eastspring investments

A Prudential plc company

Monthly Investment Updates

January 2025

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Macro Overview

Growth

- The recent Federal Reserve Bank's Beige Book confirmed that the **US economy continues to grow at or above trend**, with higher business optimism threatening a rise in business investment that would add to already strong growth.
- The **uncertainty** around US President-elect Trump's **tariff policy is a key concern** in an otherwise benign backdrop. A targeted and gradual approach is expected to have a relatively small impact on US growth and inflation, while an aggressive approach could have a more negative impact on both US and global growth, as well as global rates and inflation.

Inflation

- The highly anticipated December 2024 US core consumer price index (CPI) print was generally in line with the consensus forecast, with a monthly rise of 0.2%.
- The inflation progress overall is moving towards the Fed 2% target, but the **path may be gradual and uneven,** as short-term inflation risks remain (e.g., tariffs).
- We are closely monitoring the labour market as **wage inflation** has a very high correlation to core inflation.
- 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 December US CPI lowers rate hike risk and keeps hopes of Fed cuts in the second half of 2025 alive. That said, the Fed will likely continue to **focus on incoming data, especially relating to the labour market** (e.g., job gains), in order to guide its monetary policy.
- However, the **path for rates remains uncertain** given the unknown impact that the incoming Trump administration's policies will have on the US economy.
- 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

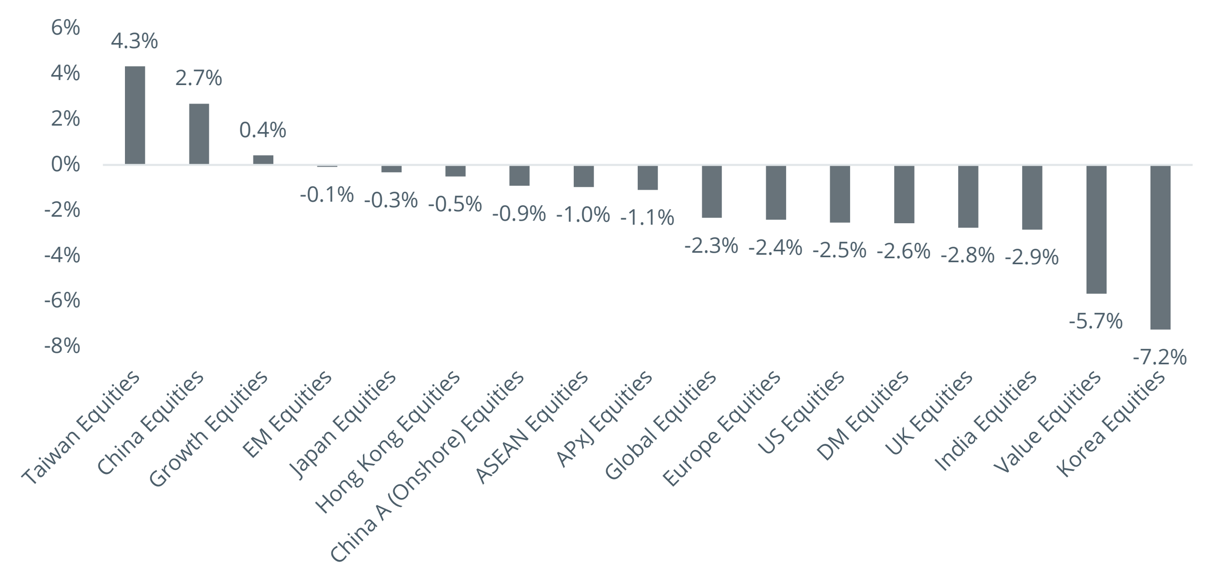
- With the incoming **Trump administration**, expectations are for **tax cuts and pro-corporate policies** in the US to boost US corporate earnings, amongst other factors.
- While we acknowledge that much of the "US Exceptionalism" is already priced into lofty US valuations, risk assets such as **global equities** and **US high yield bonds** may continue to offer attractive tactical opportunities over the near term, amid the said backdrop.
- We remain **cautious** on US Treasuries given the strength of the US economy and the need for the Fed to cut further, and we see the **odds of a recession as having gone lower** and shifted towards **inflationary growth**.
- In 2025, we may see cheaper valuations and improving earnings growth improve investor sentiment towards **Asia and Emerging Market 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.	Medium	High
Geopolitical risks 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 overall) may continue for longer as stimulus fails to accelerate the economy. Persistent deflationary trends in China pose a risk of negative spillover effects to the global economy.	Medium	Medium

Market Recap and Update

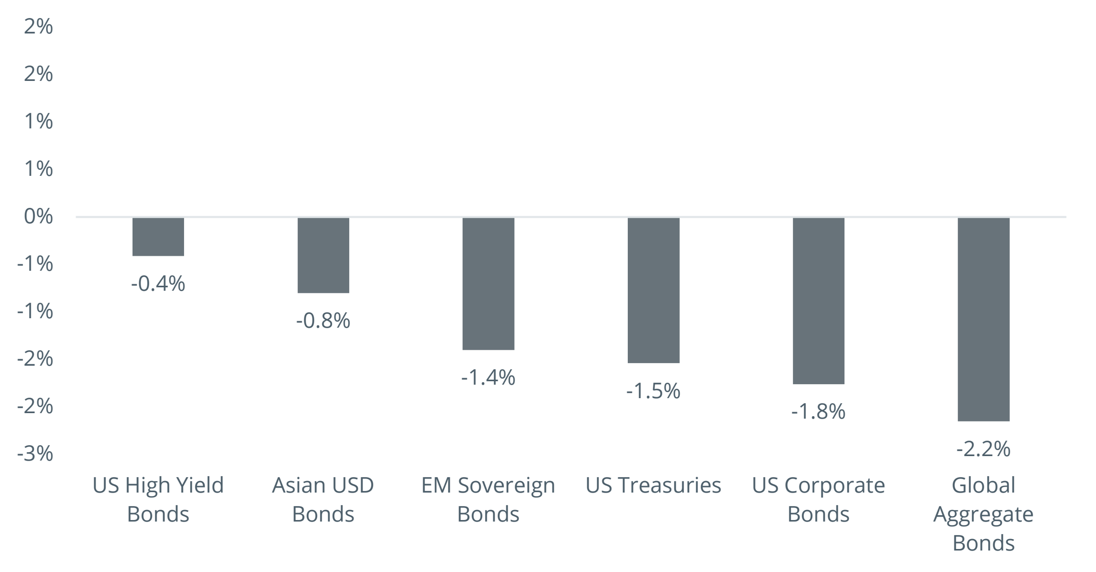
Global Equity Markets

(Monthly gross returns as of 31 Dec. 2024, in USD)*



Global Bond Markets

(Monthly gross returns as of 31 Dec. 2024, in USD)*



- In December, the markets continued to assess growth, inflation, and Fed policy expectations, in addition to the new US administration under Donald Trump. Global equities, as proxied by the MSCI ACWI, declined by -2.3% while the MSCI USA Index declined by -2.5%. Emerging Market (EM) equities delivered a relatively flat -0.1% return (USD) in December, outperforming Developed Market (DM) equities, proxied by the MSCI World Index, which returned -2.6%.
- Taiwan equities continued its outperformance in the month with the MSCI Taiwan Index increasing by 4.3%, largely driven by gains in chipmaker Taiwan Semiconductor Manufacturing Co., which holds a significant portion of the market. Amid ongoing political uncertainty, Korean equities experienced a further sell-off during the month, resulting in a return of -7.2% in USD terms.

- In December, US Treasury yields generally increased as the Fed lowered its target interest rate range by 25 basis points while indicating fewer rate reductions in 2025. The yield on the 10-year note rose by 40 basis points to 4.58%, while the yield on the 2-year note increased by 12 basis points to 4.25%.
- Amid generally rising yields, global aggregate bonds declined by 2.2% while US Treasuries declined by 1.5%.
- US high yield and Asian USD bonds fared relatively better than US government bonds with returns of -0.4% and -0.8% respectively; Emerging Market (EM) USD sovereign bonds yielded -1.4%, partially driven by higher US Treasury yields and the strengthening US dollar.

Data source: Eastspring Investments, LSEG Datastream and MSCI. *Monthly total returns are provided as of 31 December 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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