eastspring investments

A Prudential plc company

July 2024

Monthly Investment Views

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Summary – July 2024

Macro Overview

Growth: The global economy has been expanding steadily for the past eight months, as indicated by the J.P. Morgan Global Composite PMI Output Index data, although the expansion rate eased in June 2024. The Economic Surprise Index (ESI) data across key regions (namely US and Europe) have also started to deteriorate i.e., economic data coming in below consensus expectations, thereby supporting a decelerating growth backdrop. Looking ahead, we believe that the US economic growth momentum will likely continue to decelerate, as consumer spending, a key driver of US growth, eventually slows on the back of dwindling excess pandemic savings, decelerating wage growth, and tighter lending standards. In the next six months, we see the risks between a hard and soft landing as balanced with a slightly higher probability assigned to a soft landing.

Inflation: Although the US Consumer Price Index (CPI) displayed robust readings during Q1 2024, Q2 readings indicated a return to disinflationary trends, setting the conditions for the Fed to cut if the trend continues into Q3. While we acknowledge that supply-side inflation risks could arise due to geopolitical tensions, we believe that disinflationary forces will ultimately prevail as the labour market continues to see weakness through the rest of 2024.

Monetary Policy: The latest Fed median projection (the 'Dot Plot') now implies a single 25 basis points (bp) rate cut this year, in contrast to three cuts projected in March. In our view, the Fed remains highly data dependent and that they will act decisively should there be continued signs of slowing growth and improving inflation data. The recent US CPI and core PCE inflation readings show promise, and market participants have already priced in ~70% probability of a rate cut in September.

Key Risks

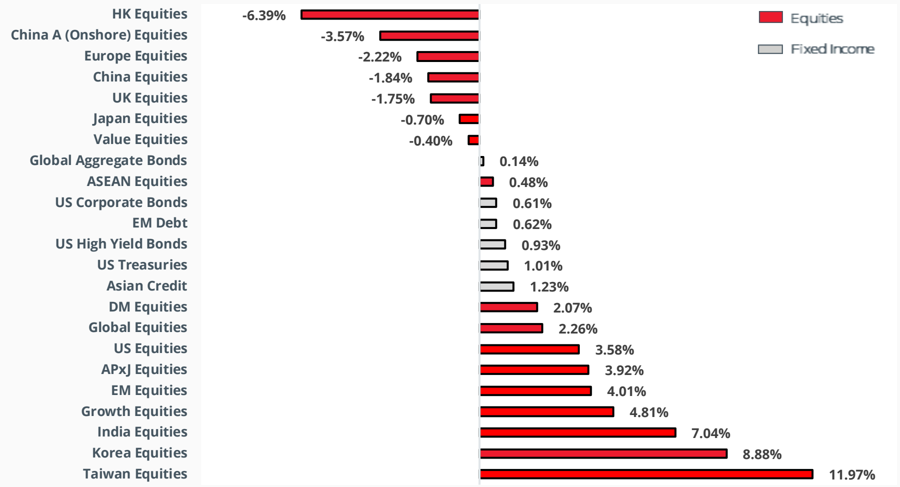
Persistent Inflation: Reflationary US CPI data in early 2024 reinforced concerns of persistent inflation. Recent inflation prints, however, have shown signs of moderation. Ultimately US wage inflation remains a key driver for the future path of inflation. More recently, while the US added 206,000 jobs in June (vs. forecast of 190,000), forward-looking labour market indicators (e.g., job openings rate, hiring rate) suggest that wage inflation could ease, although the pace of adjustment remains uncertain.

Geopolitics: Geopolitical tensions stemming from the broader Gaza-Israel conflict (e.g., Iran-Israel and US-Iran) may cause further oil price volatility, raise energy-related inflation, increase global trade costs (i.e., rising shipping costs) and possibly disrupt supply (i.e., oil flows). As supply shocks can put upward pressure on prices, geopolitical risks remain on our radar.

China Growth: Despite the recent stimulus measures in China, the impact on growth remains limited. Rising debt, deflationary pressures, weak domestic demand and a still sluggish property market continue to weigh on growth. A meaningful economic recovery requires more sizeable stimulus measures. The persistent deflationary trend in China also poses a risk to global growth.

Market Recap and Update

Global Financial Markets – Monthly Performance as of 30 June 2024
Monthly Gross Returns % (in USD)*



Equities: Global equity markets rose in June, buoyed by robust corporate earnings, advancements in AI & Technology, and strengthening economic fundamentals. US equities rose 3.6%, propelled by the AI sector, a sturdy economy, and a surge in manufacturing activity. In USD terms, Emerging Markets (EMs) outpaced Developed Markets (DMs), rising 4.0% in June compared to DMs' 2.1% gains. Asia Pacific ex Japan markets rose by 3.9% even though China equities declined amid capital flight fuelled by economic uncertainty. ASEAN markets too gained 0.5%, however they underperformed the broader Asia region and EMs. Notably, Asia's tech exporters, Taiwan and South Korea, rose strongly, posting 12.0% and 8.9% gains respectively.

Fixed Income: In June, global bond markets saw a modest rise as US Treasuries' (USTs) yields fell along key tenors, signalling the possibility of Fed rate cuts later in the year amid softening inflation. The yield on two-year USTs decreased by 18 basis points to 4.71%, while the yield on ten-year USTs dropped by 15 basis points to 4.36%. Against this backdrop, global aggregate bonds returned 0.1%, US Treasury bonds returned 1.0%, and Singapore bonds rose by 1.1%. The US high yield market rallied, aided by continued inflows and a rally in US Treasuries. The Asian USD bond market too gained 1.2%; both IG and HY issuers posted gains.

Data source: Eastspring Investments, LSEG Datastream. *Equity returns are referenced by the respective MSCI market indices quoted in USD (gross returns). "Value Equities" and "Growth Equities" are represented by the MSCI ACWI Value Index and MSCI ACWI Growth Index, respectively. "DM Equities" is represented by the MSCI World Index. 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

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