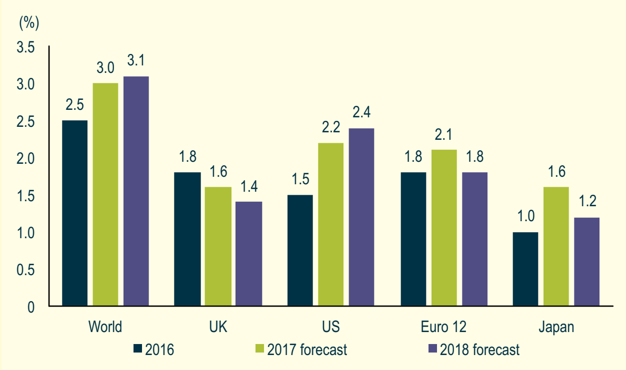
Quarterly market summary

3rd Quarter 2017

Economic overview

Economic data released during the quarter seemed to signal a continuation of synchronised global recovery in almost all regions. This is being witnessed in the readings of economic activity, unemployment and company profits. This improvement in the economic outlook has prompted central bankers to consider the withdrawal of emergency measures, such as record low interest rates and asset purchases to curb any increase in inflation. For example, the US is widely expected to hike interest rates again in December. For the moment, however, inflation remains generally subdued. In the currency markets, sterling strengthened relative to the US dollar and Japanese yen but was weak compared to the euro. Greater economic activity, especially in China, supported demand for basic resources and many commodity prices, including oil, rallied during the review period.

Real GDP growth



Source: Consensus Forecast, September 2017

Market overview

Rather than focus on geopolitical concerns, such as heightened rhetoric about North Korea and the effect of hurricanes, investors seemed prepared to consider the general improvement in global economic activity. Better economic data and robust company earnings were reflected in higher demand for company shares (equities), and many stockmarkets finished the quarter at their highest levels for several years. Over the quarter, sterling rose against several currencies, including the US dollar and Japanese yen, thus wiping out some of the gains from assets in those countries for UK investors. An increase in investors' appetite for risk led to strong performance in a number of emerging markets, especially in Latin America and eastern Europe, while US indices touched successive record highs. Bond markets were adversely affected by central bankers' comments regarding higher interest rates.

Equity market performance v. FTSE World Index (3rd quarter 2017)

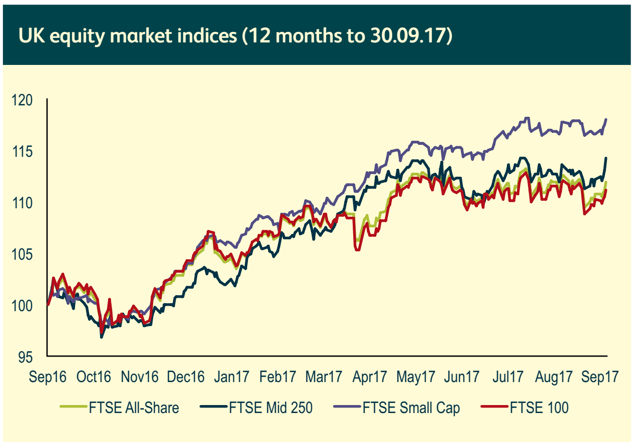
Source: Thomson Reuters Datastream

Sterling

M&G INVESTMENTS

UK equities

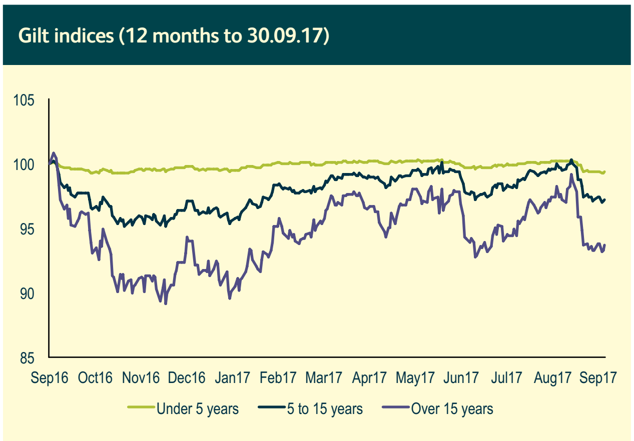
Although the negotiations over the UK's withdrawal from the European Union continue to drag on, policymakers at the Bank of England have raised the prospect of higher interest rates, encouraged by the slow but steady improvement in the economy and a pick-up in inflation. Potentially higher rates meant sterling strengthened and caused the FTSE 100 Index, which contains many multinational companies, to underperform the more domestically oriented FTSE 250 Index of medium-sized companies. Both indices did, however, touch record highs during the quarter. The general economic improvement boosted basic materials companies, while the higher oil price supported the share prices of oil & gas producers.



Source: Thomson Reuters Datastream Rebased to 100

UK bonds

The governor of the Bank of England has signalled that the withdrawal of economic stimulus is likely to be appropriate in the coming months. The pound appreciated relative to the US dollar during the quarter despite there being little clarity as to the outcome of the protracted negotiations over Brexit. Sterling was, however, down a little in comparison to the euro. It appears that the decision to leave the European Union is now being reflected in economic data, with the decline in sterling since the referendum result and uncertainty over government policy contributing to higher inflation and a slowdown in economic growth. Government bond prices fell during the quarter, although short-dated bonds performed slightly better than those with a longer time until final repayment.

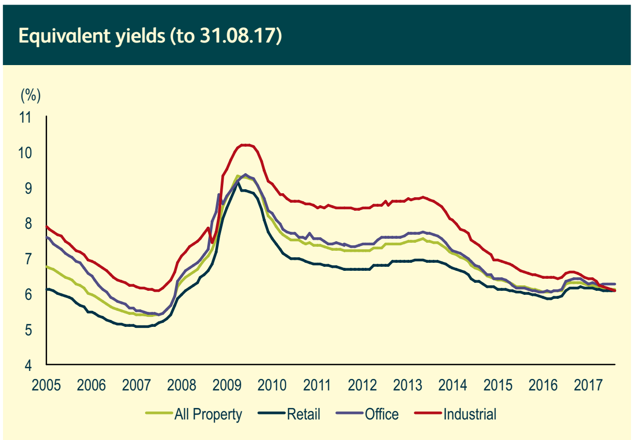


Source: Thomson Reuters Datastream Rebased to 100

UK Property

Despite the outcome of the June general election and the ongoing uncertainty surrounding 'Brexit', UK commercial property capital values continued to grow in the third quarter. Total returns from the asset class are being driven by both growth in capital values and stable rental income. The overall resilience of UK commercial property is encouraging, and is due in part to buying by overseas investors following the decline in sterling.

Across the different sectors, capital growth is currently strongest within industrials, with values in the South East increasing the fastest. In Offices, capital growth is strongest outside Central London. Meanwhile, in the Retail sector, capital value growth is still behind the other two sectors, although it has picked up of late.

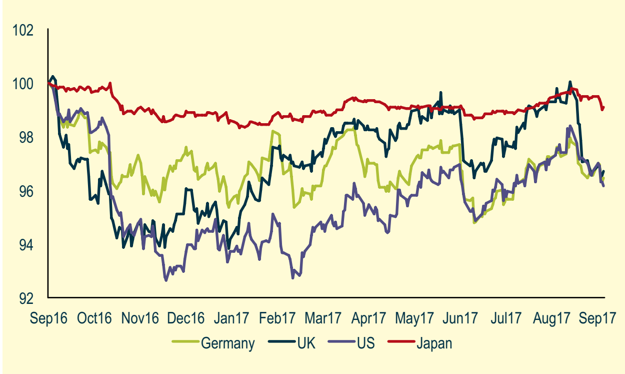


Source: IPD

International bonds

The synchronised improvement in global economic data has encouraged the world's central bankers to consider withdrawing the emergency policy measures that were introduced to boost economic activity. The Federal Reserve has already increased US interest rates three times in the past 12 months and appears likely to make another hike in December. The Bank of Canada also raised borrowing costs, for the second time, in September. In addition, policymakers in Europe stated that they are preparing to scale back the asset purchases that have kept interest rates at historically low rates. The anticipation of higher interest rates around the world led to declines in most developed countries' government bond markets. During the quarter, bonds issued by companies performed better than those issued by governments, supported by investors' desire for income.

10-year government bond markets (12 months to 30.09.17)



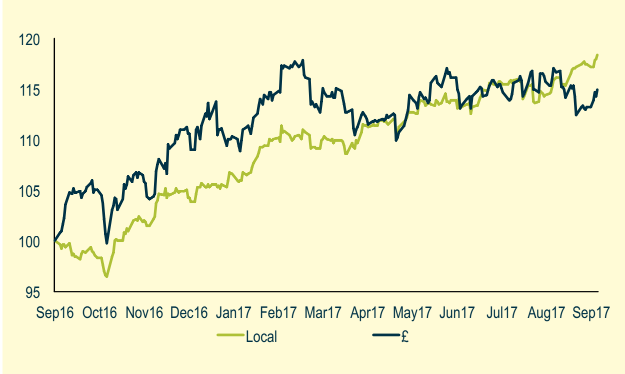
Source: Thomson Reuters Datastream | Rebased to 100

Local currency

North America

Investors were encouraged by better-than expected company profits and jobs data, with further buying being prompted by hopes of tax reform. US stockmarkets continued to rally despite President Trump engaging in several bouts of warlike rhetoric with the leader of North Korea, and southern states being hit by severe weather. By the end of the quarter, the broad S&P 500 Index stood at a record high, having enjoyed an eighth successive quarter of gains. Technology companies set the pace once again, along with energy companies, which rose as the oil price rallied. Conversely, the shares of consumer-oriented and higher yielding companies lagged.

FTSE World North America Index (12 months to 30.09.17)

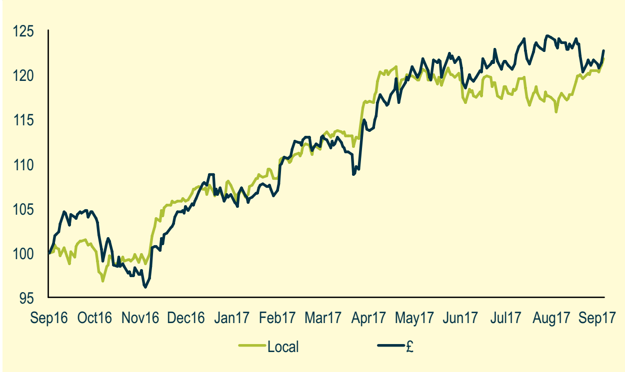


Source: Thomson Reuters Datastream | Rebased to 100

Europe

Stronger-than-expected growth in the European economy underpinned the returns from the region's stockmarkets. The stronger performers included Italy, while Switzerland and Spain lagged. Oil & gas was the best performing sector, with consumer services the weakest. The European Central Bank joined the chorus of policymakers signalling a readiness to withdraw the emergency asset-purchase programme introduced to combat the global financial crisis. The persistent rise of the euro against other currencies led some investors to question whether exports may come under pressure, while the entry of a far-right political party into the German parliament caused further uncertainty. A stronger euro boosted the returns from eurozone assets to UK investors.

FTSE World Europe (ex-UK) Index (12 months to 30.09.17)

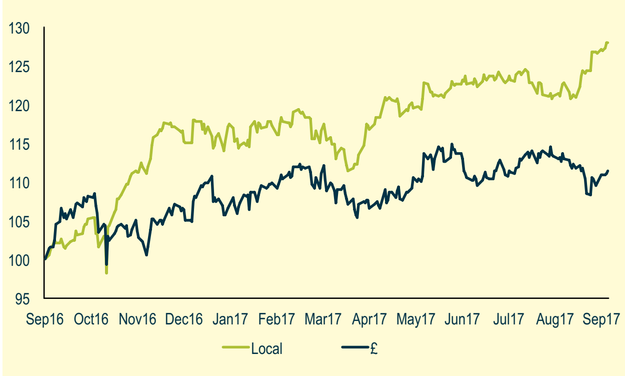


Source: Thomson Reuters Datastream | Rebased to 100

Japan

The Japanese stockmarket declined in the first two months of the quarter, as rising geopolitical tension led investors to buy the country's currency, which is seen as a safe haven. This weighed on the demand for shares of the exporters that dominate the economy. However, this was reversed in September, as fears of conflict eased and the yen weakened, enabling Japanese shares to enjoy the largest monthly gain of 2017 so far. Sentiment was also supported by higher inflation, which boosted optimism about the health of the economy. When viewed in sterling terms, the returns were lower, due to the decrease in the value of the yen relative to sterling over the quarter.

FTSE World Japan Index (12 months to 30.09.17)

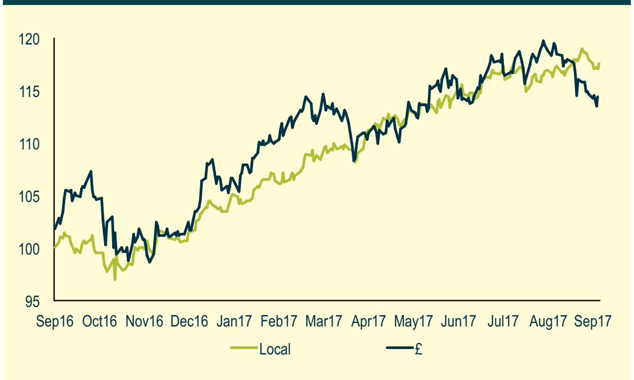


Source: Thomson Reuters Datastream | Rebased to 100

Pacific Basin Ex-Japan

Despite the aggressive action taken by North Korea, which brought an equally aggressive response from President Trump, the quarter was positive for the Asia Pacific region as a whole. While the South Korean market declined, the fall was relatively modest as investors seemed to take the view that the tension was nothing new. The strongest sectors were technology, energy and basic materials, while China was the best-performing country. The Chinese stockmarket was supported by better economic data and a boom in construction, which led to higher prices for infrastructure and materials stocks. Greater activity in China was also beneficial to many of its neighbours.

FTSE All World Asia Pacific ex Japan (12 months to 30.09.17)

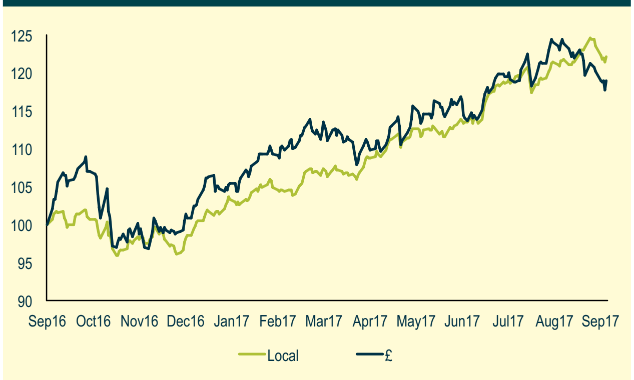


Source: Thomson Reuters Datastream | Rebased to 100

Emerging markets

The performance of emerging markets was generally positive during the third quarter, with significant strength in several South American, eastern European and Asian markets overcoming pockets of weakness, such as Greece. Brazil experienced a particularly robust rally, helped by higher commodity prices, better economic data and a rejection of corruption allegations directed at the president. The Chinese stockmarket also rose, boosted by healthy economic signals, while the Russian market rallied with the price of oil and other natural resources. The Greek stockmarket lagged due to the continuation of the country's economic worries and concerns over the level of debt.

MSCI Emerging Markets (12 months to 30.09.17)



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 30.09.17 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 2017 %		12 months to 30.09.17 %	
		Local	Sterling	Local	Sterling
Equity index total returns*					
FTSE World		4.2	1.7	19.0	15.4
FTSE All World ex UK		4.6	1.9	19.6	15.8
FTSE All-Share		2.1	2.1	11.9	11.9
FTSE 100		1.8	1.8	11.2	11.2
FTSE Mid 250		3.5	3.5	14.3	14.3
FTSE Small Cap		3.0	3.0	18.0	18.0
FTSE World Europe (ex UK)		4.2	3.6	21.8	22.7
FTSE World France		4.8	5.1	25.5	27.8
FTSE World Germany		4.4	4.8	21.1	23.4
FTSE World Italy		9.8	10.2	40.4	43.0
FTSE World Spain		0.7	1.0	24.5	26.9
FTSE World North America		4.5	1.4	18.4	14.9
S&P 500 Composite Index		4.5	1.2	18.6	14.8
FTSE World Japan		4.3	0.8	27.9	11.4
Nikkei 225		1.6	-1.8	23.8	7.8
FTSE All World Asia Pac (ex Jp)		4.7	1.9	19.2	15.8
FTSE Australia		1.0	0.0	11.1	10.3
FTSE China (All Cap)		12.5	8.8	27.5	22.6
FTSE Hong Kong		6.2	2.8	18.8	14.3
FTSE Korea		2.7	-0.6	29.7	20.8
FTSE Singapore		2.2	0.3	18.4	15.1
FTSE Thailand		7.6	6.1	15.4	16.1
MSCI Emerging Markets		7.7	4.6	22.2	19.0
MSCI Brazil		17.4	19.1	26.2	25.5
MSCI Argentina		14.3	10.6	42.0	37.5
MSCI Mexico		1.8	-1.7	9.3	12.8
MSCI South Africa		7.2	0.7	5.8	4.4
Bond index total returns*					
FTSE Actuaries UK Conventional Gilts All Stocks Index		-0.5	-0.5	-3.6	-3.6
UK gilts under 5 years		-0.3	-0.3	-0.7	-0.7
UK gilts 5 - 15 years		-0.5	-0.5	-2.8	-2.8
UK gilts over 15 years		-0.5	-0.5	-6.3	-6.3
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		-0.7	-0.7	-3.8	-3.8
iBoxx £ Non-Gilts Index		0.1	0.1	-0.2	-0.2
Salomon World Govt Bond Index		1.8	-1.4	-2.7	-5.8
10-yr benchmark bond returns*	**Yield as at 30.09.17 (%)**				
UK	1.4	-0.3	-0.3	-3.3	-3.3
US	2.3	0.6	-2.6	-3.8	-6.9
Japan	0.1	0.3	-3.1	-0.9	-13.7
Germany	0.5	0.8	1.2	-3.5	-1.7
France	0.7	0.9	1.2	-4.0	-2.2
Currency changes vs sterling	**Exchange rate as at 30.09.17**	**Q-Q chg %**		**Y-Y chg %**	
Dollar	1.3417	-3.2	–	-3.2	–
Euro	1.1349	0.3	–	1.9	–
Yen	151.02	-3.4	–	-12.9	–
Interest rates	**Rates as at 30.09.17 (%)**				
UK base rate	0.25	0.00	–	0.00	–
US Fed Funds rate	1.25	0.00	–	0.75	–
ECB base rate	0.00	0.00	–	0.00	–
Commodities	**Price level as at 30.09.17**				
Oil (Brent crude) US$ per barrel	57.6	20.4	16.6	17.6	13.8
Gold bullion US$/troy oz	1,283.8	3.3	0.0	-2.9	-5.9
Comm Research Bureau Index		1.0	-2.2	-2.9	-6.0

* Returns include income

Source: Thomson Reuters Datastream

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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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