eastspring investments

A Prudential plc company

August 2024

Monthly Investment Views

eastspring.com

Summary – August 2024

Macro Overview

Growth: The J.P. Morgan Global PMI Composite Output Index has remained above 50 for nine consecutive months, indicating still positive global economic expansion. However, recent data shows signs of easing, with the manufacturing new orders component falling below 50 for the first time in recent months. Economic surprise index (ESI) data are also deteriorating, with broader economic data coming in below consensus expectations across key regions. Despite US retail sales exceeding expectations in July, in our view, a weaker US labour market could limit wage growth and consumer spending, and slow US demand, which has been a key driver of global growth thus far.

Inflation: Inflation pressures showed some signs of easing in July as the US Consumer Price Index (CPI) rose by 0.2% month-over-month, and by 2.9% year-over-year, the smallest annual increase since March 2021. Core CPI increased by 3.2% year-over-year, the smallest annualised rise since April 2021. We continue to track labour market conditions and wage trajectories for inflation risks. While supply-side inflation risks could arise due to geopolitical tensions (i.e., a deepening of the Middle East conflict), for example, we expect inflation to moderate as a weakening US labour market reduces overall demand.

Monetary Policy: Given softer inflation data and weaker-than-expected US employment data in July, the Federal Reserve (Fed) is likely to start cutting interest rates. The pace of rate cuts will likely depend on how quickly the US labour market deteriorates. If the Fed acts too late, a deeper slowdown may emerge, despite healthy consumer and corporate balance sheets. Nevertheless, we believe that the Fed has room to ease policy and potentially engineer a soft landing.

Key Risks

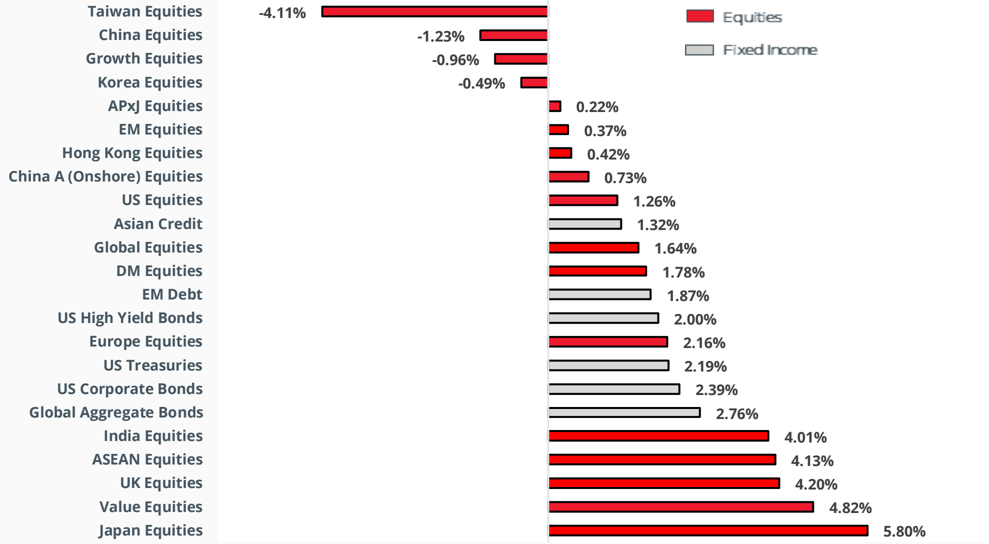
Global elections in 2024, especially the US presidential election will potentially introduce higher volatility over the next 3-to-12-months. Q3 remains a key watchpoint as the US election heats up.

Geopolitical risks (e.g. the Russia-Ukraine and Middle East conflicts) can significantly impact investor sentiment, but we believe that fundamentals will ultimately drive market returns. Increased Middle East tensions may cause further energy-driven inflation and potentially increase global trade costs in the event of supply disruptions.

Developed markets (DM) recession risk remains (e.g., US, Europe) because of accumulated rate hikes. A US slowdown will deprive global growth of a key “engine”. That said, a severe contraction in the US is unlikely in our view, given that the US has no major structural imbalances and better household balance sheets relative to other DM economies (e.g., Australia, Canada). Nevertheless, the Fed needs to avoid being late in cutting rates.

Market Recap and Update

Global Financial Markets – Monthly Performance as of 31 July 2024
Monthly Gross Returns % (in USD)*



Equities: Global equity markets ended the month on a positive note, despite volatility stemming from a downturn in technology shares, a widespread cyber disruption, a shift towards smaller companies, and restrictions on tech sales to China. US equities returned 1.3%. Developed Markets rose 1.8%, while Emerging Markets underperformed with a 0.4% return, weighed down by declines in Taiwan (-4.1%), China (-1.2%), and South Korea (-0.5%). Asia Pacific ex-Japan markets returned 0.2%. The People’s Bank of China (PBOC) surprised markets by cutting the medium-term lending facility (MLF) rate from 2.5% to 2.3%. ASEAN markets rallied 4.1%.

Fixed Income: US Treasury yields fell across the curve in July. The two-year US Treasury yield decreased by 42 basis points, finishing at 4.29%, while the ten-year US Treasury yield fell 27 basis points, closing the month at 4.09%. Amid falling yields, global aggregate bonds (Bloomberg Barclays Global Aggregate Index) returned 2.8% while US Treasuries (Bloomberg Barclays US Treasury Index) gained 2.2%. The US high yield market (ICE BofA US High Yield Index) returned 2.0%. The Asian credit market (J.P. Morgan Asia Credit Index) returned 1.3% as both high yield and investment grade bonds posted gains.

Data source: Eastspring Investments, LSEG Datastream. *Monthly total returns are provided as of 31 July 2024. Equity returns are referenced by the respective MSCI market indices quoted in USD, in gross return terms. “Global Equities” is represented by the MSCI ACWI; “DM Equities” is represented by the MSCI World Index. “Value Equities” and “Growth Equities” are represented by the MSCI World Value Index and MSCI World Growth Index, respectively. The fixed income markets are represented as follows: "US Corporate Bonds": ICE BofA US Corporate Index (USD) TR Index gross; “EM Debt”: J.P. Morgan EMBI Global Diversified (USD) TR Index gross; “US Treasuries”: Bloomberg Barclays US Treasury Index (USD) TR Index gross; “Asian Credit”: J.P. Morgan Asia Credit Index; "Global Aggregate Bonds": Bloomberg Barclays Global Aggregate (USD) TR Index gross; "US High Yield Bonds": ICE BofA US High Yield Index (USD) TR Index gross.

Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore by Eastspring Investments (Singapore) Limited (UEN: 199407631H)

Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

Indonesia by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

Malaysia by Eastspring Investments Berhad (200001028634/ 531241-U) and Eastspring Al-Wara' Investments Berhad (200901017585 / 860682-K).

Thailand by Eastspring Asset Management (Thailand) Co., Ltd.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

United Kingdom (for professional clients only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 1 Angel Court, London, EC2R 7AG.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as Eastspring Investments. The views and opinions contained herein are those of the author, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments. Reliance upon information in this document is at the sole discretion of the reader. Please carefully study the related information and/or consult your own professional adviser before investing.

Investment involves risks. Past performance of and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.
Eastspring Investments companies (excluding joint venture companies) are ultimately wholly-owned/indirect subsidiaries of Prudential plc of the United Kingdom. Eastspring Investments companies (including joint venture companies) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company Limited, a subsidiary of M&G plc (a company incorporated in the United Kingdom).