eastspring investments

A Prudential plc company

June 2024

Monthly Investment Views

eastspring.com

Summary – June 2024

Macro Overview

Growth: The J.P. Morgan Global Manufacturing Purchasing Managers Index (PMI) expanded for the fourth consecutive month in May with a reading of 50.9, a 22-month high, suggesting that global manufacturing output growth continues to improve. Despite overall tighter monetary conditions across most advanced economies, global economic activity in 2024 has been stronger than expected, supported primarily by US demand. Looking ahead, we believe that 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, among other factors.

Inflation: Although the US Consumer Price Index (CPI) displayed robust readings during Q1 2024, the back-to-back readings in April and May were below expectations, providing a temporary relief. However, over the last three months, shelter costs have been resilient, with the rents and owners' equivalent rents components both holding steady. While supply-side inflation risks could arise due to geopolitical tensions, leading to higher shipping costs or oil prices, we believe that disinflationary forces will ultimately prevail, especially as the labour market demand moderates over time.

Monetary Policy: At the June 2024 FOMC meeting, the Fed left the Fed Funds target rate unchanged at 5.25% to 5.50%, for the seventh consecutive time. The latest Fed median projection (aka 'Dot Plot') now implies a single 25 basis points (bp) rate cut this year, in contrast to three cuts projected in March. Going forward, the Fed will rely on data to guide its approach towards lowering rates.

Key Risks

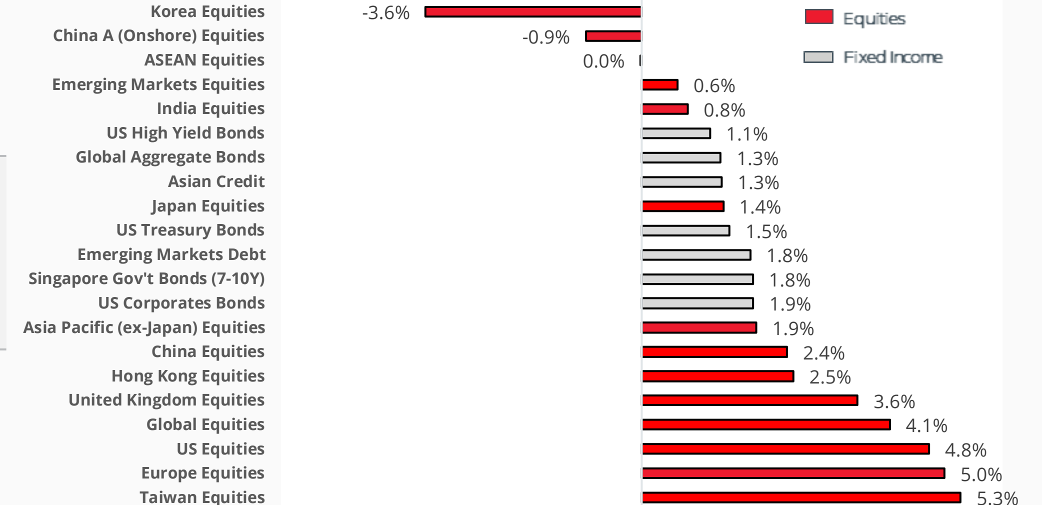
Persistent "Sticky" Inflation: Reflationary US CPI data in early 2024 reinforced concerns of lasting inflation. More recently, while the US added 272,000 jobs in May, forward-looking labour market indicators (e.g., job openings rate, hiring rate) suggest that wage inflation could ease but the pace of adjustment remains uncertain. We believe that US wage inflation remains a key driver for the future path of inflation.

Geopolitics: 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 and increase global trade costs (i.e., rising shipping costs). Geopolitical tensions can disrupt supply (i.e., oil flows) and hence, put upward pressure on prices via supply shocks. To this end, geopolitical risks remain on our radar.

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

Market Recap and Update

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



Equities: Equities performed well in May supported by on-going positive economic sentiment and a moderate softening in US inflation. Generally robust corporate earnings reports and central bank interest rate decisions continued to be key drivers of investor sentiment, although no notable rate cuts were announced during the month. US equities posted a 4.8% gain, driven by exceptional corporate earnings; European equities gained 5.0%. Emerging Markets (EM) increased 0.6%, while the Asia Pacific ex Japan markets rose by 1.9% in USD terms. ASEAN markets underperformed compared to the broader Asian region and EM.

Fixed Income: In May, the yield on two-year US Treasury decreased by 15 basis points to 4.89%, while the yield on ten-year US Treasury dropped by 18 basis points to 4.51%. In Singapore, SGD bond yields decreased in step with their US counterparts. Yields on two- and ten-year Singapore Government Securities dropped by 8 basis points and 9 basis points, closing at 3.42% and 3.36%, respectively. Amid a backdrop of generally falling yields, global aggregate bonds rose by 1.3%, US Treasury bonds returned 1.5%, and Singapore bonds (7-10Y) rose by 1.8%. The US high yield bond market returned 1.1%, underperforming its US corporate counterpart (1.9%). The Asian USD bond market returned 1.3%.

Data source: Eastspring Investments, LSEG Datastream. *Equity returns are referenced by the respective MSCI market indices quoted in USD (gross returns). The fixed income markets are represented as follows: "US Corporates Bonds": ICE BofA US Corporate Index (USD) TR Index gross; "Singapore Govt Bonds (7-10Y)": iBoxx ABF Singapore Government 7-10 (USD) TR Index gross; "Emerging Markets Debt": J.P. Morgan EMBI Global Diversified (USD) TR Index gross; "US Treasury Bonds": 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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