PRUDENTIAL **INSIGHTS**

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Capitalising on October's global equity sell-off

With global equities losing 7-8% in October on the back of rising investor fears of a possible sharp slowdown in economic growth and corporate earnings in the US and the rest of the world, Prudential South Africa's offshore investment manager, London-based M&G Prudential, went against the herd. They opted instead to take advantage of the attractive valuations on offer and increased the Prudential Global Balanced Fund's exposure to global equity, ending the month at a 72% weighting from 70% previously.

M&G Prudential, one of Europe's largest fund managers, believes the selling has been overdone, lacking substantiation by any serious negative news or facts. Although corporate earnings revisions have been slowing somewhat, they note that earnings growth has still been strong. There has been very little news of importance to warrant the recent phenomenal share price collapse. Although there has been a slowdown in world growth at the margins, they do not expect an imminent recession or collapse in earnings. Unemployment is falling everywhere, they point out, while inflation is not showing any major changes. On top of this, M&G Prudential doesn't agree with some analyst arguments that emerging markets will necessarily underperform as US interest rates rise.

M&G Prudential also dismisses worries about an impending end to the long-running US equity bull market, noting there is little data to indicate this is a danger. Where there might be potential danger, they caution, is a future US wage-price spiral driven by a labour shortage, although this is not likely. Rising tariffs are also a legitimate concern. Meanwhile, as at the end of October emerging equity markets were representing fantastic value, especially compared to their developed market peers, suggesting that such low levels were unsustainable and a recovery was possible.

The Prudential Global Balanced Fund remains underweight US equities despite the recent sell-off as US market valuations remain elevated. At the same time, to capitalise on cheap valuations it is overweight certain well-valued European and Asian equity markets such as Germany, South Korea and China.

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