.18)

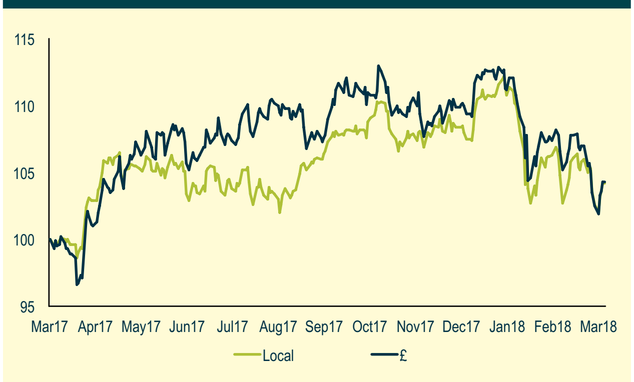


Source: Thomson Reuters Datastream — Rebased to 100

Europe

European stockmarkets suffered their worst quarter for two years. Share prices started the quarter strongly before succumbing to fears about higher US interest rates, a potential trade war and sharp falls in the share prices of technology groups. There was also some softening perceived in the economic data released later in the period. The persistent rise of the euro against other currencies led some investors to question whether exports may come under pressure. The weakest performers included Germany and Spain, although Italy managed to rise during the quarter. Healthcare and consumer-related groups were the worst performers, while oil producers and technology groups were among the best.

FTSE World Europe (ex-UK) Index (12 months to 31.03.18)



Source: Thomson Reuters Datastream — Rebased to 100

Japan

Having reached its highest level for 26 years in January, the Japanese stockmarket fell back very sharply during the rest of the quarter and ended with a significant decline, in yen terms. To UK investors, the losses were reduced by the strength of the Japanese currency, which benefited from being seen as a safe haven. However, a stronger yen usually weighs on the country's stockmarket, as it reduced the attraction of exports, on which many companies are reliant. Exporting companies were also adversely affected by the possibility of a trade war. The best performers included more domestically focused industry sectors, such as utilities, healthcare and consumer staples, while the biggest fallers included materials, energy groups and financial companies.

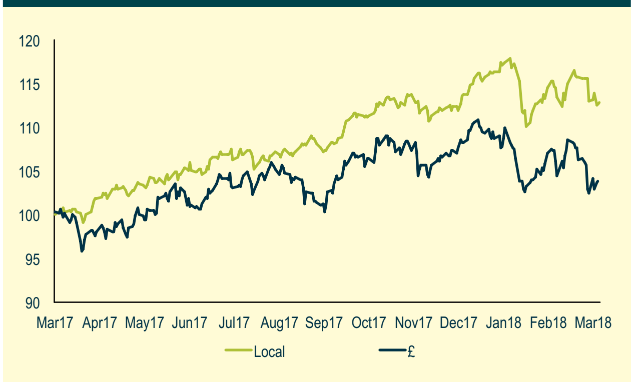
FTSE World Japan Index (12 months to 31.03.18)

Source: Thomson Reuters Datastream | Rebased to 100

Pacific Basin ex-Japan

The quarter was negative for the Asia Pacific region as a whole, with investors preferring to focus on the ramifications of a trade war between the US and China rather than an easing of tension between North Korea and the US. The South Korean market did, however, outperform in March as the prospect of talks between Presidents Trump and Kim arose. China was adversely affected by trade tensions and potential regulations of financial groups. Among the worst performers were the Philippines, with investors concerned about higher inflation, and India, where a new capital gains tax was imposed. The better performers included Thailand and Malaysia.

FTSE All World Asia Pacific ex Japan (12 months to 31.03.18)



Source: Thomson Reuters Datastream | Rebased to 100

Emerging markets

Although the performance of emerging markets was negative overall during the quarter, there was a wide disparity of returns. While Africa, Asia and the Middle East declined, Latin America rallied. Brazil led the way, helped by the economy recovering from recession. Elsewhere, the Russian stockmarket was supported by higher prices for oil and other natural resources. Indian shares were hit by a new capital gains tax, while China is at the centre of a possible trade war with the US. The Mexican stockmarket is seen at risk from President Trump's attempts to renegotiate the North American Free Trade Agreement.

MSCI Emerging Markets (12 months to 31.03.18)

Source: Thomson Reuters Datastream | Rebased to 100

Please note that the views on markets expressed in this report are those of M&G as at 31.03.18 and should not be taken as investment recommendations.

Past performance is not a guide to future performance. The value of investments, and the income from them, will fall as well as rise and you may not get back the original amount you invested.

Market data

		1st Quarter 2018 %		12 months to 31.03.18 %	
		Local	Sterling	Local	Sterling
Equity index total returns*					
FTSE World		-2.0	-4.4	11.1	2.6
FTSE All World ex UK		-1.5	-4.2	12.5	3.1
FTSE All-Share		-6.9	-6.9	1.3	1.3
FTSE 100		-7.2	-7.2	0.2	0.2
FTSE Mid 250		-5.7	-5.7	5.3	5.3
FTSE Small Cap		-4.8	-4.8	6.0	6.0
FTSE World Europe (ex UK)		-3.1	-4.7	4.2	4.3
FTSE World France		-1.9	-3.1	6.1	8.7
FTSE World Germany		-5.5	-6.7	0.4	2.9
FTSE World Italy		3.0	1.7	12.3	15.2
FTSE World Spain		-4.1	-5.3	-5.4	-3.0
FTSE World North America		-0.9	-4.5	13.5	1.3
S&P 500 Composite Index		-0.8	-4.3	14.0	1.6
FTSE World Japan		-4.7	-2.6	15.1	7.5
Nikkei 225		-5.8	-3.7	13.5	6.0
FTSE All World Asia Pac (ex Jp)		-0.7	-4.4	16.9	6.0
FTSE Australia		-4.1	-9.3	1.8	-8.8
FTSE China (All Cap)		2.1	-2.0	32.9	17.3
FTSE Hong Kong		-0.7	-4.7	21.2	7.0
FTSE Korea		-1.4	-4.5	20.0	12.2
FTSE Singapore		2.1	0.3	16.7	10.9
FTSE Thailand		4.4	5.0	19.9	17.4
MSCI Emerging Markets		0.8	-2.2	22.4	11.8
MSCI Brazil		12.7	8.5	32.7	13.0
MSCI Argentina		-5.6	-8.9	21.7	8.5
MSCI Mexico		-5.8	-2.7	-2.0	-9.9
MSCI South Africa		-8.1	-7.4	11.2	12.1
Bond index total returns*					
FTSE Actuaries UK Conventional Gilts All Stocks Index		0.3	0.3	0.5	0.5
UK gilts under 5 years		-0.5	-0.5	-1.0	-1.0
UK gilts 5 - 15 years		-1.0	-1.0	-0.9	-0.9
UK gilts over 15 years		1.5	1.5	2.2	2.2
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		0.1	0.1	0.5	0.5
iBoxx £ Non-Gilts Index		-1.2	-1.2	1.2	1.2
Salomon World Govt Bond Index		2.5	-1.2	8.5	-3.3
10-yr benchmark bond returns*	**Yield as at 31.03.18 (%)**				
UK	1.4	-1.1	-1.1	-0.3	-0.3
US	2.7	-2.4	-5.9	-1.1	-11.9
Japan	0.0	0.1	2.3	0.7	-5.9
Germany	0.5	0.0	-1.3	0.0	2.5
France	0.6	0.7	-0.6	5.2	7.8
Currency changes vs sterling	**Exchange rate as at 31.03.18**	**Q-Q chg %**		**Y-Y chg %**	
Dollar	1.4028	-3.6	–	-10.9	–
Euro	1.1406	-1.2	–	2.5	–
Yen	149.19	2.1	–	-6.6	–
Interest rates	**Rates as at 31.03.18 (%)**				
UK base rate	0.50	0.00	–	0.25	–
US Fed Funds rate	1.75	0.25	–	0.75	–
ECB base rate	0.00	0.00	–	0.00	–
Commodities	**Price level as at 31.03.18**				
Oil (Brent crude) US$ per barrel	70.1	5.2	1.5	33.2	18.7
Gold bullion US$/troy oz	1,323.4	1.5	-2.1	6.1	-5.4
Comm Research Bureau Index		0.9	-2.7	1.5	-9.6

* Returns include income

Source: Thomson Reuters Datastream

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Past performance is not a guide to future performance. The value of investments, and the income from them, will fall as well as rise and you may not get back the original amount you invested.

Currency exchange fluctuations will have an impact on the value of your investment.

For definitions of the investment terminology used within this document please see the glossary at: www.mandg.co.uk/investor/help-centre/glossary

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