



The Death of Equities

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Your destiny is written!

Learning objectives

DISCOVER

Discover whether the outperformance of 'risk free' Government bonds and the underperformance of equities are trends that are likely to continue

ASSESS

Assess the current market position for long term investors and discuss whether it is time to go overweight on equities

EXAMINE

Examine individual equity styles and sectors to examine whether quality and growth will continue to outperform value

Agenda



The Death of equities



US
Shares

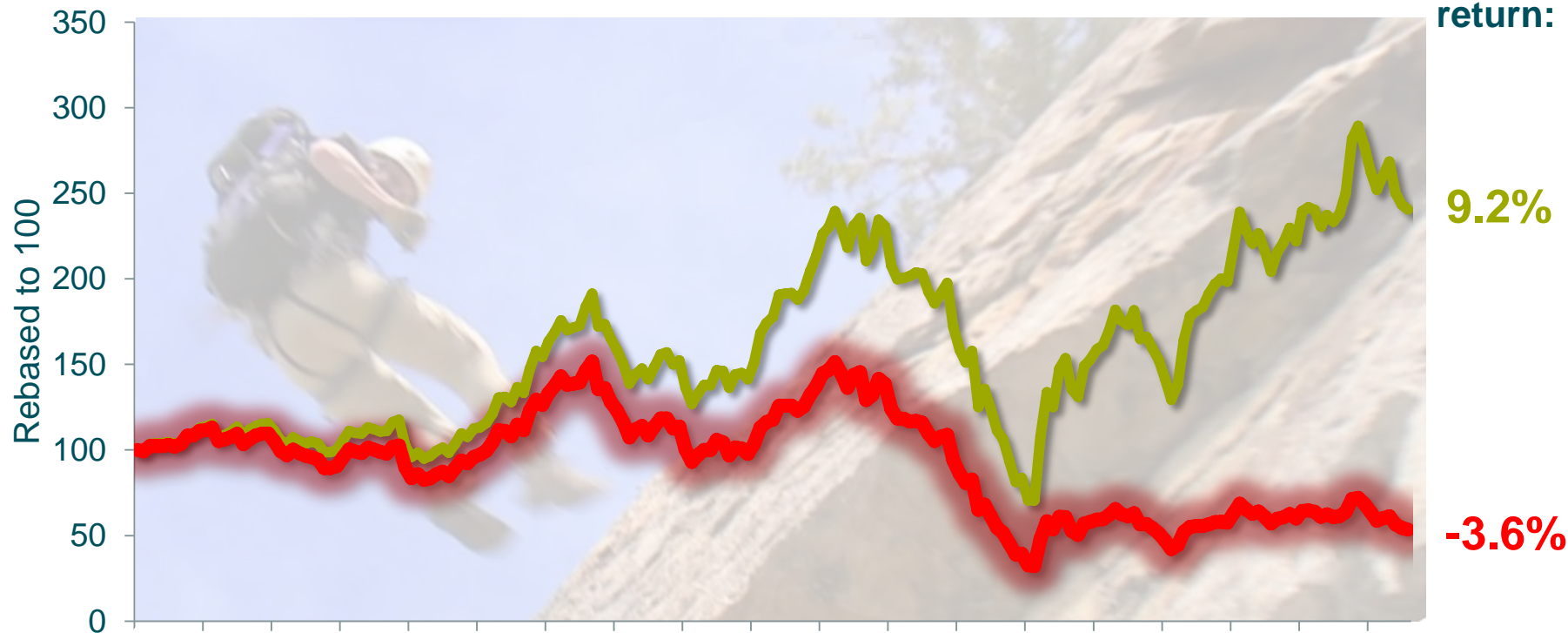
RIP
UK
EQUITIES

Falling off a cliff?

1963 - 1979

FTSE-All Share Index

Annualised
return:



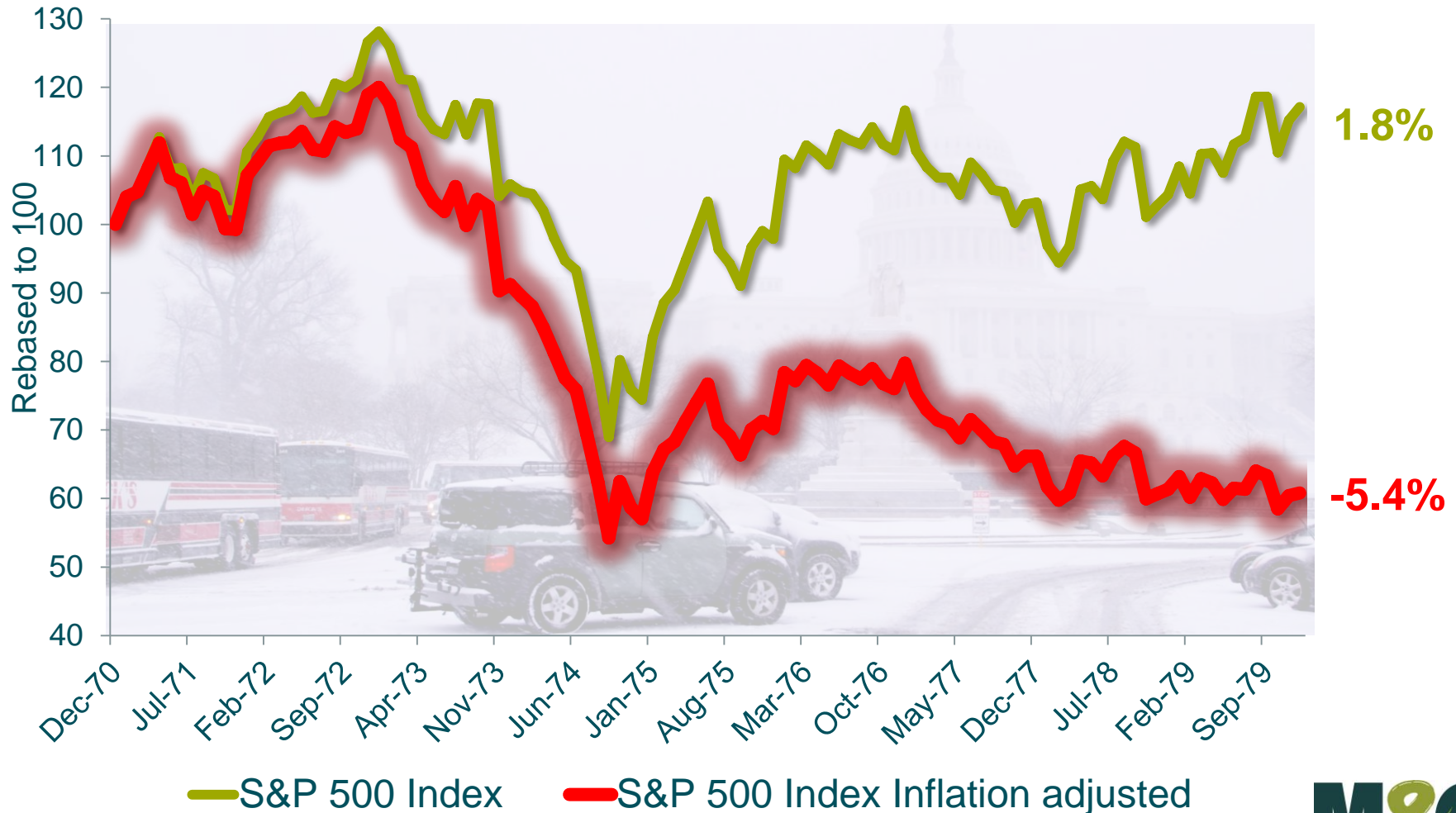
16 years of precipitous inflation-adjusted losses

When the US sneezes...

1971 - 1979

S&P 500 Index

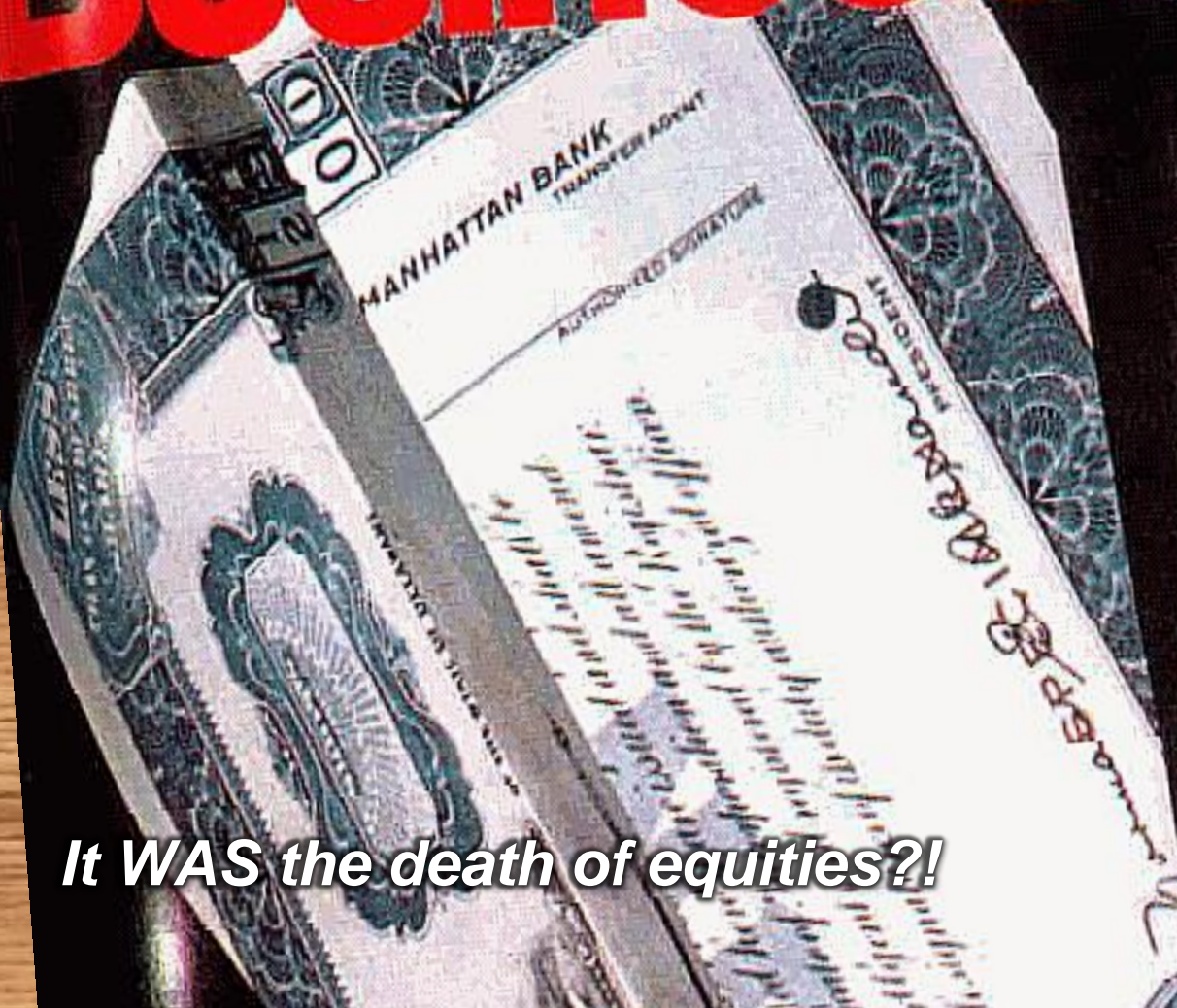
Annualised
return:



A McGraw-Hill Publication

BusinessWeek

August 13, 1979 • \$1.25



THE DEATH OF EQUITIES

How inflation is destroying the stock market

Page 51

It WAS the death of equities?!

Resurrection!

1979 – 1999

EQUITIES

A bright yellow rectangular box is positioned directly beneath the word "EQUITIES". It has a slight gradient and a soft shadow, making it stand out against the background of clouds and sky.

The sun RISES again for equities!

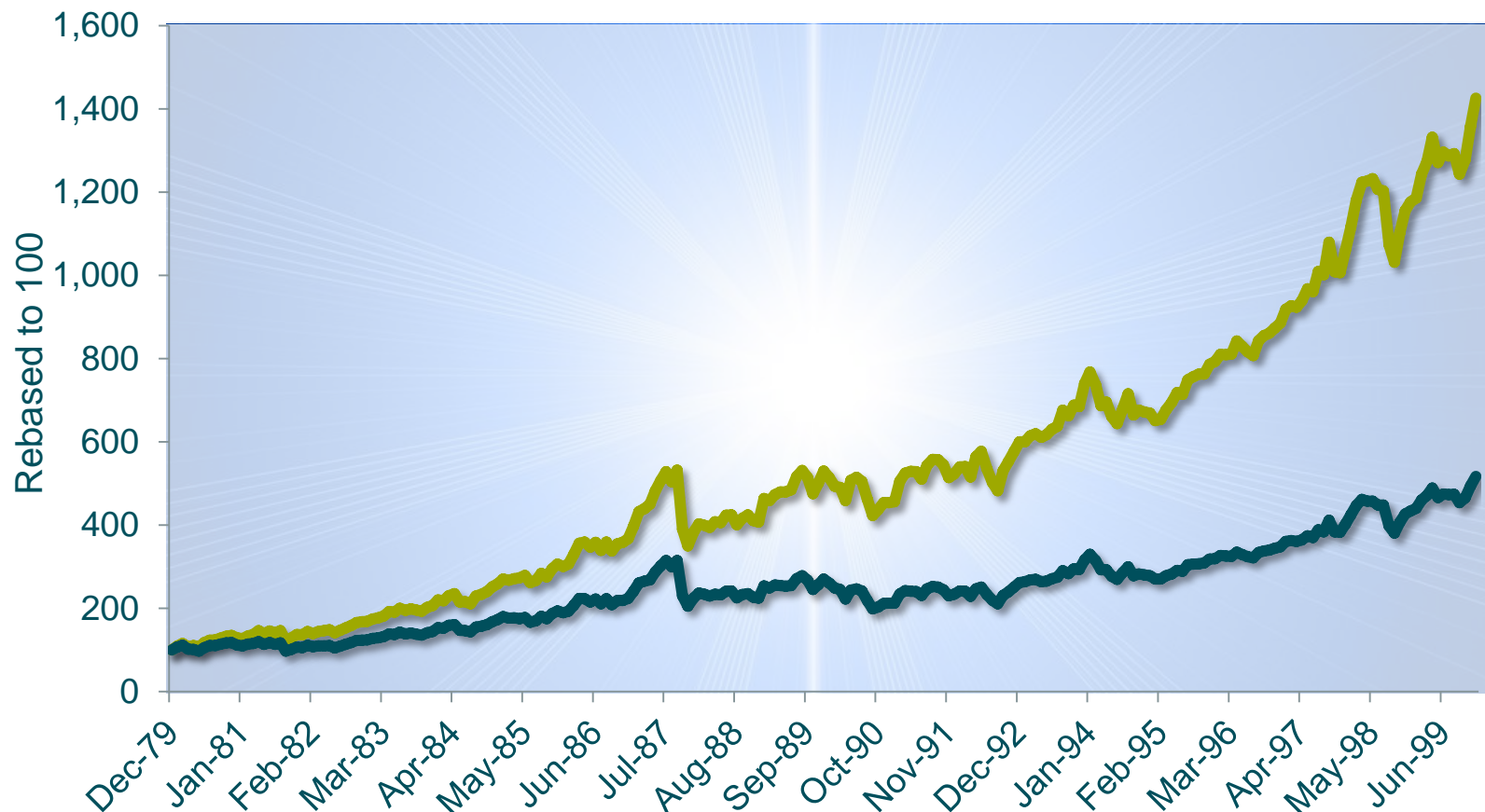
1979 - 1999

FTSE-All Share Index

Annualised
return:

14.2%

5.2%



— FTSE All-Share Index (Pre 1985) — FTSE All-Share Index inflation adjusted



Brighter prospects for American equities

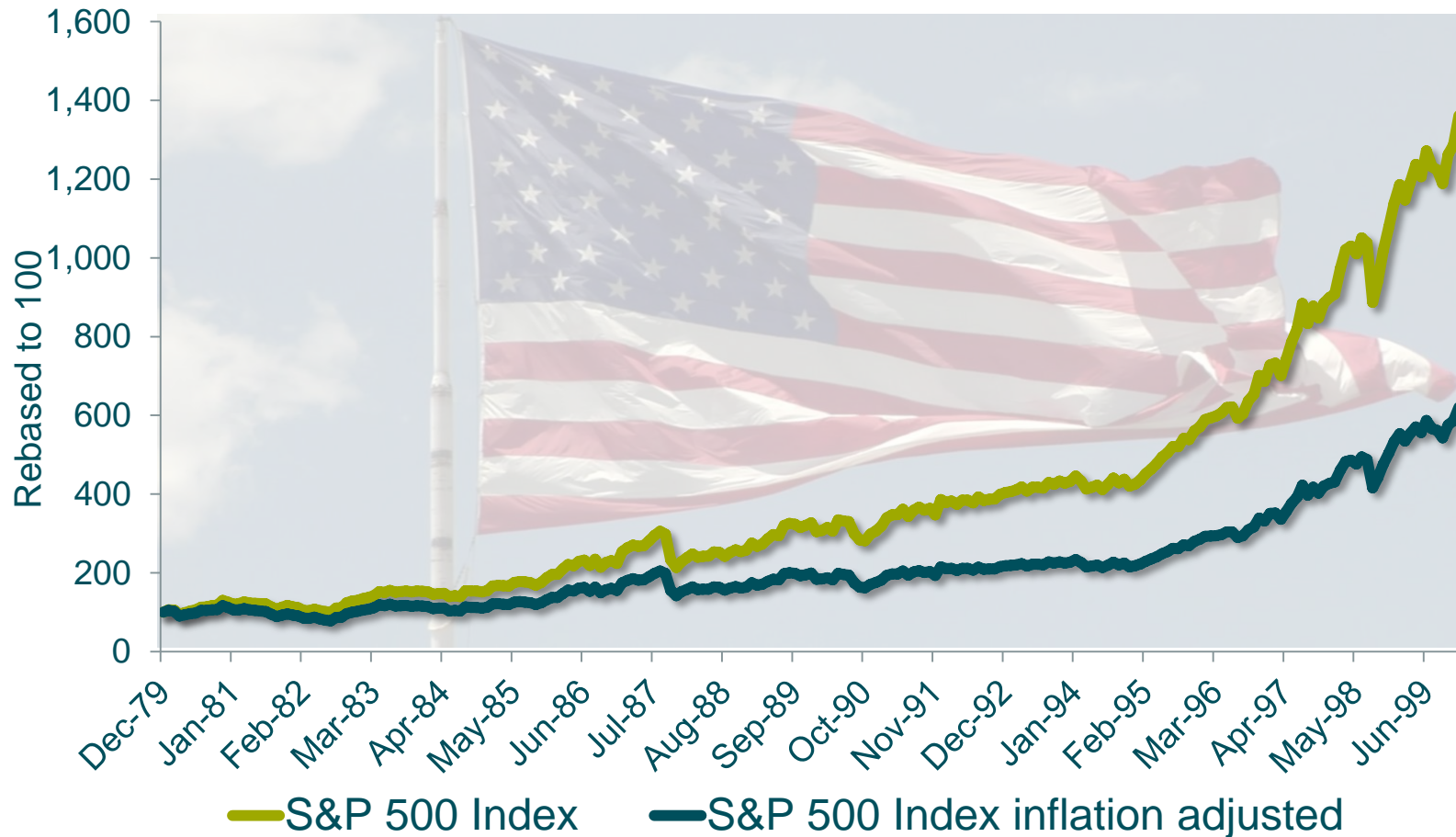
1979 - 1999

S&P500 Index

Annualised
return:

13.9%

9.6%

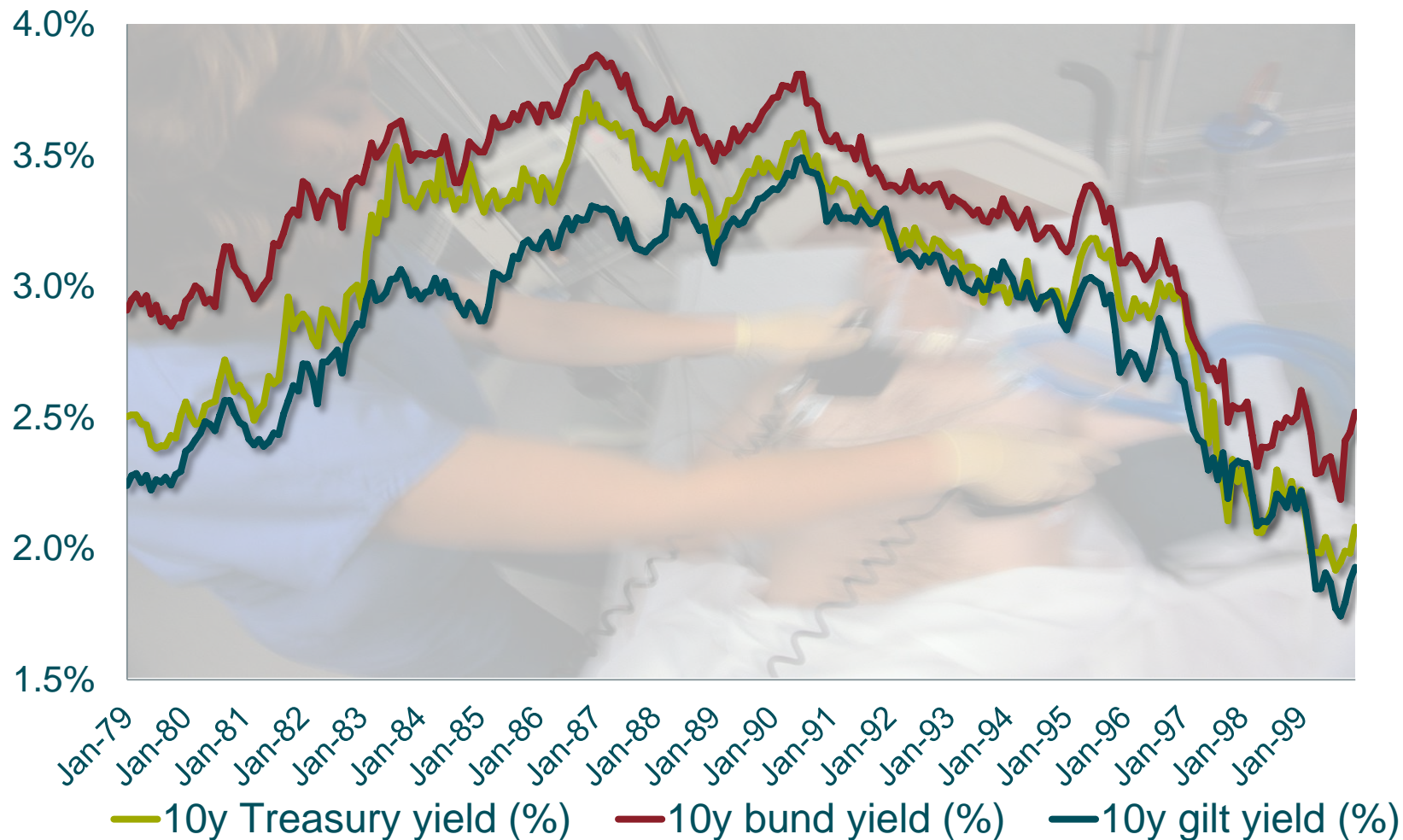


It was a strange death!

M&G
INVESTMENTS

Stabilising after resuscitation?

Government bond yields



It WAS the death of fixed income

The Death of equities

(2000 – 2017)

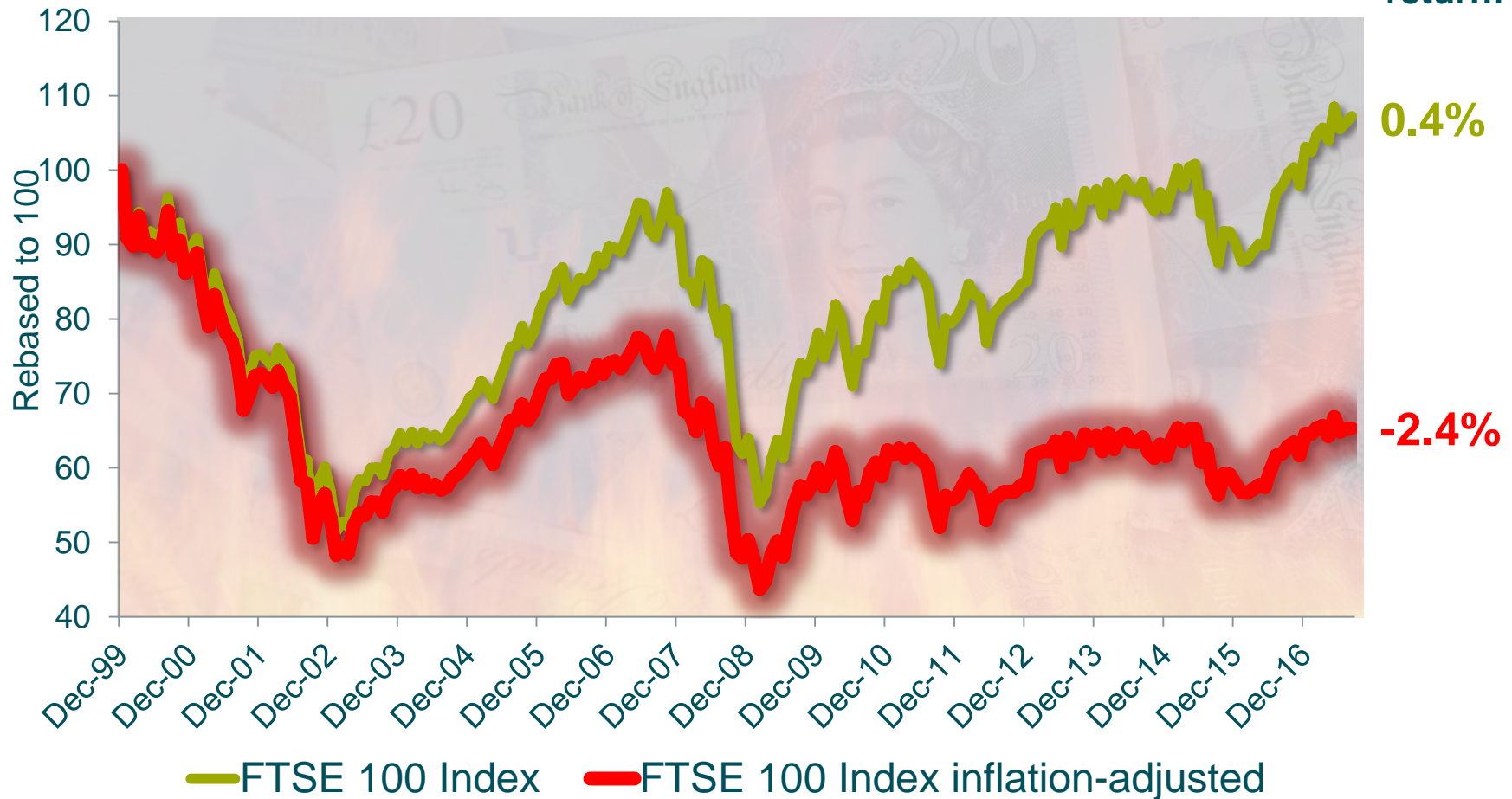
EQUITIES
2000 - 2017

A slow demise?

2000 – August 2017

FTSE100 Index

Annualised
return:



US Fireworks? No - a damp squib

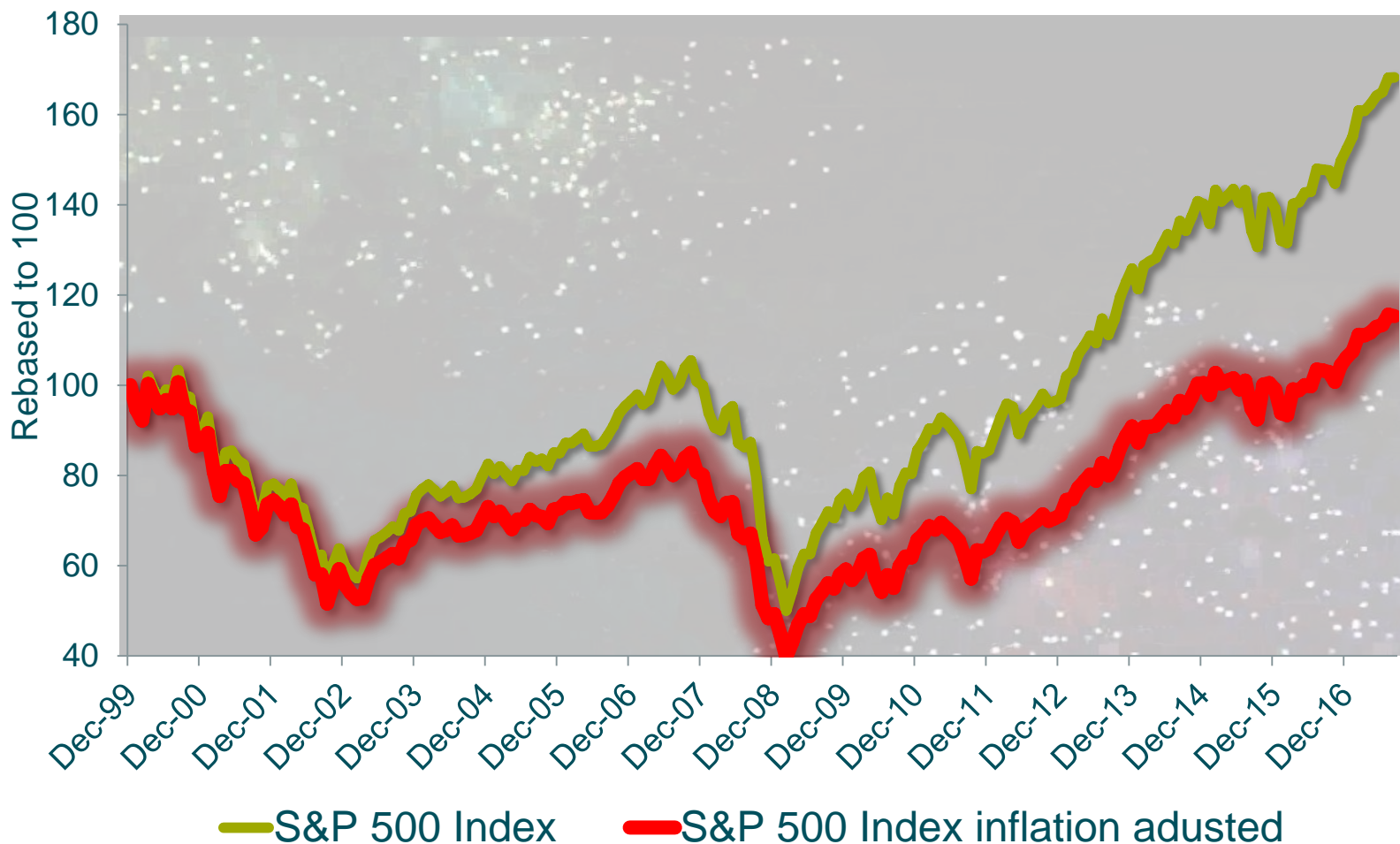
2000 – August 2017

S&P500 Index

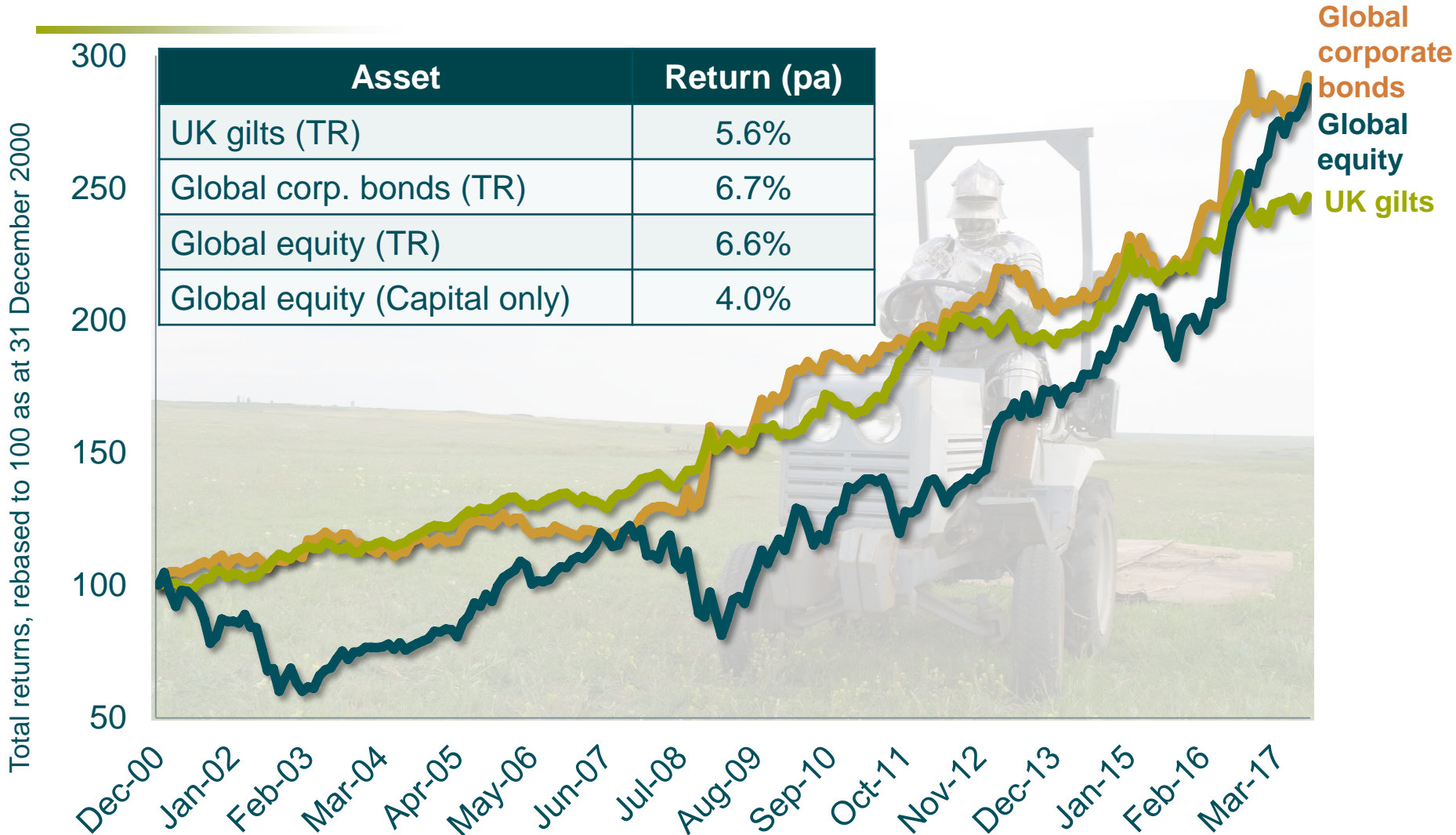
Annualised
return:

3.0%

0.8%



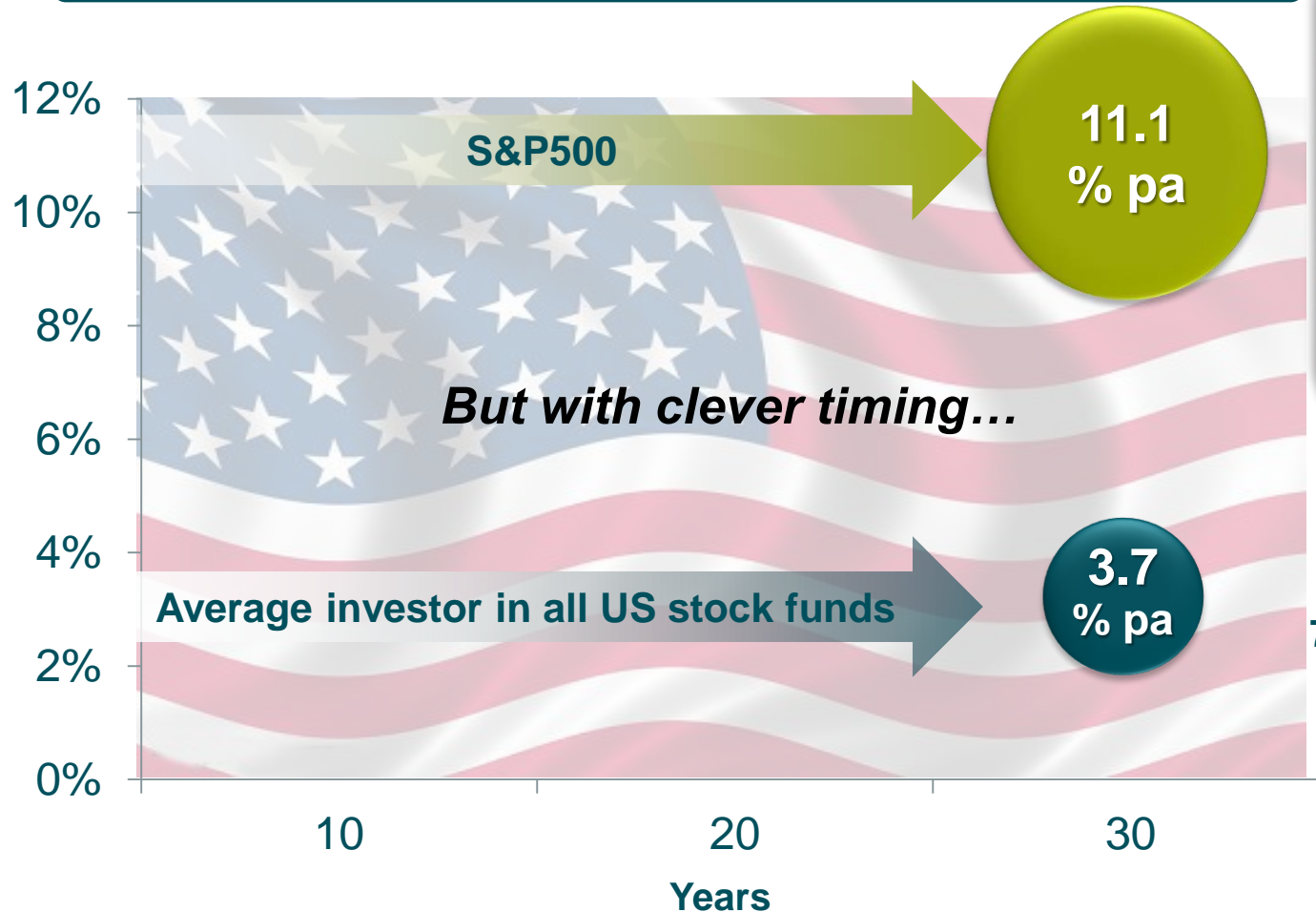
...Which leaves us afraid to take risk



...And we behave differently with equities?

Are we all showroom dummies?

Just how dumb are investors?



An underperformance of 7.4% annually for 30 years

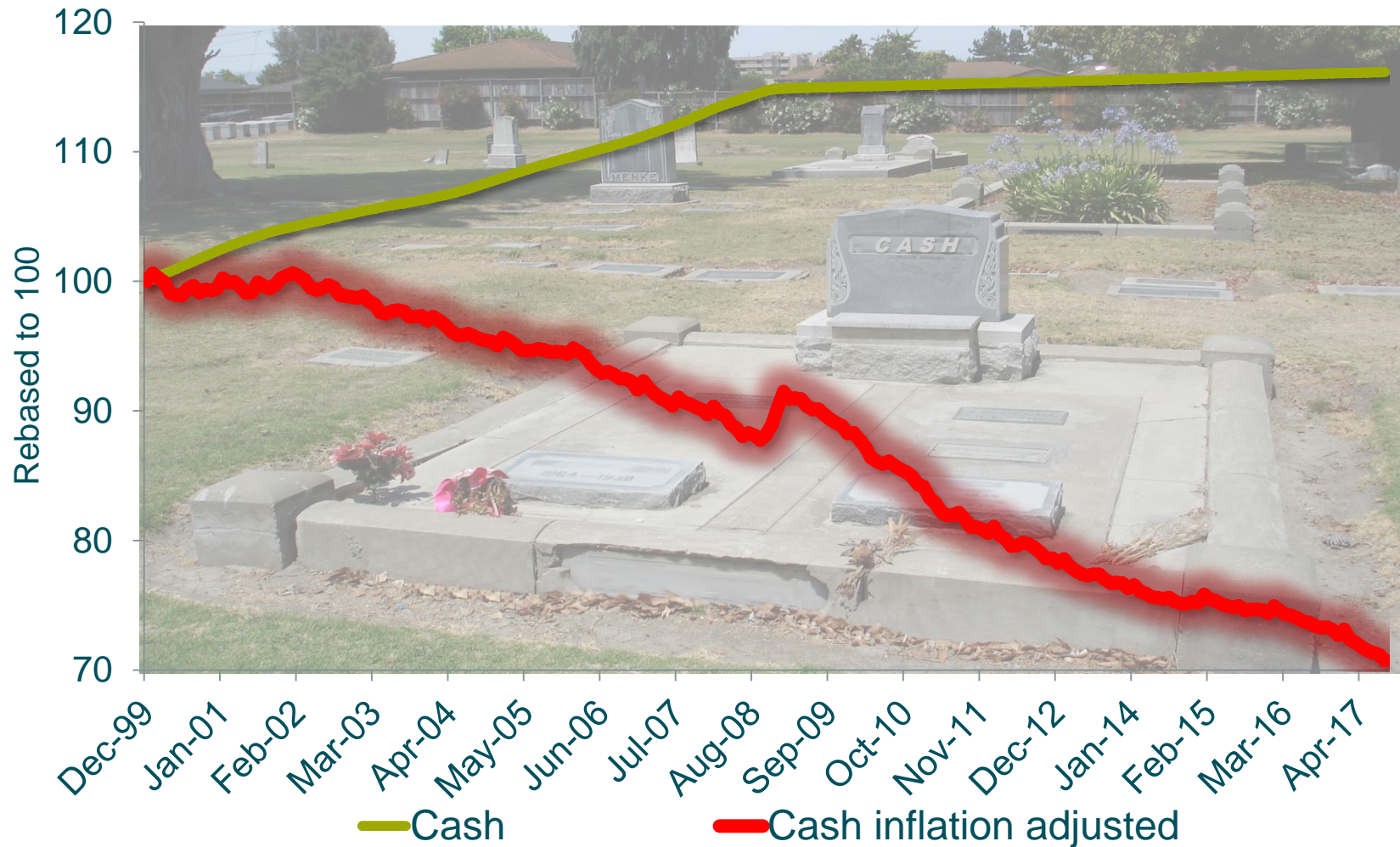
Cash dead and buried...

Total return – Cash

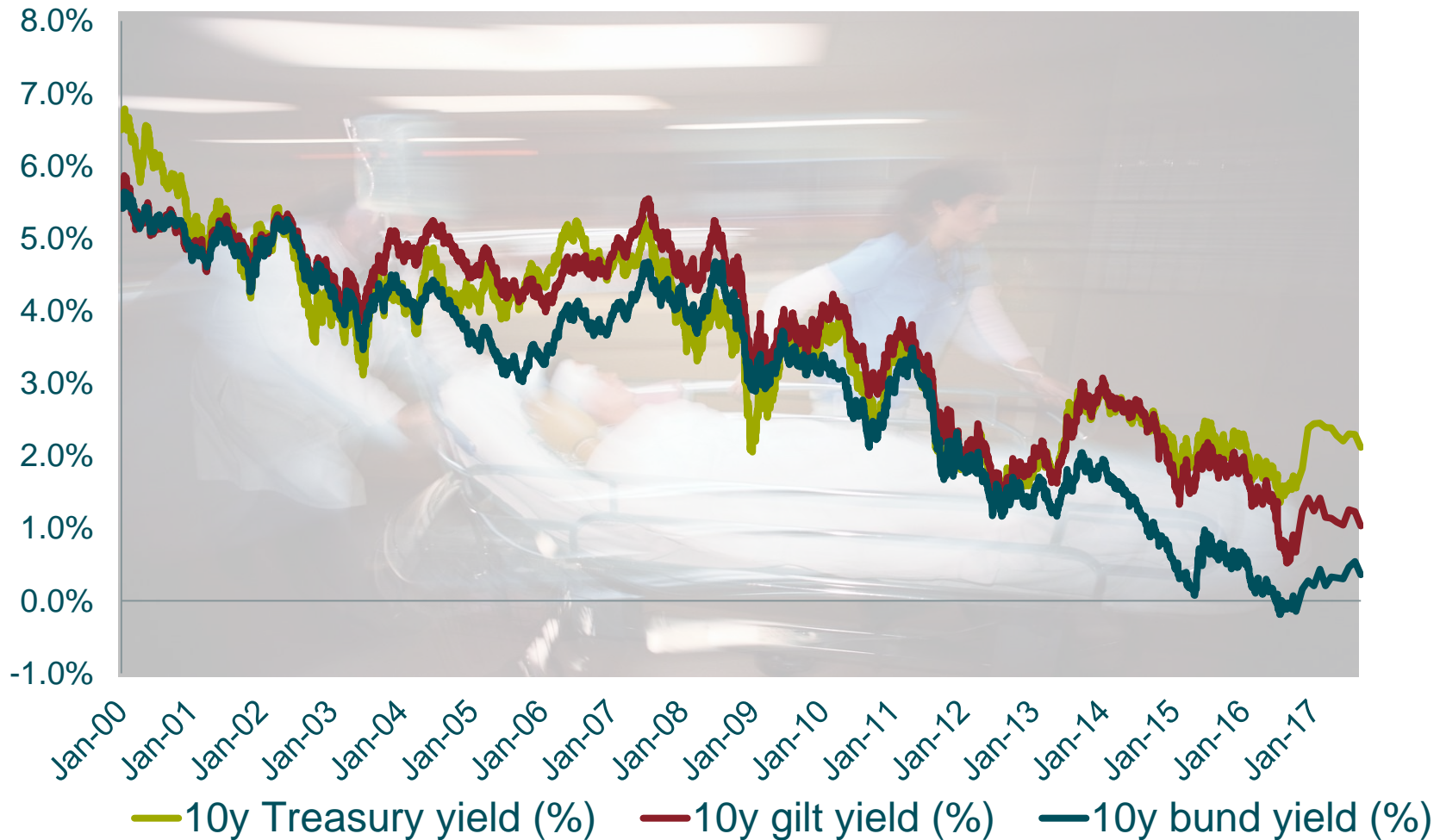
Annualised
return:

0.9%

-1.9%



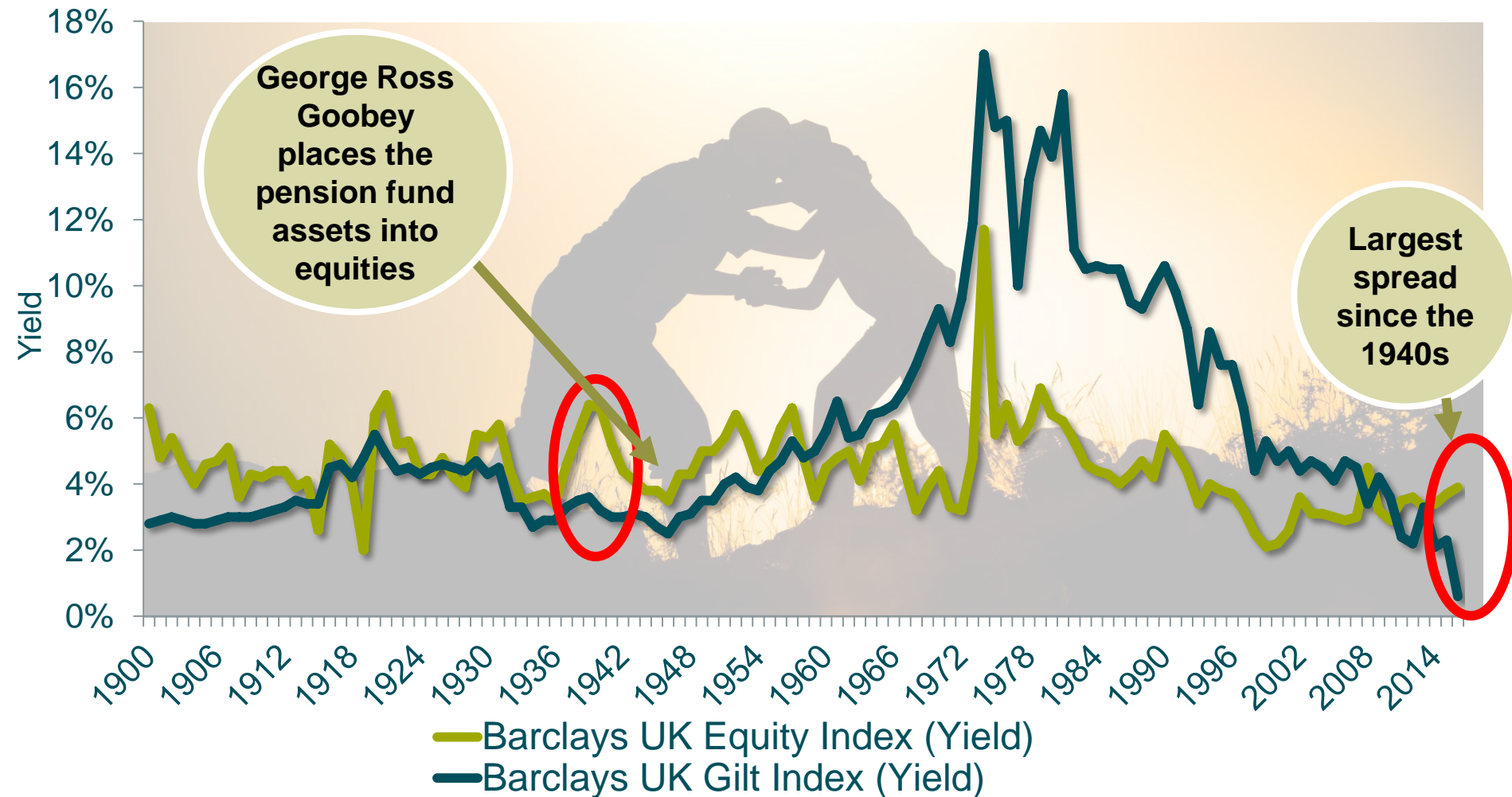
It was the resurrection of fixed income



But, do we now have an emergency situation?

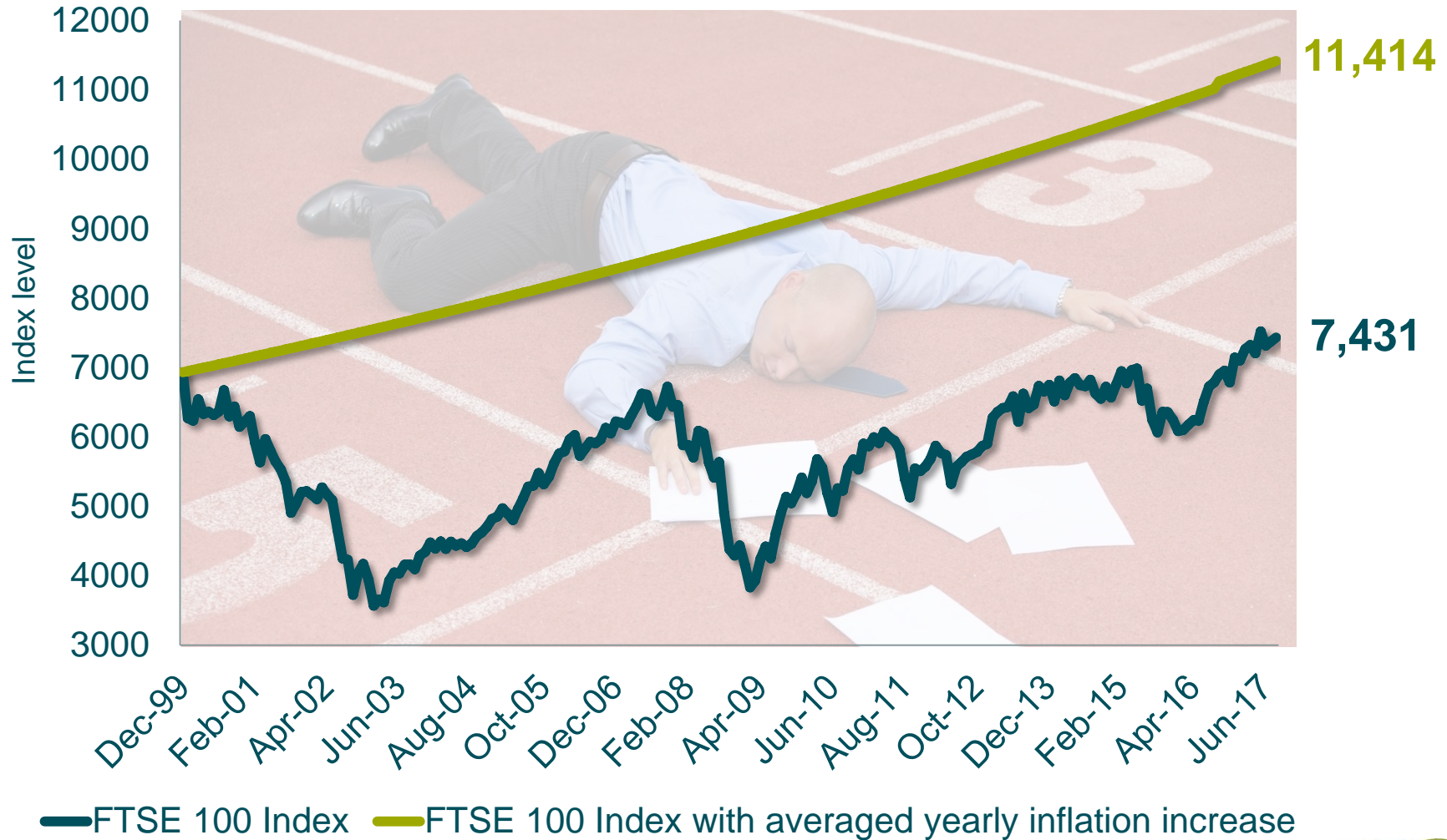
A fight to the death?

UK equities dividend yield vs 10-year gilt yield



But who's death?

FTSE has tumbled in real terms



Resurrection?

2017+

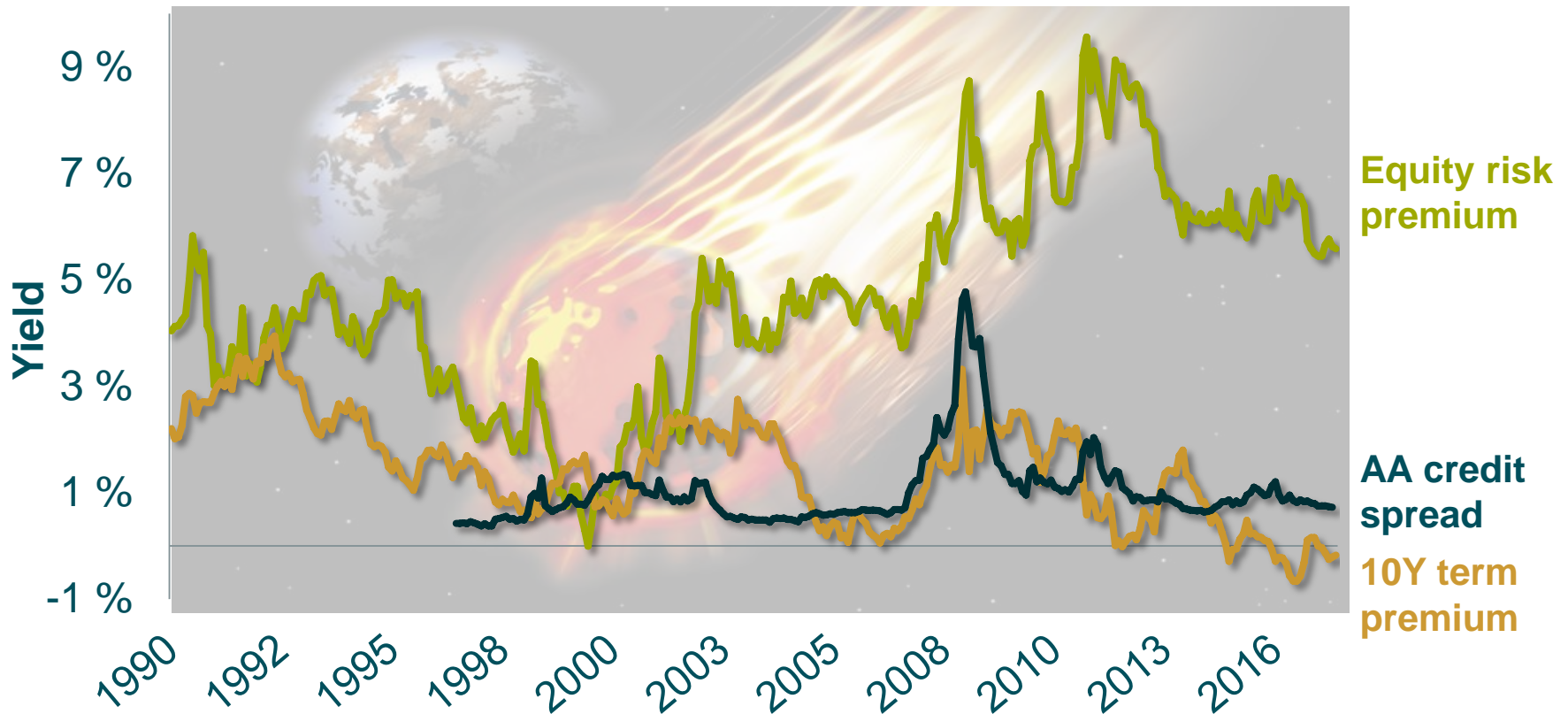
EQUITIES



Could this be a global catastrophe?

Little or no reward for low risk

US equity earnings yield versus 10-year Treasury yield

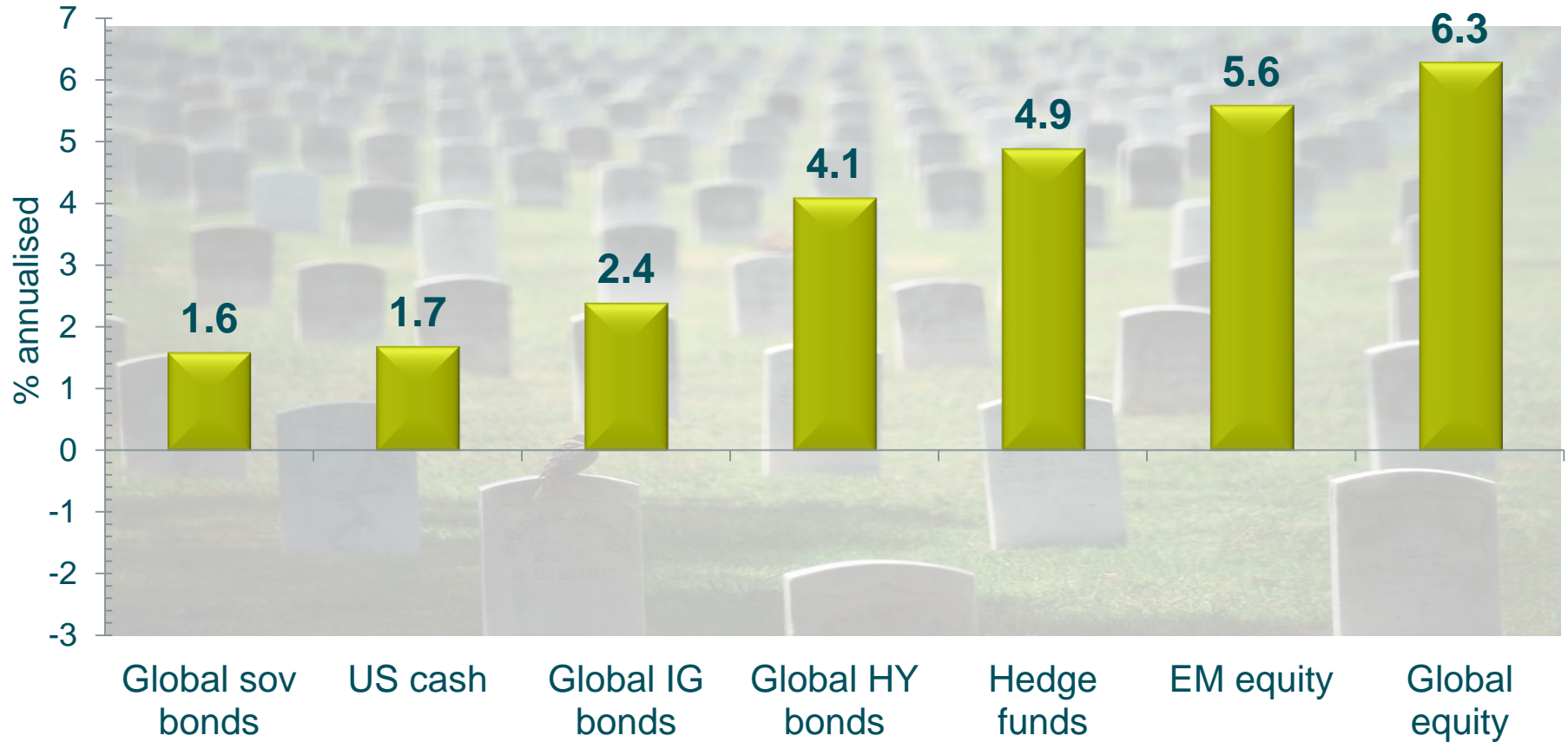


What's the market pricing in?

When assumptions are a grave error...

Lower for longer

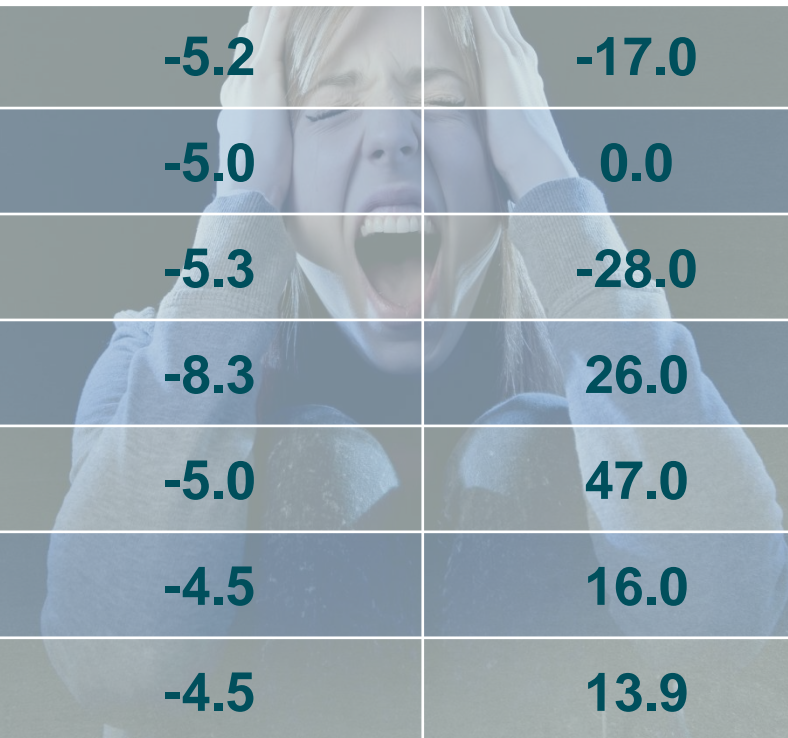
Expected returns vs historical normal



Lower risk assets set to be the key underperformers

Overreacting to risk isn't a good thing

Greatest 1 day FTSE All-Share falls in past 25 years



Date	1 day fall %	1 year change %	5 year change %
11-9-2001	-5.2	-17.0	43.8
15-7-2002	-5.0	0.0	98.7
21-1-2008	-5.3	-28.0	29.4
10-10-2008	-8.3	26.0	87.2
2-3-2009	-5.0	47.0	126.2
22-9-2011	-4.5	16.0	59.9
24-8-2015	-4.5	13.9	N/A

Time IN the markets not TIMING the markets!!!

The death of common sense?

Topic	Berkshire Hathaway	Scottish Mortgage	Asset management in general
Reaction to Macroeconomics	Minimal	Minimal	Immediate
Risk definition	Permanent destruction of capital	Permanent destruction of capital	Short-term volatility
Objective	Long-term profit maximisation	Long-term profit maximisation	Maintaining assets / fees
Timeframe	Permanent	10 years	Now

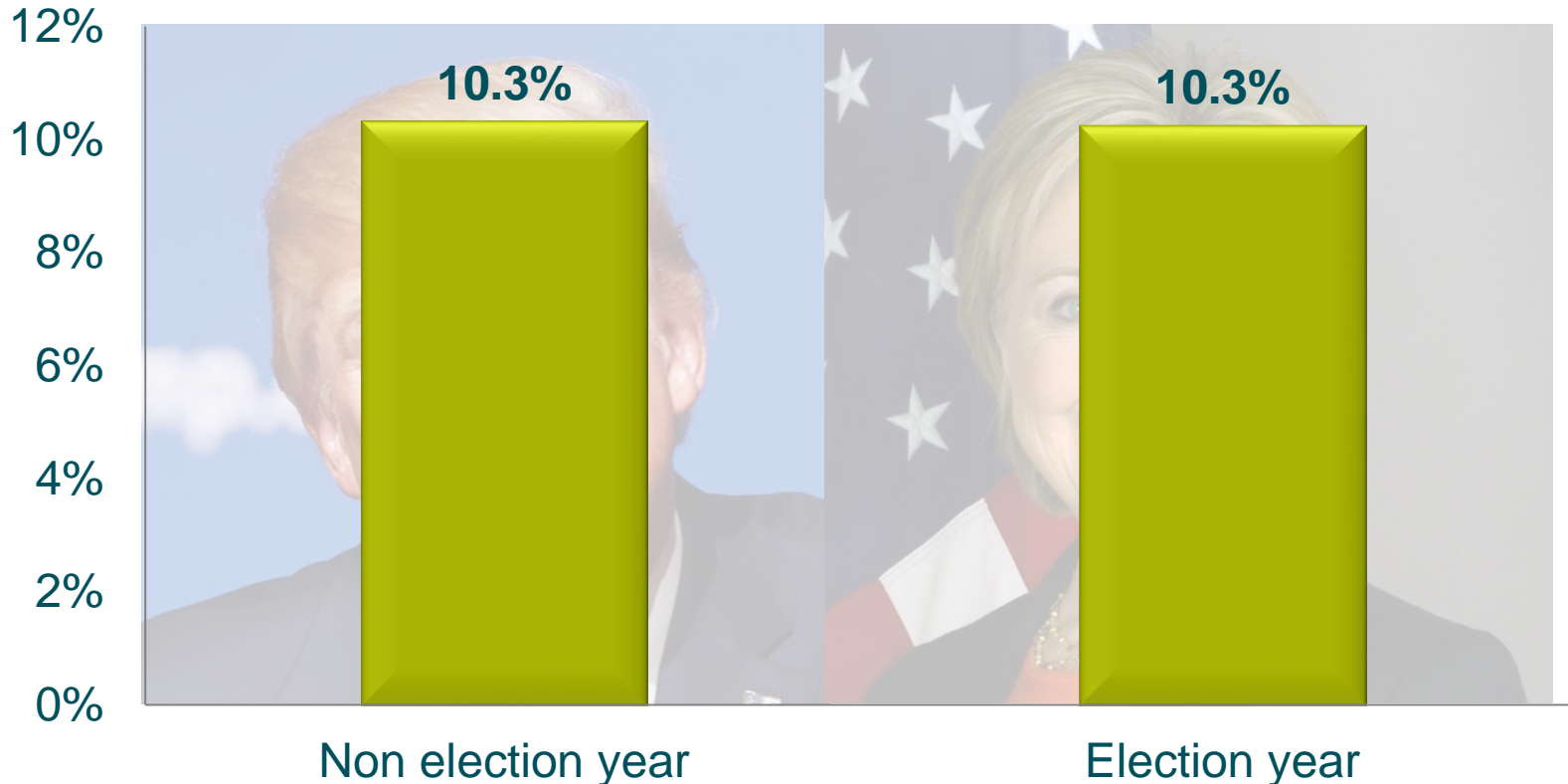
“This is the only profession that completely ignores the record and methodology of its outstanding practitioners”

James Anderson, Scottish Mortgage Trust

Potential deadly outcomes?

Elections: Do they matter?

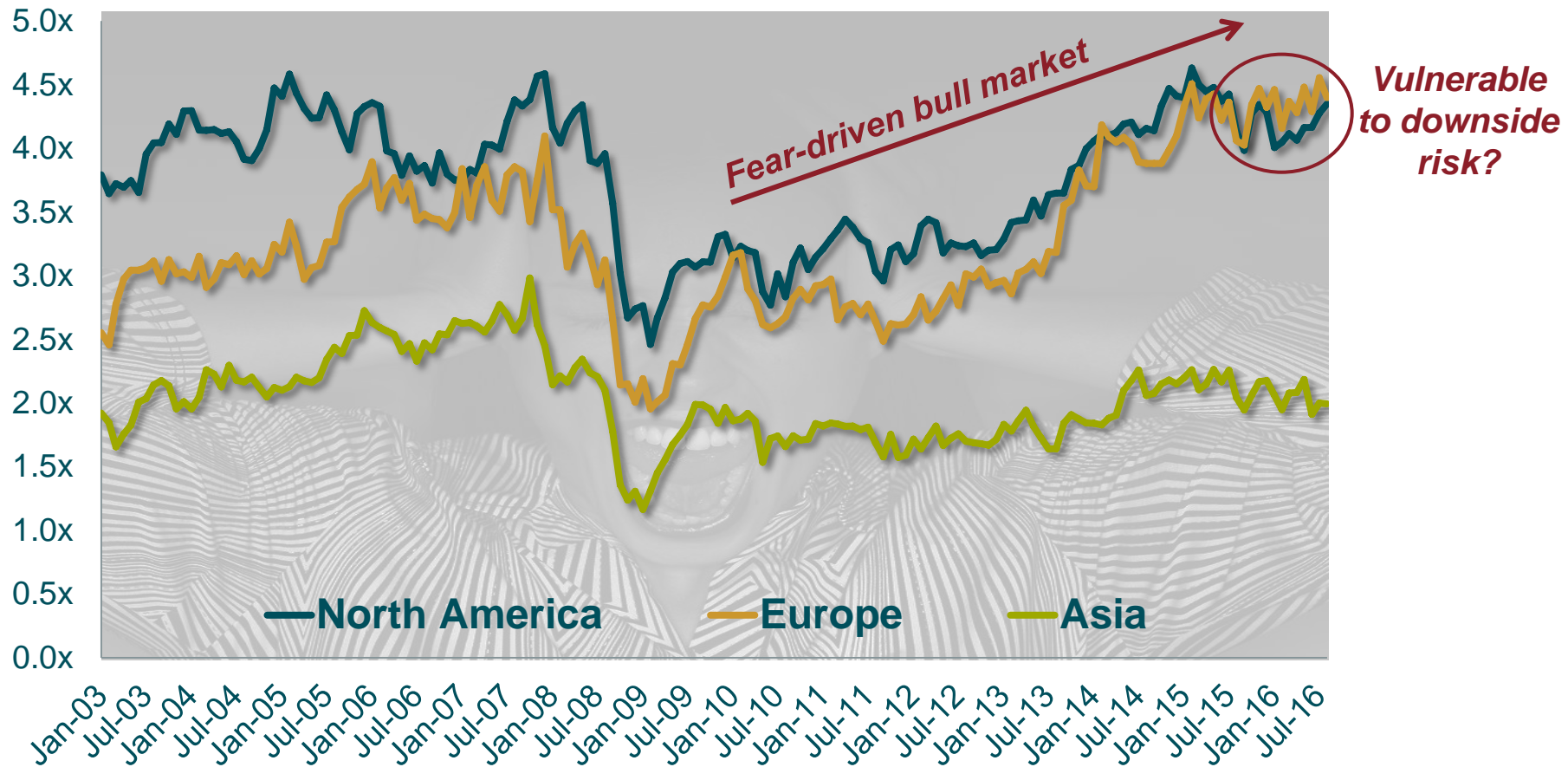
S&P 500 Index median return



Interesting but irrelevant!

'Fear is the path to the dark side'

Price-to-book ratio of highest quality quintile (developed markets)



Even lower risk equities looking riskier!

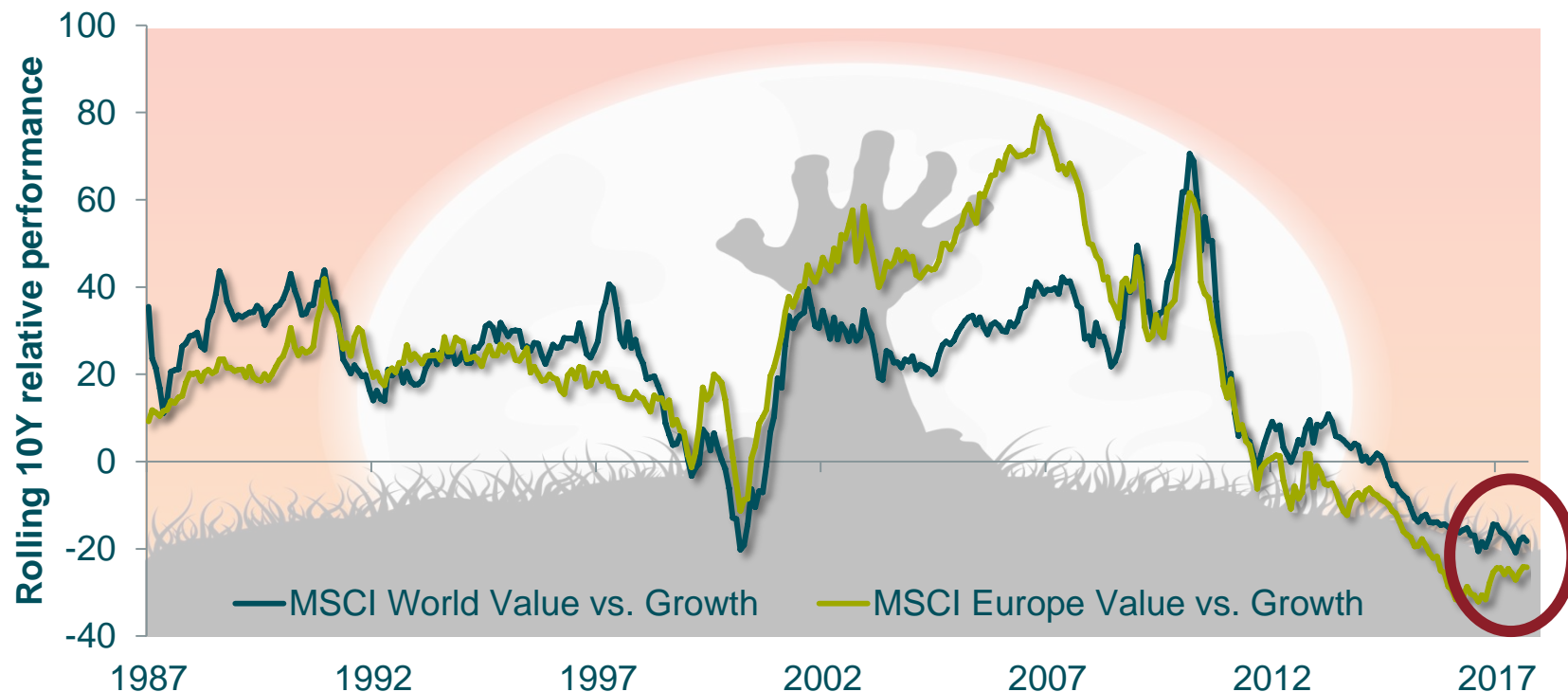
First aid for portfolios



Value coming back to life?

Value investing typically works two thirds of the time

Rolling 10 year relative performance (%)



An unusually long period of underperformance by Value

Haunted house or Chinese Whispers?

Facts about Emerging Markets

57%

**Emerging Market &
Developing Economies
GDP share of World total**

75%

World land mass

85%

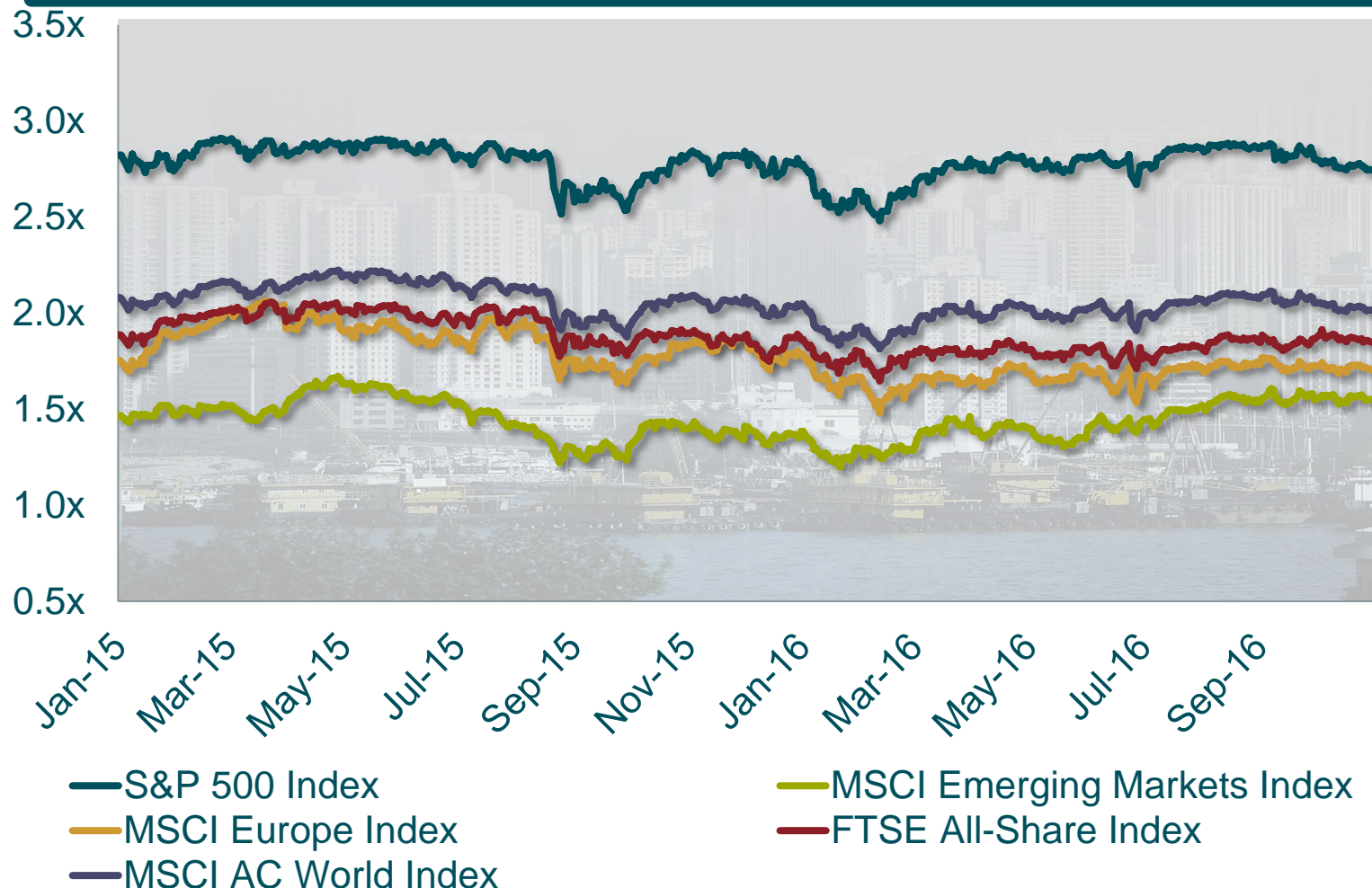
World population

...But how much does it represent of your portfolio?

Looking at emerging markets WON'T kill you!

US is the most expensive market, whilst EM is the cheapest

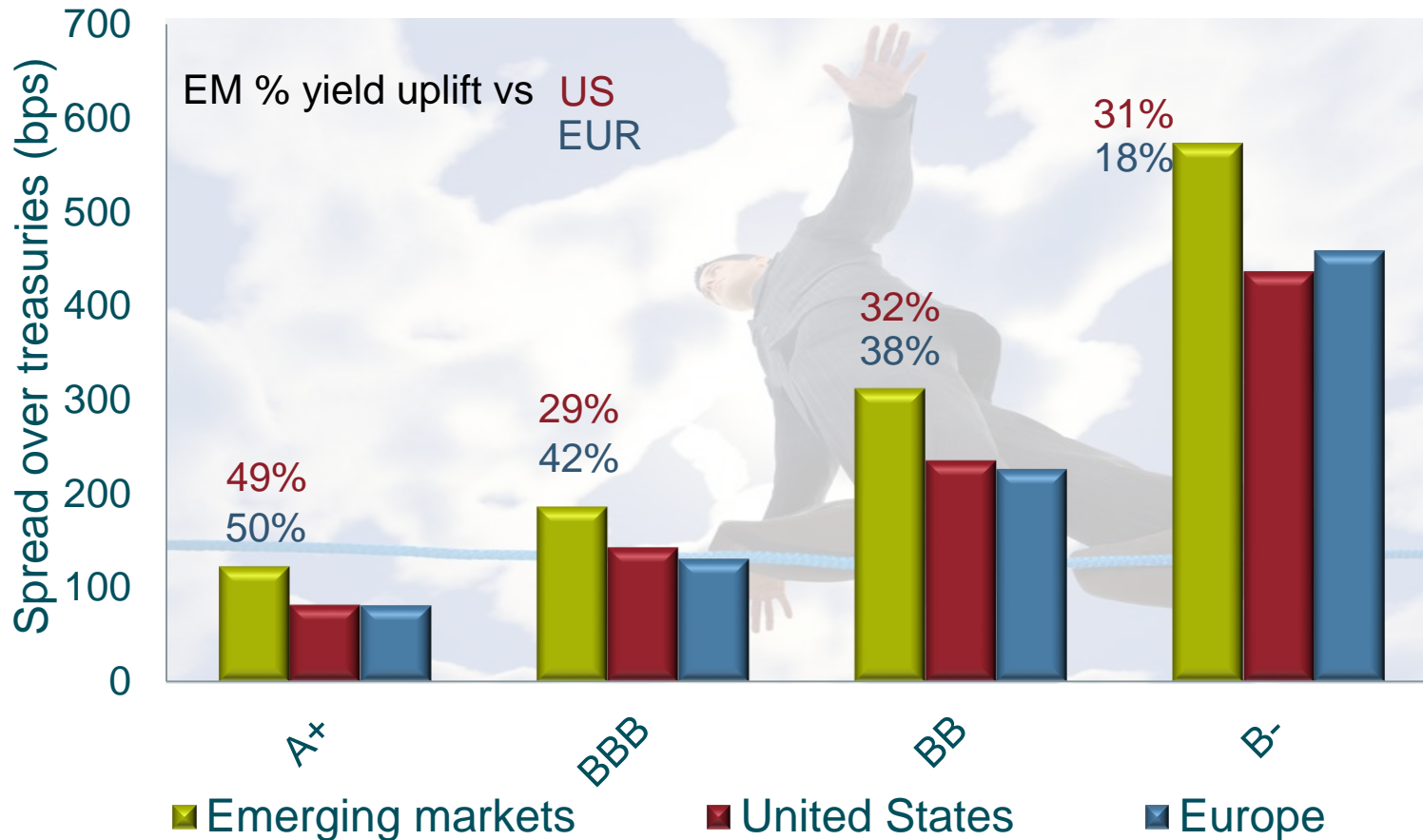
Price-to-book valuation of major indices



Taking a risk need not be fatal...

Opportunities in EM corporate bonds

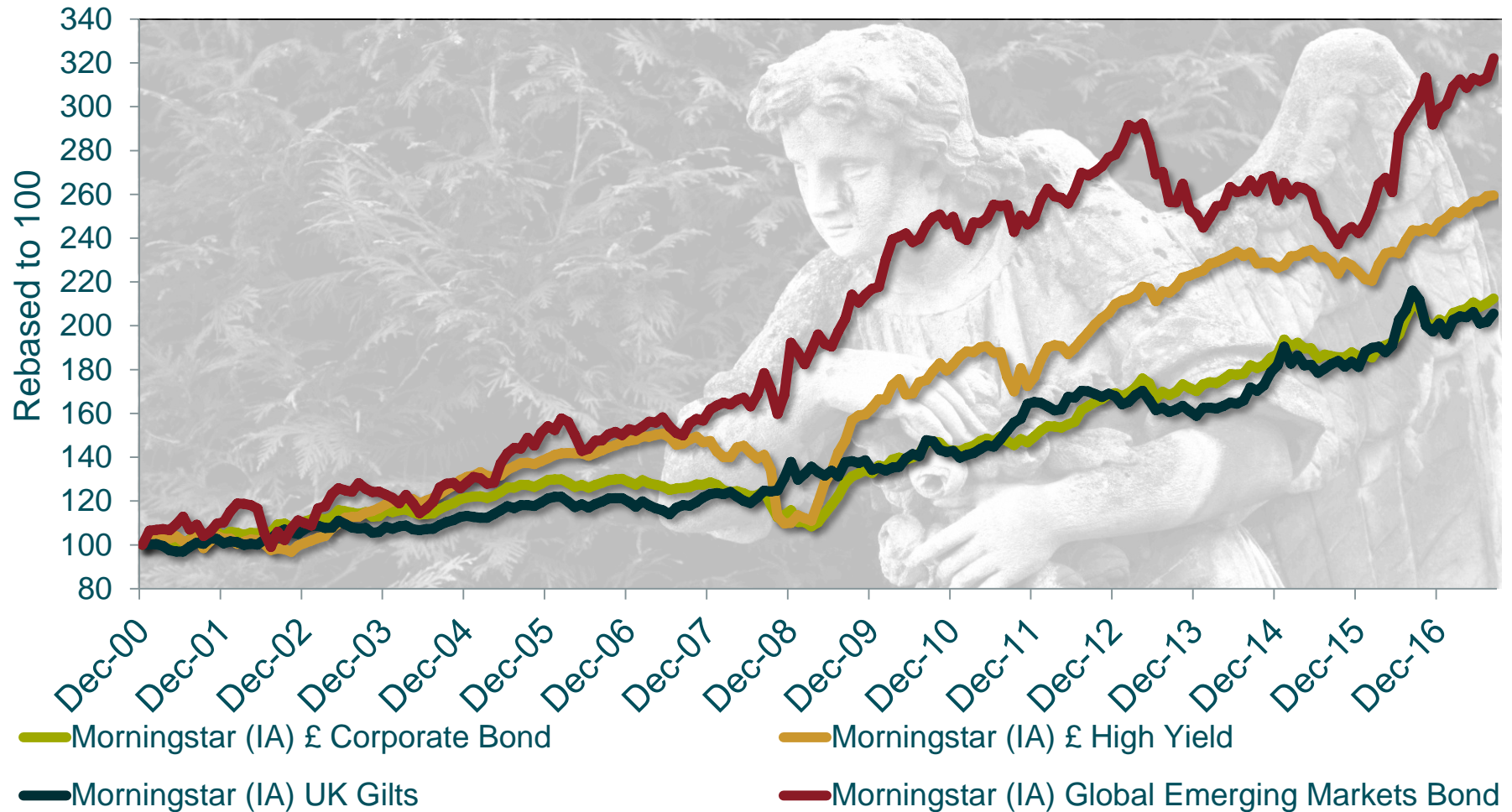
Emerging market corporate spreads vs US and Europe



Significant risk premium for investing in EM corporate bonds

Emerging markets have been an angel!

Bonds since 2000 – August 2017 - Total return



Back to Black



Death of M&G Equity Funds

Performance – 5 years

Fund	5 years % pa	Quartile ranking
M&G Global Basics Fund	9.3	4
M&G Global Dividend Fund	12.9	4
M&G Global Emerging Markets Fund	8.8	3
M&G Recovery Fund	5.5	4

Back from the dead!

Performance – 2016

Fund	YTD%	Quartile ranking
M&G Global Basics Fund	32.9	1
M&G Global Dividend Fund	40.8	1
M&G Global Emerging Markets Fund	40.3	1
M&G Recovery Fund	20.7	1

Summary

- Equities: stories of my **Death** have been greatly exaggerated
- We've been here before, are there lessons to be learnt?
- Time in, not timing!
- What's the prognosis?

What is 'low risk' in today's market?

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