

PRESENTER: For our monthly look at the global economy I'm joined down the line by Phil Butler, Multi-Asset Portfolio Manager for Prudential Portfolio Management Group. So Phil, welcome. So what have been the key themes in markets of late?

PHIL BUTLER: So there have been a few key themes that we've seen in the market of late, and it's mainly been driven by divergence in some of the economic data coming out of Europe and US. So in Europe those PMI data rolled over, softened a little bit; whereas in the US they've remained both elevated and strong. Now the underlying consumer confidence is still there in Europe, but that divergence in the economic data has caused the dollar to strengthen. That coupled with the stronger commodity markets, where we've seen oil go to \$80 a barrel, in the month of May, has caused some markets, equity markets in particular to be weak, particularly in Europe and Asia. Whereas the UK market based on its composition of energy and materials, and also a lot of earnings is earnings, has actually seen that index in particular have a strong month, up 4 to 5% on the month.

PRESENTER: And what's been the reaction to the political news in Italy?

PHIL BUTLER: Yes, the markets have taken that quite badly now. The president didn't accept the Italian finance minister due to euro fears, and essentially what that's done is caused both equity markets and government bond markets to sell off actually quite violently. Now they came back a little bit more recently as those worries moved away. I think what we've got there now is the unpredictability. So we know there's going to be another election, and that causes some strain on both the Italian market but the wider European area.

PRESENTER: Is there a risk of contagion?

PHIL BUTLER: I think there is. I think you have seen what's happened in both the Spanish and Portuguese government bond markets, and European equities have generally been quite soft. We do like to make the clear distinction though that just because of what's happening in the Italian politics, we need to be careful not to place what's going on there in Spain and Portugal. Now Spain has also had

a no confidence vote, but I think there are relations but at the same time we need to make sure that we're looking at the aspects that are happening in Italy, and we feel markets have overreacted, and then also not take that overreaction into the likes of Spain, Portugal and other peripheral European countries. Now clearly markets are trying to assess that right now, and we saw government bond yields come in as people go to those safe haven assets. But yeah I think there's a risk but people shouldn't overdo that.

PRESENTER: What are your thoughts on the US trade tariffs that have been imposed?

PHIL BUTLER: Yes, now this is a frustrating element here. Because Donald Trump is Mr Unpredictable, and has the daily tweets, and sometimes says things before he's even spoken to his own senate and advisers. So we've got to be careful not to take the extreme approach here. An all-out trade war would be bad for the global economy, and we're seeing people from the IMF and the European Union who have had the steel and aluminium tariffs applied to them come out and say that. Now on the plus side if what this does is bring people to the table to actually have discussions about it, then potentially that's not a bad outcome. So markets did sell off slightly on this news that Donald Trump's announced that the US will be putting trade tariffs on Europe on steel and aluminium, also some other key counterparts. But we need to make sure that whether the end goal for this is actually negative for markets, or actually it gets people round to discussing what the US believe to be a big issue for their economic agenda.

PRESENTER: So finally have these developments changed the shape of the portfolios?

PHIL BUTLER: They certainly have. So we spoke about UK equities earlier on, and we as a team trimmed UK equities in May to try and lock in some of the profits. We remain optimistic of economic growth throughout the rest of this year. So we're still long those risk assets, equities, slightly underweight fixed income, and we've got a little bit of cash sitting on the side looking for opportunities to deploy that for our clients.

PRESENTER: Phil, thank you.

PHIL BUTLER: Thank you.

PRESENTER: And PPMG will be back next month with their latest update, so do keep an eye out for that on asset.tv, and thanks for watching.

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