

Prudential Market Insights – May 2020

Parit Jakhria is director of long term investment strategy at the M&G investment office. He joins me now.

We've just seen Corona virus bring to an end one of the longest bull markets on record. To put that in some sort of context, what was your thinking on the economic outlook before this crisis started?

Absolutely. And we discussed this at at this very forum about nine months ago. So So it's going back in time. Nine months we had seen, as you said, that one of the longest economic expansions on by the time coronavirus stayed did kind off hit hit the the equity market for the global markets. It has been the longest expansion in historical, later, which goes back in 1954. Um, what we were thinking off around that time. If you remember, we be initiated quite a large risk reduction in the portfolios, and that took place in the second off last year. That was on the premise off the length off the economic cycle. But more importantly, our concerns about the economics global economy being more vulnerable to exogenous shocks, and in particular, we were worried about the globalization that might come in in various forms. We took a large amount of risk off the table of which record based on valuations. There will be much more opportune times to deploy in future months.

So how is this different to previous corrections on recessions that we've all undergone?

Great questions? Don't say a lot of similarities in tow. Previous recessions the one big differences of previously recessions will be poring over economic, 800 crime and stand. Which sectors of the economy acts are impacted and how much they're impacted? It? There's one big difference here in that there is a deliberate look down and we know what sectors are impacted. We know that travel. You know, that leisure telling has been messing battle because it has been pretty much shut down. And hence the key questions we're asking are not trying to assess what's coming out of economic data but understand the government policy with respect to lock down and trying to understand the length and severity off the lock down and what that means for the economies and captain markets. We've seen a huge amount off government and central bank intervention taking place.

Can you give us some idea of the scale of what's been going on?

Thanks, Mark. Yeah, that that was what astounded me the most do things sk that which it happened. Secondly, the sheer speed off governance. So the first Sunday that it it went into the Western developed world. And we had cases in in Italy, for example. And there was a realization of collective realization that this was a global issue, not just a China issue. There was a very, very quick reaction by central banks and in the fourth weekend on the Sunday in the friendly reserve had a big cocking rates so that that was pretty impressive because the moment they need, uh, if you go back to the same time during the global financial crisis took for six months, So just give you a little bit more colour that the Federal Reserve cut policy rate my 150 basis points to GFC lows. The announced liquidity injections off 1.5 trillion the relaunch quantitative easing the coordinated swap lines that are the banks to provide your stolen liquidity and also announced measures in the money immersion people markets and that was all within a very short space time to put it in a different context. If you were to look at the run rate, so the annualized run rate, but looking at monthly intervals act the steepest weight in global dimension prices, the amount off monetary loosening amounted to maybe

20%. Off GPS around Rick this time is three times as high 60% of GDP. So the amount, amount and speed is has been pretty impressive.

And are you and the market seeing any evidence that all of this incredible effort by central banks and governments is helping at the moment?

Absolutely. But like I can tell you, mark that it was very much touch and go near the time. And then the best analogy I can think off is if a fellow cut off the windows to think off a drop. Drought stricken land lend around us on government and central banks, arranging for torrential, grateful to fill up the ground water. You wouldn't expect it to happen straight away because it has to filter through the system, and it will take a while for a long what reservoirs to fill up in the same fashion I he needs to go from central banks to the large investment banks, to the smaller banks and then to the businesses, starting from the larger business systems, small and medium sized businesses. And it takes a while to friend through the system and manage cash fairly. Quinton, that's exactly what happened in the early days. Spreads well, very much widened, and we were very much scratching our heads. Given this the length off, given that the scope and size off the liquidity injections they took a good two weeks for that come from systems. And when it did, there was a general reef in the markets in the first people, given the huge scale of disruption to the global economy. Right now, what impact is that having on the investments that you have in your portfolio's a great question mark? So, in terms off the investments in the portfolios, I talked earlier about our moves in 2019 to take a big element off risk off the table and keep people right, right powder on for better opportunities and in some ways that there is good news here. This has been exactly that opportunity that we were waiting for asset pricing has been increasingly Miss Christ in a number off asset classes in a number of regions in a number of risk asset classes. And we've been able to do in West on, go quickly into some of these. His risk assets are. Secondly, I'll say. One thing that will arise very much from the crises is each country's response is very, very different and specific to the country's policies on com on wires and, more importantly, very, very different success rates. So it has been more important. It has never been more important to be diversified globally. And that's something I'm pleased to say. Place well the handles, the crisis refund and the With profits. Life Under known for taking very long term views for multi asset portfolios. House What's going on today, affecting your long term views. So if you think about the markets today, what you see your in crisis and legitimately so is that the time horizon for the average investor compresses, and most people are looking ahead to the next three next six months. Maybe next 90 close. Once it is very difficult to see past the immediate future. Um, for the average investor, some might have very rational reasons off. Just cash flow management. Very loved. And for some, it might be going off the average time arising off performance management. But for longer term investors like us, this is the best opportunity to get a diversified basket off higher equity risk premium to reflect the greater required risk premium that investors health for different asset classes.

So what will you be focusing on in the next few months?

Well, just right now, we have a number of opportunities were actively looking at and implementing on that those are rising from the mispricing off assets on in particular risk assets. We had saved a lot of Dr Pounder from last year. So up to 5% of fear that since my beer and we are very, very much annoying 18 in specific areas which we hope to give you more details off in coming months.

Parit Jakhria, Thank you for joining us.

Thank you.