eastspring investments

A Prudential plc company

Monthly Investment Updates

Aug 2024

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Macro Overview

Growth

- **The global economy is still growing, but not as fast as the start of the year**. Some signs of slowdown include fewer new orders for manufactured goods and lower-than-expected economic data across key regions.
- US demand has been a key driver of global growth to date. Although US retail sales beat expectations in July, **a weaker US labour market will limit wage growth and consumer spending going forward.**
- Weaker economic growth will ultimately hurt corporate earnings and impact the outlook for equity markets.

Inflation

- Core US inflation slowed down in July, marking the smallest annual increase since April 2021. While the headline Consumer Price Index (CPI) tracks the changes in the prices of goods and services, core CPI excludes food and energy, which can have large swings due to external factors.
- While geopolitical tensions such a deepening of the Middle East conflict, for example, may disrupt goods and services and raise inflation risk, **we think inflation will stay low as US labour market weakness reduces US demand and offsets such supply-side risks.**

Monetary policy

- With inflation easing and the US labour market weakening, the US Federal Reserve (Fed) is likely to lower interest rates over the next 3 to 6 months. The pace of rate cuts will depend on how quickly the US labour market worsens. **We believe that the Fed has room for rate cuts to help prevent a significant contraction in the US.**
- Interest rate cuts can lower interest expenses for companies and households and help support the economy.

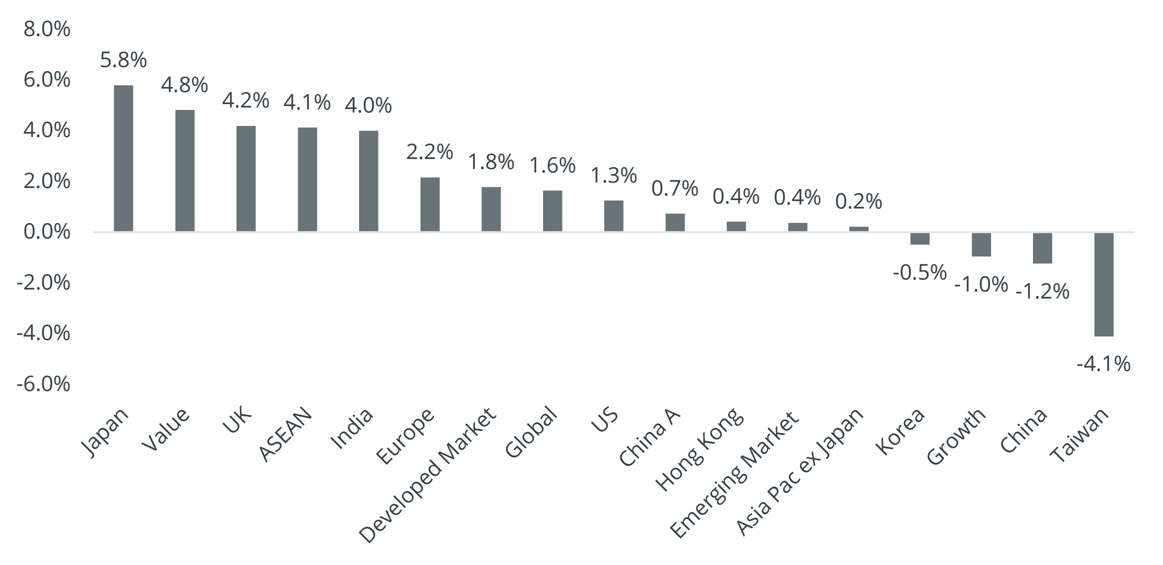
Asset class view

- We turned more cautious on global equities in early August as economic indicators worsened. Looking ahead, temporary equity market rebounds may be viewed as an opportunity to further reduce concentrated exposures to equities, depending on how the situation evolves.
- Equity markets that are more attractively priced, such as Asia and the Emerging Markets, may attract more investors looking for valuation discounts, but these markets will not be immune to a sharp US economic slowdown.
- Slowing global growth and moderating inflation will favour government bonds and as such, long-term government bonds are looking more attractive.
- Over the next 12 months, slowing growth and worries of increasing odds of a US recession could lead to bigger swings in equities and credits.

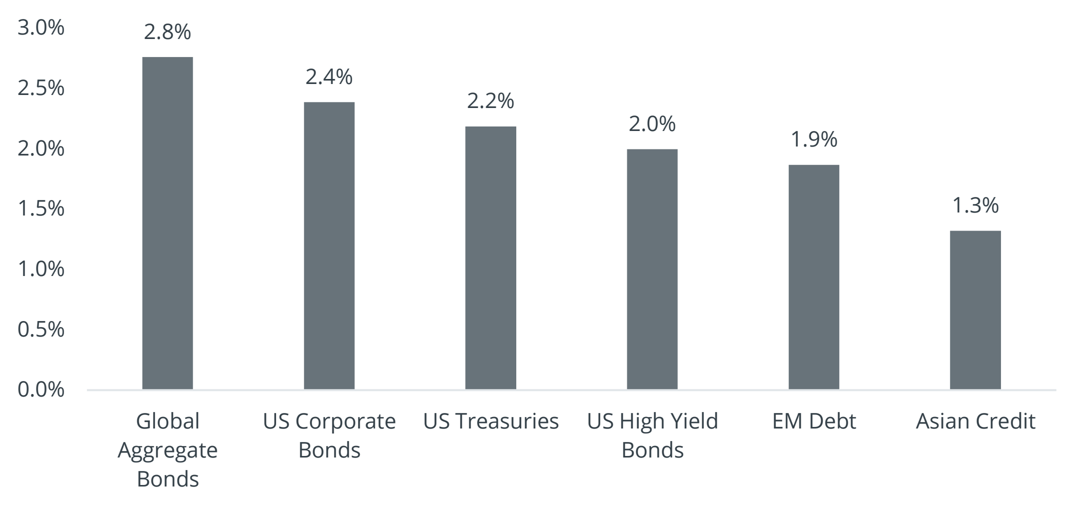
Top 3 Risk Areas of Concern	Likelihood	Magnitude of Negative Impact on Markets
Global elections in 2024, especially the US presidential election will potentially introduce higher volatility over the next 3-to-12-months. The third quarter remains a key watchpoint as the US election heats up.	High	Medium
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.	Medium	Medium
Developed markets recession risk remains (e.g., US, Europe) because of the lagged impact of accumulated rate hikes. The Fed needs to avoid being late in cutting rates which could trigger a recession.	Medium	High

Market Recap and Update

Global Equity Markets
(Monthly gross returns as of 31 July 2024, in USD)*



Global Bond Markets
(Monthly gross returns as of 31 July 2024, in USD)*



- Global equity markets ended the month positive despite volatility from a downturn in technology shares, a widespread cyber disruption, a shift towards smaller companies, and further 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 a key medium-term interest rate from 2.5% to 2.3%. ASEAN markets gained 4.1%.

- US Treasury yields fell across the curve in July as signs of moderating inflation and cooling labor markets raised expectations that the Fed would cut interest rates later in the year. 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 bond yields, global aggregate bonds rallied and returned 2.8% while US Treasuries gained 2.2%. The US high yield market rose 2.0%.
- Emerging market bonds rose 1.9%. The Asian credit market 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" is represented by the MSCI ACWI; "Developed Market" is represented by the MSCI World Index. "Value" and "Growth" are represented by the MSCI World Value Index and MSCI World Growth Index, respectively. "China" is represented by the MSCI China Index and "China A" is presented by the MSCI China A Onshore 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 (USD); "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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Information is correct as at 20 August 2024, unless otherwise stated.