From Lehman Brothers to Trade Wars. Bond markets 10 years on.

Jim Leaviss, Head of Fixed Income
Equities, Fixed Income and Multi Asset

September 2018

M&G Global Macro Bond Fund

Risks associated with this fund

The value of investments and the income from them will rise and fall. This will cause the fund price, as well as any income paid by the fund, to fall as well as rise. There is no guarantee the fund will achieve its objective, and you may not get back the amount you originally invested.
Changes in currency exchange rates will affect the value of your investment.

Changes in currency exchange rates will affect the value of your investment.

The fund may use derivatives in a limited way to gain exposure to investments exceeding the value of the fund (leverage). This may cause greater changes in the fund's price and increase the risk of loss.

The fund may use derivatives with the aim of profiting from a rise or a fall in the value of an asset (for example, a company's bonds). However, if the asset's value varies in a different manner, the fund may incur a loss.

The fund manager may use derivatives with the aim of producing a capital gain if interest rates rise (normally, if interest rates rise, the capital value of fixed income securities will fall). However, if interest rates fall, the fund may incur a loss.

The value of the fund may fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default).

The fund will invest in emerging markets which are generally smaller, more sensitive to economic and political factors, and where investments are less easily bought and sold. In exceptional circumstances, the fund may encounter difficulties when selling or collecting income from these investments, which could cause the fund to incur a loss. In extreme circumstances, it could lead to the temporary suspension of dealing in shares in the fund.

Where market conditions make it hard to sell the fund's investments at a fair price to meet customers' sale requests, we may temporarily suspend dealing in the fund's shares.

Some transactions the fund makes, such as placing cash on deposit, require the use of other financial institutions (for example, banks). If one of these institutions defaults on their obligations or becomes insolvent, the fund may incur a loss.

Wherever a reference or indication of past performance is shown, please note, past performance is not a guide to future performance.

It is also important to note that:

The Fund allows for the extensive use of derivatives

The fund may invest more than 35% in securities issued by any one or more of the governments listed in the fund prospectus. Such exposure may be combined with the use of derivatives in pursuit of the fund objective. It is currently envisaged that the fund's exposure to such securities may exceed 35% in the governments of Germany, Japan, UK, USA although these may vary subject only to those listed in the prospectus.

Agenda

What we said a decade ago

A changed world, are things better now?

M&G Global Macro Bond Fund

What we said on www.bondvigilantes.com in the summer of 2008

Letter from New York

Jim Leaviss
09/06/2008

Stefan and I have just got back from a trip to visit our counterparties in New York. The mood is almost universally gloomy with – predictably – housing and gas prices the dominant themes. The TV news channels run an almost constant stream of features on the cost of motoring (a gallon **went through the $4 mark** for the first time at the weekend, up from $3.10 a year ago, a 30% rise), with interviews with disgruntled car owners explaining why they are staying at home during the driving season. One news channel has a permanent banner at the bottom of the screen saying "America's Oil Crisis" – it's as big a deal as "America's War on Terror" post 9/11.

It's difficult to see that this (and higher food prices) in an environment of plummeting house prices (down over 14% year-on-year) won't lead to a collapse in consumption. As consumption is over two-thirds of US growth, a recession still looks likely. But there are a

Source; M&G Bond Vigilantes, 6 September 2008

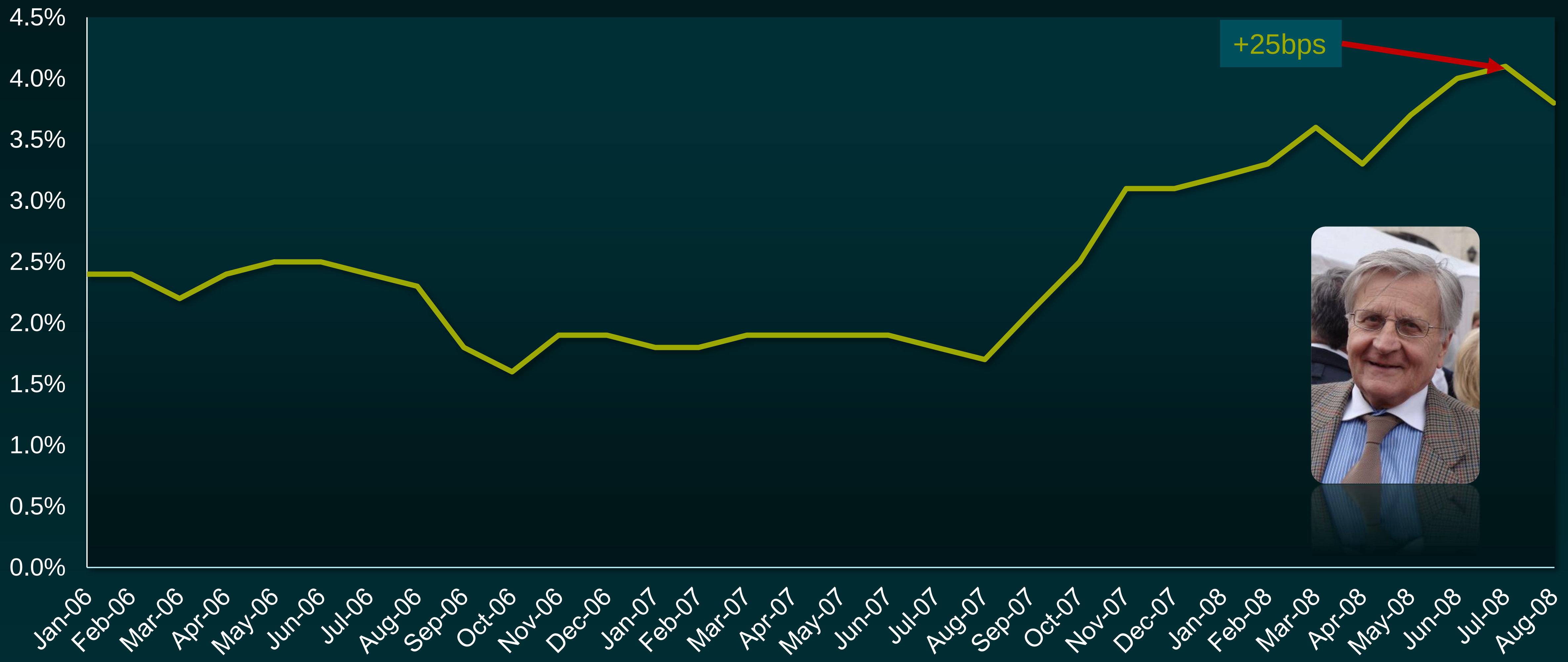
Over 18 months to June 2008 the oil price had more than doubled

Consumers were feeling the pinch

Source: Bloomberg, 31 December 2008

Trichet and the ECB hiked by 25bps to 4.25% in July 2008

Eurozone CPI

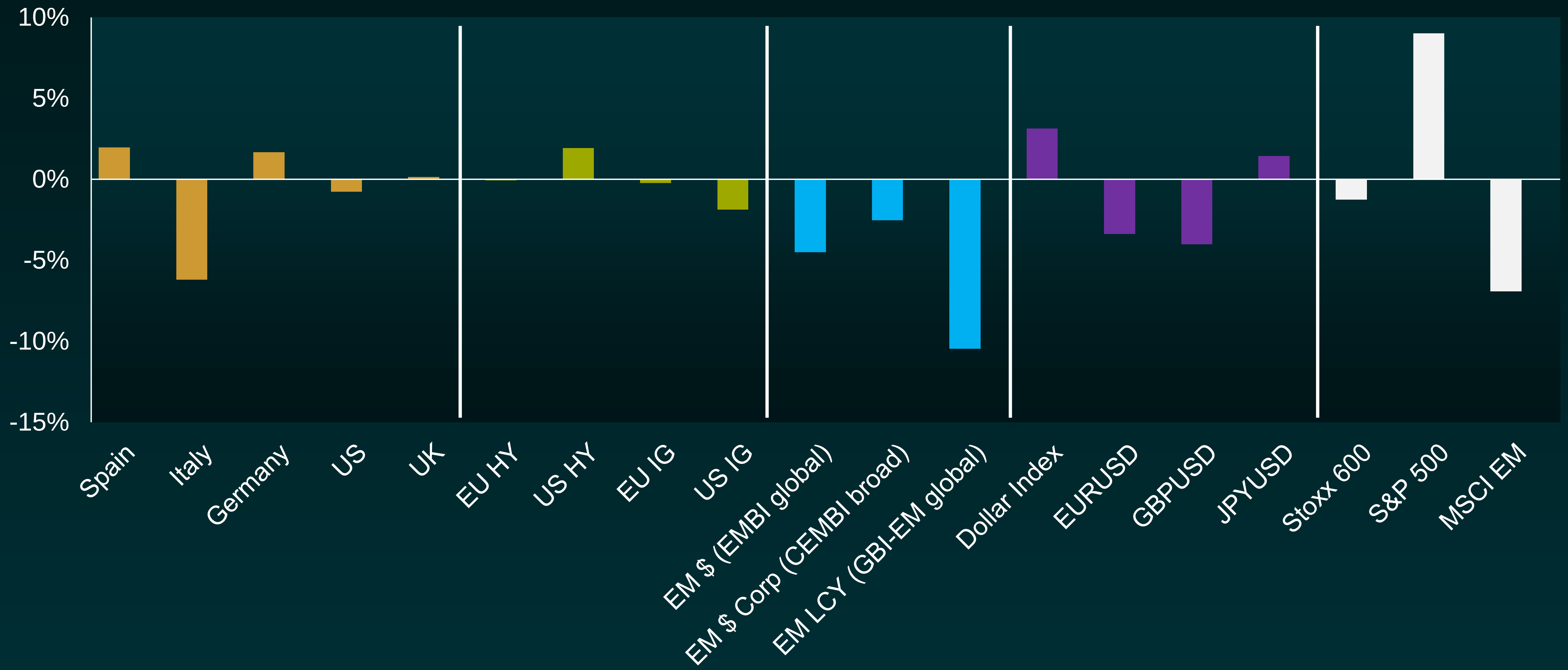


Source: Bloomberg, 31 August 2008. Picture source; Jean-Claude Trichet. By Jebulon - Own work, CC BY-SA 3.0, https://commons.wikimedia.org/w/index.php?curid=10620979

Agenda

- What we said a decade ago
- **A changed world, are things better now?**
- M&G Global Macro Bond Fund

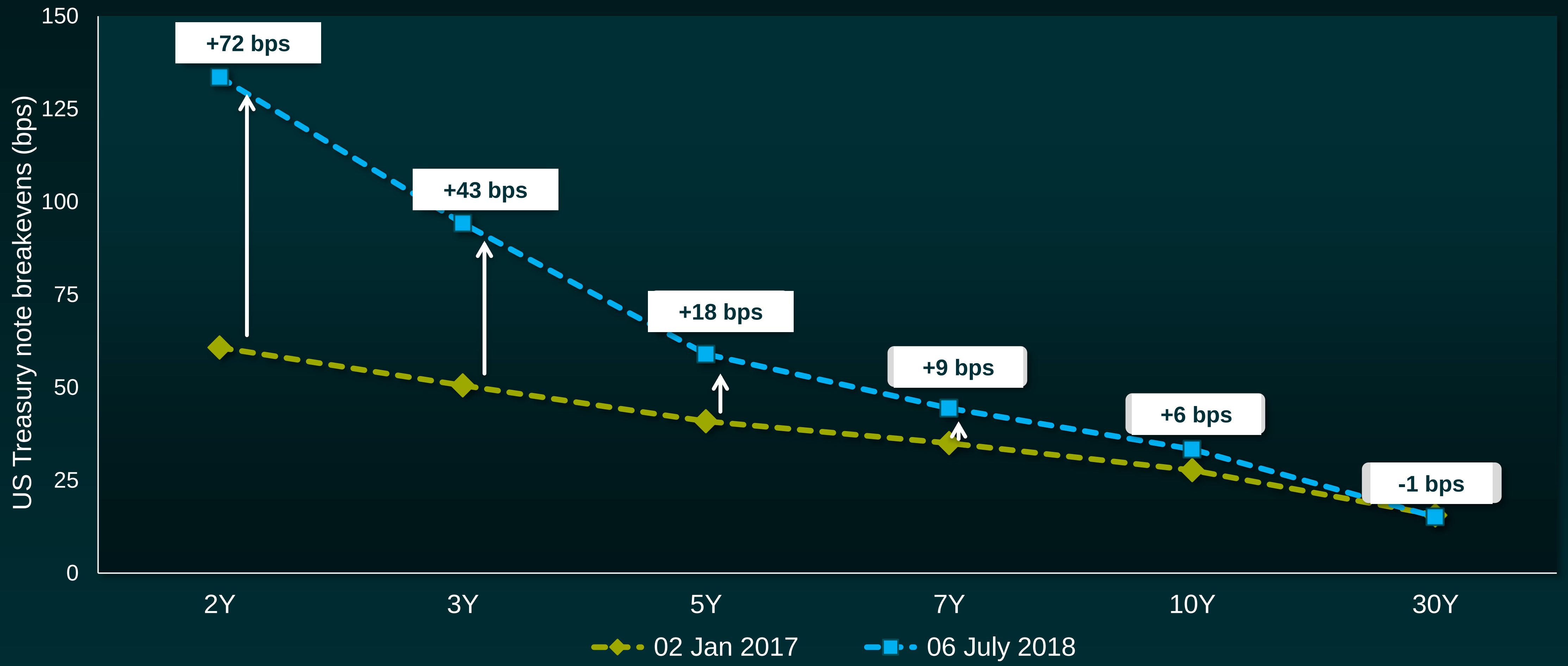
YTD 2018 asset price performance



Source: M&G, Bloomberg, Bank of America Merrill Lynch, JP Morgan, 31 August 2018

The flattening of the US Treasury curve

Front-end break-evens* have risen considerably

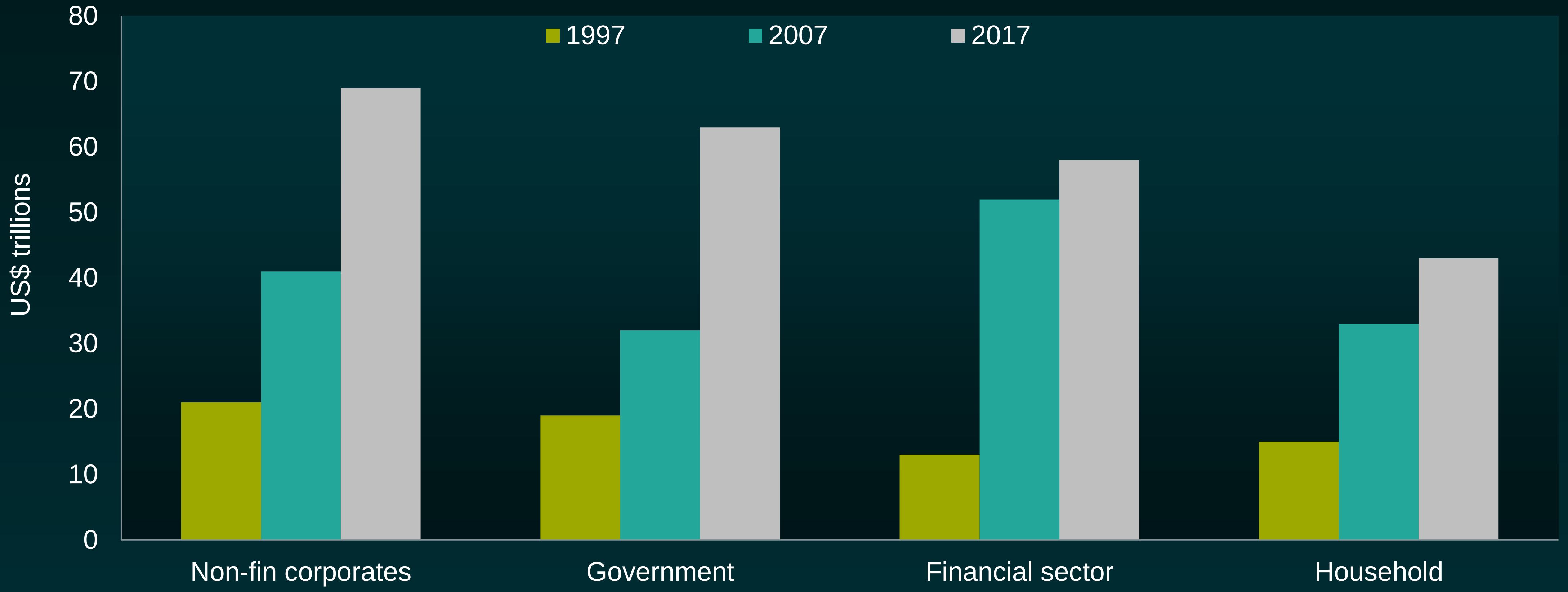


We are not being compensated for buying long dated US treasuries

*Source: M&G, Bloomberg, 6 July 2018. *Break-even yields: increase in bond yield required to offset all of the income generated over a 12 month period*

BUT how high can bond yields go without slowing the economy?

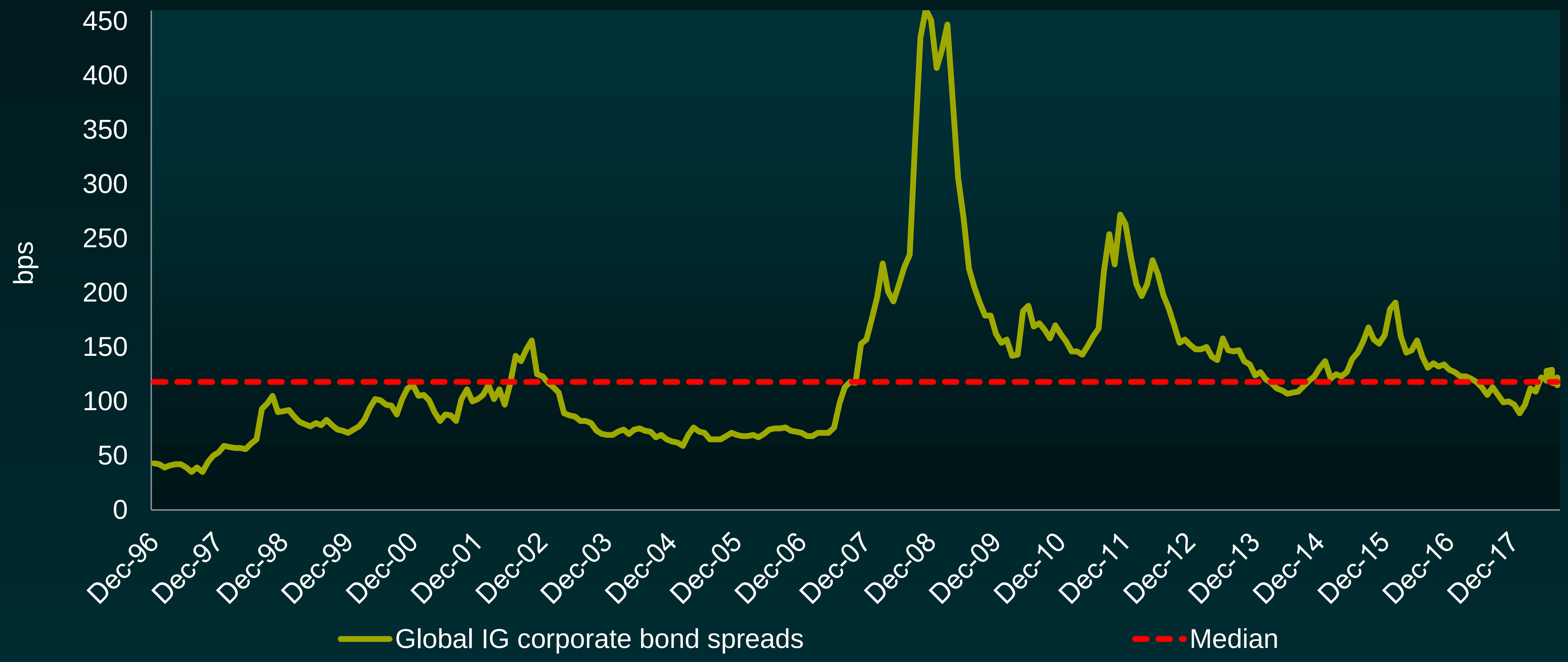
Total debt levels across major economic sectors



Record levels of global debt mean that rate hikes will quickly hurt

Source; IIF, BIS, IMF, Haver, January 2018

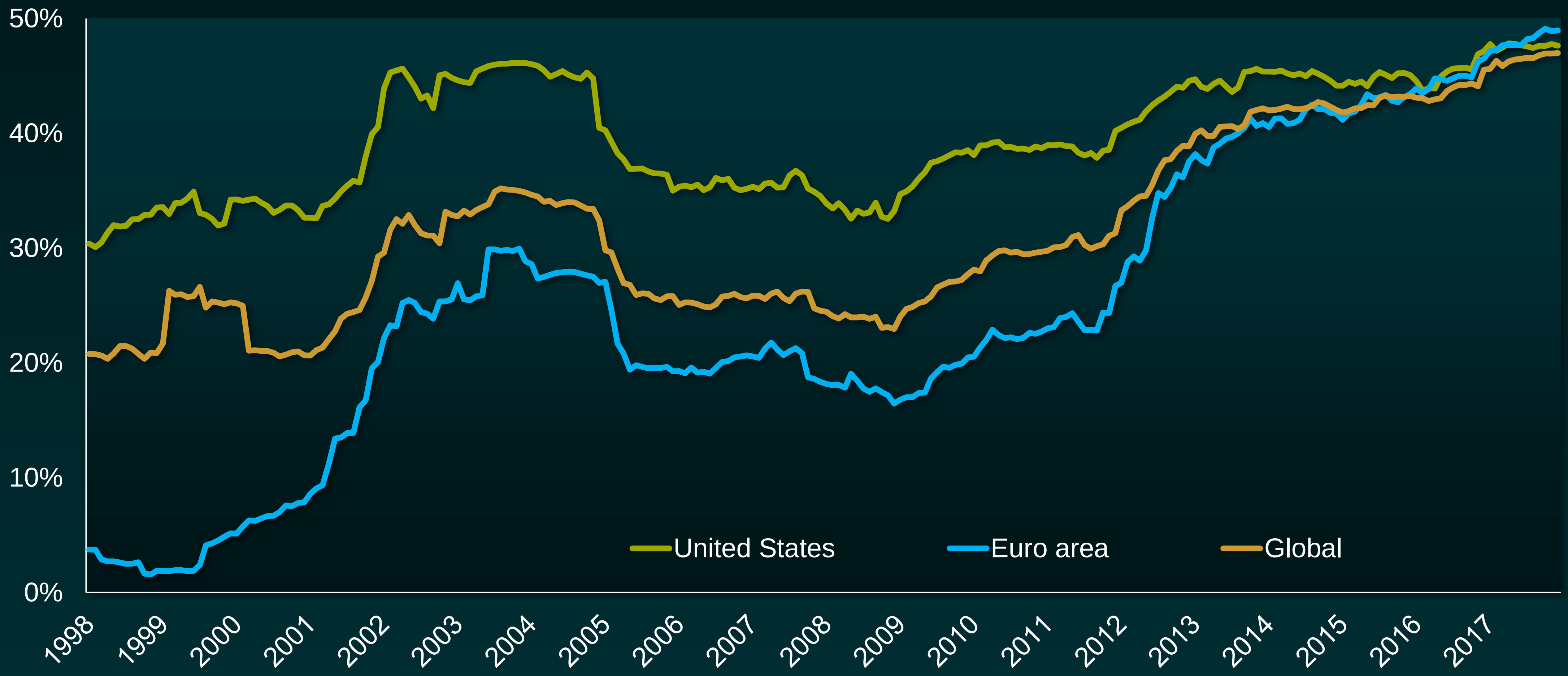
Corporate credit: Valuations now looking more attractive



Source: Bloomberg, BofA Merrill Lynch Indices, 31 August 2018

Corporate IG indices have deteriorated in quality

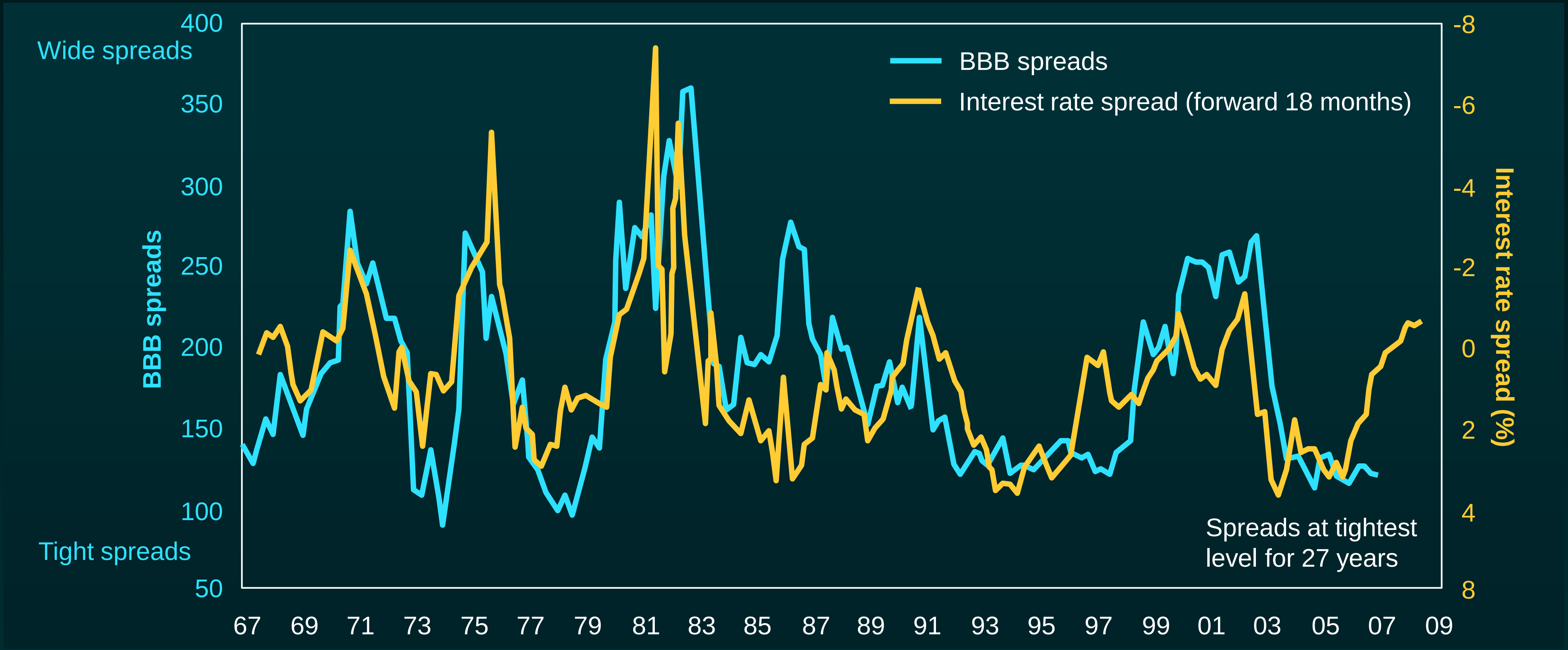
Percent of investment grade Index with BBB rated bonds



Source: M&G, January 2018; % of Bank of America Merrill Lynch investment grade indices composed of BBB rated bonds

Inverted yield curve is also a good predictor of corporate spreads

US BBB rated corporate bonds spreads vs interest rate spread

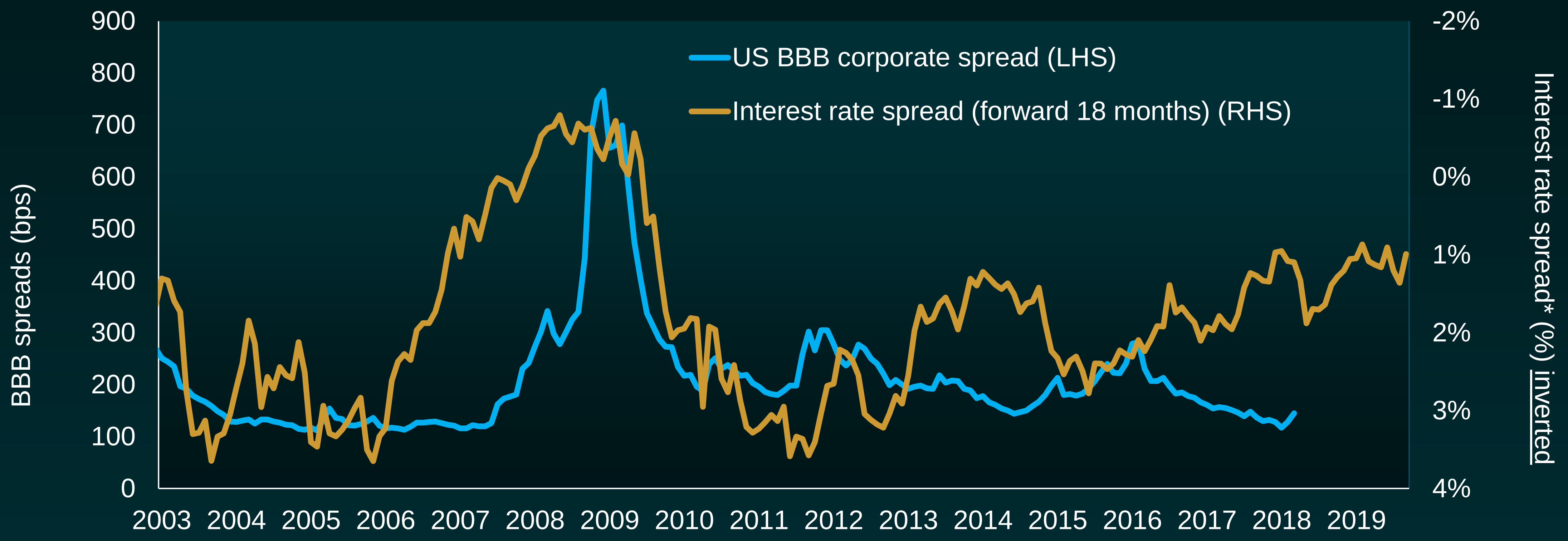


Lower rated corporate bonds are "priced for perfection"

Source: M&G Bond Vigilantes, Bloomberg, M&G, 2008.

The yield curve is also a good predictor of corporate spreads

US BBB rated corporate bond spreads vs interest rate spread*

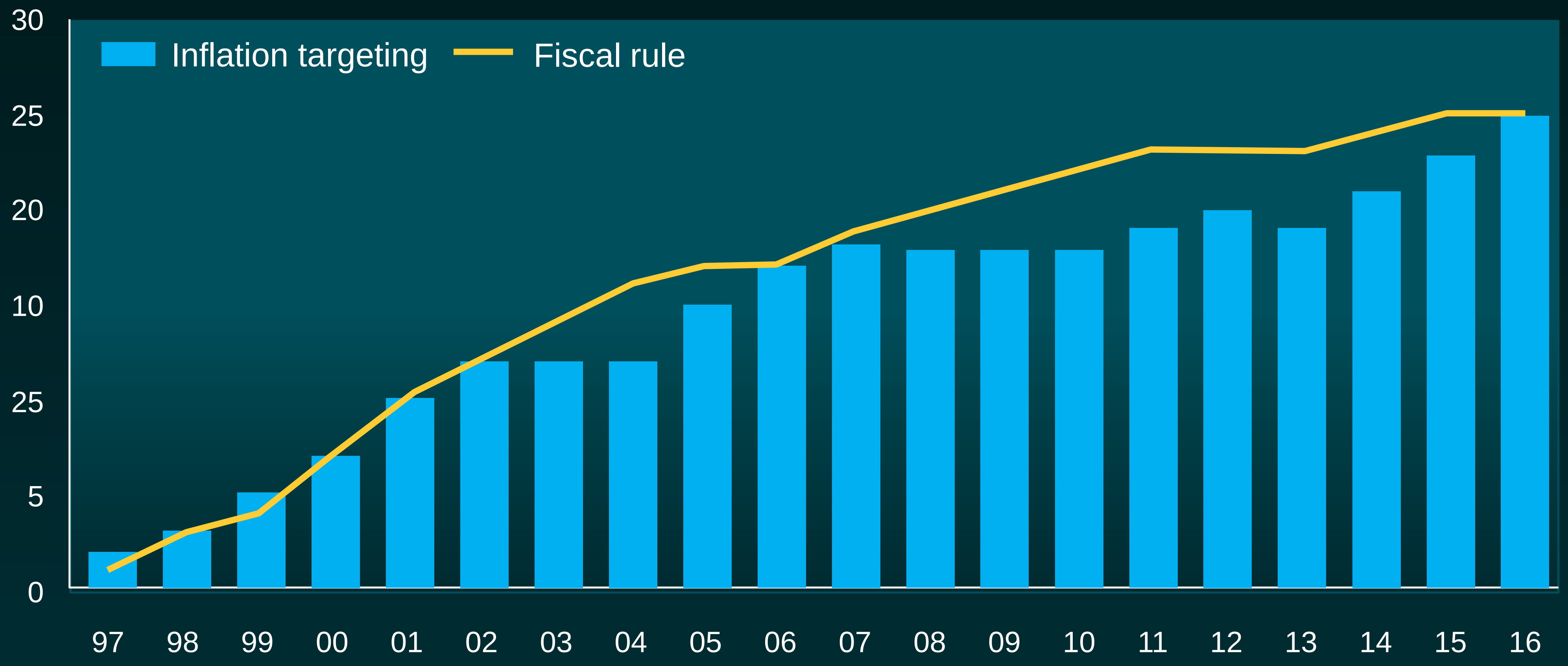


*Source: M&G Bond Vigilantes, Bloomberg, 31 March 2018. *Interest rate spread = 10y US Treasury yield – US Fed rate*

Emerging Markets are now better prepared

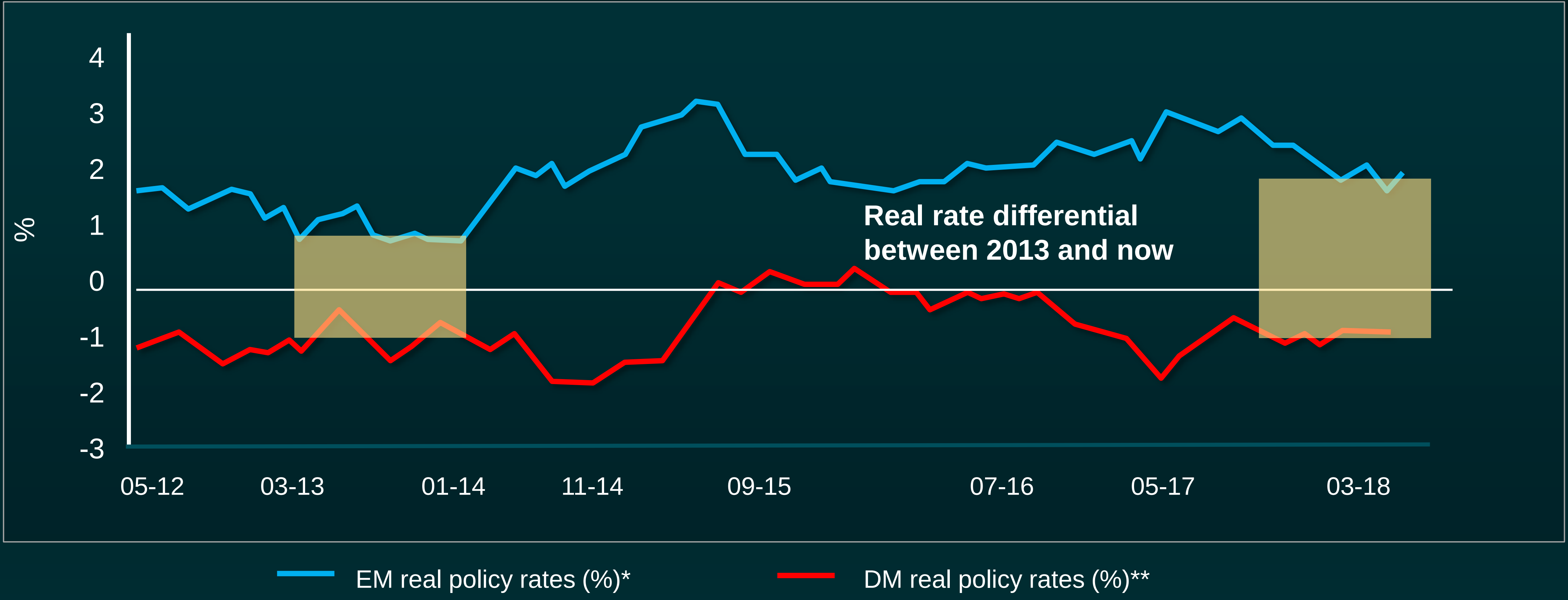
Better policy framework

Adoption of IT and fiscal rules in EMBI countries. Cumulative number of EMBI countries within framework



Source: IMF and J.P. Morgan; sample only includes 65 EMBI credits. 04 September 2018

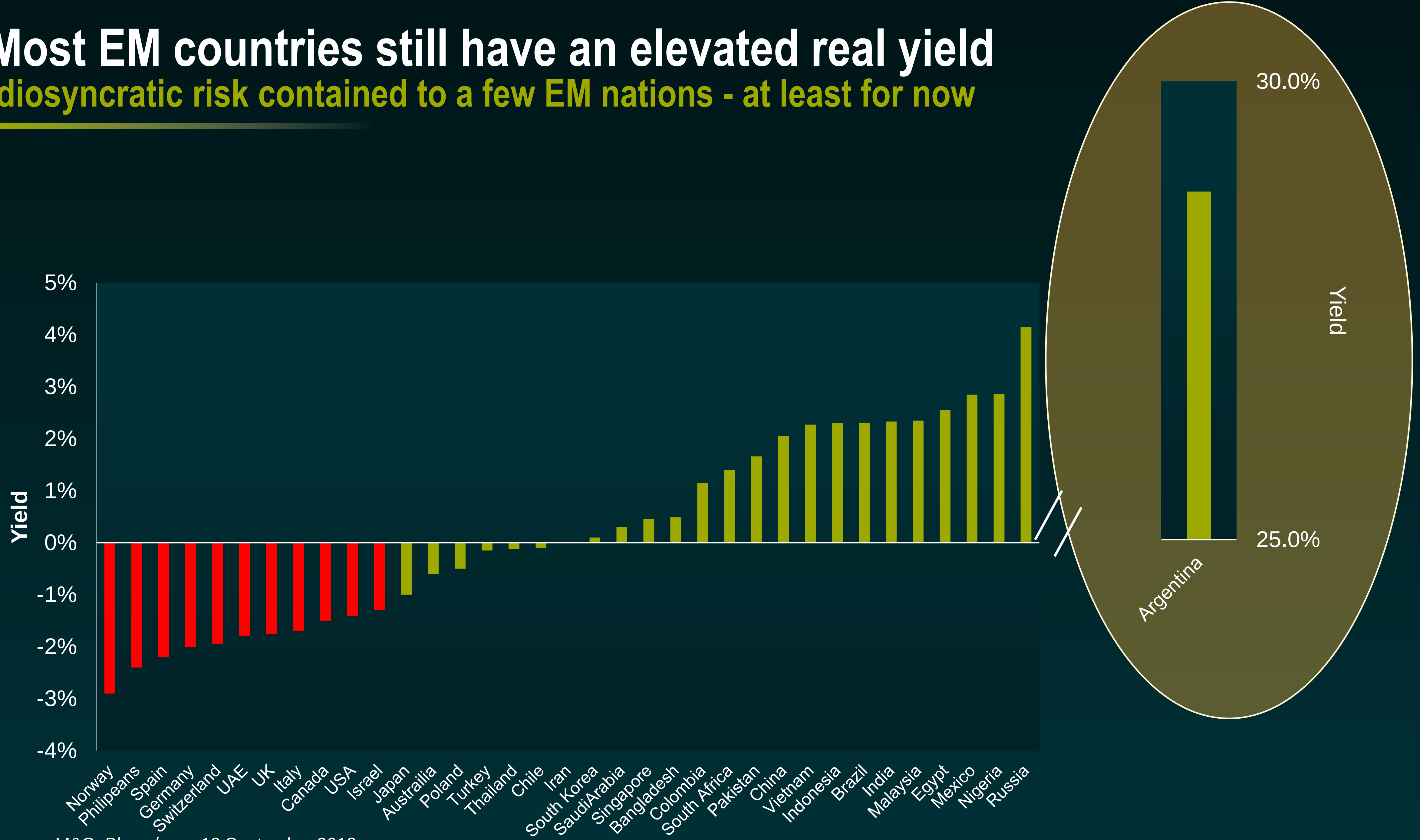
Real rates available in emerging markets versus developed markets



*Source: M&G, HSBC, DataStream, Bloomberg, April 2018. * PPP weighted average of Brazil, China, India, Indonesia, Mexico, Poland, Russia, South Africa and Turkey.*
*** PPP weighted average of Germany, Japan, US and UK*

Most EM countries still have an elevated real yield

Idiosyncratic risk contained to a few EM nations - at least for now

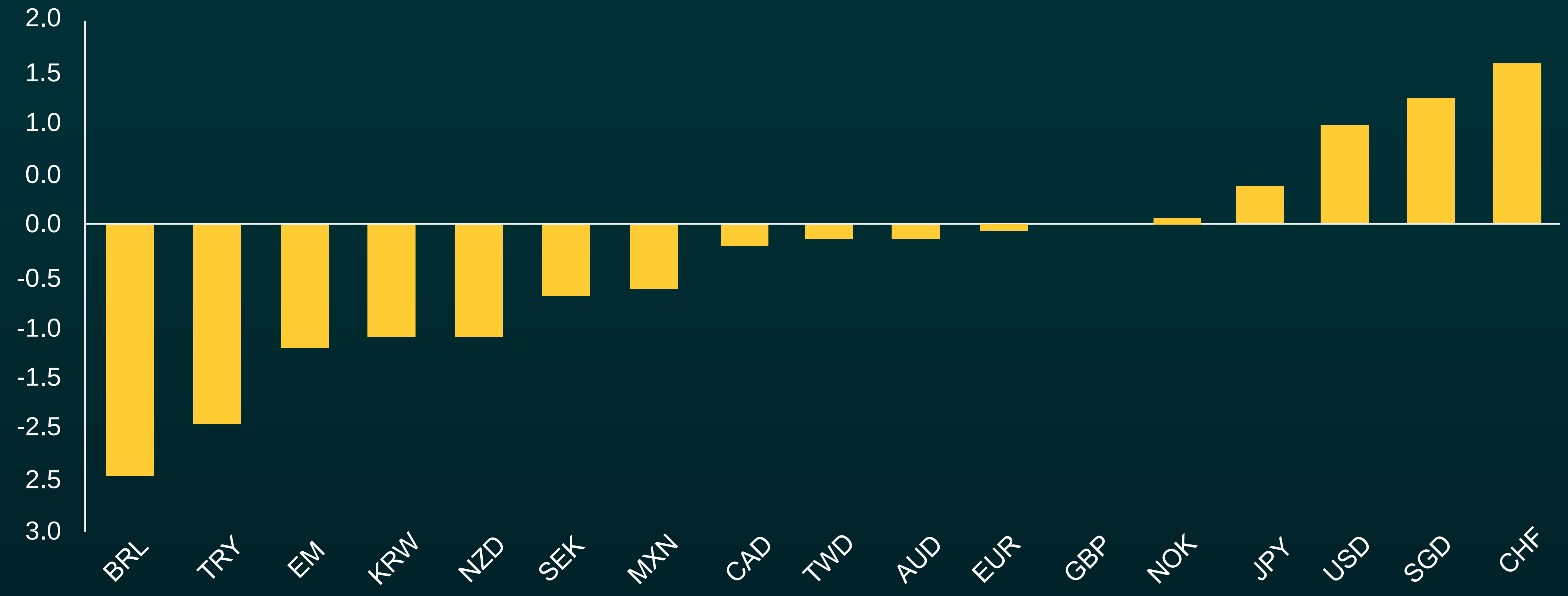


Source: M&G, Bloomberg, 12 September 2018

Currency can be used to reduce risk

CHF, SGD and USD have historically been the best recessionary hedges

Average change in NEERs* around the last 5 recessions / standard deviation over those 5 episodes



Source: *J.P. Morgan Research. 04 September 2018. *Nominal Effective Exchange Rate*

Agenda

- What we said a decade ago
- A changed world, are things better now?
- **M&G Global Macro Bond Fund**

Fund facts

M&G Global Macro Bond Fund

Fund name	M&G Global Macro Bond Fund
Fund manager:	Jim Leaviss
Launch date (manager tenure):	October 1999 (since launch)
Fund size:	£1,527 million
Investment objective:	The Fund’s objective is to maximise long term total return (the combination of income and growth of capital).
YTM gross of ongoing charges	2.6%
Comparative sector:	IA Global Bond Sector
Valuation currency:	USD
Fund structure:	UK OEIC – UCITS
Pricing/dealing frequency:	Daily

Ratings as at 31.07.18. The Morningstar Overall Rating based on the fund’s Sterling Class I shares. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Ratings should not be taken as recommendation. FE Crown Fund Ratings based on the fund’s Sterling I Acc shares. FE Crown Fund Ratings do no constitute investment advice offered by FE and should not be used as the sole basis for making any investment decision.

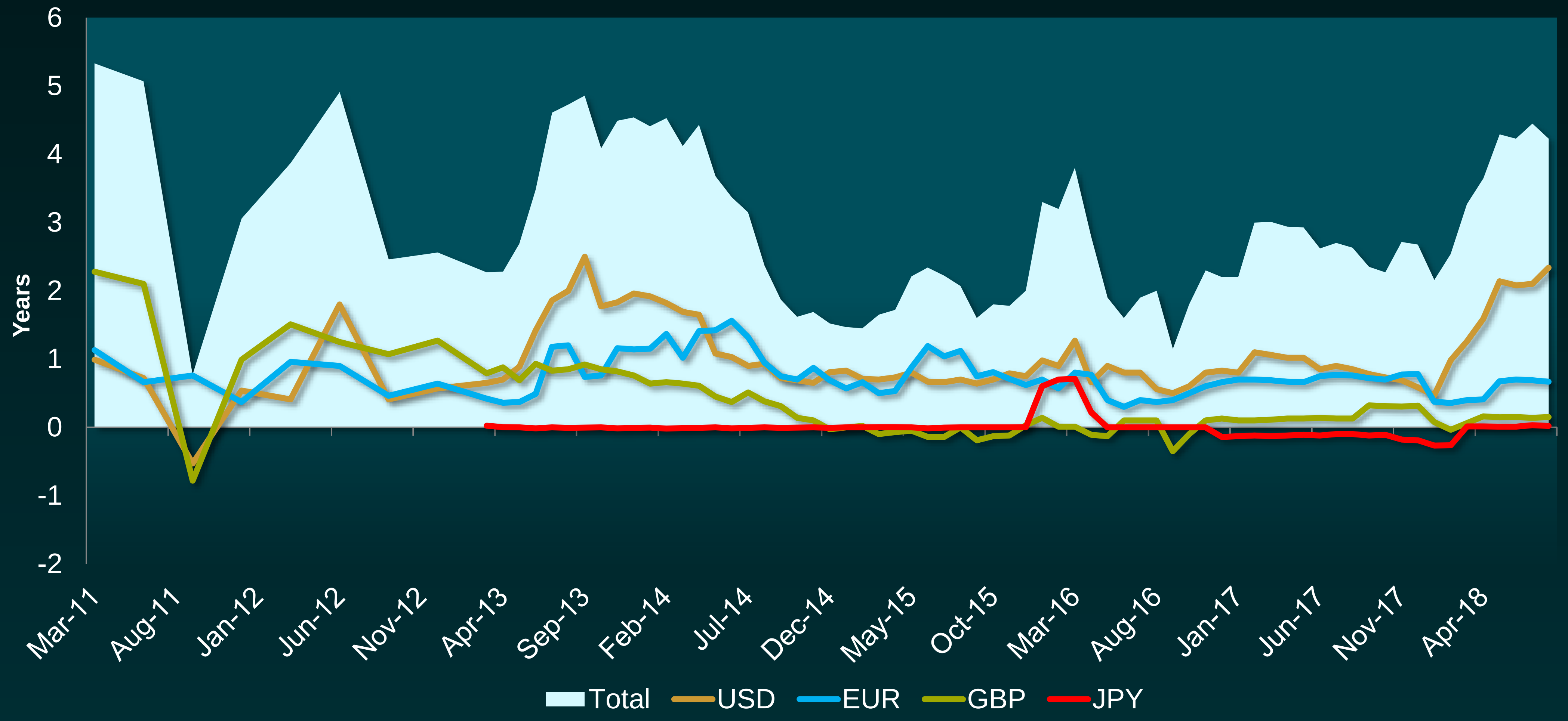
Ratings should not be taken as recommendation

Past performance is not a guide to future performance

Source: M&G, 31 August 2018

Duration contribution from G4 currencies

M&G Global Macro Bond Fund

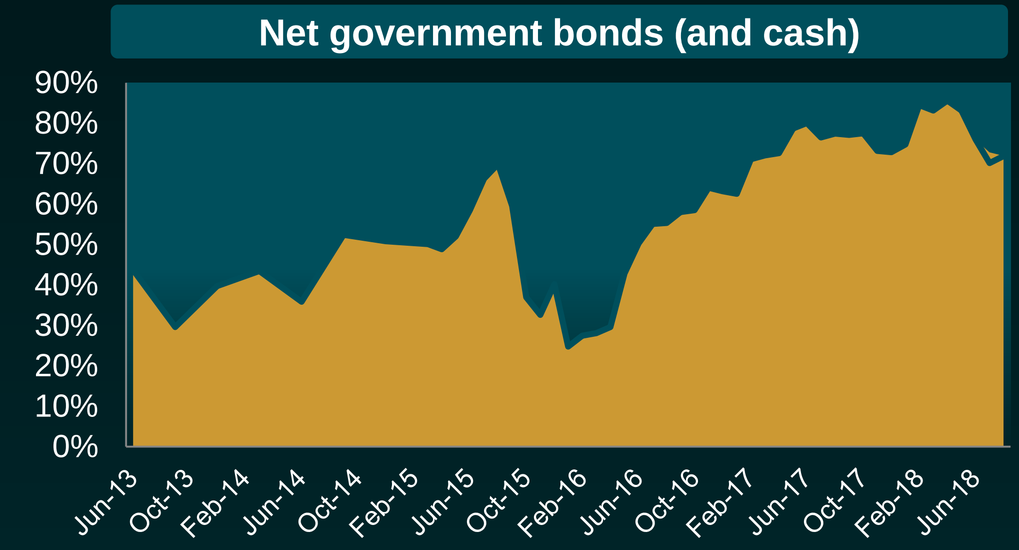


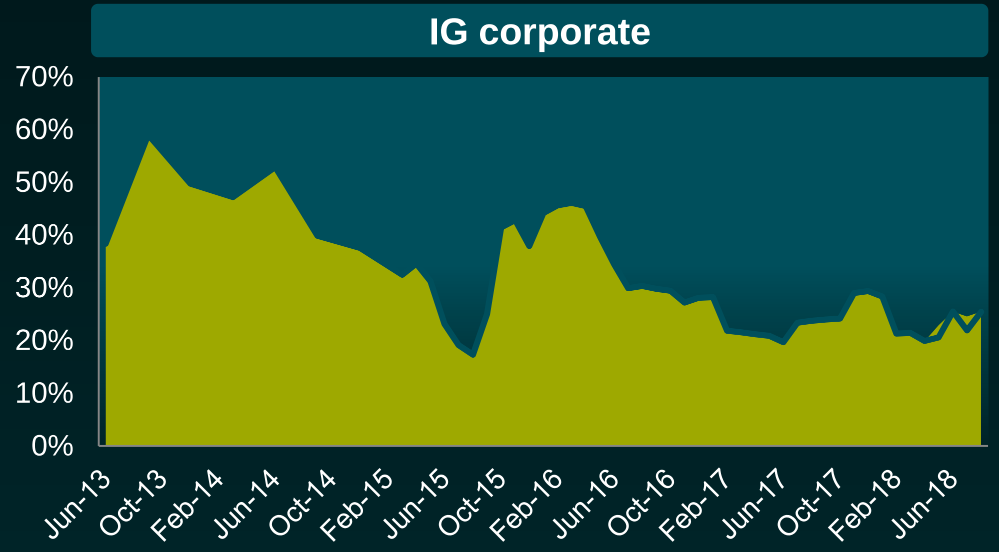
We continue to maintain a short duration position

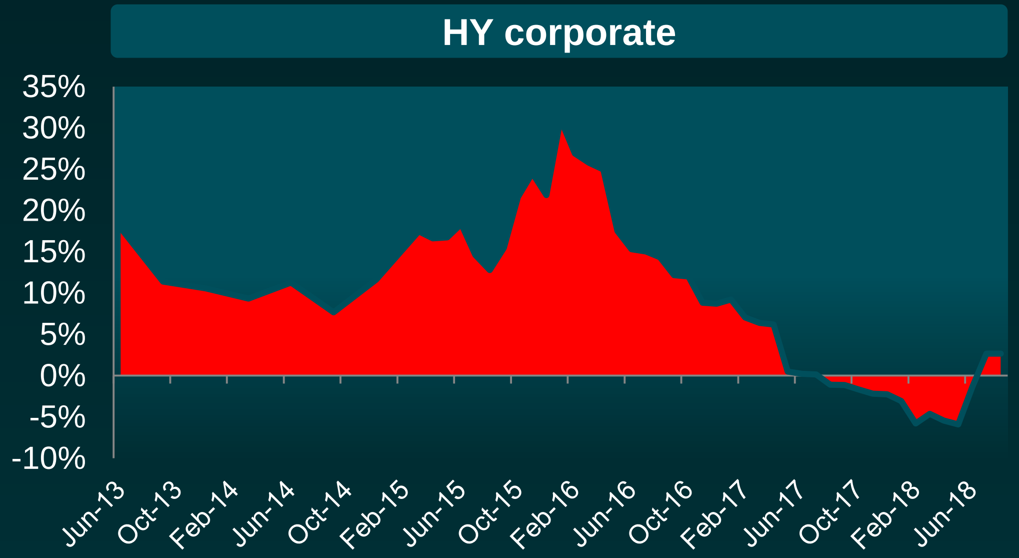
Source: M&G, 31 August 2018. Please note, portfolio data is based on internal sources, is unaudited and may differ from information as shown in the Monthly Fund Review

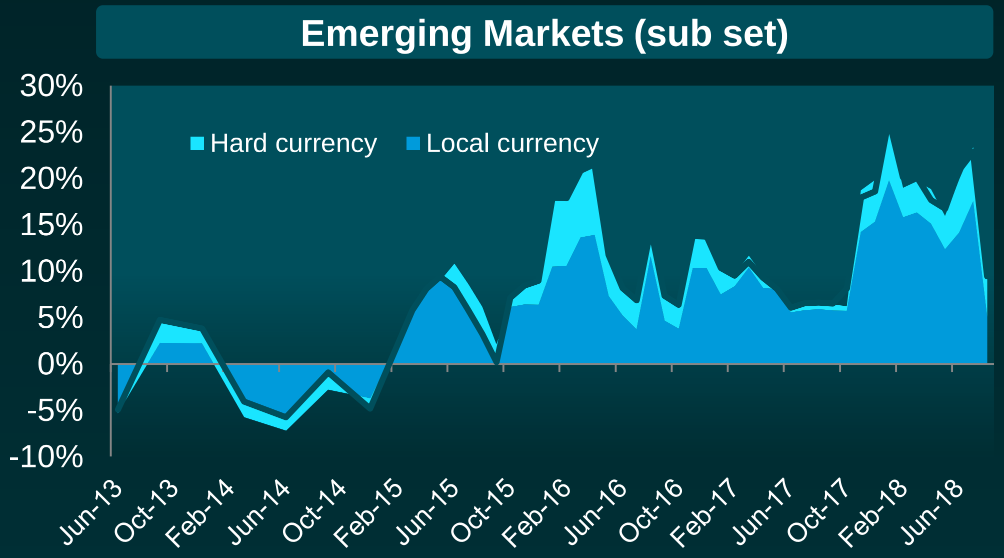
Asset allocation over time

M&G Global Macro Bond Fund





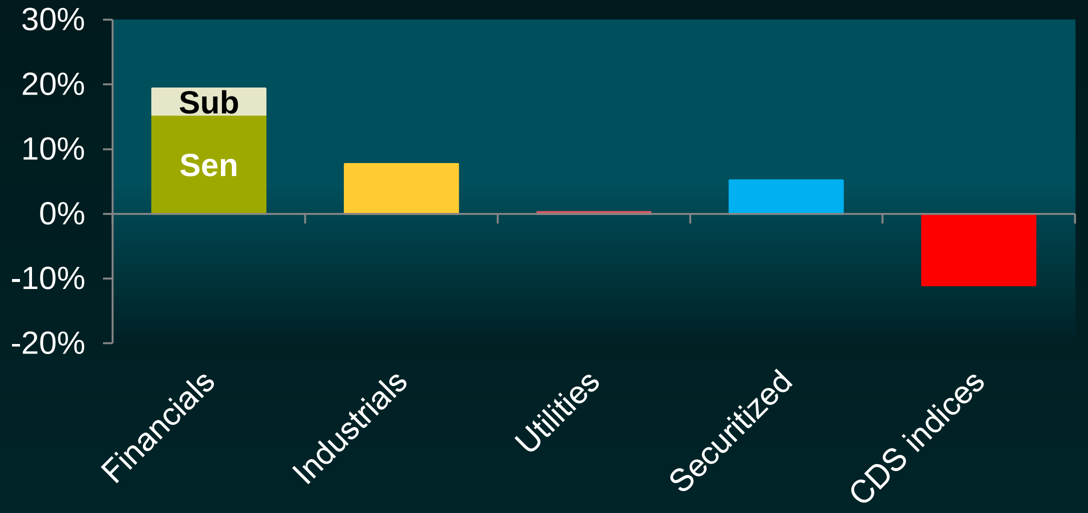


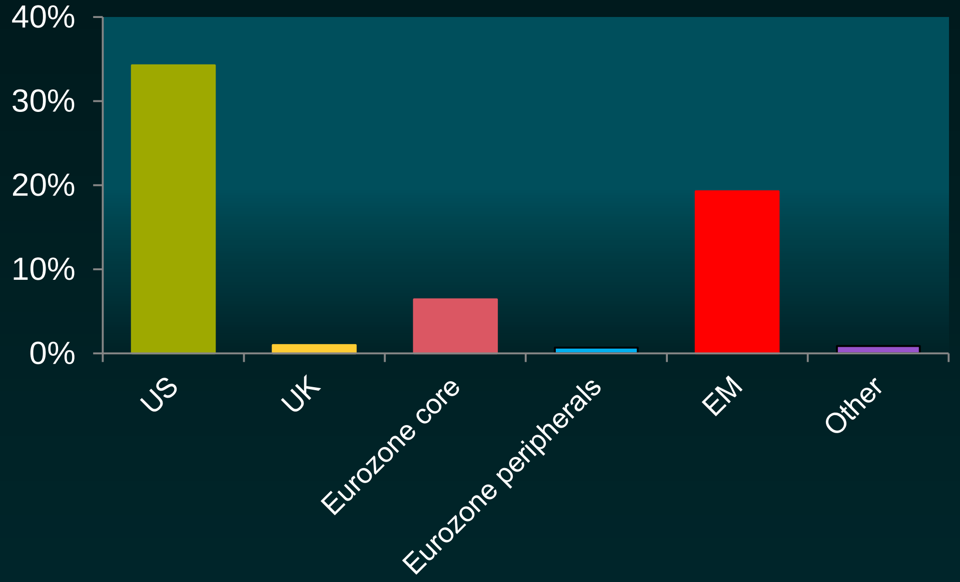


Source: M&G, 31 August 2018. Please note, portfolio data is based on internal sources, is unaudited and may differ from information as shown in the Monthly Fund Review

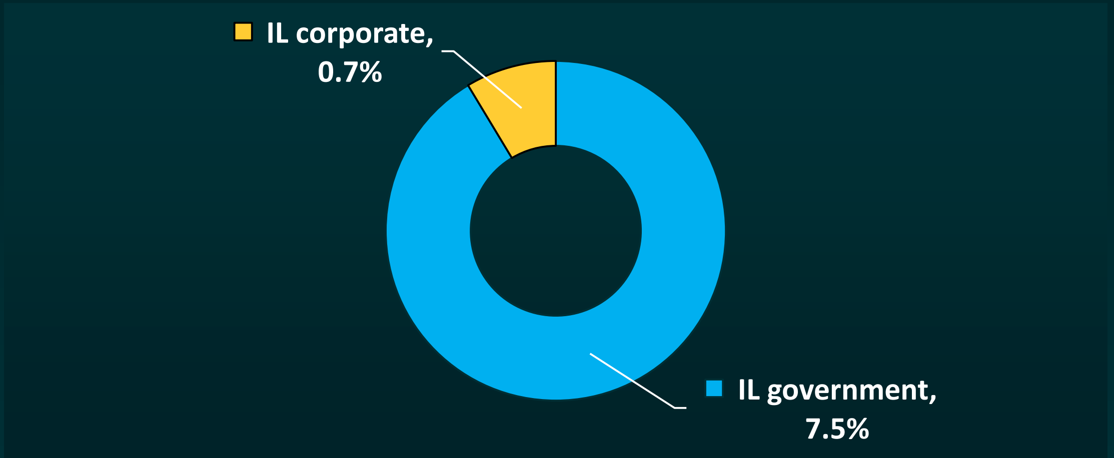
Asset allocation: insights
M&G Global Macro Bond Fund

Credit exposures

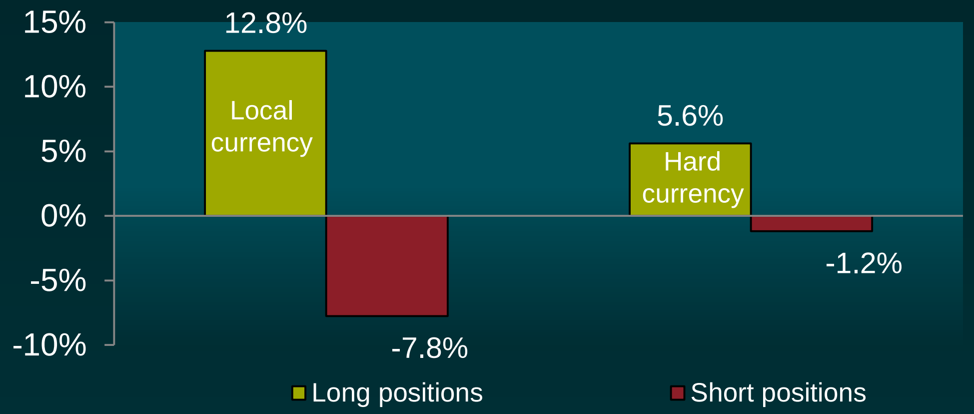




Inflation-linked bonds

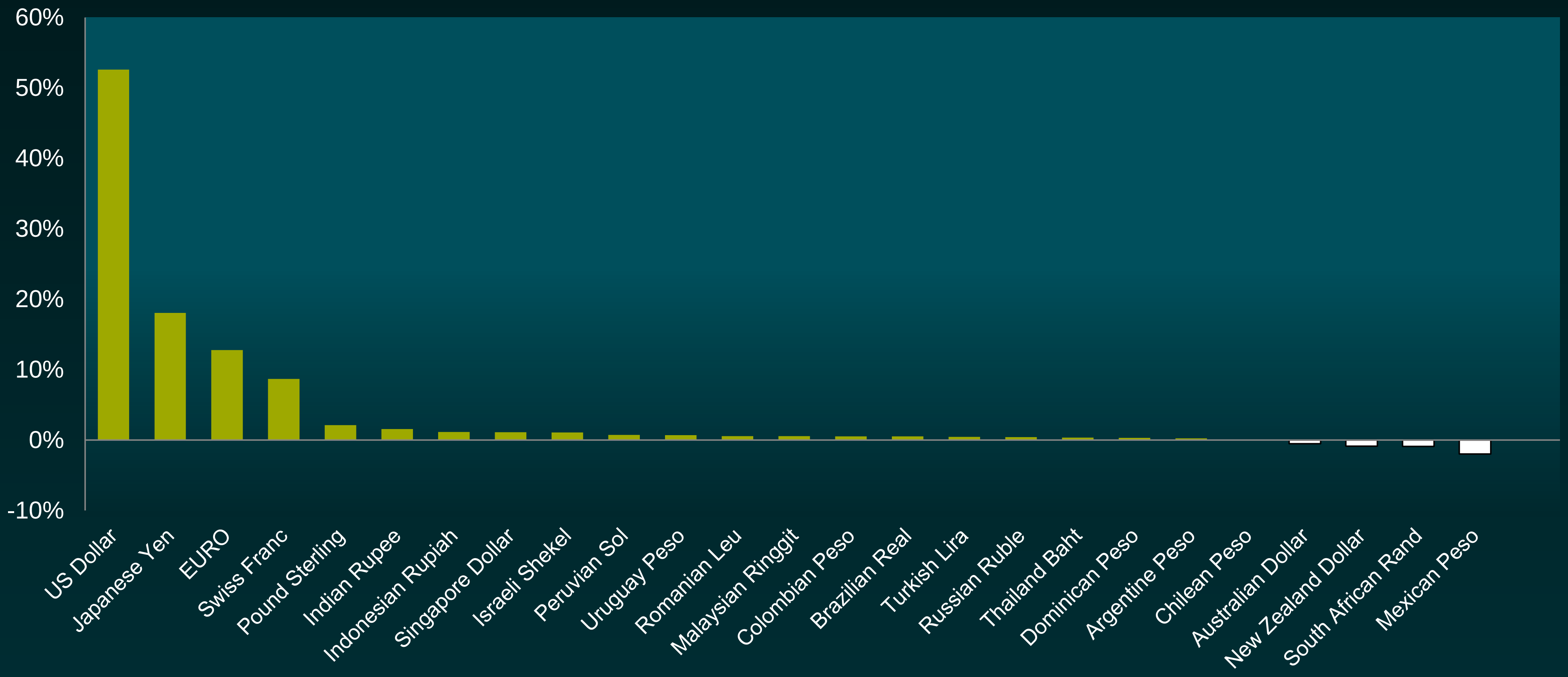


Emerging markets



Source: M&G, 31 August 2018. Please note, portfolio data is based on internal sources, is unaudited and may differ from information as shown in the Monthly Fund Review

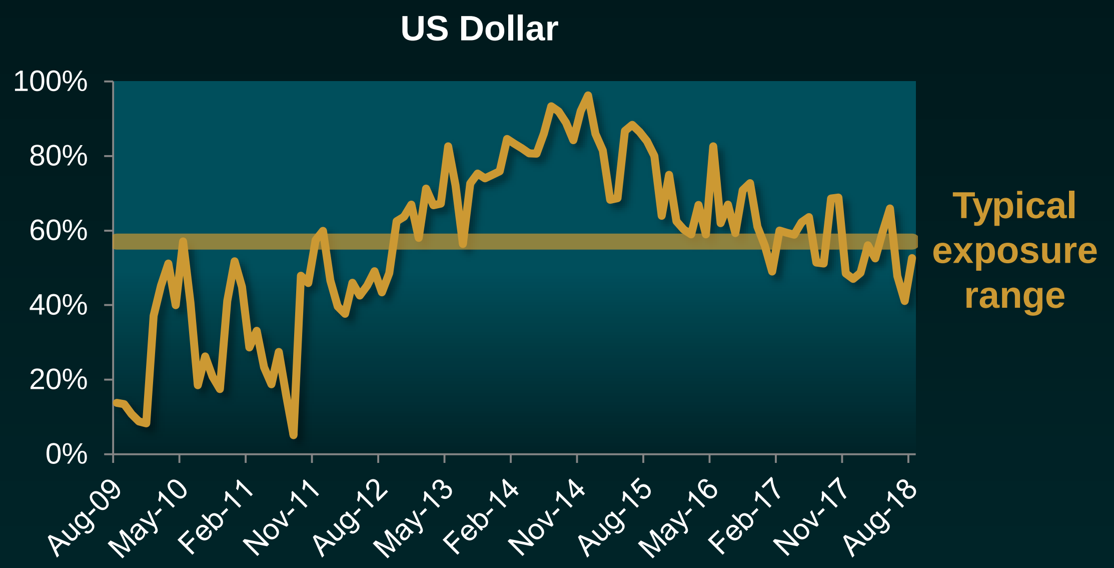
Currency exposure
M&G Global Macro Bond Fund

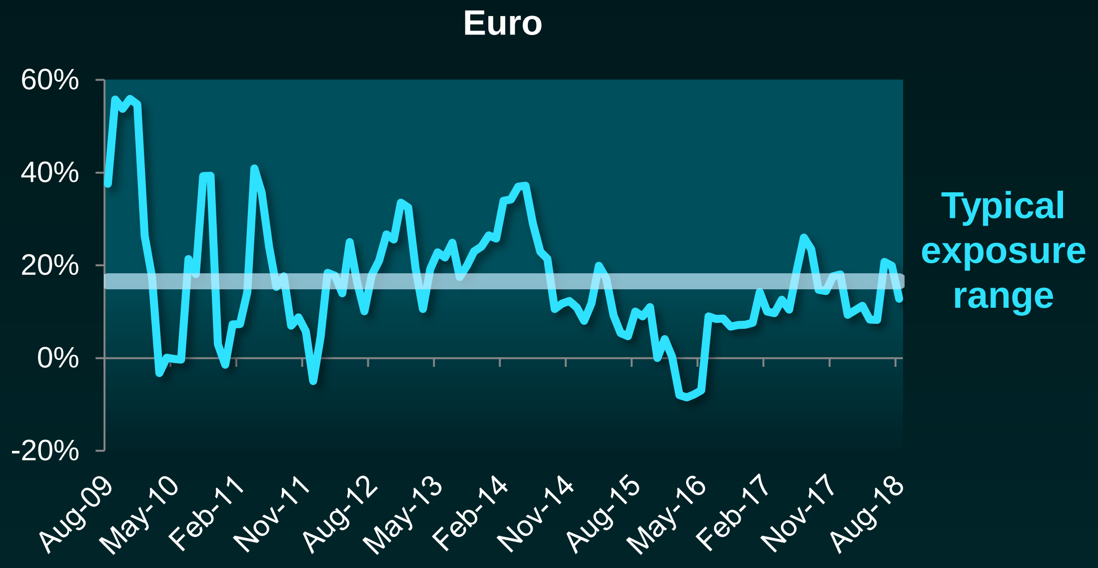


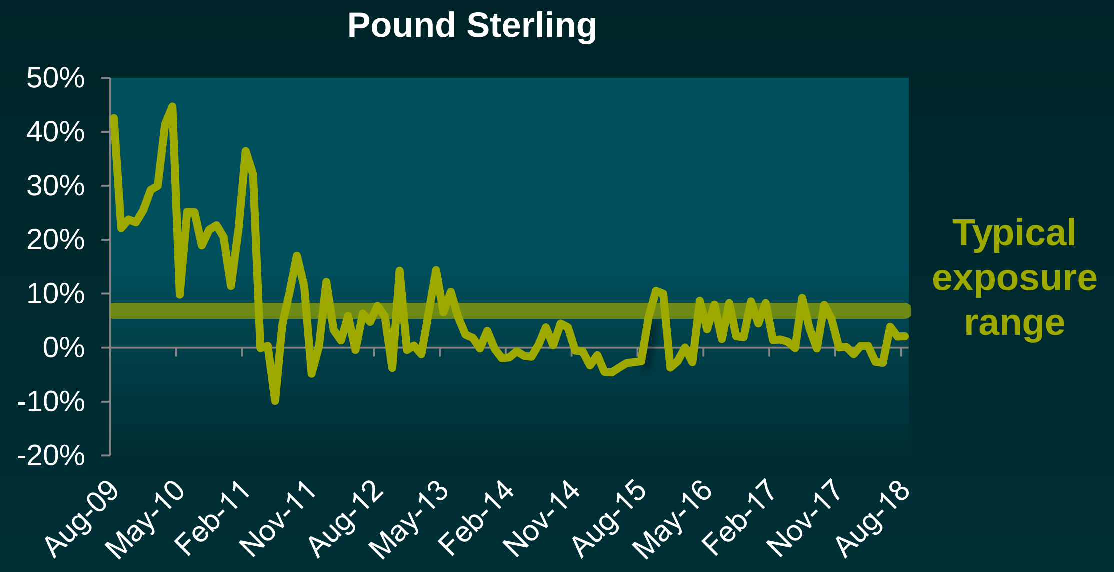
Source: M&G, 31 August 2018. Please note, portfolio data is based on internal sources, is unaudited and may differ from information as shown in the Monthly Fund Review

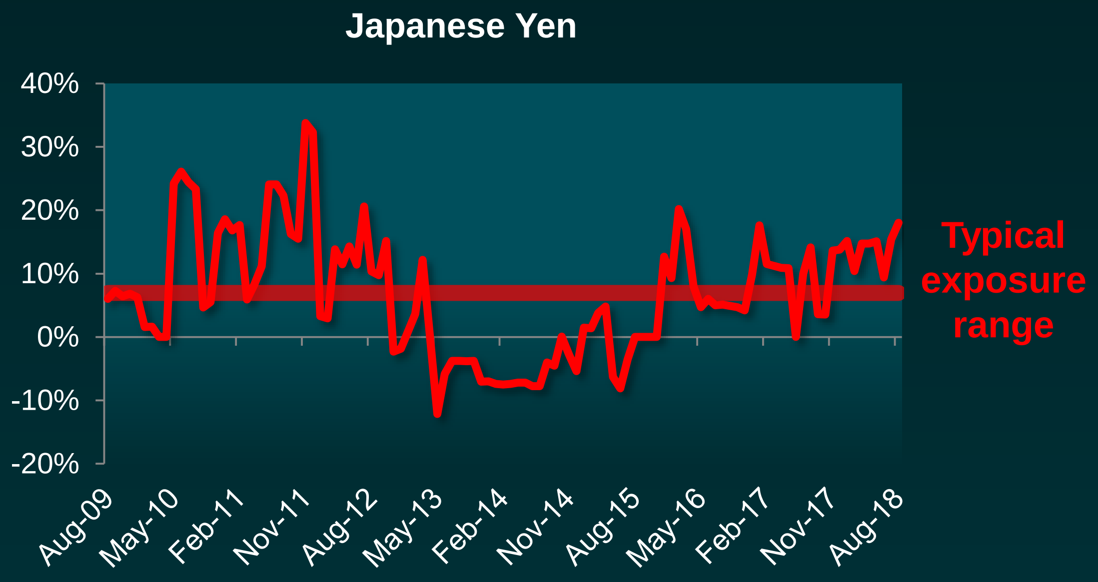
Currency exposure: evolution of key currencies

M&G Global Macro Bond Fund









Source: M&G 31 August 2018, Please note, portfolio data is based on internal sources, is unaudited and may differ from information as shown in the Monthly Fund Review

Calendar year performance in sterling

M&G Global Macro Fund

	YTD %	2017 %	2016 %	2015 %	2014 %	2013 %
M&G Global Macro Fund	1.5	-3.8	25.3	0.9	6.0	0.2
IA Global Bond sector	0.4	1.7	17.7	-0.9	4.5	0.4

Past performance is not a guide to future performance

Source: Morningstar Inc., UK database, 31 August 2018, sterling I class shares, income reinvested, price to price. The fund's sterling I class shares launched on 16/12/2011. Performance data shown prior to this date is that of the fund's sterling X share class.

Q&A

For financial advisers only. Not for onward distribution. No other persons should rely on any information contained within. This financial promotion is issued by M&G Securities Limited which is authorised and regulated by the Financial Conduct Authority in the UK and provides ISAs and other investment products. The company's registered office is Laurence Pountney Hill, London EC4R 0HH. Registered in England No. 90776.