

PRESENTER: For our monthly look at the global economy I'm joined down the line by Phil Butler, Multi-Asset Portfolio Manager, Prudential Portfolio Management Group. So Phil, 2018 was a very challenging year for many asset classes, were there any good news stories? PHIL BUTLER: Hi Jenny. Yes, 2018 was challenging. We're actually very lucky to have a very diversified portfolio, so there was a few gems in the portfolio that actually did buck the trend so to speak. I think our primary one was alternative assets. So these assets did what they said on the tin. They performed in line uncorrelated to the market. And that was across the board. And it was our dedicated team of analysts who did the portfolio construction to that, and the underlying due diligence and the managers that picked out some there. So in our listed portfolio 70% had positive returns in the year. And in our private book of assets, which Pru Fund invest in, that had a similar number of positive assets, but also got the illiquidity yield enhancement that we would expect. Now UK property also performed well. It was very stable, getting its rental income yield throughout the year. This was based on the fact that we've got this primary high quality assets in the portfolio. And then finally sterling, because of its depreciation against the dollar, some of our US assets actually performed well in sterling terms. So they're probably the three picks from what happened in 2018 that were good. PRESENTER: Has the uncertainty in markets led you to rethink your long-term investment strategy? PHIL BUTLER: Yes, I think there's a perception that uncertainty increases the number of possible outcomes in the future. But really those possibilities are always there, it's just the investor focus on those. And actually what we find is that when investors focus on these uncertainties, it actually increases noises and possible options for us as investors. So we don't change our approach. Our approach is about having a diversified portfolio, built upon the thesis of strategic, which is our long-term investment thoughts, and more short-term thoughts, which is around noise and when valuations and market participant behaviour changes. And that's actually when we find opportunities that we can try and take advantage of. PRESENTER: What have the leading indicators been telling you? PHIL BUTLER: Yes, so for a while now they've been showing a slow in global growth. Now what we've gone through is we've gone through the 2017 where it was all about synchronised global growth. As we hit 2018, it was all about US strength, US strong growth, whilst the rest of the world took a different path. And then what we've seen as we approach into 2019 is more about global reduced growth. But importantly at the moment at least they're not indicating a wider global recession. PRESENTER: Well what tools do Prudential have at their disposal to help navigate these challenging markets? PHIL BUTLER: Yes, so earlier I briefly touched up on the strategic and the tactical asset allocation that we employ for all the funds that Prudential run. And that's going to be very important for allowing us to take advantage of opportunities when valuations change going forward. The other area which we also touched upon was about diversification. Now I think a really good example of that at the moment is how US fixed income is at much a higher level of yield than we currently have in the European market. That sort of changes that we're making to the portfolio, and had in the portfolio in Pru Fund for a number of years, have really helped. Now Pru Fund has a unique quality in its smoothing mechanism within the product, which also helps try and dampen this volatility, which we're expecting to continue into 2019. PRESENTER: So finally what is Prudential's outlook for 2019? PHIL BUTLER: Yes, without wanting to repeat what we've said in earlier questions, we do expect there to be some lower global growth this year, but importantly we don't expect a recession. So this is a little bit dependent on what governments and central banks around the world do, but we mention this because China and the US Fed have recently made announcements which indicates some easing in the system. Now on top of that there are still some risks that haven't gone away, so we need to be cognisant of those. Now those main ones are around Brexit, which is UK and European focused, but we have a wider China slowdown, and we also have the discussions around the global trade wars. So we need to be cognisant of those, but we're hopeful that valuations can adjust to what hopefully is an easing and global growing situation. PRESENTER: Phil, thank you. PHIL BUTLER: Thank you. PRESENTER: And PPMG will be back

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