

Prudential Market Insights – April 2020

As the government response to Coronavirus turns a healthcare into an economic crisis. I'm joined down the line by Phil Butler, multi-asset portfolio manager at the M&G Treasury and Investment office. Phil, thank you for joining us. What impact is it having on the M&G business?

Yeah, like ourselves. And we've been trying to tackle it alongside the whole nation. For us, it's all about trying to preserve the health and well being of our team, also our fellow colleagues are also trying to make sure that we can provide the highest level of service for our clients and customers out there. And we were fortunate that we've moved to a flexible policy for work, and that's enabled us, plus other fund management teams that are dealing debts, and our investing operations teams to continue running as business as usual. I think this is helped alongside our continuity plans, enabling us to work with all stakeholders to ensure that we continue to deliver in those services.

At a time like this, communication is more important than ever. How have you been tackling this as an issue?

Yes, spot on Mark, and in fairness, it goes straight to create great quality for our client portfolio management team, and our account manages. Now, they have been continuing to communicate with our client, our advisers, and our investors. Whether it be using Webcasts, picking up the phone and using email, or the increased investment literature our website. It's great credit to those to be able to continue to communicate to all our clients.

So how likely is it that the global economy is heading into a recession?

I think it's a question of how much and when, rather than if, now. The Health Organization came out last week and made some very stark comments around the size of the recession, saying that it could eclipse the 2008 financial crisis that we saw in terms of depth. From our point of view, what we've seen is we've seen a shock to the supply side and a shock to the demand side simultaneously occurring. Global governments that decided to, on purpose, put the brakes on the global economy to try and flatten out the virus curve. The point around this is to try and reduce the pressure on the NHS, or healthcare systems around the world, flattening the curve, ultimately trying to reduce the number of fatalities from this virus. The problem we have is that that's hurt and has a bigger impact on the economy in the short term. But, hopefully over the medium term, with the stimulus that we've seen from government bodies and from the monetary central banks around the world, they actually quite good footing for the next part of the recovery, we do imagine that the recovery will be slower than the declines as economies more conservatively open up their economies and reopen businesses, as individuals can do so.

Clearly COVID-19 is dominating the news, has done for the last few weeks. But what else are you paying attention to right now?

I think it's important to not get completely stuck on to one issue that's suddenly driving all the headlines around the world. Now for us, there's been a few key things that happened, whether it be the oil and it sounds like we've got a good deal there, so that should start seeing some easing in those parts of the economy. What we've also seen its the Q1 earning seasons, the end of the results there, from big businesses who will be looking at those, like many other analysts and investment firms around the world. See if we can glean anything from the information that could lead us to a sighting on what might happen to revenue, but also then growth going forwards. What we've also heard is US presidential election. So Joe Biden's now the front runner for the 2020 Elections with Donald Trump. Now that's the important thing that towards the end of the year will start playing into the Handbook of these different styles are coming out in the investment thesis. I think in the more medium term, what we've got, though, is whether or not COVID-19 is going to have a bigger impact into more medium-term trends have been going on, whether it be the in the UK retail space around movement away from bricks and mortar to warehouses where that's going to have an impact on offices, Do we know whether know this is going to impact on how people work? Is working from home now going to be the normal rather than working in offices. And also Brexit, now I've mentioned Brexit for it for a good three months. And what impact will that have going forward to end the year, will we get deadlines? And some things we might not get answers for right now, but it's important to keep them on the radar so that we don't end up forgetting about them as we move through the rest of the year.

Well, pulling some of these strands together. What's your current outlook, and how are you positioning the portfolios?

Yeah, I think it's been tricky, and we went into this particular episode with risk on. We were optimistic on how 2020 could evolve. Clearly, as the crisis worsens, what we chose to do is reduce risk down the crisis all unfolded. We've got to that position now where we started to put a bit of risk back on the table, we're probably a little bit above neutral on that basis that case numbers have been dropping, which allow us a bit more optimism in the broader market. Now, the key things here are other case numbers eclipsing falling - will that continue? Will we get a secondary wave as the economies start to reopen? So, we need to be mindful of that. But it sounds like at the moment, the size of the monetary and policy stimulus the governments have done will eclipse World War Two levels in terms of where we're seeing these sort of numbers before, and that gives you a grand style at the amount of money has been invested. Now, importantly, and we've got to discover this along with everybody else, how is this is going to evolve? Because no one's really seen this play out before. So we're mindful of that, but at the moment, we're seeing some optimistic signs of green shoots of recovery of how this could evolve. But we need to getting be mindful and nimble on how we implement that.

Phil Butler, thank you.

Thank you much.