Olga: Coronavirus, geopolitical tensions and Brexit - what keeps investors up at night and where are the markets heading? To discuss this I'm joined today by Phil Butler, Multi-Asset portfolio manager, M&G Treasury and Investment Office. Hello, Phil, thank you for joining us.

Phil: Hello.

Olga: After almost 50 years, the UK has officially finally left the EU. How does this change your investment process?

Phil: Ultimately it doesn't, there are still risks within the system. So yeah, sterling dollar hasn't really moved since October, that tells you how the market is pricing the risk, so, whilst we have officially left, you know, we're still part of the Customs Union, the single market for another 11 months until the end of this year and people are still allowed to move freely. It's not until that point that we start running into top possible risk. So, Boris Johnson in Greenwich made his views very, very clear about what he wants. But clearly, when you're negotiating with the EU, all 27 members need to agree with what follows next. So, I think the risk that markets perceived are that he can't get the agreement he wants. So, basically, we continue to monitor the situation as we would of before this point in time.

Olga: And also, coronavirus is making a lot of headlines. What does it mean for you as investors?

Phil: Yeah, I think, firstly, our thoughts are with the people involved, you know, whether they've been infected, or the region has been in lock down, it must be horrible. So, our thoughts that with those. This is very much a human issue that we have to try and tackle. So, we hope there's containment and that people who have been infected can find a cure. From an economic point of view, you know, clearly the market's price this as very much a Chinese risk, at the moment the global impact's been relatively minimal. Now, our uncertainty at the time with the lack of information we have is we haven't changed our portfolios because there are way too many uncertainties at this point in time. When we think about the impacts this could have, and reasons there are uncertainty, typically, events like this follow a v shape. So, you have the uncertainty and a drop off in markets followed by the gradual rebound once markets become more confident that it's under control. The issues with coronavirus versus others, SARS maybe as a good example is, whilst the fatality rate is much lower than SARS, the incubation period and the ability before you get infected is much higher. So, we're not entirely sure how much wider this could spread versus historic means. I think, currently it's safe to say, you know, SARS is probably a good benchmark for the possible impacts in the longer term, but we can't continue to wait to start see how that materialises before we make portfolio changes.

Olga: And what effect will it have on US-China trade negotiations?

Phil: In terms of the part one, it shouldn't have huge impact, that was signed on the 15th of January. It saw the new tariffs that Donald Trump wanted to introduce, not introduced, and it lowers by half the current tariffs that were in place. Now, the bit where it may have an impact was around China promising to buy additional goods and services from the U. S. Now, clearly, when they're battling a different area of concern in their own country, it might delay some of that two year year purchase period that they originally highlighted. In terms of phase two, that was always gonna be tricky. It was unlikely to have happened before the U.S. presidential elections in November. So, on that, probably doesn't have a huge impact now they've got much harder things to discuss around intellectual property rights and the openness of each of their economies.

Olga: And what about tensions between the U.S. and Iran, have they abated for the time being?

Phil: I think they have. There's a very muted response from Iran, and that seemed to settle markets very, very early in the year. So, that was promising to see, the problem with these geopolitical risks is they tend to lurk in the background, waiting for something to ignite them. So, at the moment, it's easy to say that they've cleared for now. But they might come back in many different forms, and it is very hard to guess quite how they may happen.

Olga: And how is the economic data looking?

Phil: Yes, so, the economics team within the department. They're using leading economic indicators, and they've been showing a stabilisation for a number of months in which many of my colleagues have been on here and presented as well. What I think is good, is we're starting to see some green shoots of possible improvement in those. So we've had recently U.S. ISMs, which have gone back into growth territory after a long period in negative and broadly in Europe, most of the PMI data we're seeing improvements, which is promising to see. Now, given recent news around the coronavirus and broader stimulus into the market it'll be interesting to see how that develops in the next, sort of 3-6 months.

Olga: And, bearing all this in mind, how are you positioned in your portfolio now?

Phil: So, the main change we've made in the portfolios we've increased our underweight to high yield moderately. We've reissued that capital into the equity markets. We believe the risk reward trade-off there is much better to place that into the equity asset class. Outside of that, we haven't made many other changes. We continue to be long risk, it goes back to the economic point around we believe that those improvements there and that monetary stimulus that we saw in 2019 when there was 80 global bank rate cuts in the year, they're coming through into the numbers and we've also got small positions in alternatives and underweight UK and European investment grade.

Olga: Phil Butler, thank you very much, and for more information on market insights, please check our website at asset.tv.