



PRUDENTIAL

Staff Pension Scheme

The Defined Contribution Section

Your journey

Market commentary from the DC Section Investment Consultant

7 May 2020



Markets Update – 7th May 2020

Introduction

This paper is addressed to the Trustee of the Prudential Staff Pension Scheme (“Scheme”) DC Section.

This paper should not be released or otherwise disclosed to a third party except as required by law or with our prior written consent, in which case it should be released in its entirety. This paper may be shared with DC Section members of the Scheme on a non-reliance basis. We accept no liability to any third party unless we have expressly accepted such liability in writing.

The Impact of COVID-19 on Investment Markets

The spread of COVID-19 (“Coronavirus”) has led to significant falls in equity markets globally. The rapid spread of the Coronavirus is causing disruption to global supply chains and reduced consumer demand. Global growth is forecast to slow meaningfully as a result over the next 3 and 12 months.

The fall in markets has been significant but it is important to put the falls into context as long-term savers.

In overall terms, equity returns have surpassed expectations over longer periods. This means that members exposed to equity markets for longer periods are still likely to be better off than those with less exposure to the asset class, despite the recent falls.

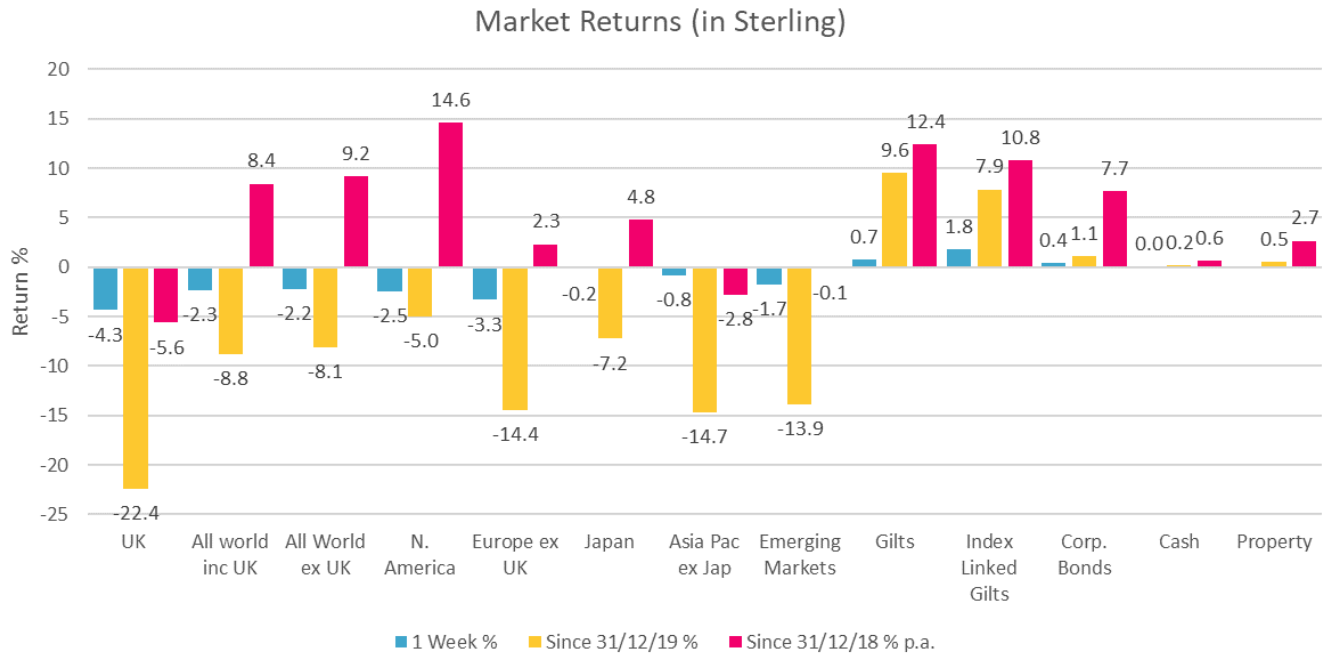
The DC Section’s Lifestyle Profiles are also designed to protect members from equity market falls when they are closer to retirement and with less time to recover from any market setbacks. It does so by a planned reduction equity exposure in favour of a more diversified asset strategy as members approach retirement. This is achieved by switching from equities into more diversified assets including bonds and cash in regular planned stages in the years towards selected retirement age. In extreme market conditions the lifestyle process will occasionally purchase a moderate amount of equities when market movements have pushed the equity component below the planned target on the lifestyle glidepath. Buying a moderate amount of equities like this can be profitable if equity markets rebound.

We expect volatility markets in the coming months as the situation develops and the longer-term impact on markets becomes clearer. Whilst the risk of further falls is sizable, there is also potential for a rebound as activity returns to normal. Timing these falls, and rebounds is very difficult. Maintaining a long-term focus and remaining invested in markets is important at times like this.

Members closer to retirement or considering transfers may want to consider the timing of any cashing in of any benefits or transfer. Any members considering changes to their pension arrangement should take independent financial advice.

What has been the impact on investment markets?

The performance of investment markets over various periods to 6 May 2020 is shown in the chart below.



Property returns to month end (31 March) and not available for 1-week period.

Source: Datastream

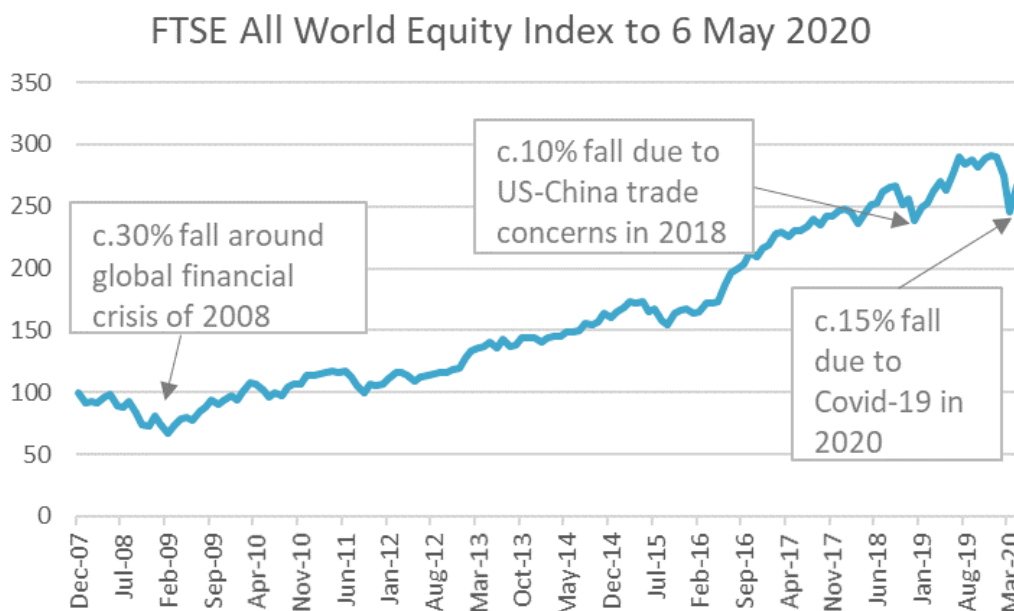
The fall in markets in February and March has been significant. In fact, this was the most significant fall in equity markets since the Global Financial Crisis in 2008. However, it's important to put the falls into context for individual DC members as long-term savers. The following table summarises returns over periods to 6 May 2020:

	12 Months %	3 Years % p.a.	5 Years % p.a.
FTSE All World Index (Sterling)	-0.6	5.4	9.0

Source: Datastream

Despite the fall, global equity returns over longer time periods have been strong. This has been largely driven by continued optimism from investors, backed by relatively strong economic growth globally.

The chart below shows the performance of global equities and shows the recent sharp falls in the first quarter of 2020 but also puts that in context of the global equity market over a longer period. The chart highlights that markets go through periods of significant down turns due to world events or financial crisis, but they tend to recover over a relatively short period.



What is the impact on DC Section members?

In overall terms, equity returns have surpassed expectations over longer periods. This means that those exposed to equity markets for longer periods are still likely to be better off than those with less exposure to the asset class, despite the recent falls.

Indeed, strategies investing 100% of assets in global equities in the earlier career phase such as the DC Section lifestyle profiles have performed strongly in recent years. The short-term market fall offers potential buying opportunities for investors investing regular contributions (see next section). Although you might see the value of your pension go down in the short term, members continuing to make contributions and receiving investment returns over their whole career should experience little impact and pot sizes should recover.

From a forward-looking perspective there is still an expectation that global equities will be the best performing asset class for long term investors.

The market fall will be of most concern to members closer to retirement, where preserving the value of their fund is more important, and for those about to take some proceeds from their pot. Members adopting a diversified investment approach (such as the Scheme's lifestyle approaches) are likely to have limited the extent of market falls – with bonds and other asset types providing some defence against the downward trend. Those closest to retirement will also have had a sizeable proportion of investments in cash. Avoiding having all your eggs in one basket (equities) will have limited the falls.

What actions should be taken?

As long-term savers, it's important that DC Section members do not react in a knee-jerk manner to the recent developments.

For those further from retirement, short-term market falls offers buying opportunities for investors investing regular contributions. You and your employer put money into your pension every month. This means that when stock markets go down, you buy more. Let's illustrate that with an example:-

You have £150 to buy shares in a company which cost £15. The shares cost £15 share - so you can buy ten.

The following month, the price has fallen to £10 per share. The good news is you can buy 15 shares for the same £150.

What the example shows is that, as stock markets fall, you can buy more with the same amount of money. And when markets recover – which we expect them to do in the medium to longer term – what you're buying now will go up in value. In a market recovery, for the 15 shares you bought at £10 per share, if the price returns to £15 (or even higher) you will potentially have at least £225 from your £150 investment.

For those closer to retirement, whilst you will have been shielded from the stock market falls to a certain extent if you invest through one of the lifestyle options, it is worthwhile checking your options including reviewing your expected retirement date and continuing contributions to ensure you are still on track for retirement.

What about markets going forward?

In reality, we expect further turbulence in markets in the coming months as the situation develops, and the longer-term impact on markets is fully understood. Whilst the risk of further falls is sizable, there is also potential for a rebound as activity returns to normal. Timing these falls and rebounds is difficult. Maintaining a long-term focus and remaining invested in markets is important at times like this. For those closer to retirement, the lifestyle options are designed to help shield members from this turbulence.

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For and on behalf of Hymans Robertson LLP