eastspring investments

A Prudential plc company

Monthly Investment Updates

December 2024

Macro Overview

Growth

- **Global economic activity has been positive** for the last twelve months, **but global expansion remains uneven** with service growth continuing to do well while manufacturing growth is much more modest.
- We expect global growth to continue to lose its momentum as the effects of the **higher rates that have been in place for a while weigh on economic activities.**

Inflation

- The US headline inflation rose 2.7% in November compared to the previous year, largely **in line with expectations**.
- While **US core inflation remains relatively persistent**, we believe that the shelter component will normalise. The inflation progress overall is moving towards the Federal Reserve's (Fed) 2% target, but the **path may be gradual and uneven**.
- We remain cognisant of **potential supply-side shocks** (e.g., Middle East tensions impacting oil supply) and the **inflationary impact of the new US administration's policies under Trump 2.0.**

Monetary policy

- The Fed will continue to **focus on incoming data**, **especially relating to the labour market** (e.g., job gains), in order to guide its monetary policy.
- There is a risk that a Fed rate cut cycle combined with a still-resilient US economy **could result in a resurgence in US inflation.**

Asset class view

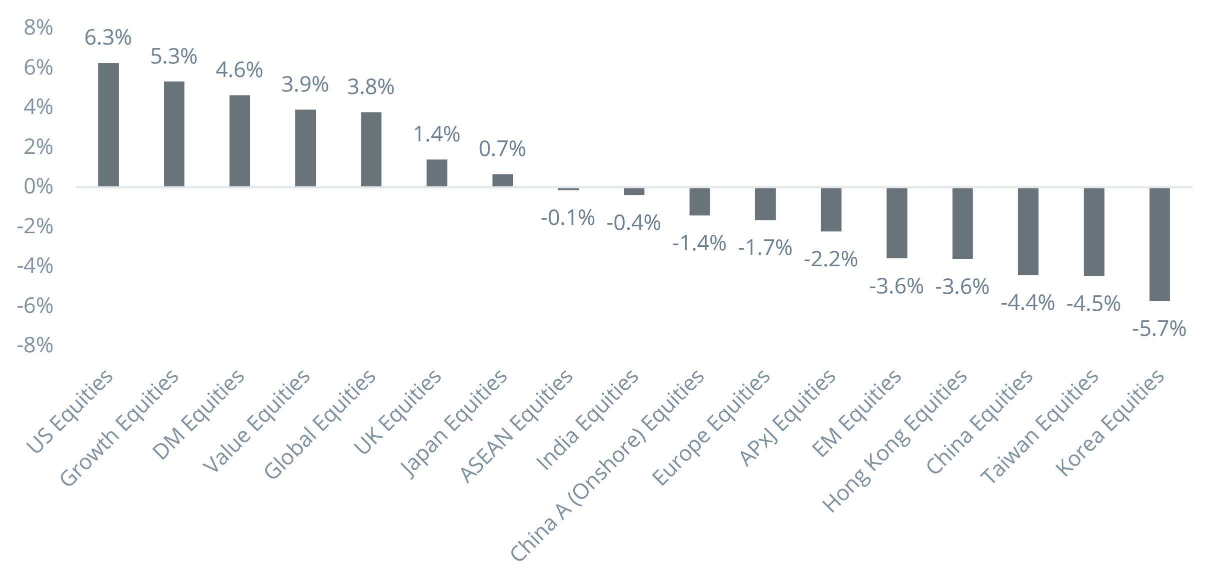
- With Trump 2.0, expectations are for tax cuts and pro-corporate policies in the US to boost US corporate earnings. As such, risk assets such as global equities and US high yield bonds may offer attractive tactical opportunities over the near-term.
- Given the increased risk of rising inflation and the uncertainty over US interest rates, shorter US duration is preferred in the near-term. Relative to US Treasuries, Singapore government bonds offer more stable domestic rates due to lower long-term inflation and a controlled supply of new bonds.
- In 2025, we may see cheaper valuations and improving earnings growth improve investor sentiment towards Asia and Emerging Market (EM) equities.
- Gold may be an effective hedge against both inflation and US protectionist policies.

Top 3 Risk Areas of Concern	Likelihood	Magnitude of Negative Impact on Markets
The probability of a resurgence in US inflation can have a negative impact on the US economy and the potential to disrupt the US Fed's easing cycle. A US slowdown will weigh on global growth as China growth continues to lag.	Medium	High
Geopolitical risks (post-Trump victory) can significantly impact investor sentiment, but fundamentals will ultimately drive market returns. The recent Syria regime change reminds us of continued geopolitical risks and volatility in the market.	Medium	Medium
China's growth slowdown (and its drag on global growth) may continue for longer as stimulus fails to accelerate economy. Persistent deflationary trend in China poses a risk of negative spillover effects to the global economy.	Medium	Medium

Market Recap and Update

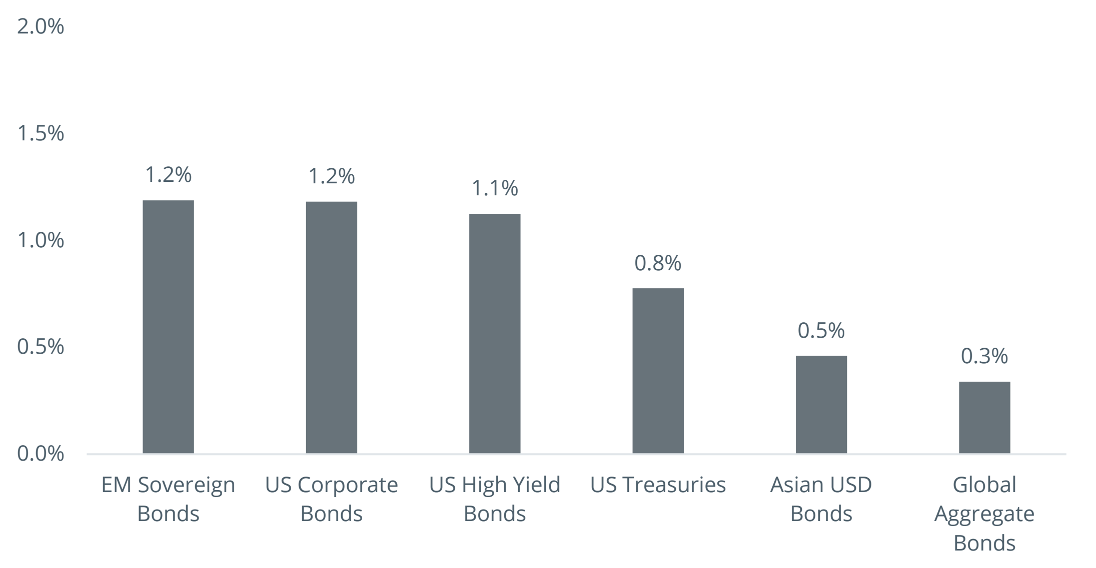
Global Equity Markets

(Monthly gross returns as of 29 Nov. 2024, in USD)*



Global Bond Markets

(Monthly gross returns as of 29 Nov. 2024, in USD)*



- Global equities rose by +3.8% in November, driven by optimism over Donald Trump's re-election (and expectations of business-friendly policies) and a Federal Reserve (Fed) rate cut. US markets gained +6.3%.
- Outside of the US, equity gains were generally tempered by a stronger USD, geopolitical tensions, and global trade concerns, amongst other factors.
- In reaction to Trump 2.0, emerging markets and Asian markets declined by -3.6% and -2.2%, respectively. Foreign selling pressures in November were highlighted by large declines in the key Asian trade bellwethers like South Korea (-5.7%) and Taiwan (-4.5%), amid concerns over potential import tariffs under the incoming Trump administration.

- US Treasury yields generally fell in November after the Fed lowered the federal funds rate by a quarter-point to a target range of 4.50% to 4.75%. The 10-year note yield decreased by approximately 10 basis points to 4.18%, while the 2-year note yield fell by 3 basis points to 4.13%.
- Global aggregate bonds marginally gained 0.3%; US Treasuries rose by 0.8%, underperforming both US investment grade and high yield issuers.
- Despite global trade concerns under Trump 2.0, EM sovereign bonds (+1.2%) and Asian USD bonds (+0.5%) remained relatively resilient, as spreads remained relatively tight given robust balance sheets, especially in Asia.

Data source: Eastspring Investments, LSEG Datastream and MSCI. *Monthly total returns are provided as of 29 November 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; "DM" is represented by the MSCI World Index. "APxJ" is represented by MSCI AC Asia Pacific ex Japan Index. "EM" is represented by MSCI Emerging Markets 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 Sovereign Bonds": J.P. Morgan EMBI Global Diversified (USD) TR Index gross; "US Treasuries": Bloomberg Barclays US Treasury Index (USD) TR Index gross; "Asian USD Bonds": 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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