

January 2025

CIO Views – Monthly Bulletin



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Summary – December 2024

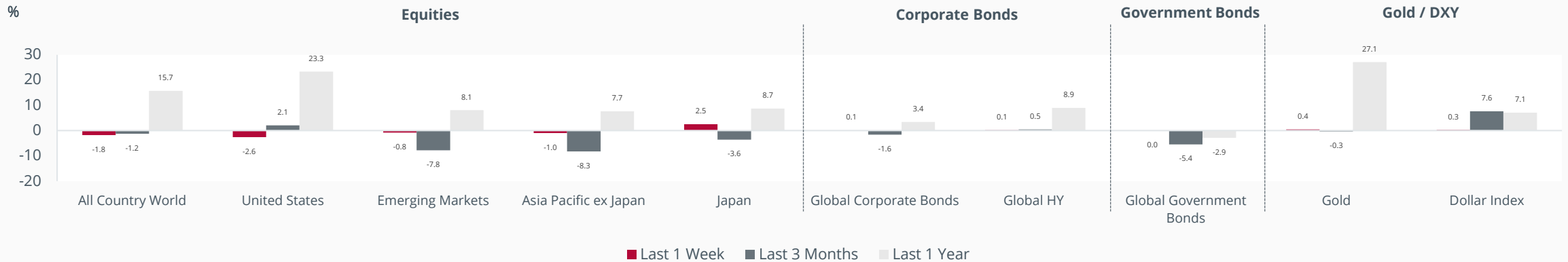
MARKET RECAP AND UPDATE

Equities

In December, global stock markets underperformed. Communication services, consumer discretionary, and information technology sectors contributed positively to market performance, while materials, real estate, and energy sectors detracted. The Federal Reserve (Fed) and European Central Bank eased policy rates by 25 basis points, and the Bank of Canada (BoC) reduced rates by 50 basis points. Both the Fed and BoC indicated that further policy rate easing would depend on inflation persistence. Japanese and European equity markets ended December lower and were volatile, tracking the U.S. stock market. Japanese markets were partially buoyed by the potential Honda-Nissan merger. The People's Bank of China (PBoC) maintained its key lending rates and assured stakeholders of a “moderately loose” monetary policy in 2025. South Korea’s equity market struggled due to political uncertainty. Emerging Markets outperformed Developed Markets in December, with the United Arab Emirates, Greece, Taiwan, and China contributing the most to performance.

US equities declined by 2.66% in December, following the FOMC indication of a shallow interest rate cut trajectory for 2025. Thinner trading volumes caused a lack of momentum while the historically positive Santa Claus Rally eluded the markets. In December, the Asia ex-Japan markets delivered a 0.08% return in USD terms, with Taiwan and China being the top performers. The Fed cut interest rates by 25 basis points to strengthen the labour market as emerging economies prepare for a major shift in US policymaking post-elections. The PBOC kept the one-year LPR, five-year LPR, and one-year MLF unchanged. China's industrial output rose 5.4% YoY, up from October's 5.3%, driven by manufacturing growth, with the unemployment rate remaining steady. Indian equities declined by 2.86%, signalling a struggling market, with IT hardware and mining sectors being the biggest detractors.

Emerging Market (EM) equities delivered a -0.29% return in December, outperforming Developed Market (DM) equities, which returned -2.69%. EM Asia and Latin America markets underperformed, while the EMEA market outperformed during the period. Indian equities fell 2.86% in USD terms, mainly due to the Fed's announcement of fewer rate cuts in 2025 and sustained selling by foreign institutional investors



Source: Eastspring Investments, Refinitiv, as at **31 December 2024**. Equities: using MSCI indices in USD, United States is using the S&P 500. Corporate Bonds: using ICE BofA indices in USD. Government Bonds: using the FTSE Global Sovereign Bond index, in USD. Gold is London Bullion Market US Dollar per Metric Tonne. DXY is US Dollar Index. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The historical performance or forecast presented in this slide is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for the future or likely performance of the Fund.



Summary – December 2024

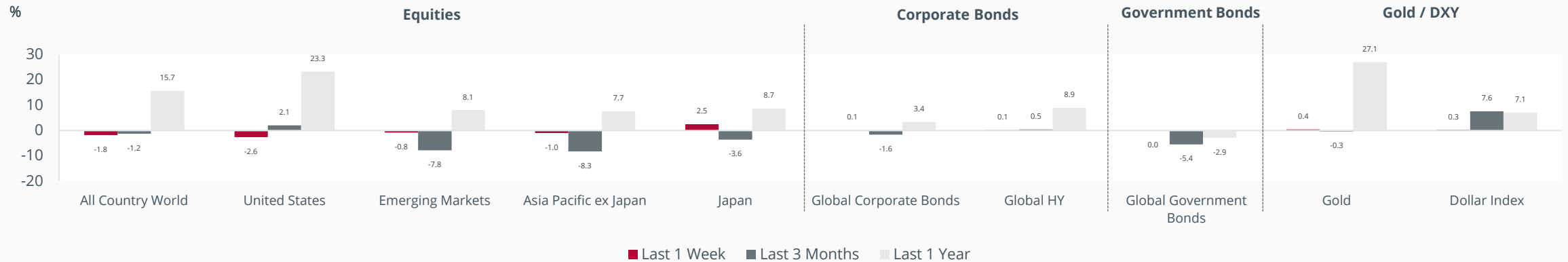
MARKET RECAP AND UPDATE

Fixed Income

In December 2024, global bond markets declined marginally, with 10-year US Treasury yields reaching their highest level since July 2024. The yield spread between US 10-year and 2-year notes widened significantly due to inflation risks from Trump-era policies, persistent inflation, increased unemployment claims, and comments by Fed Chair Jerome Powell, leading investors to lower their expectations for the pace of Federal Reserve rate cuts. As credit spreads narrowed slightly, high-yield bonds outperformed global investment-grade and sovereign bonds. The Fed reduced the federal funds rate by 25 basis points to 4.25%-4.50% in December and signaled fewer cuts in 2025. The European Central Bank cut interest rates by 25 basis points and indicated potential further reductions if disinflation persists and economic activity remains weak. The yield on the 10-year German bund rose to 2.36% over the month..

The Asian USD bond market, as reflected by the JPMorgan Asia Credit Index, declined by 0.80% in December. The high yield (HY) segment also experienced a decline, with the JPMorgan Asia Credit Non-Investment Grade Index falling by 0.58%. Meanwhile, the investment grade (IG) sector, tracked by the JPMorgan Asia Credit Investment Grade Index, declined by 0.84%. Emerging Market (EM) USD sovereign bonds yielded negative returns, as evidenced by the JPMorgan EMBI Global Diversified Index's 1.40% decline. This was driven by the strengthening US dollar, buoyed by favorable growth prospects and expectations of supportive trade and fiscal policies under the Trump administration. Additionally, rising US Treasury yields contributed to the fall in EM sovereign bonds.

The US dollar finished the year marginally up for the month, as measured by the dollar Index (DXY) and with a strong gain over the year. The Asia dollar index (ADXY) was flat for December, but negative over the year given the relative performance of the US dollar.



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What's top of investors' minds

KEY THEMES

The year opens with strong US growth, but high uncertainty over policy.

We expect US growth of about 2.5% in Q4 to sustain above 2% in H1. Aggregate payroll growth of 5.4% supports robust consumption growth and the Fed's Beige Book suggests corporate hiring and investment plans have improved. However, much of this "US Exceptionalism" is already in lofty US valuations. This leads us to look for relative performance hedges in the form of less expensive markets. We also think that with the rise in yields incorporating some Fed rate hike risk that we think is unlikely, some elements of fixed income also offer interesting risk-return distributions.

A key uncertainty in this otherwise benign background is about what tariff policy President-elect Trump will announce following his January 20 inauguration. The market expectation for smaller, targeted, and phased in tariffs would likely pose only a small impact on US growth and inflation. In contrast, a broad, aggressive approach – for example 60% on most imports from China and 10% - 20% on most other countries - would be more negative for US and global growth and would risk higher inflation and global rates. Our concern is that Trump's history and choice of advisors points toward higher and broader tariffs than the market expects. However, uncertainty is so high that positioning is probably better via hedges than directional trades.

China's growth is likely to remain volatile.

Policy, however, is committed to its target of close to 5% GDP growth this year. The export jump of Q4 may sustain in Q1 as companies try to front run US tariffs, but the consumption bounce from subsidies for consumer goods trade-ins is likely to fade. Property prices are continuing to fall, depressing household wealth, and employment income growth is weak. The collapse in credit growth suggests low-capacity utilisation rates are restraining investment.

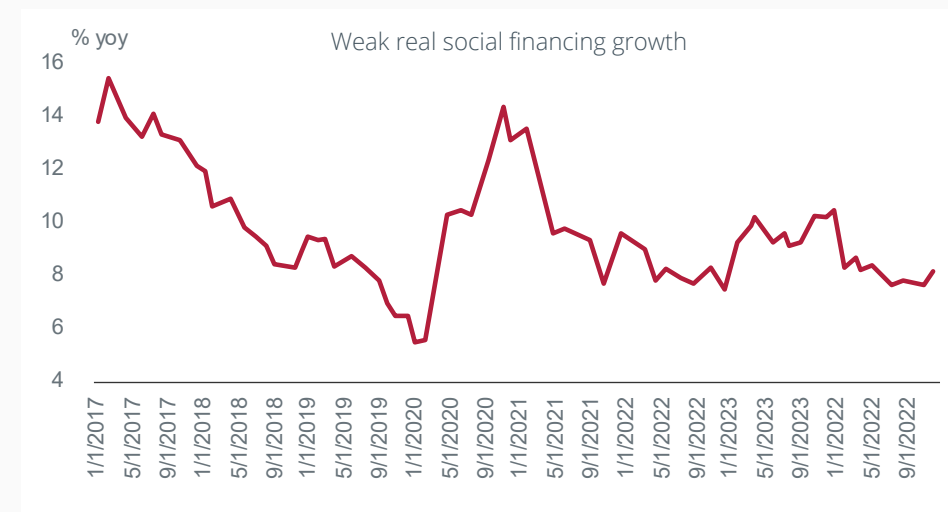
China's government has announced a framework to counter this likely slowing but appears to be taking a reactive rather than proactive approach. The Ministry of Finance's January press gave rhetorical support for press reports that the government will increase the budget deficit to 4% of GDP, increase ultra-long term bond issuance by about 2tn yuan, increase the local government special bond quota, and issue bonds to fund some recapitalisation of large state banks. These lead us to expect China's augmented fiscal deficit to increase by an economically meaningful 1.5% - 1.8% of GDP. However, officials have made clear that formal specifics will wait for the "dual sessions" government meetings in March. This implies a delay in spending until Q2.

Crucially, the government has still not suggested it will embark on a widespread carve out of the excess housing inventory that is driving China's balance sheet deflation. We expect bouts of growth weakness to trigger temporary fiscal stimulus aimed at getting close to the 5% GDP growth target but are less optimistic that policy will reverse deflationary pressures.

US payroll earnings



China real social financing



What's top of investors' minds

KEY THEMES

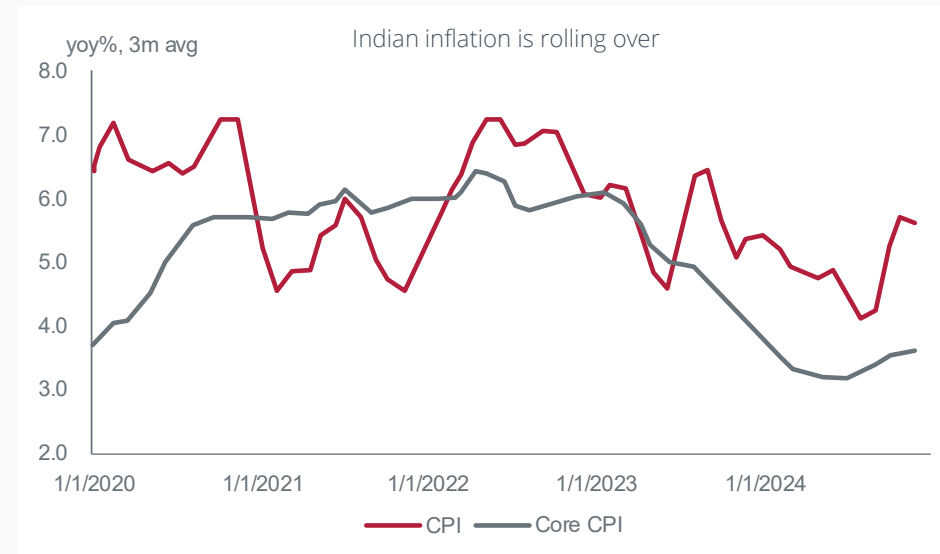
What's next for the Indian economy?

We think India is approaching a turn in monetary policy toward easing that should drive a cyclical recovery in GDP growth and better conditions for asset prices from H2. Headline inflation softened to 5.2% yoy in December a second consecutive month below the Reserve Bank of India's (RBI) 6% ceiling while the core inflation run rate fell to 3.9% yoy from a high of 4.6% yoy earlier in the year. Credit growth, a key RBI concern early last year, has also slowed sharply. Importantly, the worst of the unexpected contraction in the government's budget deficit is close to over.

Higher wage growth to sustain real incomes in Japan.

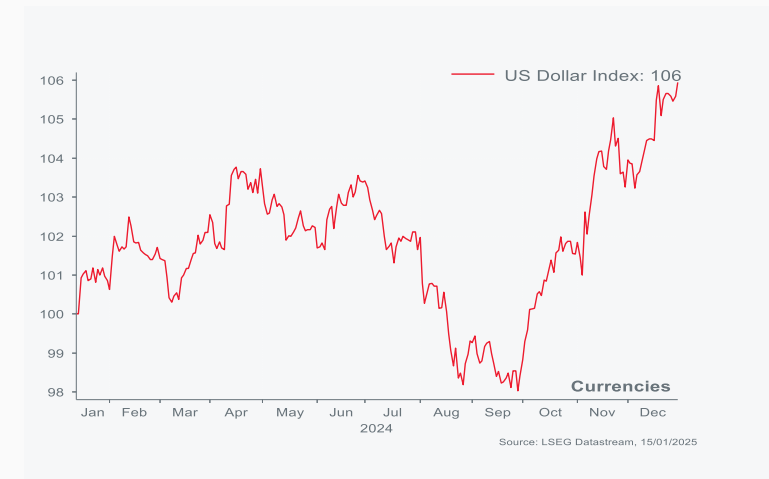
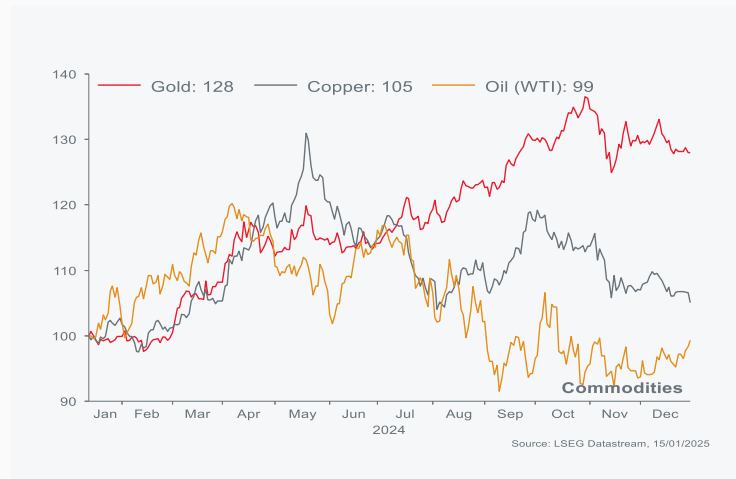
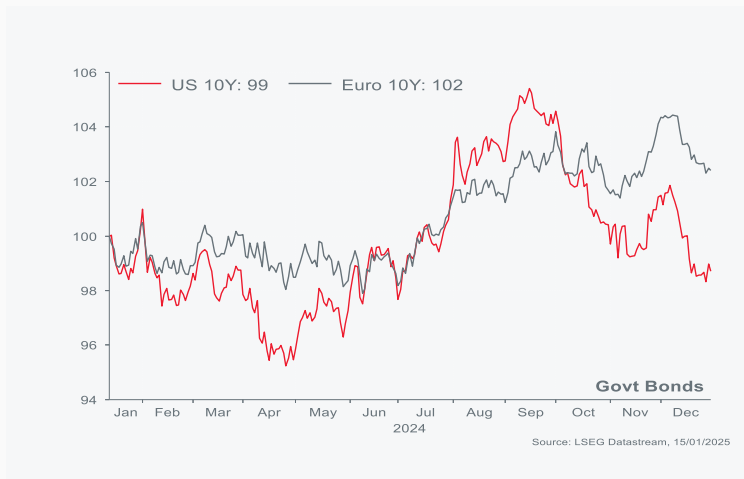
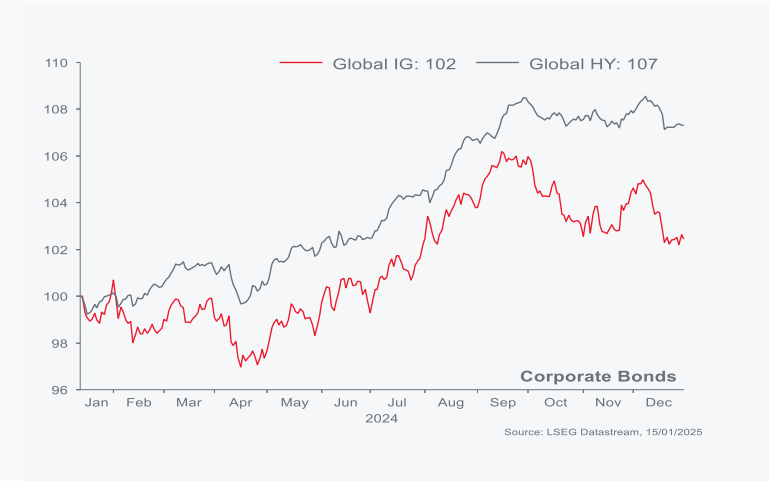
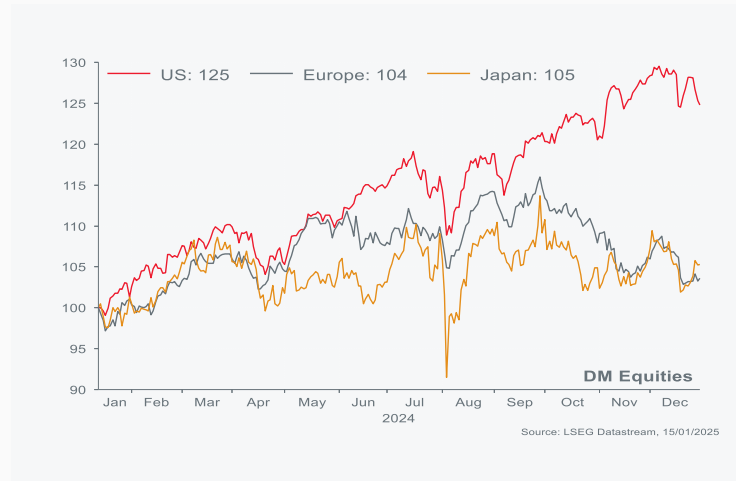
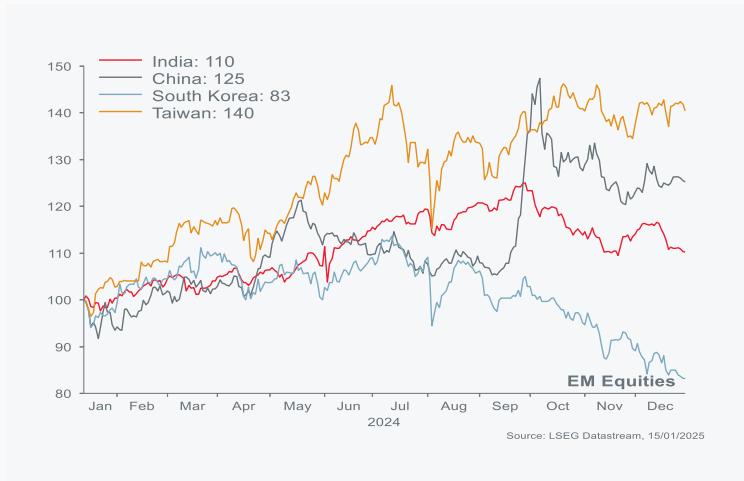
Japan looks more sustainably reflationary with an outlook for real GDP growth to accelerate to about 1% this year from a contraction of about 0.2 in 2024. Wage growth is turning household income growth positive in real terms. This year's Shunto is likely to give labour a 3% - 3.5% wage increase, sustaining growth in real incomes. This should stimulate consumption growth and keep inflation gradually rising, justifying the Bank of Japan hiking rates in Q1 and again in late Q2 or Q3. These hikes should combine with the Fed returning to rate cuts to create room for the yen to recover somewhat. Importantly, higher wage growth and a return to growth should support continued corporate reform to improve RoEs.

India inflation





The month in charts



Source: Eastspring Investments, Refinitiv, as at last month end, rebased to 100 as at 1 year ago. Equities: MSCI indices, in USD. Corporate Bonds: using Bloomberg indices in USD. Government Bonds: using ICE BofA US 10 Year US Treasury and ICE BofA 7-10 Year Euro Government indices. Commodities: Gold is London Bullion Market US Dollar per Metric Tonne Ounce. Copper is LME Copper Grade A Cash US Dollar per Metric Tonne. Oil is Crude Oil WTI Spot Cushing US Dollar per Barrel. US Dollar is US Dollar Index. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The historical performance or forecast presented in this slide is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for the future or likely performance of the Fund.



The month in data

Equity Indices	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
World								
MSCI AC World Index (USD)	834.41	-1.76	-2.45	-1.23	15.73	15.73	873.73	712.11
North America								
US Dow Jones Industrial Average	42,518.28	-1.74	-5.27	0.51	12.88	12.88	45,073.63	37,122.95
US S&P 500 Index	5,842.91	-2.62	-2.50	2.07	23.31	23.31	6,099.97	4,682.11
US Nasdaq Composite Index	19,088.10	-3.60	0.48	6.17	28.64	28.64	20,204.58	14,477.57
Europe								
MSCI Europe	1,997.17	0.39	-2.48	-10.01	-0.87	-0.87	2,250.56	1,939.94
STOXX 50	4,344.92	0.81	-0.46	-3.24	5.26	5.26	4,584.77	4,010.21
STOXX 600	508.28	0.76	-0.51	-2.92	5.97	5.97	528.68	464.99
Germany DAX	20,271.33	0.30	1.44	3.02	18.85	18.85	20,522.82	16,345.02
France CAC-40	7,423.67	1.35	2.01	-3.34	-2.15	-2.15	8,259.19	7,029.91
Spain IBEX 35	11,752.10	1.06	-0.40	-2.38	14.78	14.78	12,153.60	9,798.80
Italy FTSE MIB	35,124.59	1.32	2.31	0.18	12.63	12.63	35,474.31	29,925.99
UK FTSE 100	8,201.54	0.44	-1.38	-0.78	5.69	5.69	8,474.41	7,404.08
Asia Pacific								
MSCI Asia Pacific ex Japan	556.80	-0.96	-1.23	-8.29	7.66	7.66	629.66	491.14
Japan Nikkei 225	38,474.30	2.20	4.41	5.21	19.22	19.22	42,426.77	31,156.12
Shanghai Stock Exchange Composite	3,240.94	-1.23	0.76	0.46	12.67	12.67	3,674.40	2,635.09
Hong Kong Hang Seng	19,219.78	-0.19	3.28	-5.08	17.67	17.67	23,241.74	14,794.16
Taiwan TAIEX	22,797.52	-0.37	3.47	3.65	28.47	28.47	24,416.67	17,151.58
Korea KOSPI	2,497.40	-1.68	-2.30	-7.47	-9.63	-9.63	2,896.43	2,360.18
India NIFTY 50	23,176.05	-0.35	-2.02	-8.39	8.80	8.80	26,277.35	21,137.20
Australia Stock Exchange 200	8,231.00	-0.75	-3.28	-1.34	7.49	7.49	8,514.50	7,322.00
Indonesia Jakarta Composite	6,956.66	0.20	-0.48	-5.95	-2.65	-2.65	7,910.56	6,698.85
Thailand SET	1,340.25	0.40	-1.91	-3.36	-1.10	-1.10	1,506.82	1,273.17
Malaysia FTSE Bursa KLSE	1,576.46	2.45	3.01	-0.40	12.90	12.90	1,684.68	1,446.36
Philippines Stock Exchange PSE	6,299.67	-0.09	-1.29	-10.23	1.22	1.22	7,604.61	6,158.48
Singapore FTSE Straits Times Index	3,788.77	0.48	1.29	5.64	16.89	16.89	3,842.71	3,092.40

Government Bonds	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
US Treasury Yield (%)								
3 Months	4.64	-0.30	-3.70	-6.59	-19.17	-19.17	5.42	4.29
2 Years	4.03	-1.80	1.87	16.46	0.05	0.05	5.05	3.55
5 Years	3.98	-0.95	7.73	22.76	14.65	14.65	4.72	3.41
10 Years	4.18	-0.22	9.13	20.38	18.58	18.58	4.71	3.62
30 Years	4.49	0.48	9.33	15.73	19.04	19.04	4.82	3.94
10 Year Bond Yield (%)								
Japan	0.96	2.53	3.79	28.07	77.76	77.76	1.10	0.56
Germany	2.28	1.68	13.22	10.83	16.51	16.51	2.68	2.02
UK	4.14	-0.57	7.70	14.07	29.22	29.22	4.63	3.54
China	2.12	-3.06	-18.21	-22.22	-34.86	-34.86	2.59	1.68
Australia	4.29	-1.84	0.07	10.19	10.28	10.28	4.70	3.82
Singapore	2.82	-4.44	4.15	9.41	5.73	5.73	3.45	2.41
Thailand	2.39	1.11	-2.16	-8.65	-15.61	-15.61	2.83	2.24
Malaysia	3.83	-0.52	-0.29	1.49	2.25	2.25	4.01	3.69
Indonesia	6.64	-0.20	2.18	8.68	8.21	8.21	7.27	6.43

	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
Bond Indices								
Bloomberg Global Aggregate USD	92.69	0.05	-1.17	-2.03	-0.54	-0.54	96.21	91.49
Bloomberg U.S. Aggregate USD	89.27	0.12	-1.92	-3.84	-1.39	-1.39	94.86	87.88
Bloomberg Euro-Aggregate EUR	93.13	-0.13	-1.27	-0.43	0.87	0.87	96.04	91.43
Bloomberg B U.S. High Yield USD	97.22	0.03	-0.70	-0.92	2.83	2.83	98.58	93.65
Bloomberg European High Yield: 2% Issu	97.08	0.30	0.44	1.15	5.76	5.76	98.12	91.94
Bloomberg U.S. TIPS 5 - 10 Years USD	91.24	0.07	-2.03	-4.02	-1.87	-1.87	95.89	89.43
ICE BofA Global High Yield Index	66.12	0.15	-0.19	0.46	8.94	8.94	67.16	64.00
ICE BofA Global Corporate Index	92.13	0.11	-1.26	-1.60	3.45	3.45	96.11	90.79

Currencies (vs USD)	Latest	1 week Change	1 Month Ago	3 Months ago	1 Year Ago	YTD	52 week high	52 week low
Developed Markets								
EUR	-0.52	-2.10	-2.10	-2.10	-7.01	-6.19	1.12	1.04
GBP	-0.32	-1.77	-1.77	-1.77	-6.42	-1.71	1.34	1.23
CHF	0.39	2.99	2.99	2.99	7.30	7.81	0.92	0.84
CAD	0.19	2.70	2.70	2.70	6.33	8.57	1.44	1.32
JPY	0.22	4.96	4.96	4.96	9.44	11.43	161.68	140.60
AUD	-0.50	-4.96	-4.96	-4.96	-10.50	-9.15	0.69	0.62
NZD	-0.82	-5.44	-5.44	-5.44	-11.89	-11.55	0.63	0.56
Asia								
CNY	-	0.79	0.79	0.79	4.01	2.84	7.30	7.01
HKD	0.02	-0.18	-0.18	-0.18	-0.06	-0.52	7.84	7.76
INR	0.09	1.18	1.18	1.18	2.15	2.84	85.55	82.71
MYR	0.18	0.63	0.63	0.63	8.42	-2.66	4.80	4.12
KRW	0.51	5.89	5.89	5.89	12.13	14.09	1,476.78	1,293.54
SGD	0.40	1.98	1.98	1.98	6.26	3.49	1.37	1.28
TWD	0.16	1.06	1.06	1.06	3.26	6.85	32.85	30.68
IDR	-0.25	1.58	1.58	1.58	6.31	4.51	16,445.00	15,095.00

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Key events and data releases

LAST MONTH

Date	Country	Indicator	Actual	Previous	Consensus
9/10/2024	USA	Comprehensive Risk, Overall, Score	7.96	7.96	-
9/10/2024	CAN	Comprehensive Risk, Overall, Score	9.17	9.18	-
11/10/2024	CHN	Comprehensive Risk, Overall, Score	2.40	2.40	-
18/10/2024	CHN	Production Approach,Gross Domestic Product,Total	4.60	4.70	4.5
30/10/2024	USA	PCE services, Advance	2.60	3.00	-
30/10/2024	USA	PCE price, Advance	1.60	2.30	-
30/10/2024	EUZ	Expenditure Approach,Gross Domestic Product,Total at market prices, Chain-linked (ESA2010)	0.90	0.60	0.8
30/10/2024	EUZ	Expenditure Approach,Gross Domestic Product,Total at market prices, Chain-linked (ESA2010)	0.40	0.20	0.2
30/10/2024	AUS	Consumer Prices,All Items,Trimmed mean	3.50	3.90	3.5
30/10/2024	AUS	Consumer Prices,All Items,Weighted median	3.80	4.10	3.6
30/10/2024	AUS	Consumer Prices,All Items,Trimmed mean	0.80	0.80	0.7
30/10/2024	AUS	Consumer Prices,All Items,Weighted median	0.90	0.80	0.8
30/10/2024	AUS	Consumer Prices,All Items,Total	2.80	3.80	2.9
30/10/2024	AUS	Consumer Prices,All Items,Total	0.20	1.00	0.3
30/10/2024	USA	National Income Account,Gross Domestic Product,Total-adv	2.80	3.00	3.0
31/10/2024	AUS	Retail Sales,Total	0.50	-0.40	0.5



Key events and data releases

THIS MONTH

Date	Country	Indicator	Actual	Previous	Consensus
13/11/2024	AUS	Wage Prices,All Sectors,Total hourly rates of pay excluding bonuses, all industries	3.50	4.10	3.6
13/11/2024	AUS	Wage Prices,All Sectors,Total hourly rates of pay excluding bonuses, all industries	0.80	0.80	0.9
14/11/2024	EUZ	Expenditure Approach,Gross Domestic Product,Total at market prices, Chain-linked (ESA2010)	0.90	0.90	0.9
14/11/2024	EUZ	Expenditure Approach,Gross Domestic Product,Total at market prices, Chain-linked (ESA2010)	0.40	0.40	0.4
27/11/2024	USA	PCE services, Preliminary	2.60	2.60	-
27/11/2024	USA	PCE price, Preliminary	1.60	1.60	-
27/11/2024	AUS	Consumer Prices,Annual Trimmed Mean	3.50	3.20	-
27/11/2024	AUS	Consumer Prices,Excluding 'volatile items' and holiday travel	2.40	2.70	-
27/11/2024	AUS	Consumer Prices,Excluding 'volatile items' and holiday travel	2.40	2.70	-
27/11/2024	USA	National Income Account,Gross Domestic Product,Total-2nd Estimate	2.80	2.80	2.8
28/11/2024	AUS	Business Surveys,Private New Capital Expenditure,All industries	1.10	-2.20	0.9
28/11/2024	EUZ	Consumer Surveys,All Respondents, Total, Consumer Confidence Indicator, Balance	-13.70	-13.70	-13.7
29/11/2024	EUZ	Consumer Prices,All Items,Total	2.30	2.00	2.3
29/11/2024	EUZ	Consumer Prices,All Items,Total excluding energy, food, alcohol and tobacco	2.70	2.70	2.8
29/11/2024	EUZ	Harmonized Consumer Prices,Overall index excluding energy, food, alcohol and tobacco (flash estimate)	-0.60	0.20	-
29/11/2024	CAN	Expenditure Approach Income Approach,Gross Domestic Product,Total at market prices, annualised	1.00	2.10	1.0



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