M&G Investments

MARCH 2026

ASSET ALLOCATION AND INVESTOR PSYCHOLOGY

Stuart Canning

M&G Multi Asset Team

The idea that human psychology drives markets is nothing new…

M&G Investments

Keynes (General Theory, 1936):

“ …the professional investor is forced to concern himself with… the mass psychology of the market”

Ben Graham (Intelligent Investor, 1949):

“…Mr. Market lets his enthusiasm, or his fears run away with him, and the value he proposes seems to you a little short of silly.”

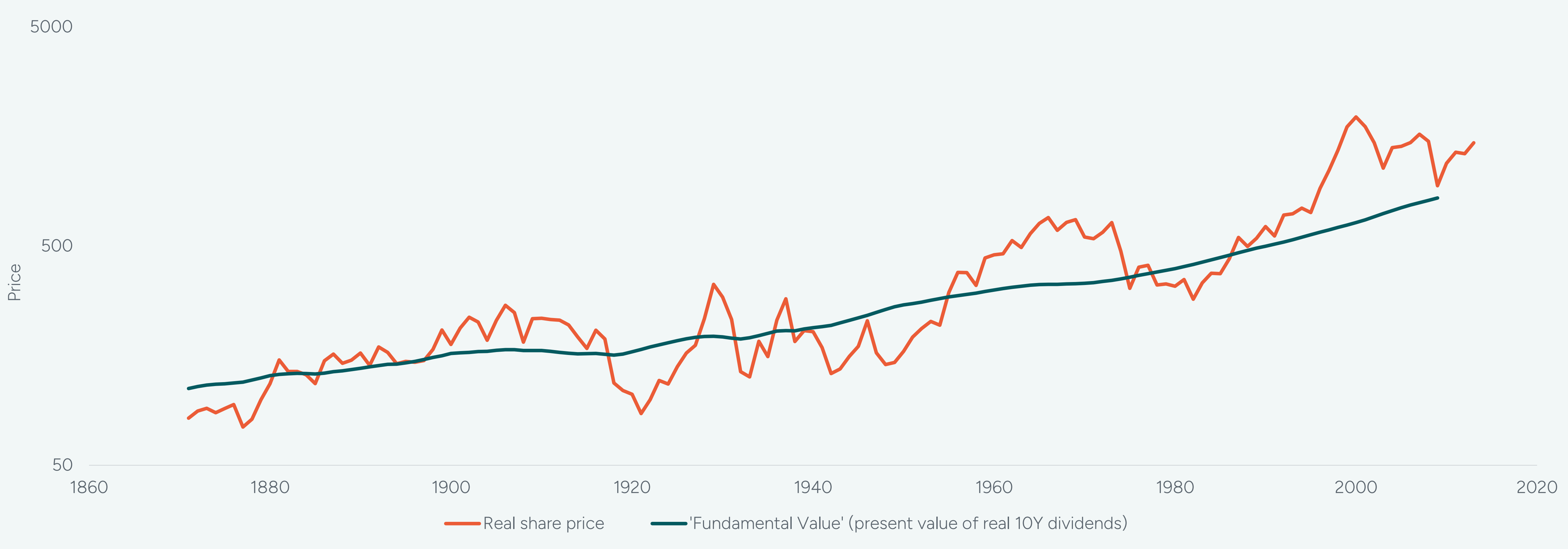
Sources: https://www.marketplace.org/story/2008/01/16/keynes-professional-money-managers; https://www.cabotwealth.com/daily/value-stocks/benjamin-grahams-mr-market

Markets seem to be more volatile than they should

If it was all about fundamentals markets would be less volatile than they are

Past performance is not a guide to future performance

Comparing Actual Real Stock Price with the Present Value of Future Real Dividends



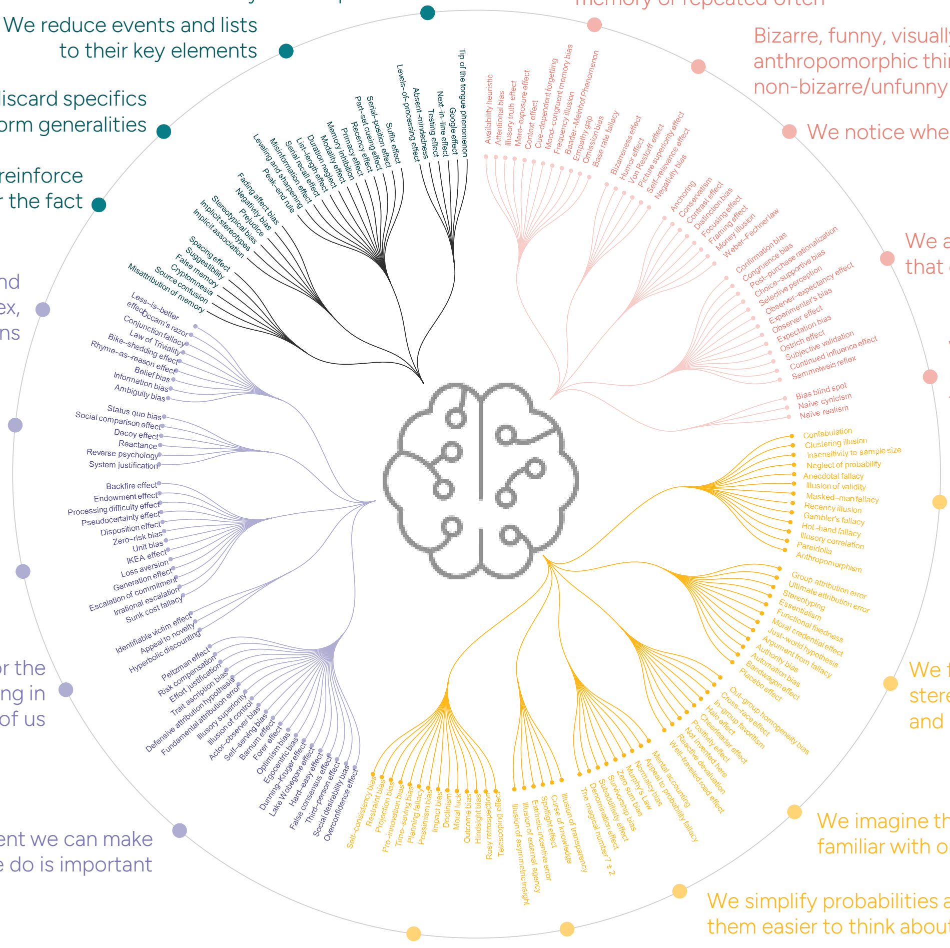
Source: Robert J. Shiller, from his book 'Market Volatility', 1989, revised and updated. Neither Robert J. Shiller nor any affiliates or consultants, are registered investment advisers and do not guarantee the accuracy or completeness of the CAPE Ratio here, or any data or methodology either included therein or upon which it is based. No representation is made as to the accuracy of the assumptions made within, or completeness of, any modelling, scenario analysis or back-testing. Link to online data: http://www.econ.yale.edu/~shiller/data.htm

But much "behavioural finance" tends to focus only on the individual…

M&G Investments

What should we remember?

Too much information



Need to act fast

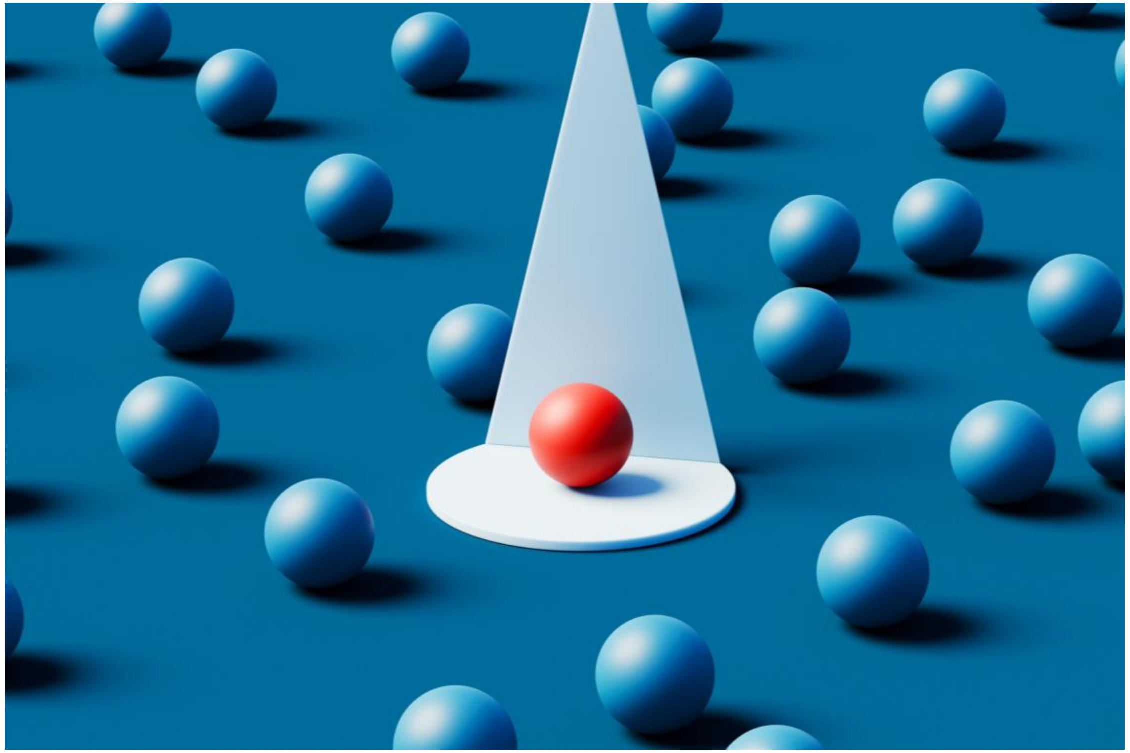
Not enough meaning

Source: https://murat-durmus.medium.com/a-list-of-over-150-biases-belief-decision-making-behavioral-social-memory-a51204bcaaf2

… and can lead to dangerous thinking

M&G Investments

'Everybody else' is biased, it doesn't affect me



The market is 'just wrong,' so I can carry on being smarter

You must ask <u>when</u> and <u>why</u> the market might be wrong

Source: Getty Images. For illustrative purposes only.

Why prices move: the common view

The search for alpha/edge is linked to information: better research, more people (committees)

Source: M&G.

The consensus is usually wrong

M&G Investments

COVID (and equities still up)

2020:

Fragile Goldilocks

No major surprises

2021:

Recovery, revival, rotation

Rates shock (biggest real term loss to 60/40 since the Great Depression)

2022:

Less of the same

No recession in US (still waiting). Recessions in Japan and Europe but equities strong

2023:

Global recession

Policy rates peak in previous year

2024:

Higher for longer

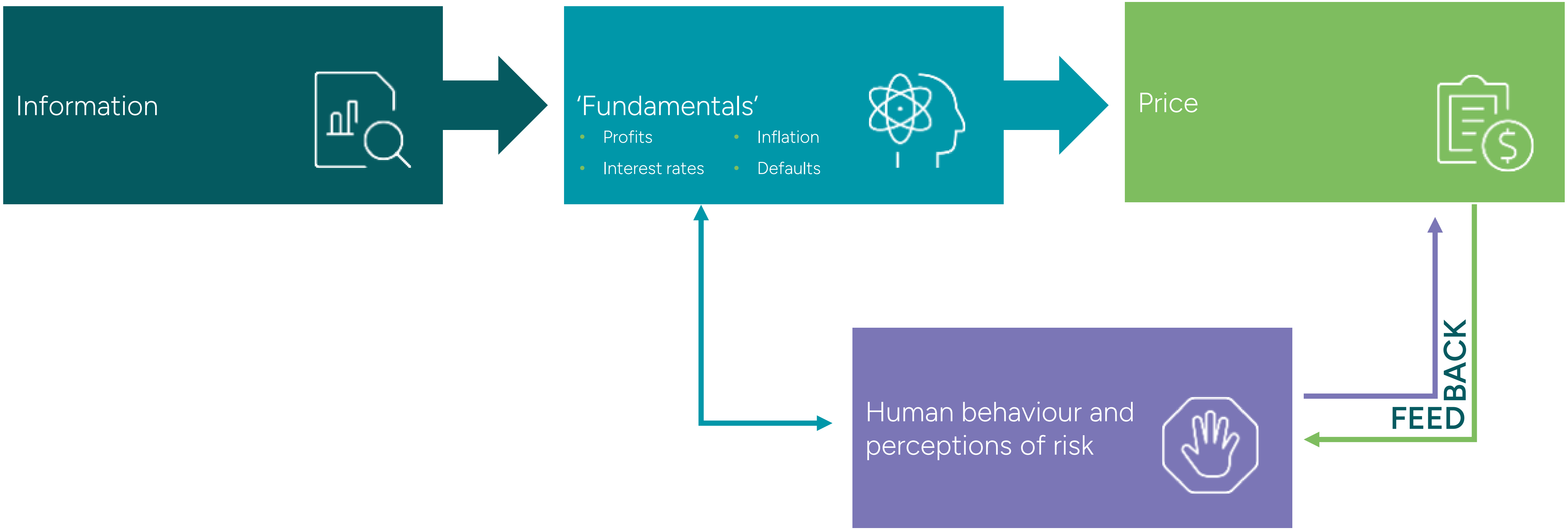
Non-US equity markets have best year versus US since 1993. US dollar falls sharply

2025:

US exceptionalism

Source: M&G.

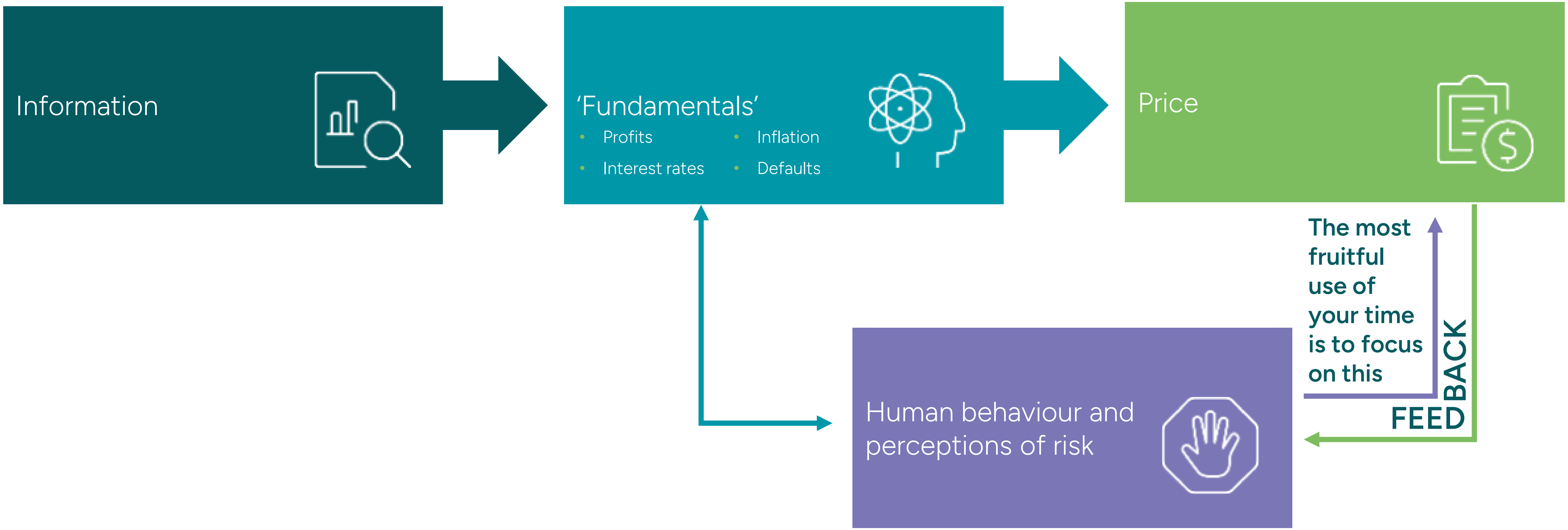
Why prices move: our view



Role of human behaviour frequently underestimated

Source: M&G.

Why prices move: our view



Role of human behaviour frequently underestimated

Source: M&G.

What causes behavioural opportunities and how can we identify them?

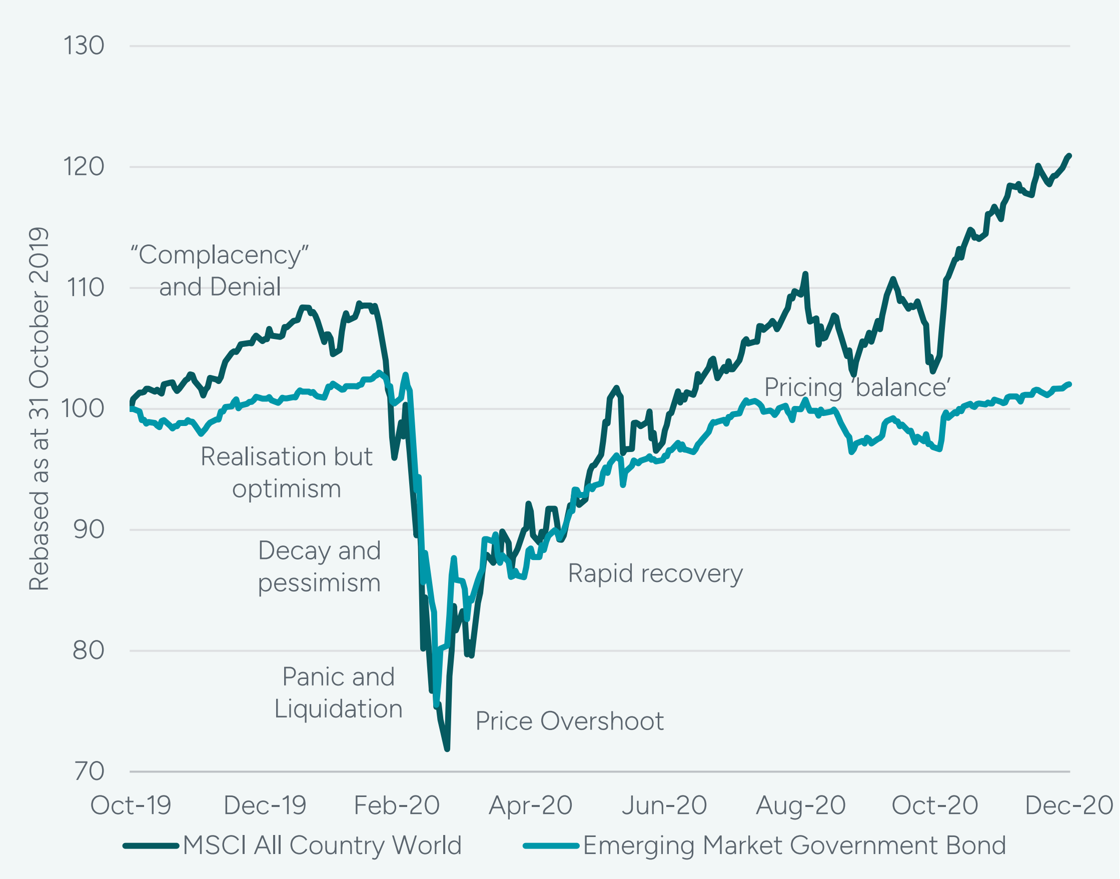
M&G Investments

	Behaviour/bias and result
Overconfidence:	Humans (and markets) often underestimate true range of possible futures
Panic and return chasing:	Short-term loss or gain often dominate decision-making
Investor Emotion:	Pain of loss, regret, excitement can become widespread
Myopia/short-termism:	Investors often inappropriately overweight more salient risks
Herding and anchoring:	Social dynamics and industry incentives create 'groupthink'

Source: M&G, March 2026.

Example: the start of the pandemic in 2020

MSCI All Country World & Emerging Market Government Bond Index



✓ **Rapid/correlated moves:**
Sharp falls across and within markets

✓ **Extreme sentiment:**
Bearishness and focus on short term loss

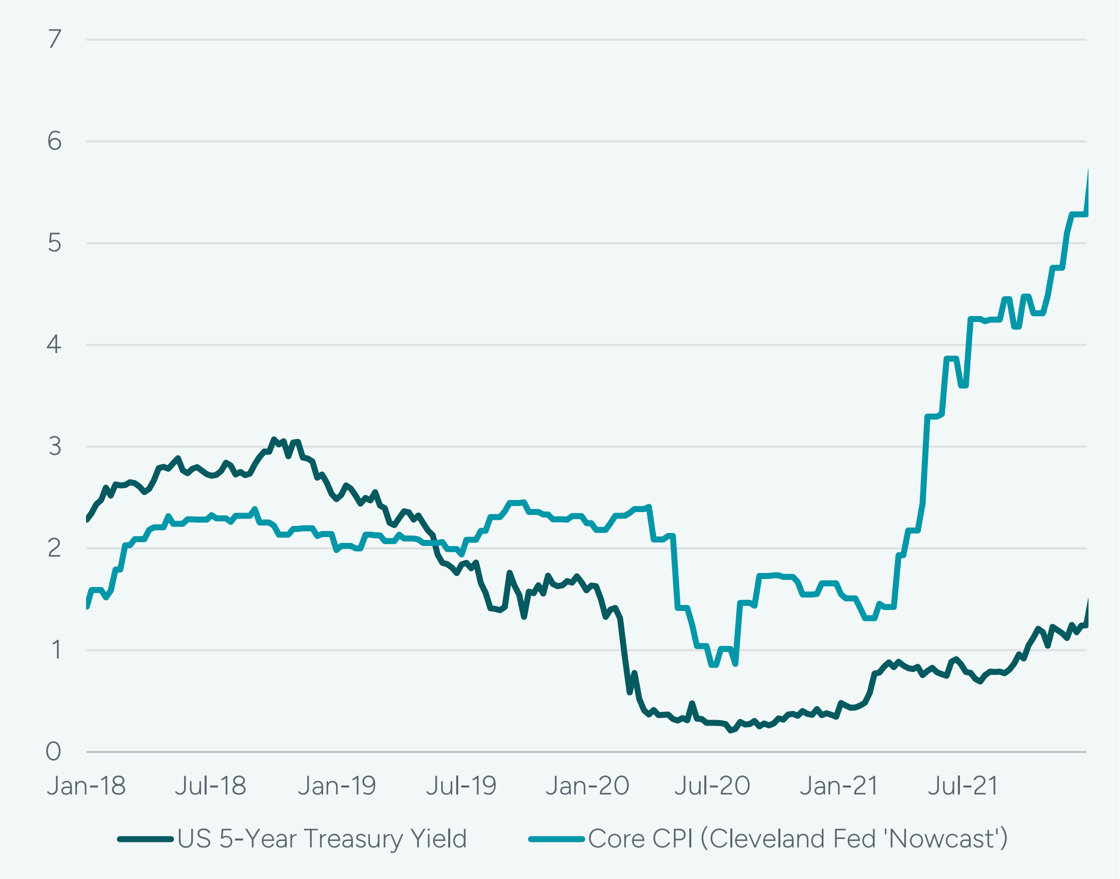
✓ **Valuation:**
Equity valuations most attractive since Eurozone crisis

Source: M&G, LSEG Datastream, 6 November 2022. Illustrative purposes only.

Example: bond vulnerability in late 2021

M&G Investments

US Five-year Treasury Yield and Core CPI (%)

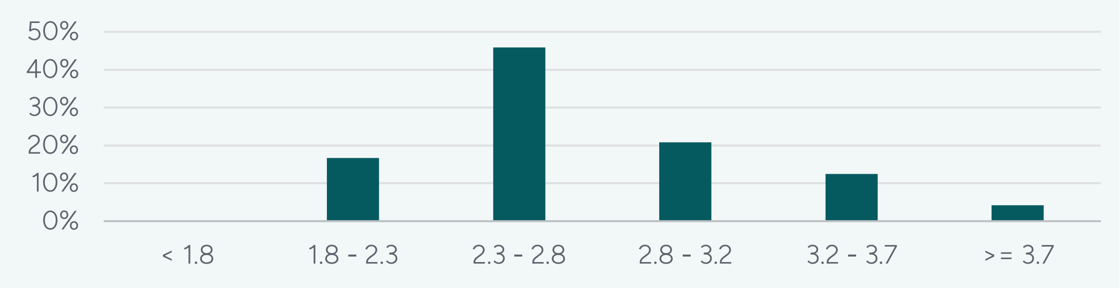


✓ Valuation:
Yields below pre-COVID levels

✓ Inconsistency:
Yields stable as inflation rises

✓ Herding:
High confidence that inflation will fall

Herding: Economists' 2022 Inflation forecasts in July 2021

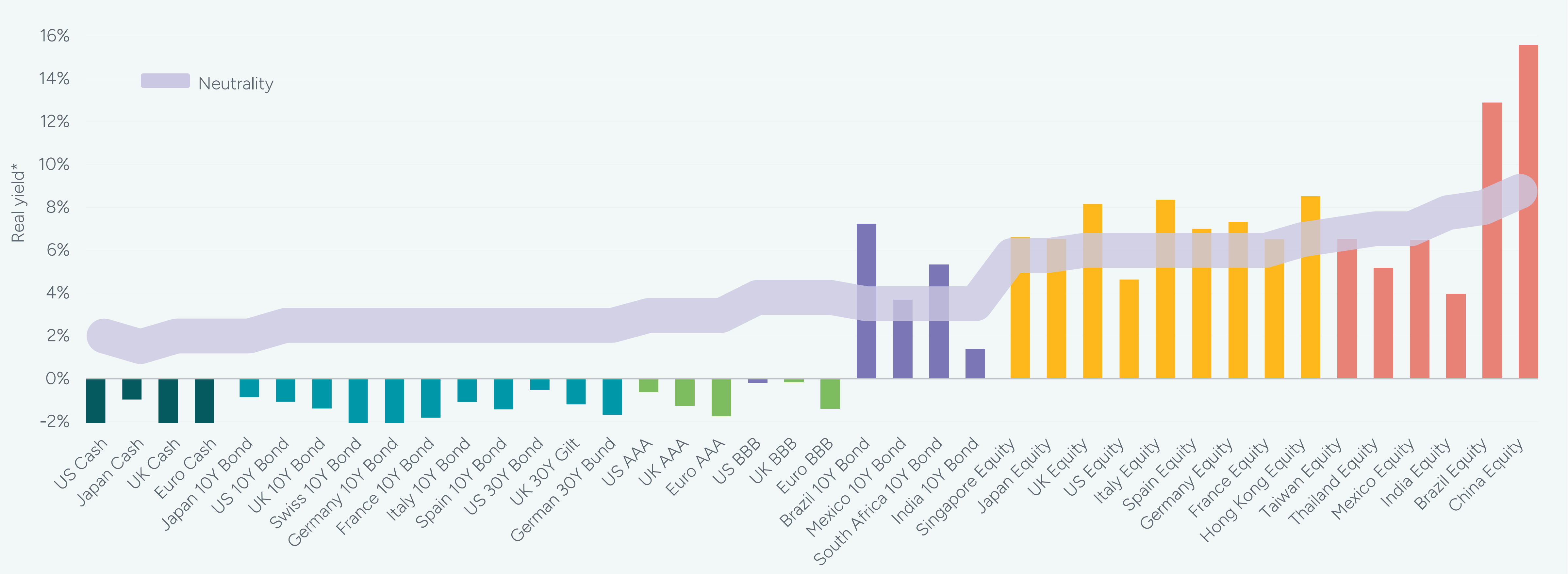


Source: M&G, LSEG Datastream, 6 November 2022. Illustrative purposes only.

Valuation signals: Q4 2021

Past performance is not a guide to future performance

Sample of assets, showing real yield against an assessment of neutrality



Neutrality is the positioning if all assets were trading at their 'fair value'.
*Real yield. For cash/bonds = prevailing interest rate/nominal yield minus consensus long term inflation expectations. For equities = inverted p/e ratio, using forward consensus earnings data. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown. Investors cannot invest directly in an index.
Source: M&G, Bloomberg, 31 December 2021.

Valuation signals: Q4 2023

M&G Investments

Past performance is not a guide to future performance

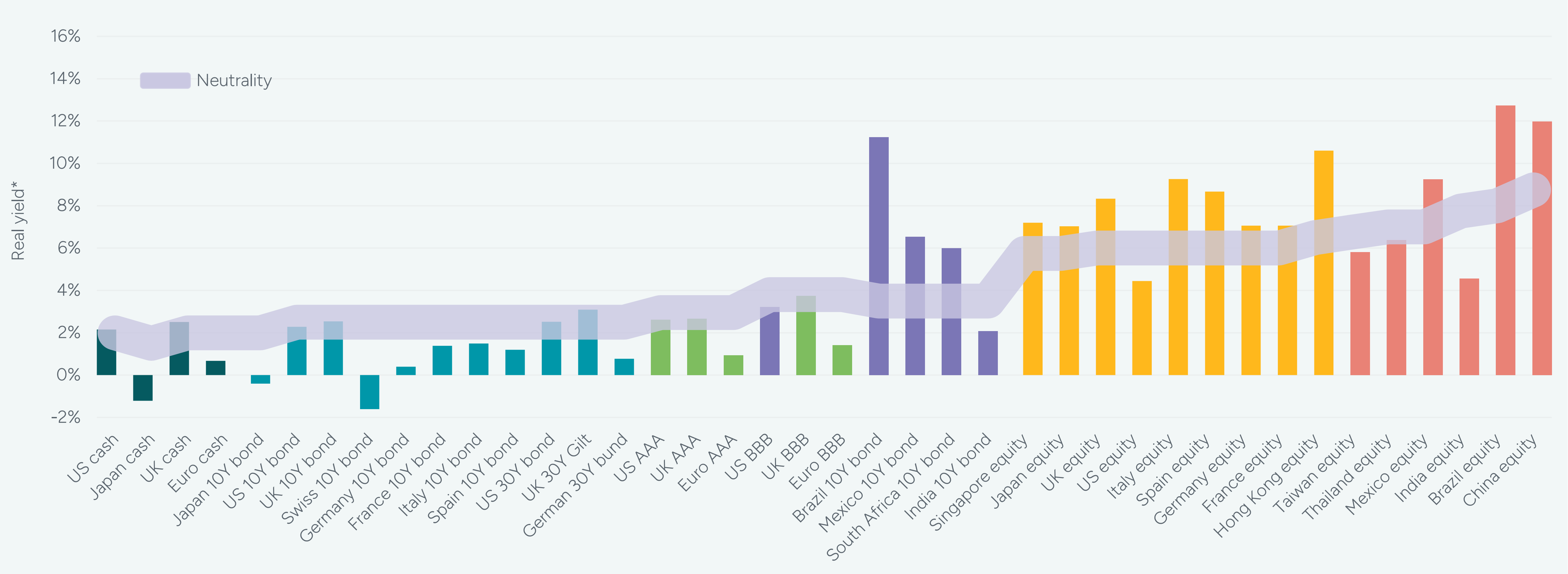
Sample of assets, showing real yield against an assessment of neutrality

Neutrality is the positioning if all assets were trading at their 'fair value'.
*Real yield. For cash/bonds = prevailing interest rate/nominal yield minus consensus long term inflation expectations. For equities = inverted p/e ratio, using forward consensus earnings data. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown. Investors cannot invest directly in an index.
Source: M&G, Bloomberg, 31 December 2023.

WHAT ABOUT TODAY?

Valuation signals: January 2025

Sample of assets, showing real yield against an assessment of neutrality

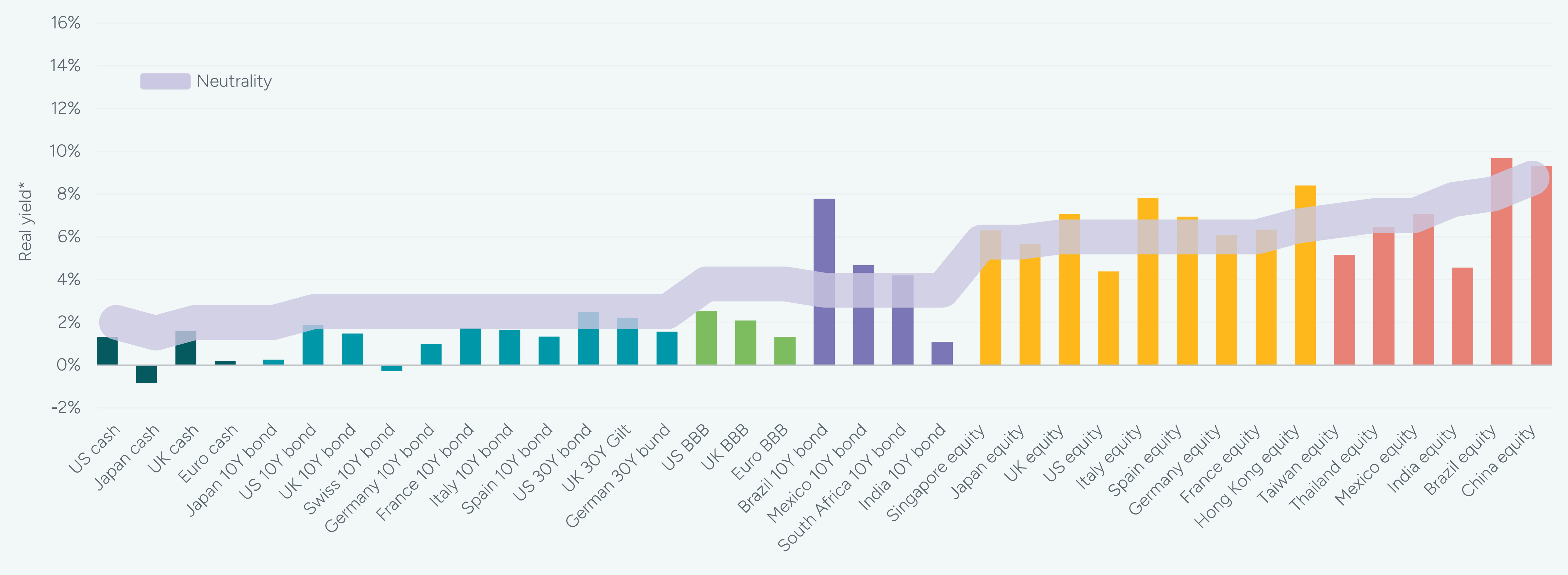


Neutrality is the positioning if all assets were trading at their ‘fair value’.
*Real yield. For cash/bonds = prevailing interest rate/nominal yield minus consensus long term inflation expectations. For equities = inverted p/e ratio, using forward consensus earnings data. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.
Source: M&G, LSEG Datastream, 27 January 2025.

Valuation signals: January 2026

M&G Investments

Sample of assets, showing real yield against an assessment of neutrality

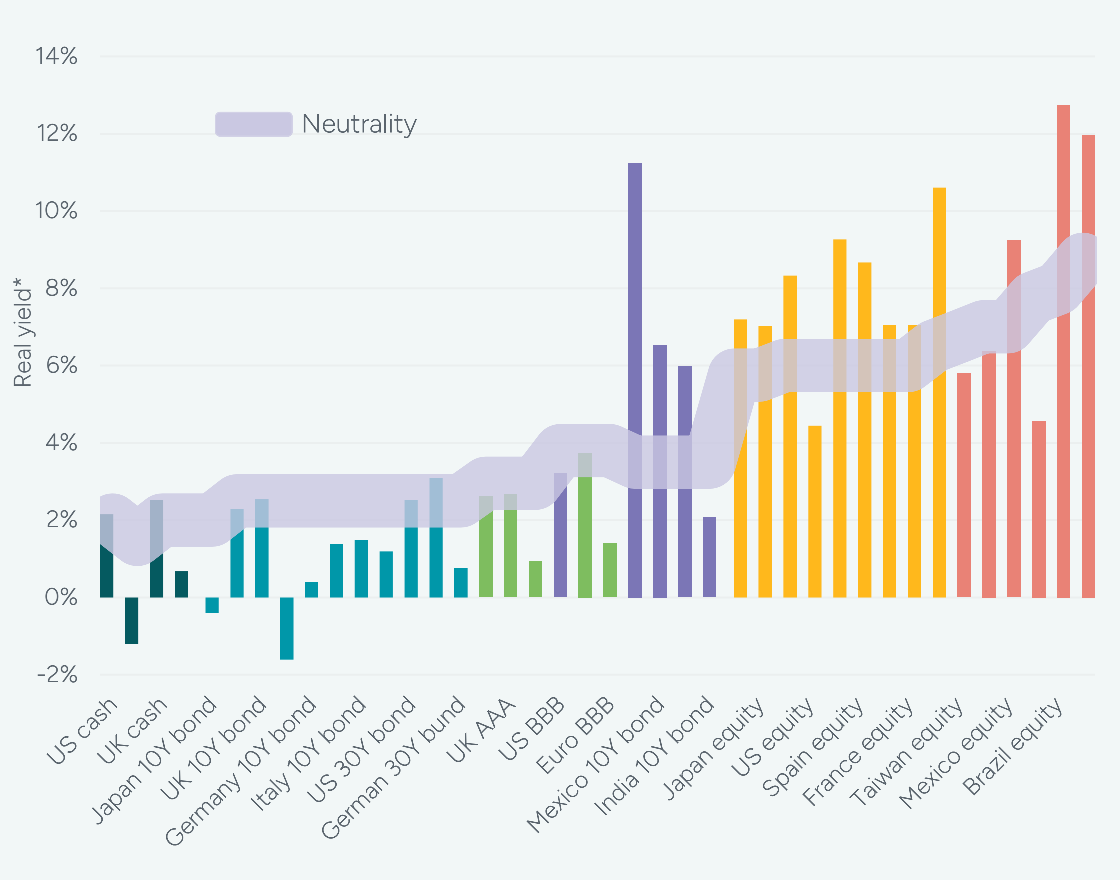


Neutrality is the positioning if all assets were trading at their 'fair value'.
*Real yield. For cash/bonds = prevailing interest rate/nominal yield minus consensus long term inflation expectations. For equities = inverted p/e ratio, using forward consensus earnings data. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.
Source: M&G, Bloomberg, 16 January 2026.

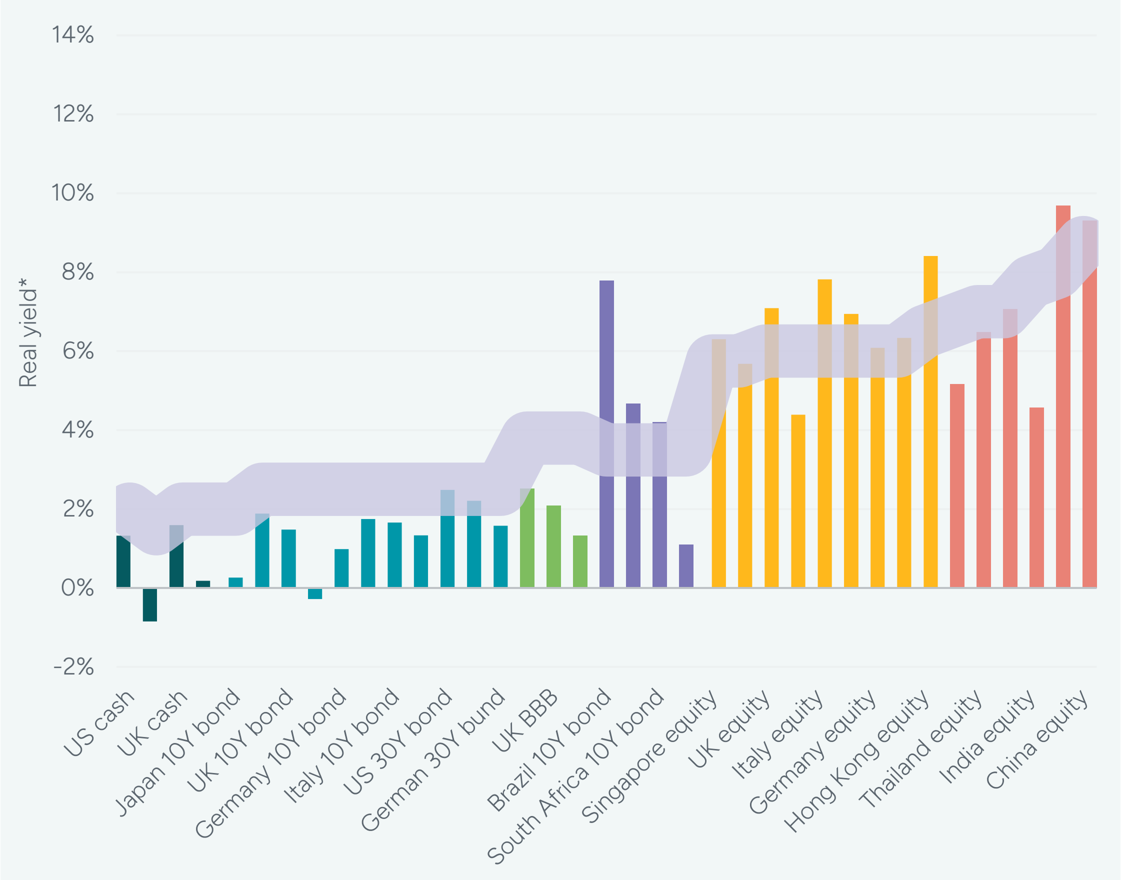
Valuation signals: January 2025 & 2026

M&G Investments

January 2025



January 2026



Neutrality is the positioning if all assets were trading at their 'fair value'.
*Real yield. For cash/bonds = prevailing interest rate/nominal yield minus consensus long term inflation expectations. For equities = inverted p/e ratio, using forward consensus earnings data. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.
Source: M&G, Bloomberg, January 2025 and Januray 2026.

IRAN

Identifying 'episodes'

M&G Investments

		Primary Indicators			
		Equity	Govt Bonds	Corp Bonds/CDX	Currency
Quantitative	**Value** Looking for extremes vs. history/theory	Earnings yield	Real yield (using consensus/ LT inflation)	Spread	Carry
Quantitative	**Price** Rapid and correlated moves	Speed of moves vs own history, heightened correlation within and across markets			
Qualitative	**Sentiment** Panic or excitement	Attention to single story and tone of coverage			
Qualitative	**Price response to news*** Inconsistency with fundamentals	Earnings	Inflation and policy	Defaults	Rate expectations, macro trends
Qualitative	**Overconfidence/Bias in beliefs** Herding, extrapolation, anchoring	Clustering of beliefs, narrow distributions, expectations at odds with historic trend delivery			

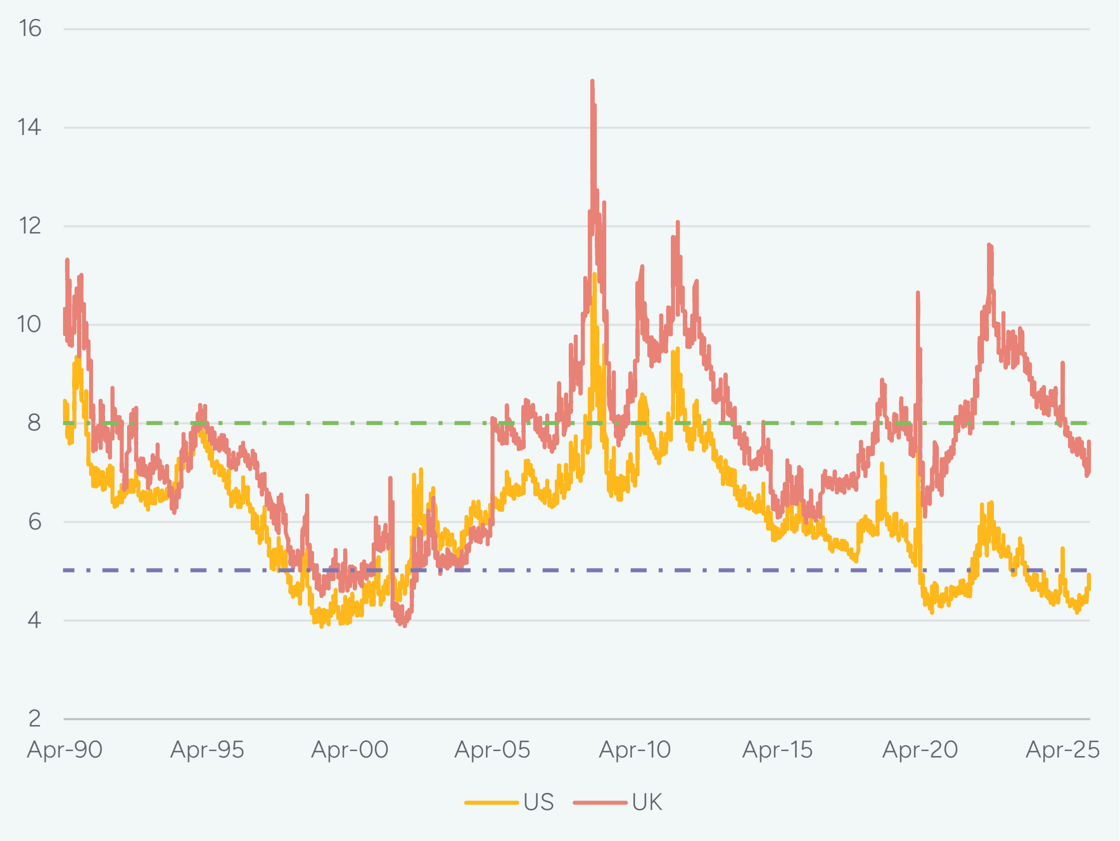
*Price moves inconsistent with new information on "Fundamentals": Real Rates, inflation, growth (GDP and profits), defaults.
Source: M&G, for illustrative purposes only.

Valuation

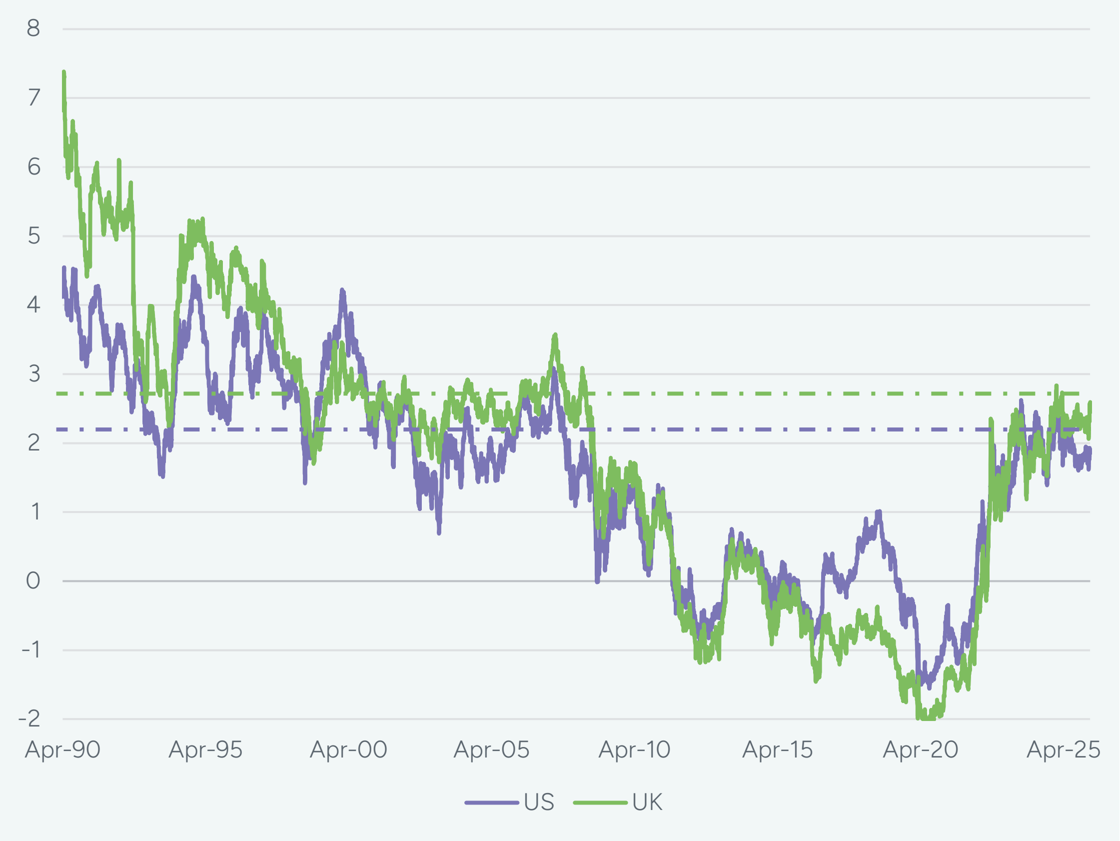
M&G Investments

Past performance is not a guide to future performance

US and UK Equity Markets (earnings yield, %)



US and UK 10Y Government Bonds (real yield, %)

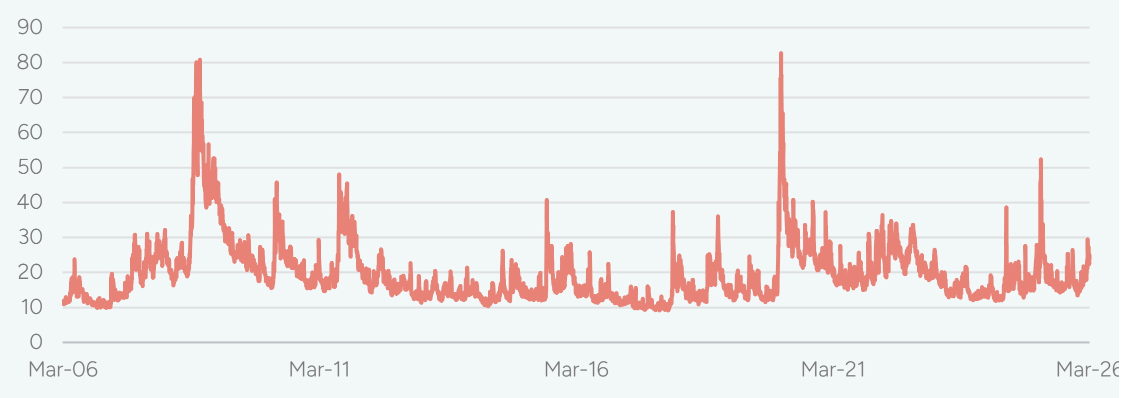


Source: M&G, LSEG Datastream, 19 March 2026.

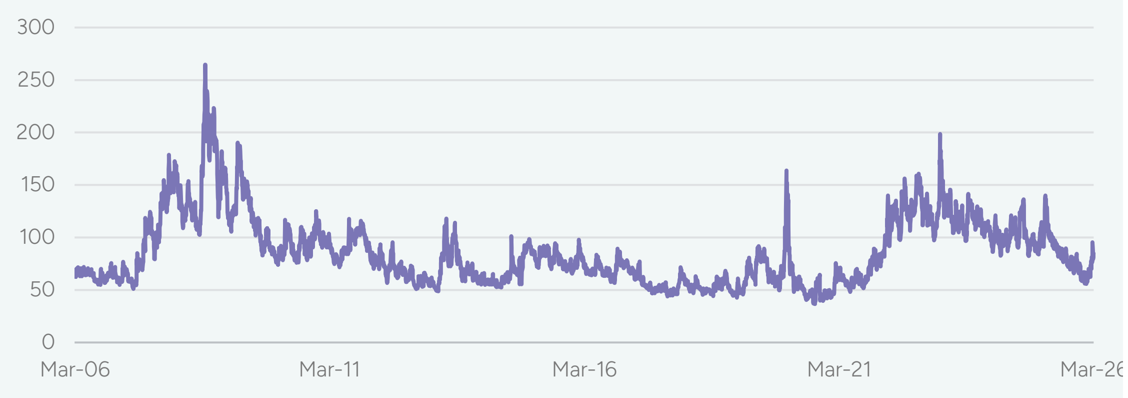
Price moves

M&G Investments

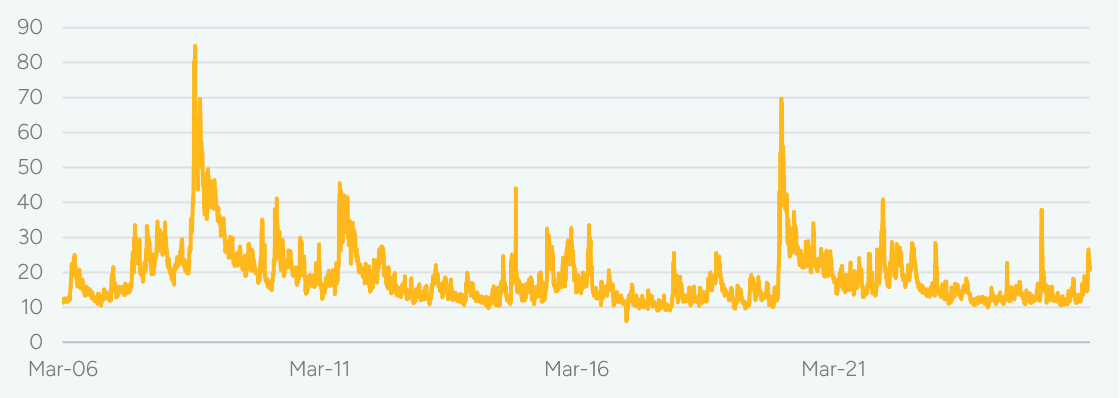
US equity (Vix) Volatility Index



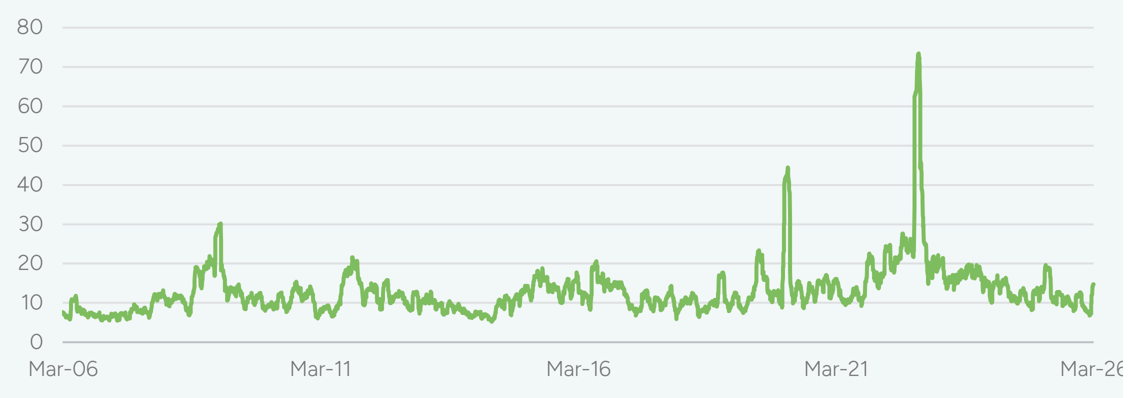
US Bond (MOVE) Volatility Index



UK equity (FTSE 100) Volatility Index



UK Gilt (UK 5Y+) Volatility Index



Source: M&G, Bloomberg, 20 March 2026.

Key takeaways

M&G Investments

- If you are engaging in active management, or selecting active managers, it is important to have a philosophy as to why markets make mistakes
- Behavioural finance can be part of this
  - It provides tools to protect against your own mistakes,
  - but also provides a model for identifying broader market inefficiencies
- Used correctly, it can provide a vital framework for dealing with uncertainty

Source: M&G, March 2026.

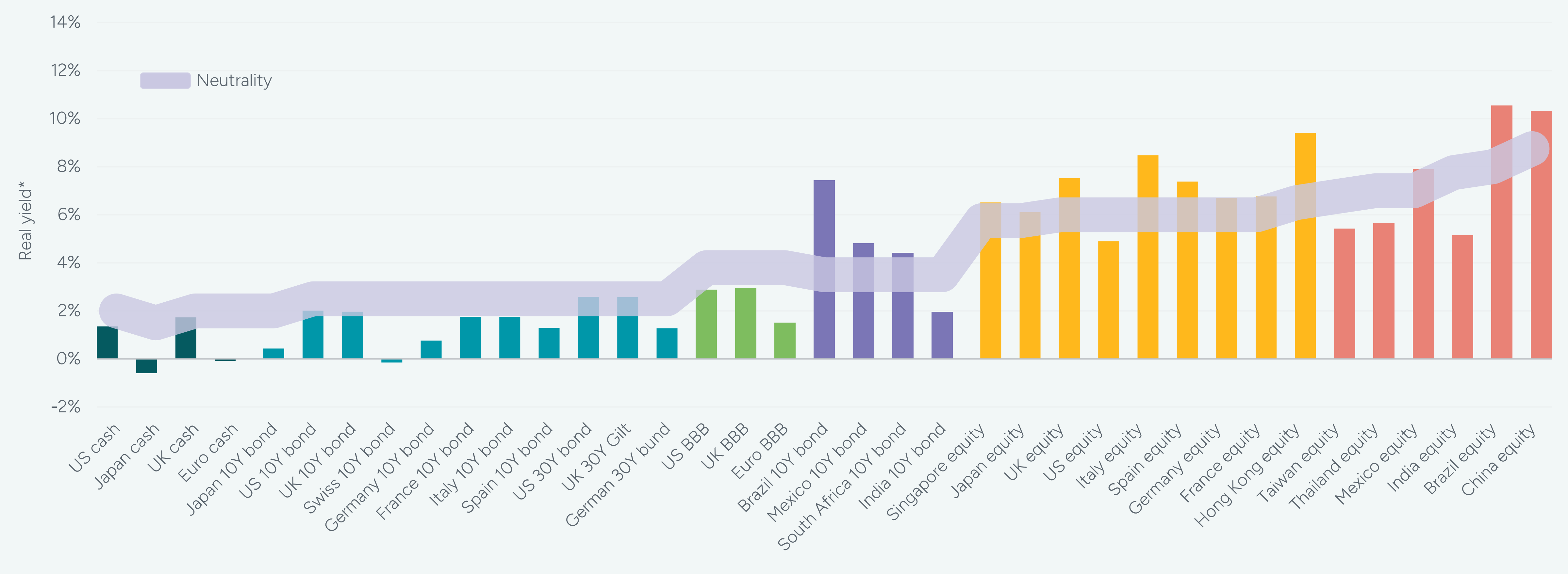
M&G Investments

APPENDIX

Valuation signals: March 2026

Past performance is not a guide to future performance

Sample of assets, showing real yield against an assessment of neutrality



Neutrality is the positioning if all assets were trading at their 'fair value'.
*Real yield. For cash/bonds = prevailing interest rate/nominal yield minus consensus long term inflation expectations. For equities = inverted p/e ratio, using forward consensus earnings data. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown. Investors cannot invest directly in an index. Source: M&G, Bloomberg, 23 March 2026.