

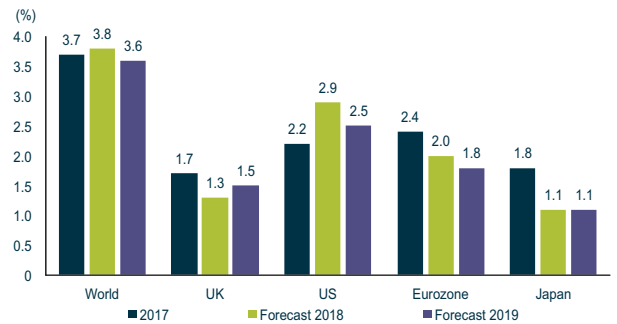
# Quarterly market summary

3rd Quarter 2018

## Economic overview

An escalating trade war between the US and China was very much at the forefront of investors' minds during the third quarter. Despite the prospects of import duties being applied to a significant volume of products both from China into the US and vice versa, so far at least, economic growth in both countries remains resilient. For the latest quarter available (to end-June 2018) the US economy grew by an annualised 4.2%, while China's grew by 6.7%. On the other hand, the eurozone disappointed and the economy within the single currency area expanded at a slower rate than in the first quarter of 2018. During the third quarter, monetary policy was tightened in the US and UK (interest rates were raised by a quarter point in both countries). In contrast, central banks in Japan and the eurozone remain committed to maintaining loose monetary policies for the time being.

## Real GDP growth

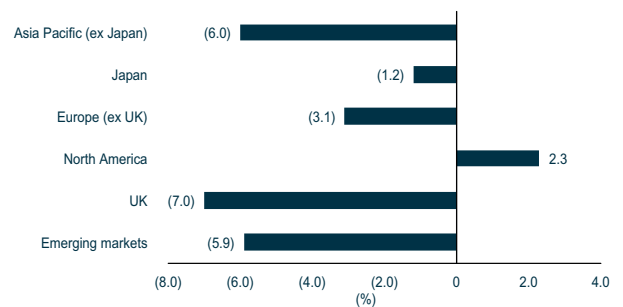


Source: Bloomberg Consensus Global Rate Forecasts, 1 October 2018

## Market overview

Overall, most stockmarkets recorded strong gains in the third quarter, with the US and Japan standing out. Corporate profitability remains resilient in both countries and quarterly results were well received by investors. However, performance in Europe was mixed. For example, the share prices of some car manufacturers fell on fears that an escalating trade war could impact the export of automobiles, while banking shares fell on worries over their exposure to the Turkish economy. The UK stockmarket too ended the quarter lower. Elsewhere, many emerging markets came under pressure. China's stockmarket was one of the biggest fallers, weighed down by fears over the impact of a trade war. In fixed income, yields on government bonds were generally higher, and 10-year US Treasury yields closed above 3%.

## Equity market performance v. FTSE World Index (3rd quarter 2018)



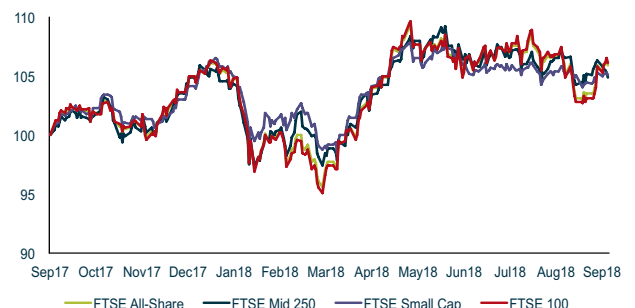
Source: Thomson Reuters Datastream

Sterling

## UK equities

It was a disappointing quarter for UK company shares, with the stockmarket one of the worst performers globally. Having reached record highs in the previous quarter, both the FTSE 100 (comprising large, mainly multinational companies) and the FTSE 250 (made up of mid-cap, more domestically orientated companies) indices ended the quarter lower. As expected, the Bank of England raised interest rates in August by a quarter of a point to 0.75%. UK employment is at a record high, and with limited spare capacity, real wages are picking up. Encouragingly, economic growth accelerated in the second quarter compared to the first three months of the year. Brexit uncertainty remains at the forefront of investors' minds and contributed to sterling's decline over the quarter, although the currency stabilised by the end of September.

## UK equity market indices (12 months to 30.09.18)



Source: Thomson Reuters Datastream

Rebased to 100

## UK bonds

UK government bonds (gilts) declined over the third quarter of 2018 as higher-than-expected inflation readings and some robust economic data helped push 10-year yields above 1.6% for the first time since February 2018. Meanwhile, the Bank of England raised interest rates from 0.5% to 0.75%, although the widely anticipated move had limited market impact. UK corporate bonds held up relatively well as improved investor sentiment helped support valuations. Index-linked gilts outperformed conventional gilts, with the recent weakness in sterling and the rise in oil prices expected to exert upward pressure on UK inflation going forward.

## Gilt indices (12 months to 30.09.18)



Source: Thomson Reuters Datastream

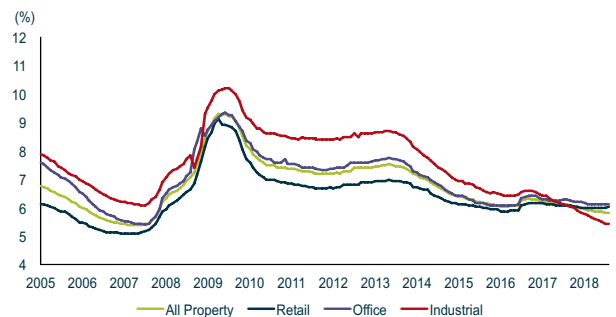
Rebased to 100

## UK property

So far this year, UK commercial property has generated a reasonably strong total return; however, gains are somewhat more modest compared to the same period in 2017. Capital value and rental value growth continue to be strongest in Industrials, driven by demand for well-located fulfilment centres and smaller distribution units. Conversely, capital values continue to fall in the Retail sector, reflecting the challenging trading environment.

Looking ahead, we expect UK commercial property to generate mid-single-digit returns over the medium term, with rental income representing a significant proportion of returns. The investor market remains healthy, buoyed by overseas demand, following the decline in sterling. Within the market, investors are attracted to quality assets that display resilience, provide increasing rental income, and can adapt to an evolving economy.

## Equivalent yields (to 31.08.18)



Source: IPD

## International bonds

The backdrop of higher interest rates and strengthening inflation remained a focal point that weighed on the performance of global bond markets during the quarter. Central banks in the US and UK were among those that raised interest rates to counter upward trends in inflation, with growth in the US economy remaining notably solid. Consequently, the bellwether 10-year US Treasury yield rose during the quarter and closed above 3.0%. Other key factors also dampened sentiment in bond markets. In Europe, these included assessing the implications of an anti-establishment party holding a strong presence in Italy's newly formed coalition government. Elsewhere, international trade tensions rose as more tariffs were imposed between the US and China. This contributed to some marked declines among emerging market bonds and currencies.

## 10-year government bond markets (12 months to 30.09.18)

Source: Thomson Reuters Datastream  
Local currency

Rebased to 100

## North America

The US stockmarket enjoyed a stellar quarter, with both the S&P 500 Index, which contains many of the country’s largest companies, and the technology-heavy NASDAQ Composite reaching all-time highs. Company earnings for the quarter ending June 2018 were well received by investors; however, interestingly, the fortunes of some of the largest technology-related companies began to diverge. Notably, electronic consumer goods giant Apple became the first company to reach a market capitalisation of one trillion dollars, whereas the share price of social media company Facebook fell on concerns over slowing user and advertising growth. In September, the US Federal Reserve, in a widely anticipated move, raised interest rates by a quarter of a point, a reflection of the strength of the US economy.

## FTSE World North America Index (12 months to 30.09.18)



Source: Thomson Reuters Datastream

Rebased to 100

## Europe

The performance of European stockmarkets was disappointing in the third quarter, with company shares facing several headwinds. For example, the share prices of some car manufacturers fell on fears that an escalating trade war could impact the export of automobiles. Meanwhile, banking shares were volatile on worries over their exposure to the Turkish economy. Turkey is currently grappling with higher inflation and a very weak currency. Italian banks were hit further on worries that the Italian budget would not meet European Union fiscal requirements. Economic growth in the eurozone also disappointed, with gross domestic product increasing by its weakest rate in two years. Weak economic data supports the view that the European Central Bank will be patient in winding down its crisis-era monetary support.

## FTSE World Europe (ex-UK) Index (12 months to 30.09.18)



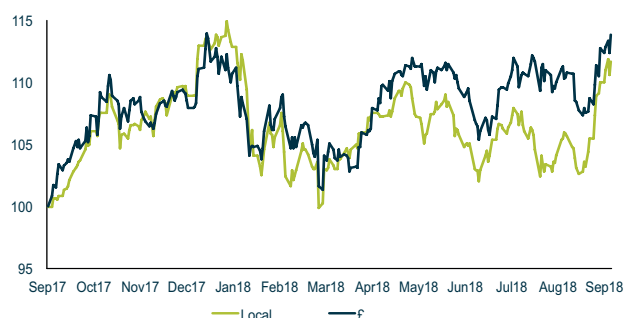
Source: Thomson Reuters Datastream

Rebased to 100

## Japan

Japanese shares made solid gains in the third quarter, performing particularly well in September. There appear to be signs that investors are now looking at the drivers of company profits more rationally and reconciling some of the excessive share price movements we have seen with fundamentals of the underlying businesses. This coincided with better-than-expected quarterly results for the period ending June 2018 and served as a reminder that the real driver of stock prices is not short-term sentiment, but the profitability of the underlying businesses. On a macro level, we are also seeing a continuous flow of data that points to a healthy economy, with sustained growth in gross domestic product and rising wages.

## FTSE World Japan Index (12 months to 30.09.18)



Source: Thomson Reuters Datastream

Rebased to 100

## Pacific Basin ex-Japan

Stockmarkets in Asia Pacific ex Japan declined over the quarter as the fears of a global trade war hit investor risk appetite. As the US and China proposed additional tariffs on each other's products, investors worried about the impact on the global economy. Rising interest rates in the US and the continued appreciation of the US dollar also dampened investor sentiment towards Asian assets. China's stockmarket was the biggest faller in the quarter, weighed down by fears a trade war would cause a slowdown in economic activity. Australia and Hong Kong were also weak, but Thailand was the standout performer, supported by the country's relatively attractive financial position. Taiwan and the Philippines were also among the best performers.

## FTSE All World Asia Pacific ex Japan (12 months to 30.09.18)



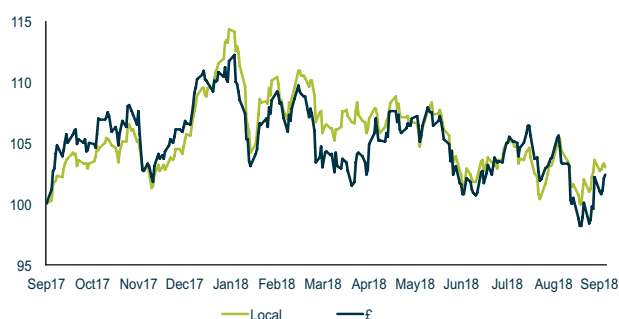
Source: Thomson Reuters Datastream

Rebased to 100

## Emerging markets

Emerging market stocks were under pressure in the quarter as a crisis in Turkey, fears of a global trade war and a rising US dollar dampened investor sentiment. They also underperformed developed market stocks. The Turkish lira declined on concerns about the country's economy, while the trade dispute between the US and China continued to escalate. As the US raised interest rates again and the dollar appreciated, investors' enthusiasm for emerging market assets weakened. Turkey's stockmarket was the biggest faller, while South Africa was also caught up in the turmoil. China's stockmarket declined amid fears that the trade war would hurt the economy. In contrast, Thailand's stockmarket outperformed, while rising oil prices supported Russia and Qatar.

## MSCI Emerging Markets (12 months to 30.09.18)



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 30.09.18 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

		3rd Quarter 2018 %		12 months to 30.09.18%	
		Local	Sterling	Local	Sterling
<b>Equity index total returns*</b>					
FTSE World		5.3	6.2	12.2	14.2
FTSE All World ex UK		5.1	6.1	12.0	13.9
FTSE All-Share		-0.8	-0.8	5.9	5.9
FTSE 100		-0.7	-0.7	6.1	6.1
FTSE Mid 250		-1.8	-1.8	4.9	4.9
FTSE Small Cap		-0.1	-0.1	5.1	5.1
FTSE World Europe (ex UK)		2.0	3.1	1.5	2.0
FTSE World France		3.6	4.3	7.4	8.6
FTSE World Germany		-0.1	0.7	-2.7	-1.6
FTSE World Italy		-3.3	-2.7	-5.6	-4.6
FTSE World Spain		-1.8	-1.1	-7.7	-6.7
FTSE World North America		7.0	8.5	17.1	20.3
S&P 500 Composite Index		7.7	9.1	17.9	21.3
FTSE World Japan		6.3	5.0	11.7	13.9
Nikkei 225		8.1	6.8	18.5	20.8
FTSE All World Asia Pac (ex Jp)		-0.2	0.2	4.5	5.2
FTSE Australia		1.3	0.4	13.6	7.8
FTSE China (All Cap)		-7.9	-6.5	-2.1	0.6
FTSE Hong Kong		-1.9	-0.4	2.6	5.3
FTSE Korea		0.5	2.2	-1.2	5.0
FTSE Singapore		1.9	3.0	7.9	10.3
FTSE Thailand		11.2	15.3	11.0	17.7
MSCI Emerging Markets		0.1	0.3	3.0	2.4
MSCI Brazil		10.2	7.5	8.9	-11.2
MSCI Argentina		-9.1	-8.0	-46.4	-44.9
MSCI Mexico		1.8	8.3	-1.3	-1.4
MSCI South Africa		-4.2	-6.1	0.7	-1.1
<b>Bond index total returns*</b>					
FTSE Actuaries UK Conventional Gilts All Stocks Index		-1.7	-1.7	0.6	0.6
UK gilts under 5 years		-0.2	-0.2	-0.1	-0.1
UK gilts 5 - 15 years		-1.0	-1.0	0.3	0.3
UK gilts over 15 years		-3.3	-3.3	1.4	1.4
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		-1.2	-1.2	1.3	1.3
iBoxx £ Non-Gilts Index		-0.4	-0.4	0.2	0.2
Salomon World Govt Bond Index		-1.6	-0.4	-1.5	1.3
<b>10-yr benchmark bond returns*</b>		<b>Yield as at 30.09.18 (%)</b>			
UK		1.5	-0.9	-0.9	0.7
US		3.1	-1.5	-0.3	-4.7
Japan		0.1	-0.8	-2.1	-0.2
Germany		0.5	-0.9	-0.2	1.4
France		0.8	-1.1	-0.4	2.0
<b>Currency changes vs sterling</b>		<b>Exchange rate as at 30.09.18</b>		<b>Q-Q chg %</b>	
Dollar		1.3041	1.2	-	2.9
Euro		1.1227	0.7	-	1.1
Yen		148.12	-1.3	-	2.0
<b>Interest rates</b>		<b>Rates as at 30.09.18 (%)</b>			
UK base rate		0.75	0.25	-	0.50
US Fed Funds rate		2.25	0.25	-	1.00
ECB base rate		0.00	0.00	-	0.00
<b>Commodities</b>		<b>Price level as at 30.09.18</b>			
Oil (Brent crude) US\$ per barrel		81.6	2.7	4.0	41.7
Gold bullion US\$/troy oz		1,191.5	-4.8	-3.6	-7.2
Comm Research Bureau Index			-4.3	-3.1	-0.4
					2.5

\* Returns include income  
All data is sourced from M&G unless otherwise stated.

Source: Thomson Reuters Datastream

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](http://www.mandg.co.uk/investor/help-centre/glossary)

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