POOLED PENSIONS

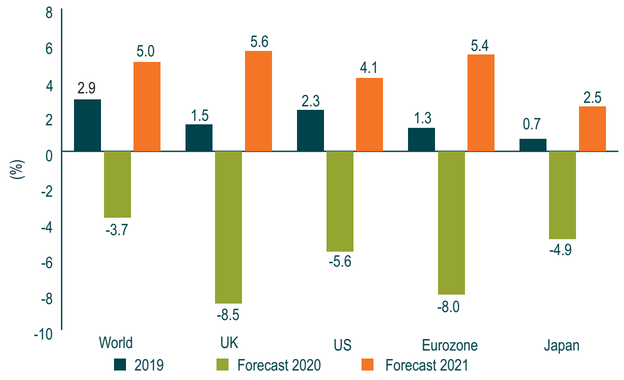
Quarterly market summary

2nd Quarter 2020

Economic overview

The harsh economic reality of the coronavirus pandemic and subsequent population lockdowns and business closures emerged in data released during the second quarter. Consensus forecast now expects the global economy to contract by -3.7% year-on-year in 2020 (as measured by gross domestic product). In the US, unemployment claims jumped to 14.7% in April, the highest level since the Great Depression. There was a surprise rise in the US employment data in May, but optimism was tempered somewhat as several US states experienced a re-acceleration in virus cases. Similar declines in economic activity were observed in the UK and Europe, although here the spread of the virus appears to have been better contained. Policymakers continued to help cushion the blow to the global economy. The European Union, for example, announced a recovery plan which will allow it to borrow €750 billion to enable grants and loans to be made available to member countries most in need.

Real GDP growth

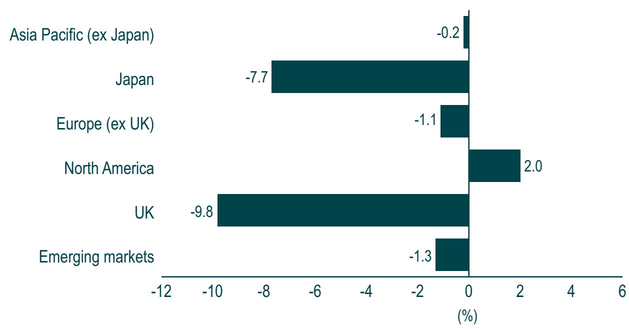


Source: Bloomberg Consensus Global Rate Forecasts, July 2020

Market overview

Major stockmarkets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the coronavirus pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors. The months of April and May saw particularly strong stockmarket returns as the virus appeared to peak in most developed countries and the number of cases started declining, prompting the gradual re-opening of economies. US equities were the best performers on a regional basis, including its technology-laden Nasdaq index, reflecting a shift towards technology and communication products and services during the pandemic. Core government bond yields were broadly unchanged over the quarter, but remain depressed compared to the start of the year. Corporate bond markets performed well, buoyed by the underlying support from various central banks and as investors added risk back to their portfolios.

Equity market performance v. FTSE World Index (2nd quarter 2020)



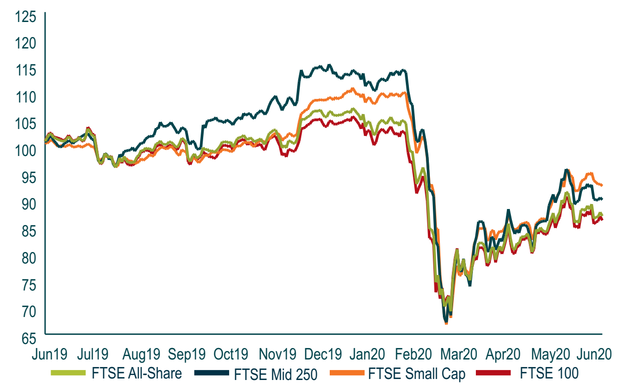
Source: Refinitiv Datastream

Sterling

UK equities

Despite a troubling macroeconomic picture, the second quarter witnessed a recovery in UK equities, led by more domestically focused medium-sized and smaller companies. The improvement in risk appetite was supported by huge financial stimulus from the UK authorities, together with signs that the Covid-19 infection rate was slowing, growing optimism around a vaccine breakthrough, easing of lockdown restrictions, plus data suggesting that some economic activity might be returning. However, the UK lagged the major regional markets, held back by the high level of dividend cuts from UK corporations, along with the impact of a low oil price on the energy sector, which weighed on larger companies in particular, but also Brexit concerns resurfacing and currency weakness. In this 'risk-on' environment, more cyclical sectors outperformed, such as miners, industrials, housebuilders and retailers, together with pharmaceuticals and technology.

UK equity market indices (12 months to 30.06.20)



Source: Refinitiv Datastream

Rebased to 100

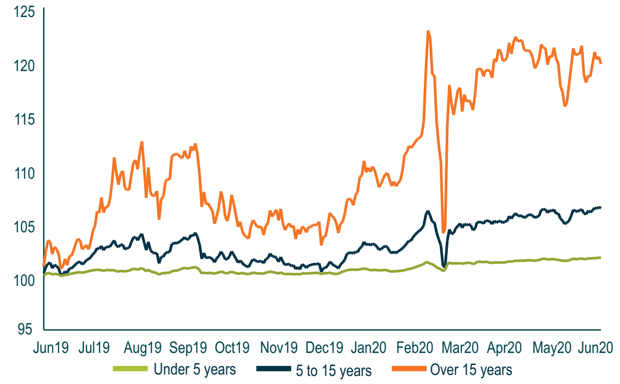
Past performance is not a guide to future performance.

M&G INVESTMENTS

UK bonds

Investor sentiment recovered strongly in the second quarter of 2020 as a slowing in new Covid-19 cases and signs of a pick-up in economic activity raised hopes that the worst of the crisis may be over. Markets were also buoyed by the unprecedented stimulus measures announced by governments and central banks around the world. Against this backdrop, UK corporate bonds delivered solid returns as credit spreads tightened over the quarter. UK government bonds (gilts) also generated positive performance, with the expectation of increased central bank activity more than offsetting concerns over the huge increases in government borrowing. This helped drive gilt yields back towards their lows during the height of the pandemic crisis, with 10-year gilt yields ending the quarter at 0.2% compared to 0.4% at the end of March.

Gilt indices (12 months to 30.06.20)



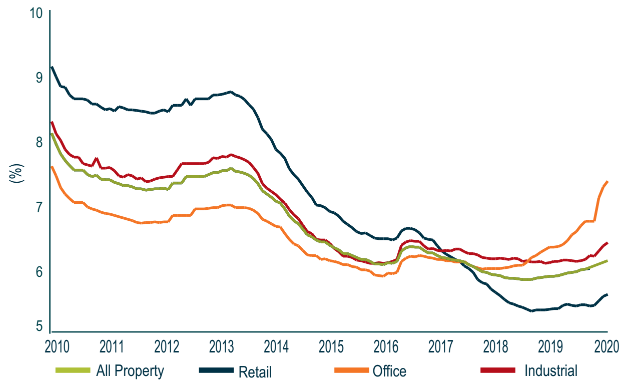
Source: Refinitiv Datastream

Rebased to 100

UK property

UK commercial property capital values fell in April and May (June data was not available at the time of writing) according to property consultant CBRE. It is still too early to predict the full impact of Covid-19 on the UK real estate market. Ultimately, it will be dependent on the length and severity of the crisis, the associated macroeconomic impact and the effectiveness of the government's unprecedented mitigation initiatives. However, it is apparent that some of the trends, which were already evident prior to the crisis, will be accelerated, such as e-commerce, remote working and ESG (environmental, social and governance) considerations. In the short term, the primary focus for landlords is on rental income and occupational issues related to the ongoing need for social distancing. In terms of the investment market, whilst some deals are still happening, buyers and lenders are being very cautious, with available capital focused on core, lower risk property with secure income, in sectors least affected by the crisis.

Equivalent yields (to 31.05.20)

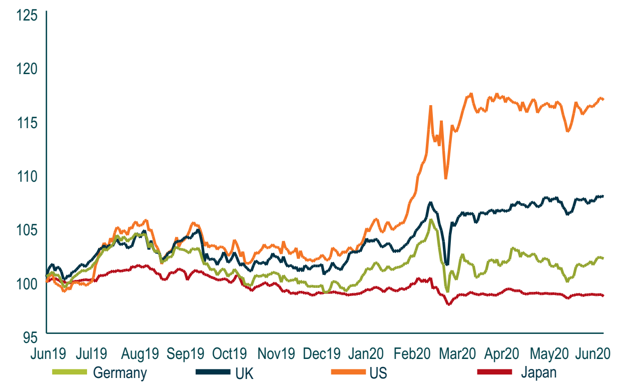


Source: IPD

International bonds

While the Covid-19 theme continued to weigh on the global economic outlook, bond investors' risk appetite notably improved as the second quarter progressed. Corporate bonds rallied well, having sold off sharply towards the end of the previous quarter. This rebound was evident in the investment grade and high yield segments. Emerging market bonds also delivered gains, with the hard and local currency sub-asset classes both recovering ground from their recent sizeable declines. Core government bond yields were broadly stable as these perceived 'safe-haven' assets remained supported amid the ongoing uncertainties created by the coronavirus pandemic. The significant economic stimulus packages of many governments and central banks, which in some cases included interest rate cuts and bond purchases, also supported the backdrop of low yields.

10-year government bond markets (12 months to 30.06.20)



Source: Refinitiv Datastream

Rebased to 100

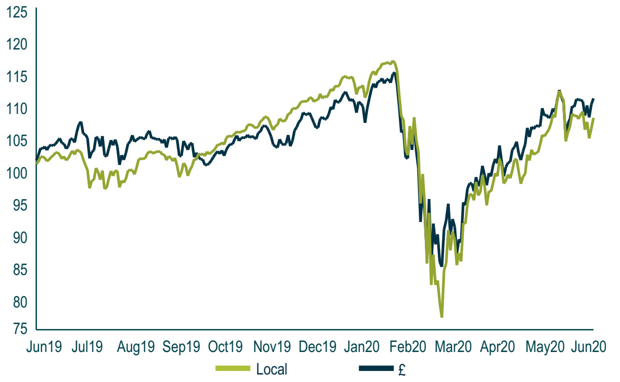
Local currency

Past performance is not a guide to future performance.

North America

Investors took better economic data as a sign that the economy could recover rapidly from the virus-imposed recession, helped by massive support from the Federal Reserve (Fed). US stockmarkets surged, and share prices enjoyed their most positive quarter for decades, although most remain below their levels in January. Technology stocks led the way, helping the Nasdaq hit new record highs, while broader indices approached levels last seen before the virus struck. However, indications that the easing of lockdown restrictions was leading to a resurgence in infections, together with a downbeat assessment of the economic outlook from the Fed chairman, caused some weakness later in the period. Canada's stockmarket also rallied, with investors focusing on hopes of economic recovery rather than the scale of economic contraction. A rising oil price was also supportive.

FTSE World North America Index (12 months to 30.06.20)



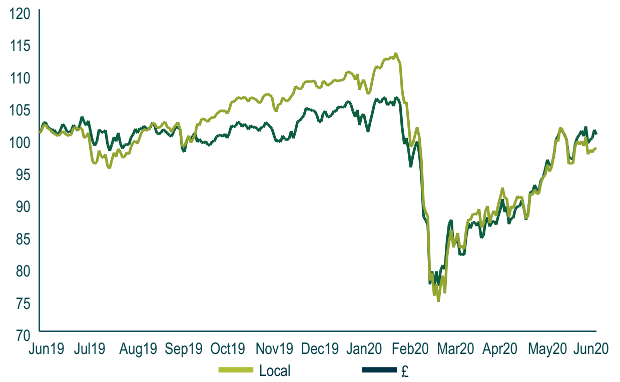
Source: Refinitiv Datastream

Rebased to 100

Europe

European stockmarkets rallied in the second quarter as optimism that the coronavirus pandemic was under control in Europe helped share prices rebound from steep falls in March. Unprecedented stimulus measures and the gradual easing of coronavirus-related restrictions raised hopes of a swift economic recovery, although investors remained wary about the risks of further outbreaks. Germany was the best-performing market, whereas the UK lagged as concerns about Brexit resurfaced. At the sector level, industrials, information technology and materials outperformed. In contrast, defensive areas such as consumer staples and healthcare lagged. Energy stocks were the weakest, despite higher oil prices, while financials also underperformed.

FTSE World Europe (ex-UK) Index (12 months to 30.06.20)



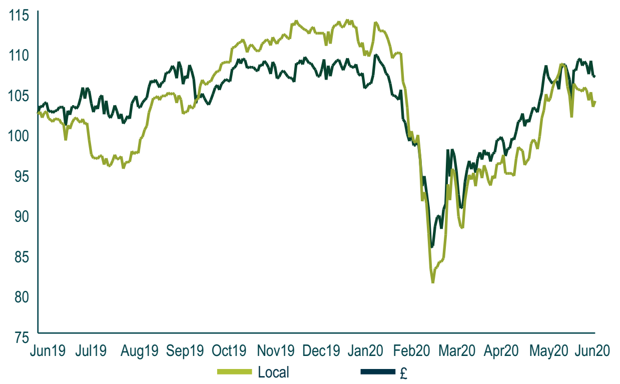
Source: Refinitiv Datastream

Rebased to 100

Japan

Whilst still volatile by historic standards, the second quarter saw some relative calm return to the Japanese stockmarket following the chaos experienced in March. Significant central bank and government intervention had a stabilising effect, as did some indications that the Covid-19 pandemic was coming under control. Although the Japanese government reduced the stringency of the lockdown as the quarter progressed, it is clear from the business confidence surveys of the manufacturing and services sectors that the economy will have contracted sharply in the second quarter. Despite the negative economic news, Japanese company shares rose sharply; noteworthy was the outperformance of small-cap over large-cap stocks, which suggests a return of investor risk appetite.

FTSE World Japan Index (12 months to 30.06.20)



Source: Refinitiv Datastream

Rebased to 100

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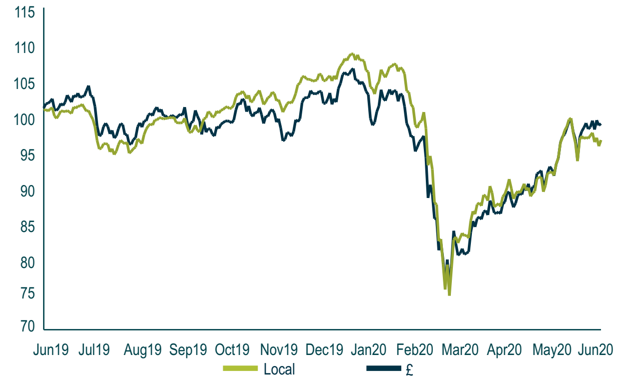
Pacific Basin ex-Japan

Stockmarkets in Asia ex Japan made impressive gains in the second quarter, driven by optimism that the coronavirus pandemic had peaked and signs that countries were preparing to ease some of their lockdown measures. Investors were also encouraged by some hopeful reports of a vaccine or treatment for the virus. This news, plus continued support from governments and central banks, appeared to outweigh dismal economic news and the suspension or cutting of many equity dividends. The energy and materials sectors led the broader market higher, reversing some of the heavy falls in the first quarter. Healthcare also performed well. In contrast, financials were notable laggards and defensive consumer staples stocks also trailed amid the more optimistic environment. Australia was amongst the best performers, benefiting from the uptick in commodity prices. Conversely, China's passing of a new security law for Hong Kong caused the Hong Kong stockmarket to lag the rest of the region.

FTSE All World Asia Pacific ex Japan Index (12 months to 30.06.20)

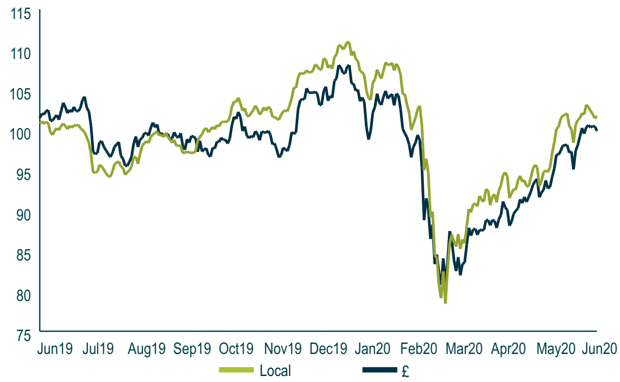


Source: Refinitiv Datastream Rebased to 100

Emerging markets

Emerging market equities rebounded strongly in the second quarter, amid optimism that the global economy would recover from the coronavirus pandemic. Investor risk appetite was buoyed by unprecedented stimulus measures and the easing of coronavirus-related lockdown measures. The best-performing markets included Brazil, Russia and South Africa, which recovered from falls in the previous quarter. Egypt, Mexico and Peru were among the weakest markets and China's stockmarket lagged after resilient performance in the first quarter. Healthcare stocks performed well against the backdrop of a global health crisis, while energy stocks were lifted by higher oil prices. Financials struggled, however, amid concerns about the economic outlook.

MSCI Emerging Markets Index (12 months to 30.06.20)



Source: Refinitiv Datastream Rebased to 100

Please note that the views on markets expressed in this report are those of M&G as at 30.06.20 and should not be taken as investment recommendations.

Past performance is not a guide to future performance. The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

Market data

		2nd Quarter 2020 %		12 months to 30.06.20 %	
		Local	Sterling	Local	Sterling
Equity index total returns*					
FTSE World		18.6	19.9	3.7	5.8
FTSE All World ex UK		18.9	20.3	4.6	6.8
FTSE All-Share		10.2	10.2	-13.0	-13.0
FTSE 100		9.2	9.2	-13.8	-13.8
FTSE Mid 250		13.9	13.9	-10.0	-10.0
FTSE Small Cap		18.3	18.3	-7.4	-7.4
FTSE World Europe (ex UK)		15.4	18.9	-1.6	0.6
FTSE World France		14.1	17.2	-8.3	-6.8
FTSE World Germany		24.3	27.6	-0.4	1.2
FTSE World Italy		14.5	17.6	-8.4	-6.9
FTSE World Spain		7.7	10.7	-19.2	-18.0
FTSE World North America		21.3	21.9	7.9	10.9
S&P 500 Composite Index		20.5	21.0	7.5	10.7
FTSE World Japan		11.8	12.2	3.8	6.8
Nikkei 225		17.8	18.3	4.8	7.8
FTSE All World Asia Pac (ex Jp)		16.1	19.8	0.8	2.8
FTSE Australia		16.2	31.2	-8.3	-7.3
FTSE China (All Cap)		16.1	16.5	12.7	17.0
FTSE Hong Kong		10.5	10.9	-13.7	-10.4
FTSE Korea		18.3	20.2	5.0	3.8
FTSE Singapore		8.5	11.1	-16.1	-16.1
FTSE Thailand		16.8	24.5	-23.0	-21.3
MSCI Emerging Markets		16.8	18.6	1.7	-0.1
MSCI Brazil		30.1	23.3	-4.3	-31.2
MSCI Argentina		43.7	44.2	-46.5	-44.9
MSCI Mexico		9.3	11.4	-9.9	-22.8
MSCI South Africa		24.0	27.9	-6.5	-21.9
Bond index total returns*					
FTSE Actuaries UK Conventional Gilts All Stocks Index		2.5	2.5	11.2	11.2
UK gilts under 5 years		0.6	0.6	1.7	1.7
UK gilts 5 - 15 years		1.8	1.8	6.3	6.3
UK gilts over 15 years		3.9	3.9	19.8	19.8
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		10.3	10.3	10.6	10.6
iBoxx £ Non-Gilts Index		7.0	7.0	6.4	6.4
Salomon World Govt Bond Index		2.0	2.4	4.6	7.7
10-yr benchmark bond returns*	**Yield as at 30.06.20 (%)**				
UK	0.1	1.7	1.7	7.7	7.7
US	0.7	0.3	0.7	16.7	20.2
Japan	0.0	-0.1	0.4	-1.6	1.3
Germany	-0.5	0.3	3.0	1.9	3.6
France	-0.2	1.8	4.5	2.1	3.8
Currency changes vs sterling	**Exchange rate as at 30.06.20**	**Q-Q chg %**		**Y-Y chg %**	
Dollar	1.2356	0.4		3.0	
Euro	1.1001	2.7		1.6	
Yen	133.30	0.4		2.9	
Interest rates	**Rates as at 30.06.20 (%)**				
UK base rate	0.10	0.00		-0.65	
US Fed Funds rate	0.25	0.00		-2.25	
ECB base rate	0.00	0.00		0.00	
Commodities	**Price level as at 30.06.20**				
Oil (Brent crude) US$ per barrel	41.3	82.5	83.2	-38.3	-36.5
Gold bullion US$/troy oz	1,783.7	10.6	11.0	26.3	30.1
Comm Research Bureau Index		7.8	8.2	-8.1	-5.4

* Returns include income

Source: Refinitiv Datastream

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The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investments.

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

Notes

Notes

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