



THE RISK OF RATINGS DOWNGRADES AND THE INVESTMENT IMPLICATIONS

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PRUDENTIAL
INVESTMENT MANAGERS

AGENDA

- Ratings and market valuations
- Case studies
- Market reaction to a downgrade

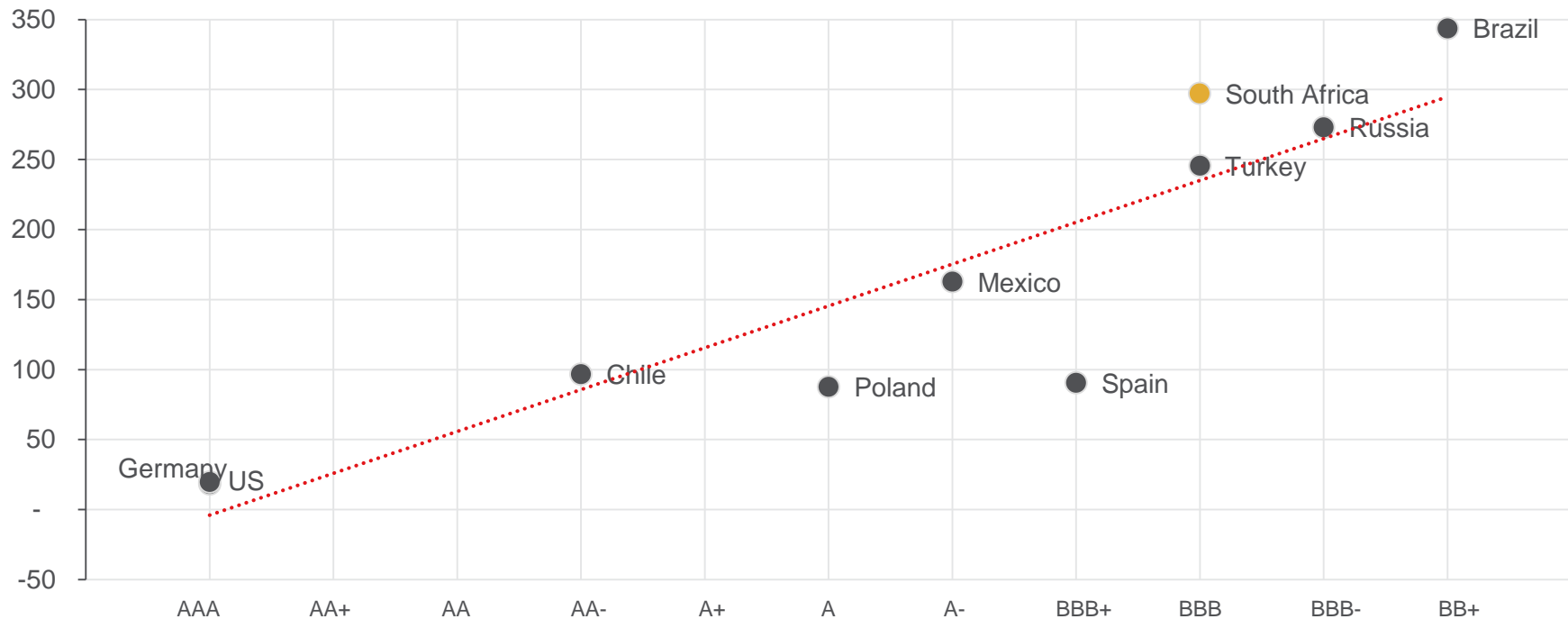


RATINGS AND MARKET VALUATIONS



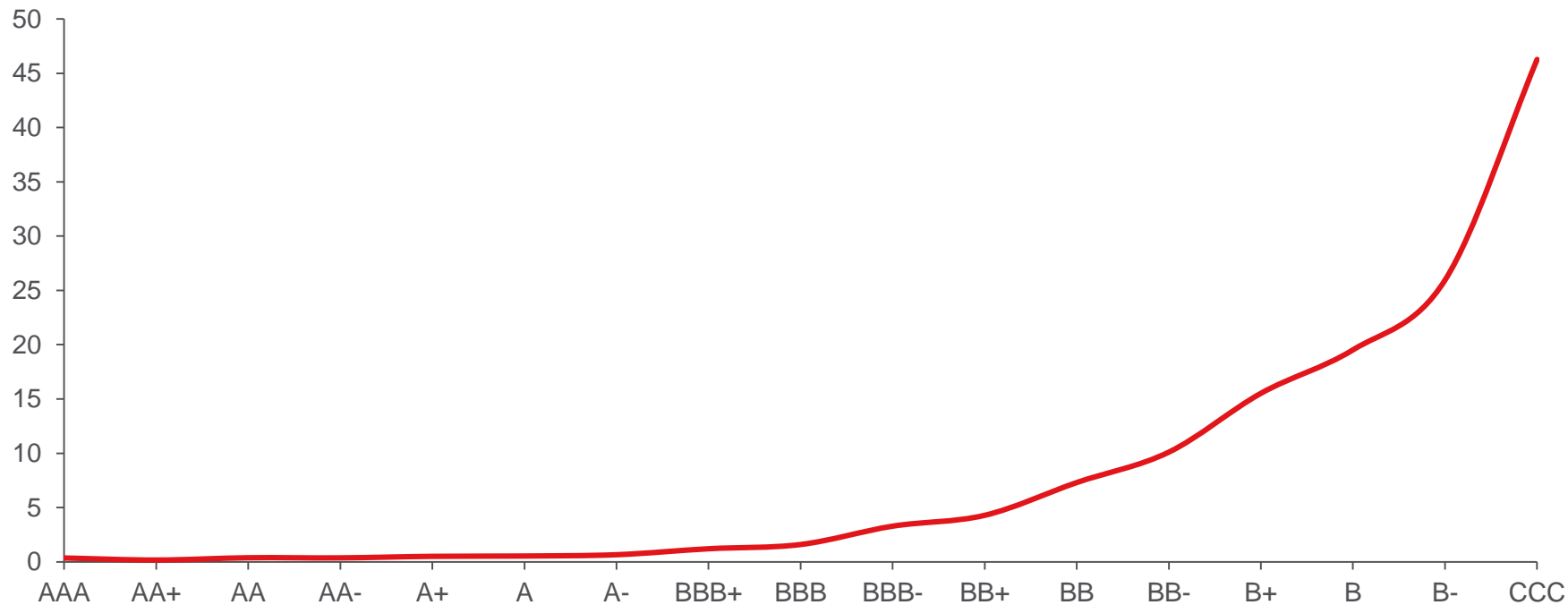
WHY RATINGS MATTER

Credit default swaps by rating

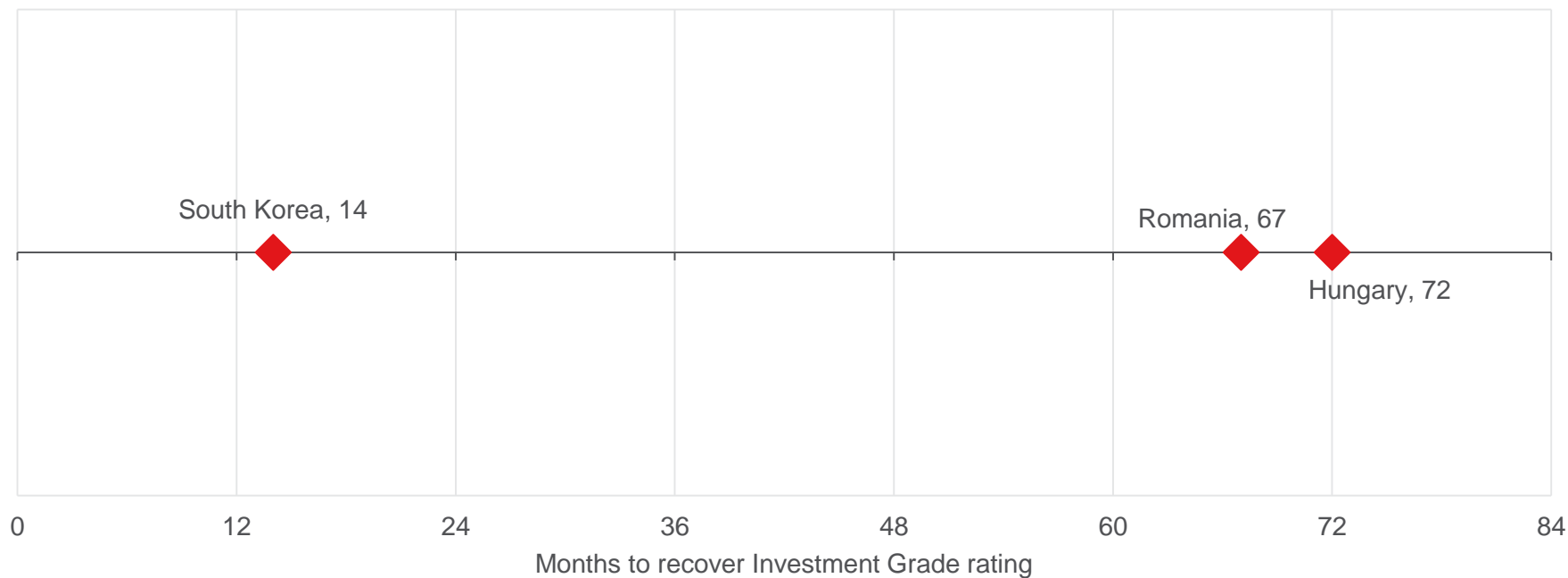


DEFAULT PROBABILITIES

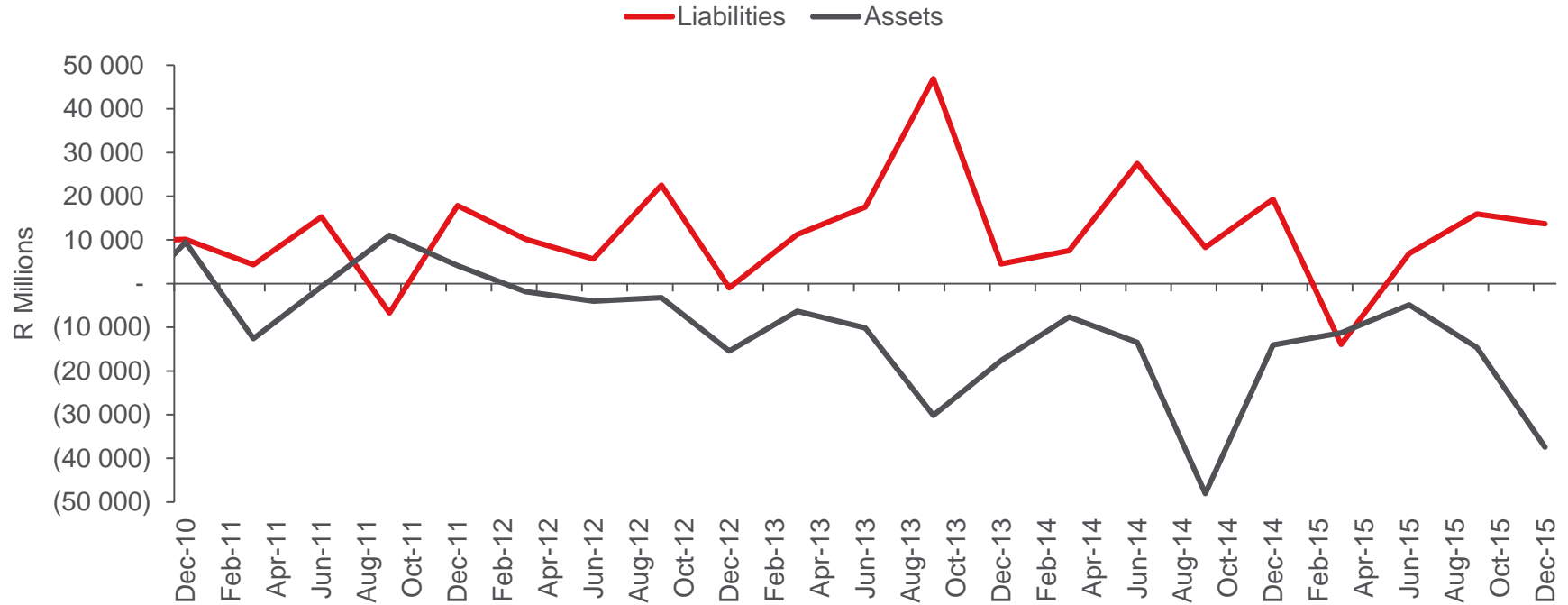
Cumulative change of default over 5 years



RATINGS TRANSITION

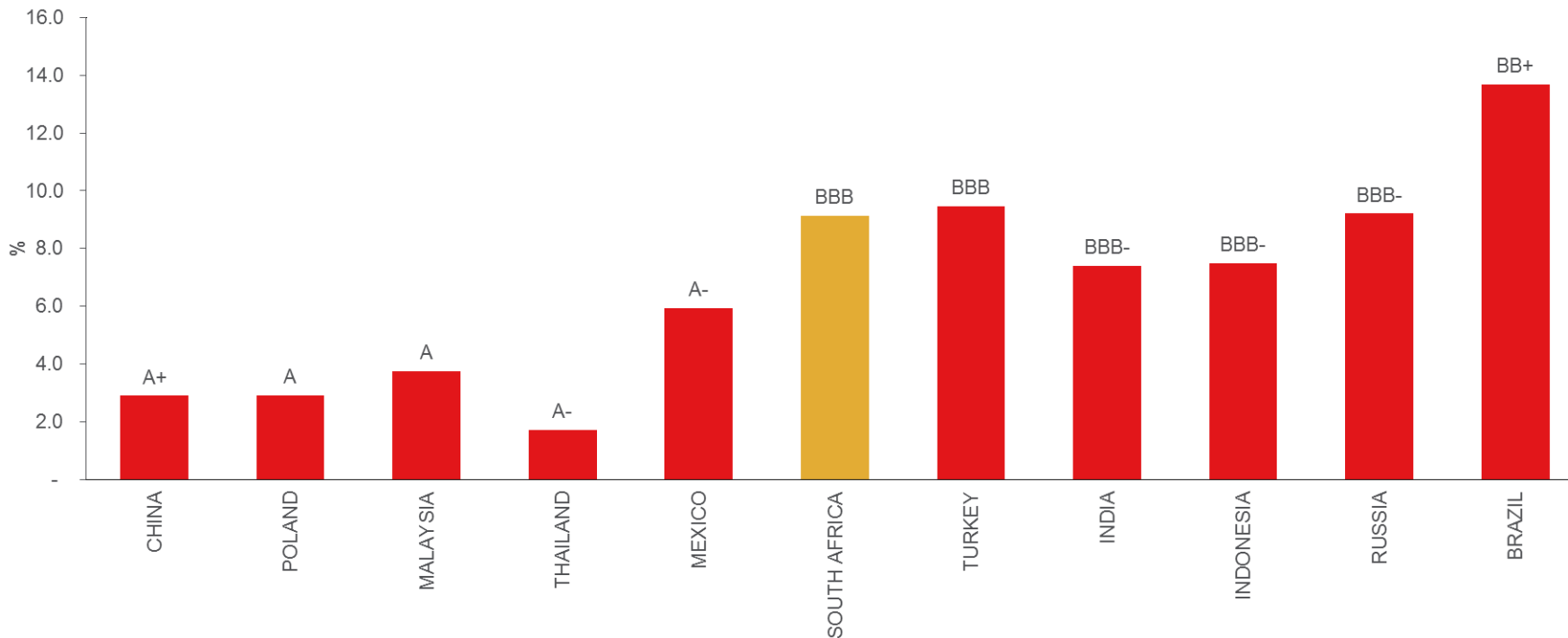


DIRECT INVESTMENT IN AND OUT OF SOUTH AFRICA



10 YEAR GOVERNMENT BONDS

Sovereign rating and yields

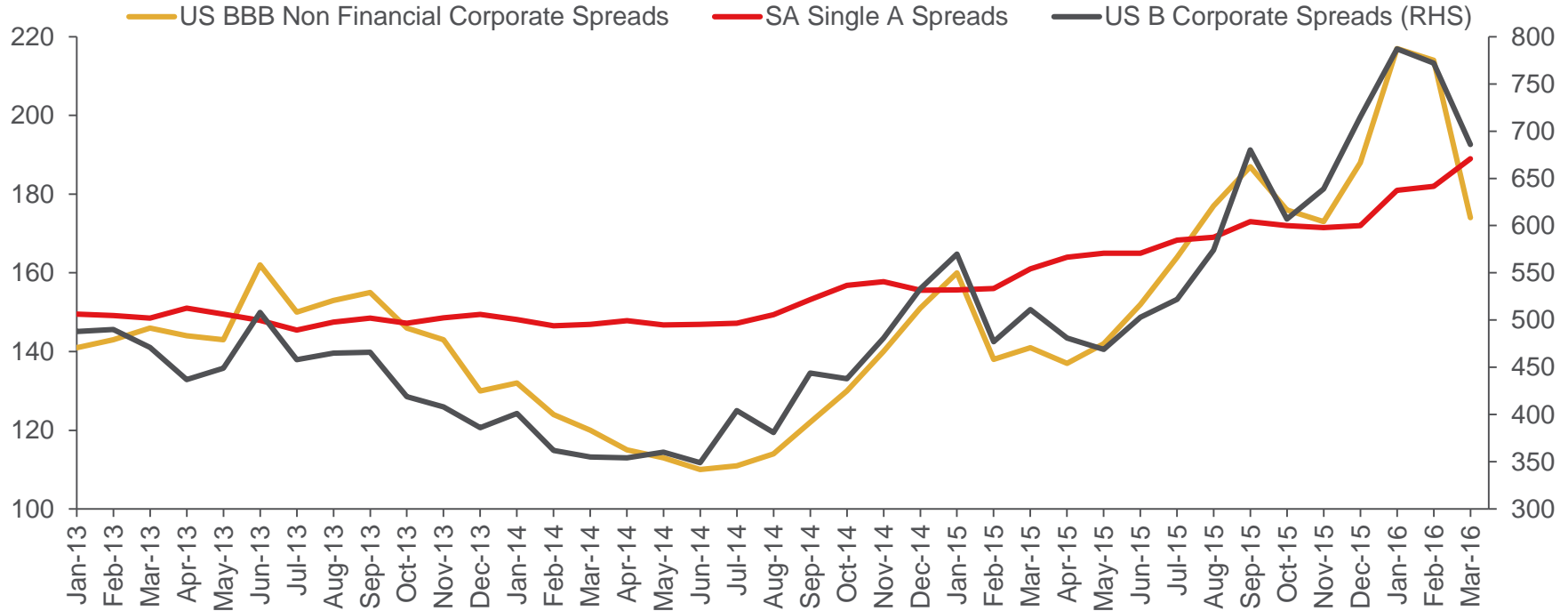


10 YEAR GOVERNMENT BOND YIELDS



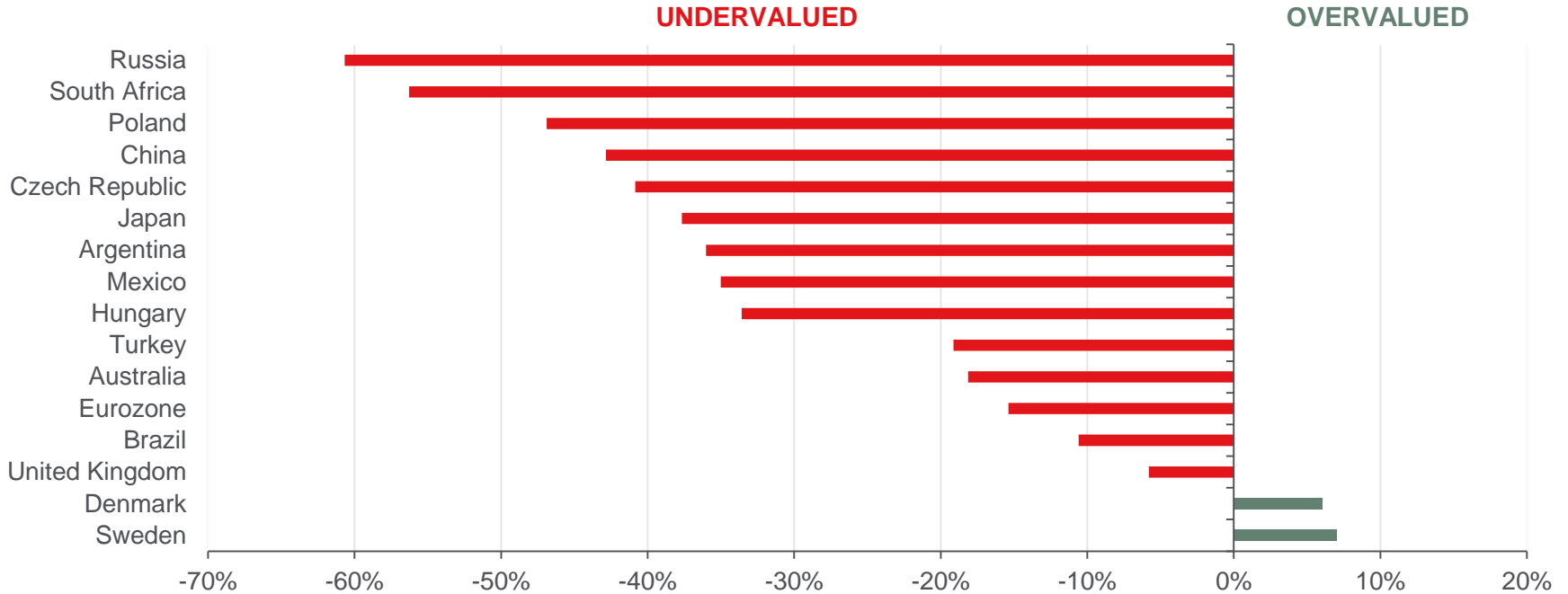
CREDIT SPREADS

SA and US corporate spreads

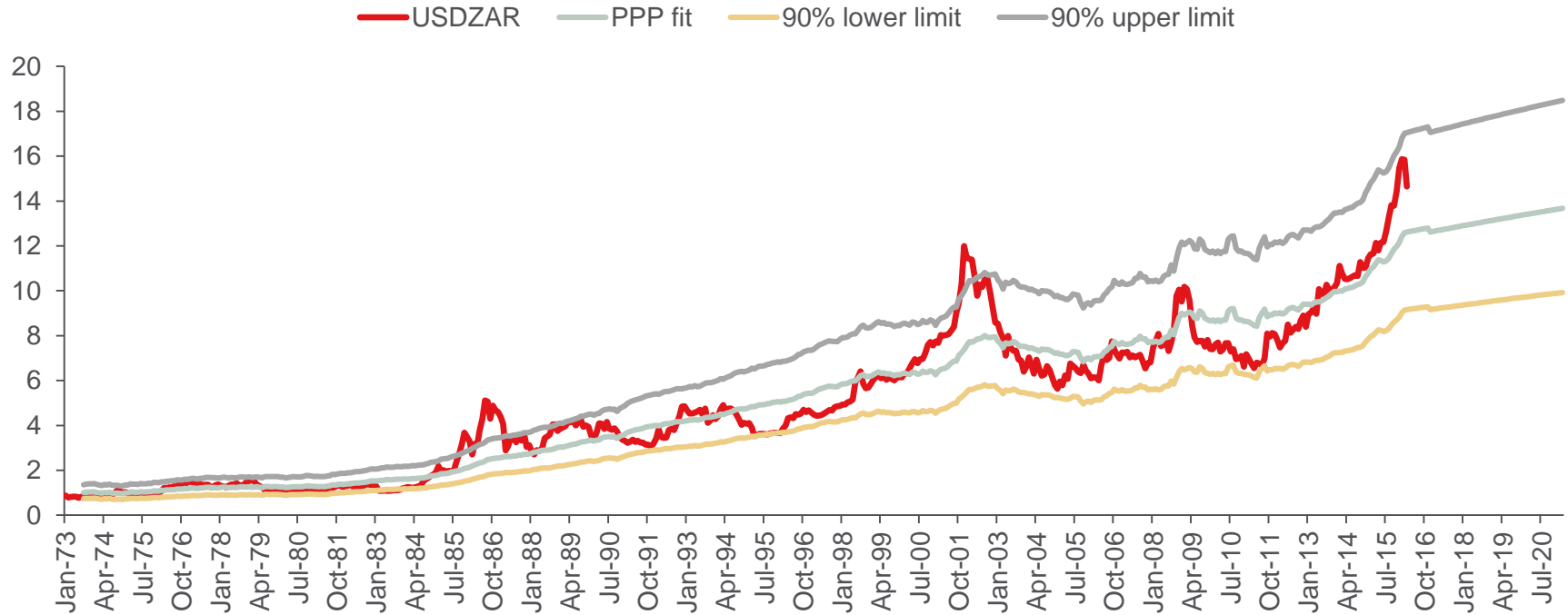


BIG MAC INDEX

Currency valuation relative to the US Dollar



USDZAR PPP MODEL

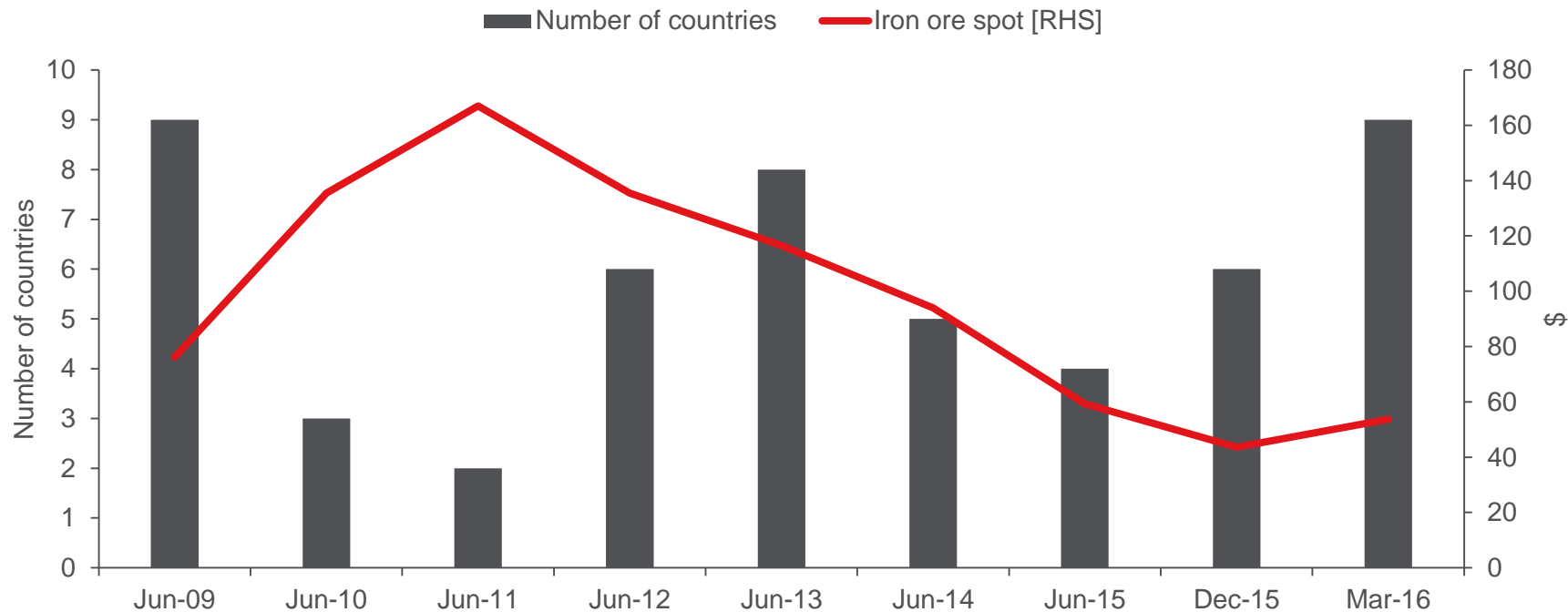


CASE STUDIES

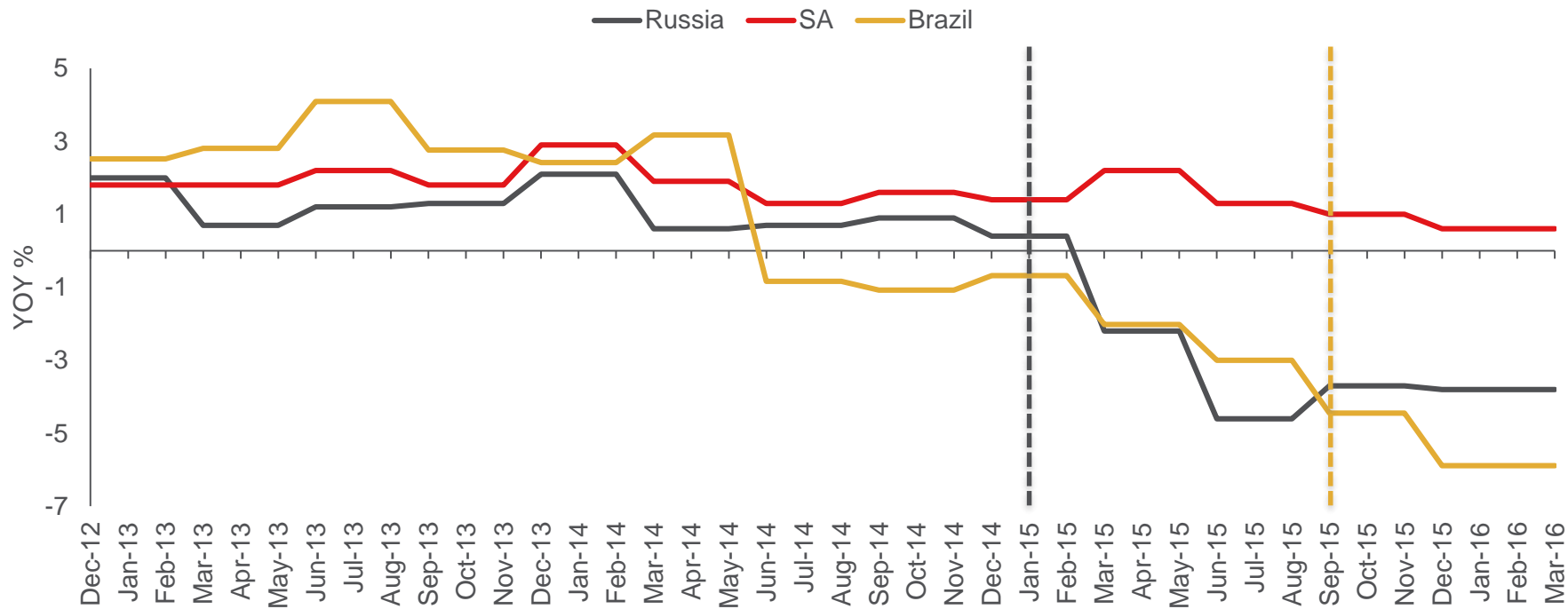


DOWNGRADE THREATS RISING

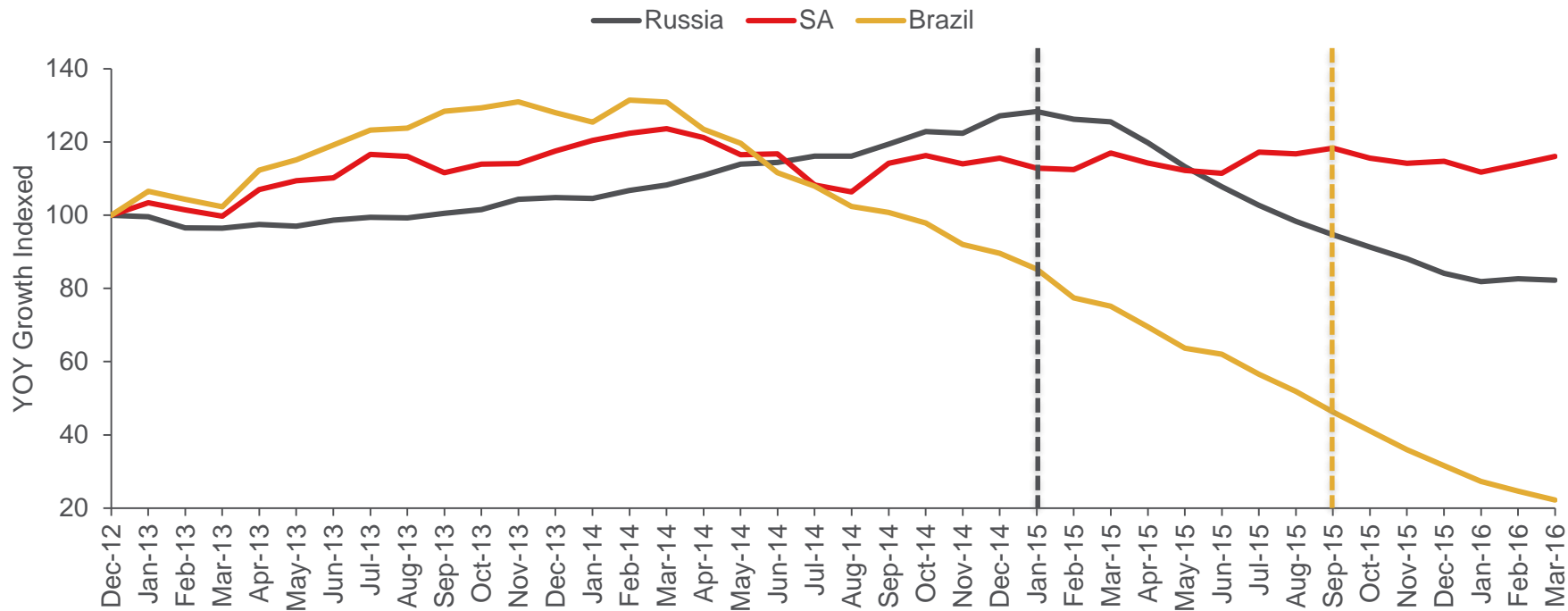
Most emerging markets on negative outlook since financial crisis



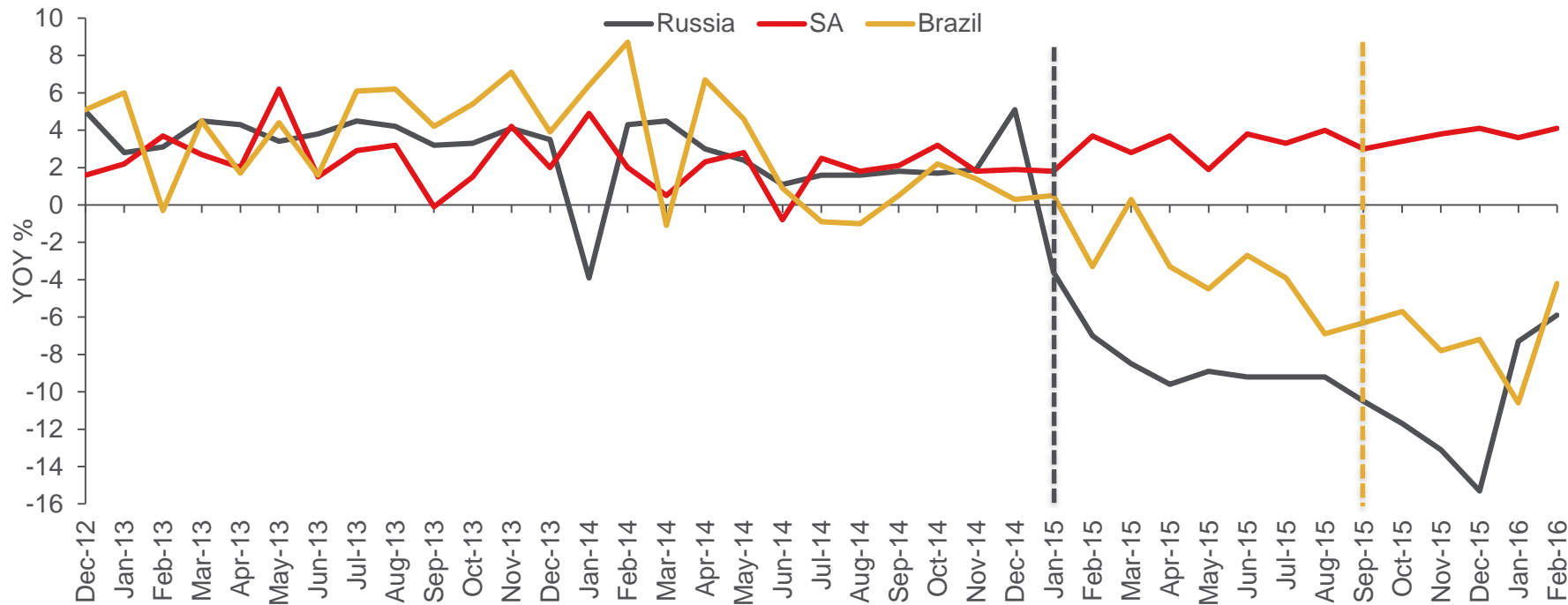
GDP



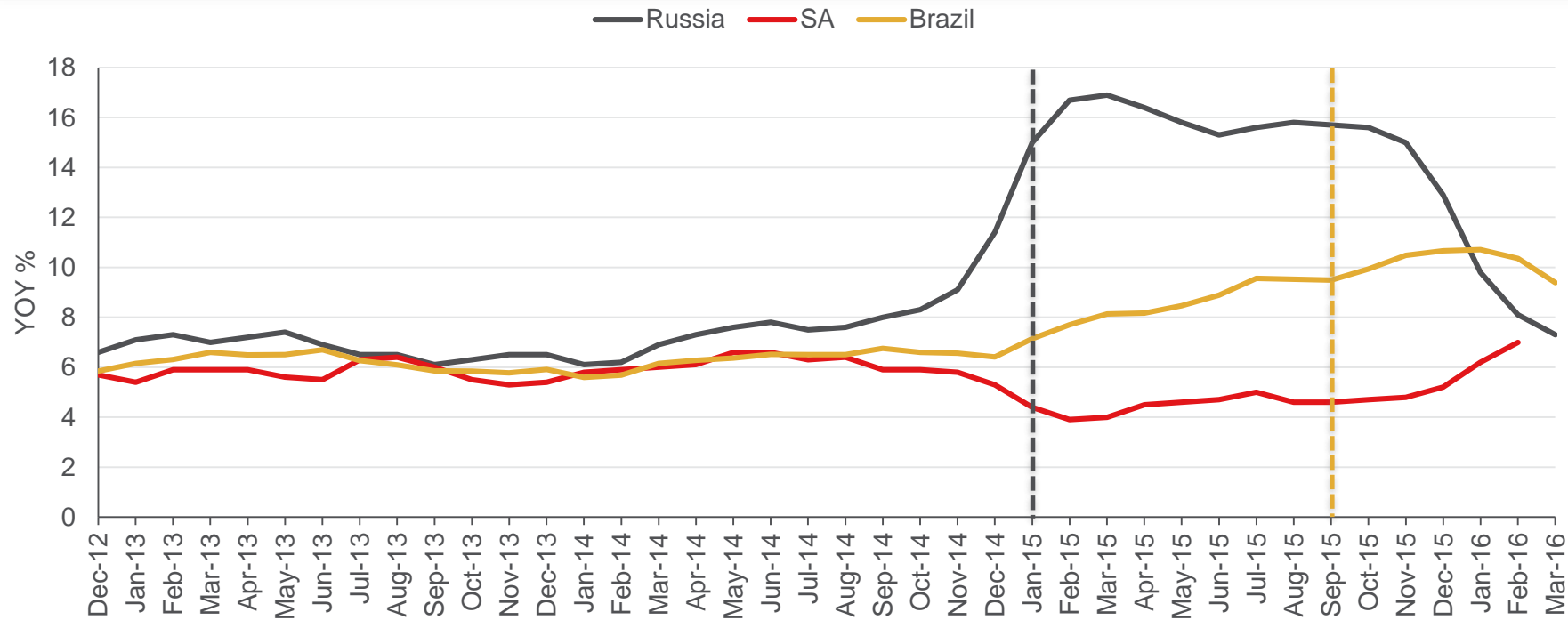
INDUSTRIAL PRODUCTION



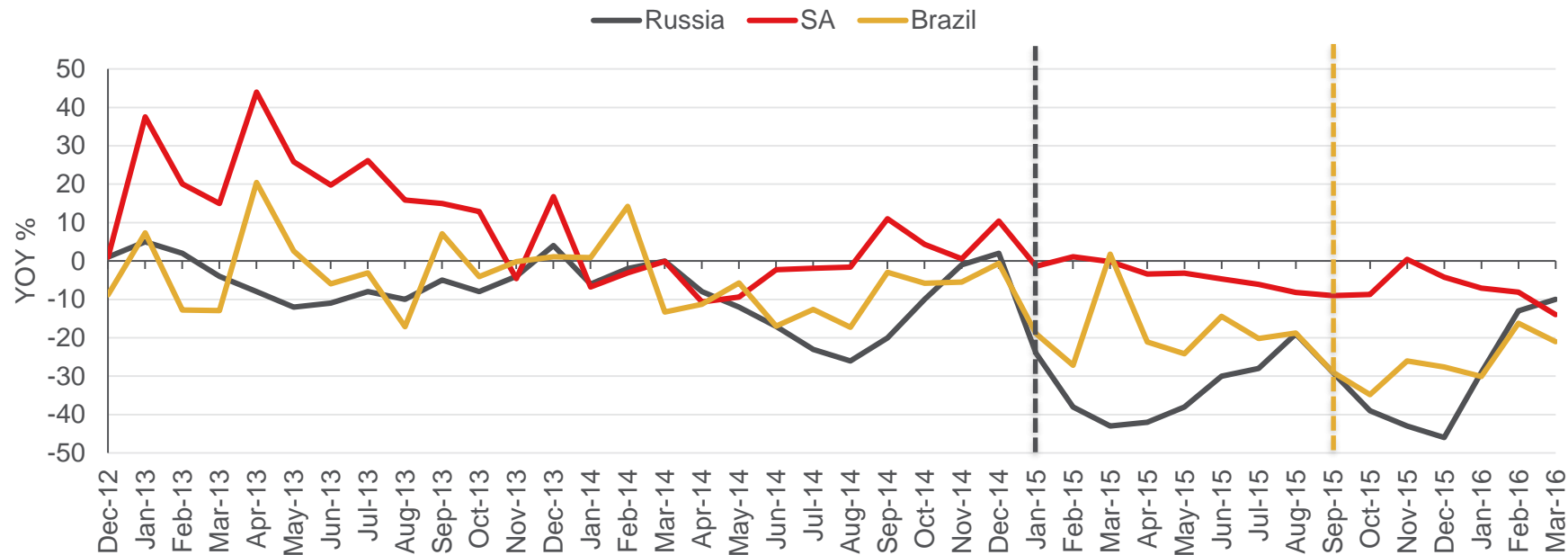
RETAIL SALES



INFLATION



AUTO SALES

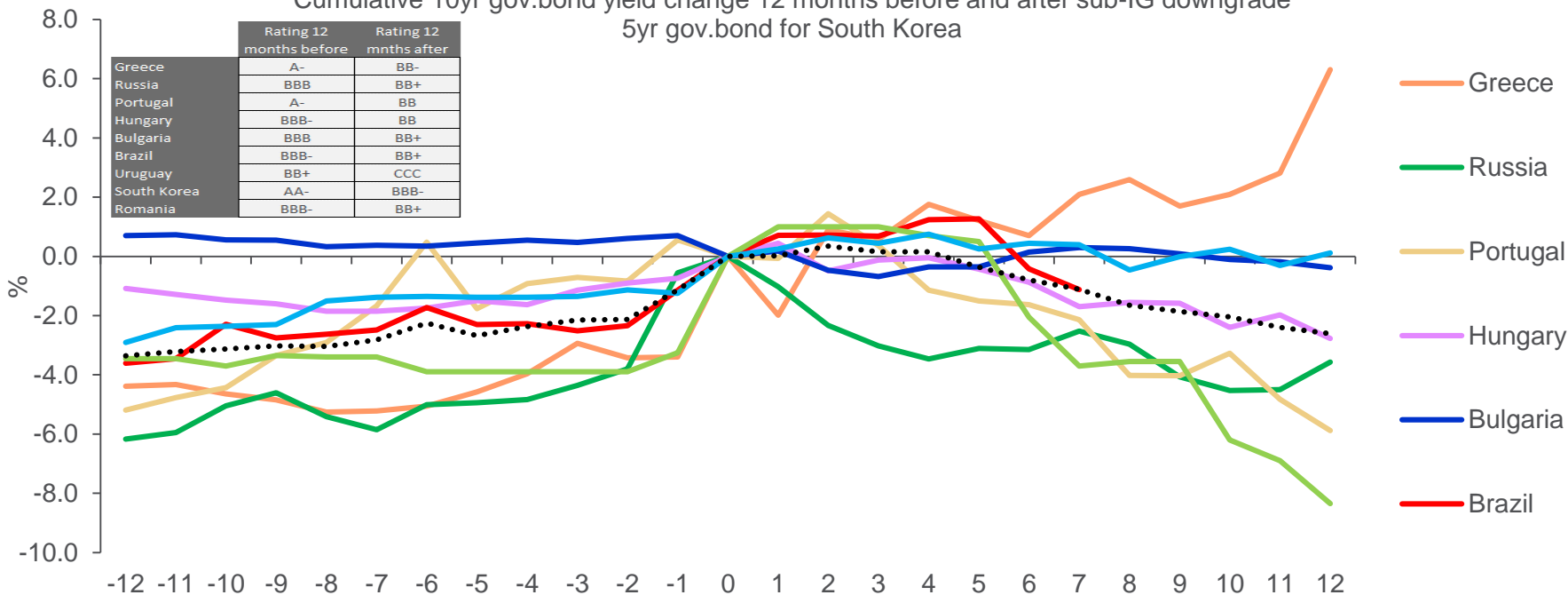


MARKET REACTION TO A DOWNGRADE



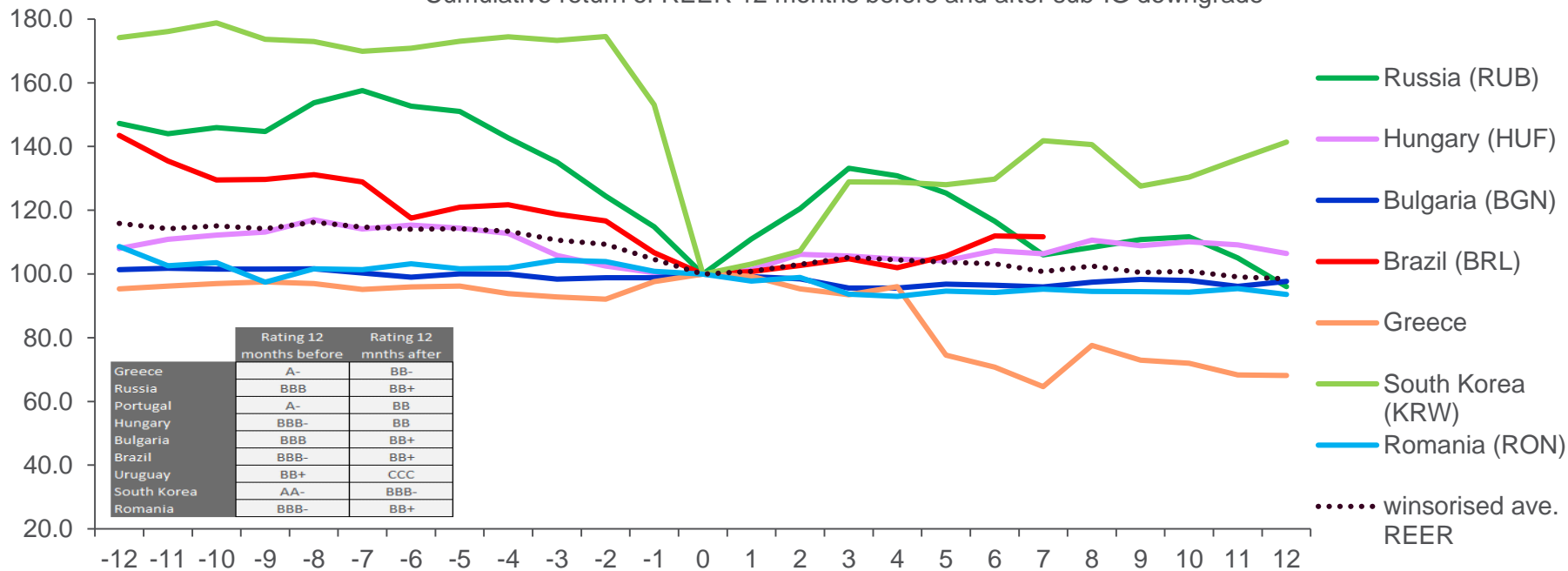
BOND MARKET RESPONSE TO MOVE TO HIGH YIELD

Cumulative 10yr gov.bond yield change 12 months before and after sub-IG downgrade
5yr gov.bond for South Korea

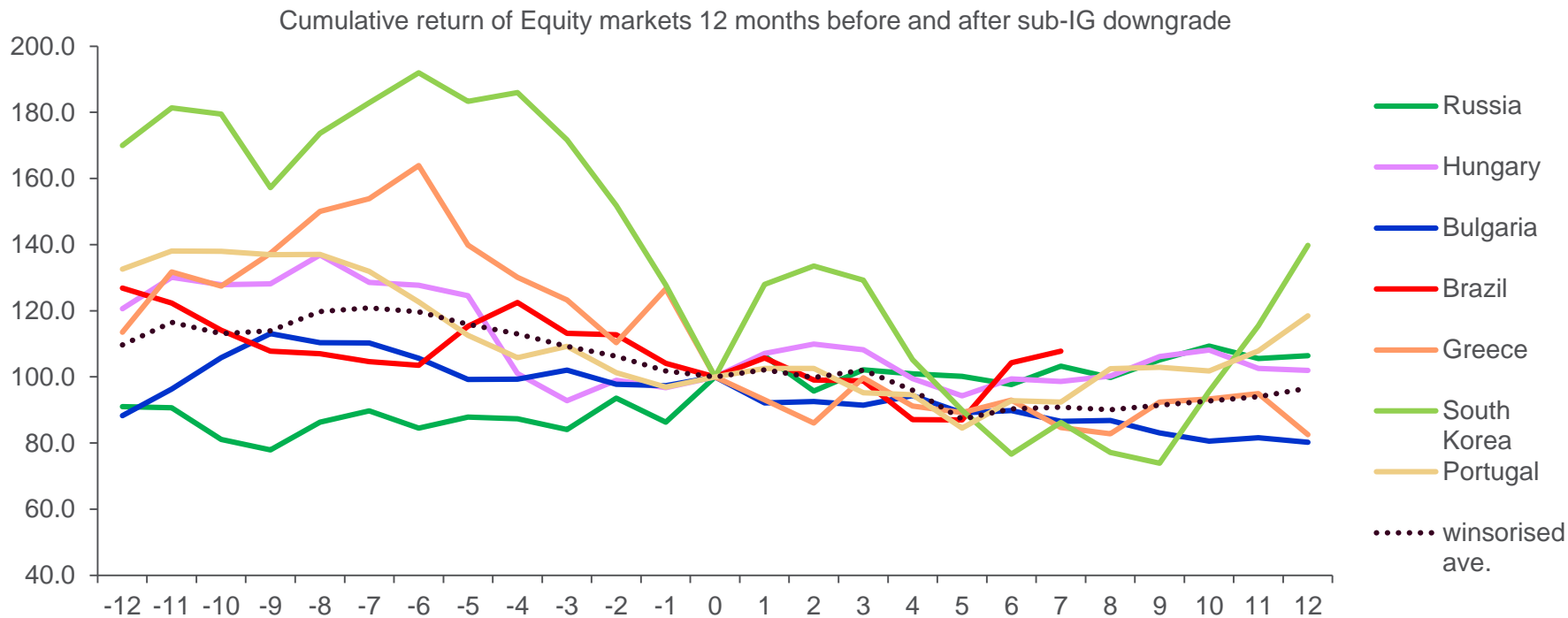


CURRENCY RESPONSE TO DOWNGRADE

Cumulative return of REER 12 months before and after sub-IG downgrade



EQUITY MARKET RESPONSE TO DOWNGRADE



THANK YOU



DAVID KNEE

Head of Fixed Income



David Knee is Head of Fixed Income at Prudential Investment Managers, with 25 years' experience. He is co-Portfolio Manager of four Prudential unit trust funds, and has won Raging Bull and Morningstar Awards. He is also a member of Prudential's Asset Allocation Committee.

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