eastspring investments

A Prudential plc company

October 2024

Monthly Investment Views

eastspring.com

Summary – October 2024

Macro Overview

Growth: The J.P. Morgan Global Composite PMI Output Index has remained above a "50" reading for 11 consecutive months, signaling still positive global economic expansion. However, momentum is slowing amid continued weakness in the manufacturing sector, which decelerated for the third consecutive month. Recent US data has been surprisingly strong, highlighted by robust September job gains and the U.S. Bureau of Economic Analysis' (BEA) upward revisions to personal income and personal savings data. However, economic data across other key regions (e.g., Europe, Japan, EM) remain below expectations. Despite resilient US data, the possibility of a US recession in the next 6-12 months cannot be ruled out, although a severe contraction is unlikely.

Inflation: In September, the headline US Consumer Price Index (CPI) rose by 2.4% y/y compared to the same period last year, down from a 2.5% y/y rise in August. While core CPI remains relatively persistent, we maintain our view that inflation progress is moving towards the Fed's 2% target, although the path will be uneven. We are closely monitoring the labour market situation and the trajectory of wage growth to detect any significant shifts in the disinflationary trend or signs of a potential reacceleration in inflation. Additionally, we are being watchful of any potential supply-side driven inflation risks, especially those that may arise due to geopolitical tensions such as the escalating tensions in the Middle East.

Monetary Policy: As inflation moves closer to the Federal Reserve's (Fed) 2% target, both the Fed and the markets are expected to focus on the labour market progress in the coming months, as pursuing maximum employment is part of the Fed's dual mandate. We are cognisant that an easier monetary policy, combined with a still-resilient US economy could potentially result in a resurgence in inflation.

Key Risks

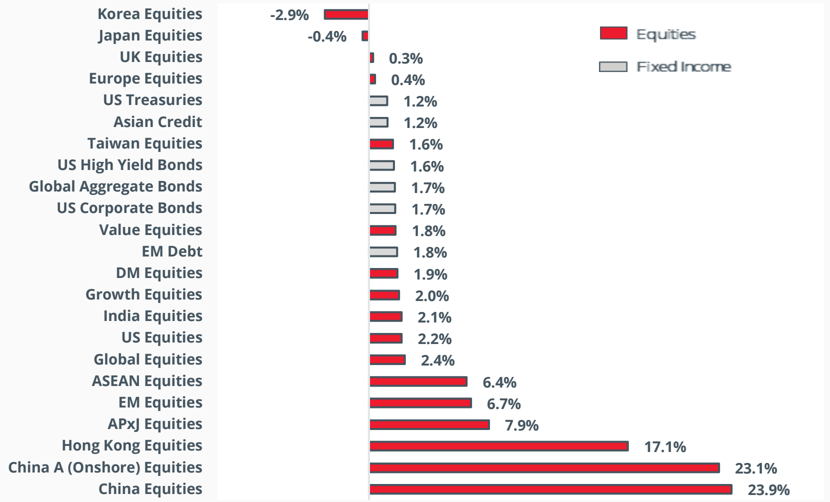
The upcoming US presidential election poses a significant risk to the market, with higher volatility expected in the near-term. We anticipate continued bouts of volatility, particularly in the days and weeks leading up to the November elections.

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

Recession risk in major Developed Markets (DM) remains (e.g., US, Europe) due to the lagged effects of accumulated rate hikes. A US slowdown will likely deprive global growth of a key "engine", while China is unlikely to offset the slowdown without stimulus measures to meaningfully boost domestic demand. That said, a severe contraction in the US is unlikely given its relatively healthy household balance sheets and fewer structural imbalances compared to other major DM economies (e.g., Australia, Canada).

Market Recap and Update

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



Equities: The Fed's 50 basis point (bp) interest rate cut, along with China's significant stimulus package lifted investor sentiment. US equities returned 2.2% and Developed Markets rose by 1.9%. Emerging Markets, led by China, rose 6.7%. China equities rallied 23.9%, fueled by the country's stimulus measures, the Fed's rate cut, and a depreciating USD. Asia Pacific ex Japan markets rose 7.9%. Japan equities bucked the trend and fell 0.4%, due to weak domestic spending and a strengthening yen. Korea equities also fell 2.9%, weighed down by the decline in Samsung Electronics' share price and foreign investor selling amid ongoing concerns over the AI bubble.

Fixed Income: US Treasury yields generally declined across key tenors to close the month. The US Treasury 10-year yield fell approximately 10 bp to 3.81%, while the 2-year yield decreased by roughly 25 bp to 3.66%. Global bond markets saw modest gains as the global aggregate bonds delivered a 1.7% return and U.S. aggregate bonds rose by 1.3%. Increased expectations of a US "soft landing" supported US investment grade and US high yield credits, with returns of 1.7% and 1.6%, respectively. Emerging market debt returned 1.8% in USD terms, buoyed by a weaker US dollar.

Data source: Eastspring Investments, LSEG Datastream. *Monthly total returns are provided as of 30 September 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.

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