eastspring investments

A Prudential plc company

Monthly Investment Updates

Sep 2024

eastspring.com

Macro Overview

Growth

- **Global economic activity has been robust for the last ten months, but growth momentum is slowing.** The weakness in the manufacturing sector is to some extent, offset by the still-strong service sector.
- **Economic data across most of the key regions has also been below expectations,** reflecting general economic softness.
- A weaker US labour market will limit wage growth over the long term and dampen consumer spending. **This will slow US demand, which has been a key driver of global growth.**

Inflation

- Headline US inflation rose by 2.5% compared to the same period last year, the lowest annual increase since February 2021. That said, the prices of shelter (housing) and other services remain sticky.
- We continue to monitor the US labour market and wage growth for inflation risks. While we acknowledge that supply side risks could arise due to geopolitical tensions, **we think inflation is trending towards the Federal Reserve's (Fed) 2% target as US labour market weakness reduces US demand and offsets supply-side risks.**

Monetary policy

- With inflation easing, we believe that the Fed is likely to focus its attention on the US labour market. The pace of rate cuts will depend on how quickly the US labour market worsens.
- **We believe that the Fed has room to cut rates to help prevent a significant contraction in the US. However, a deeper slowdown may emerge if the Fed acts too late.**

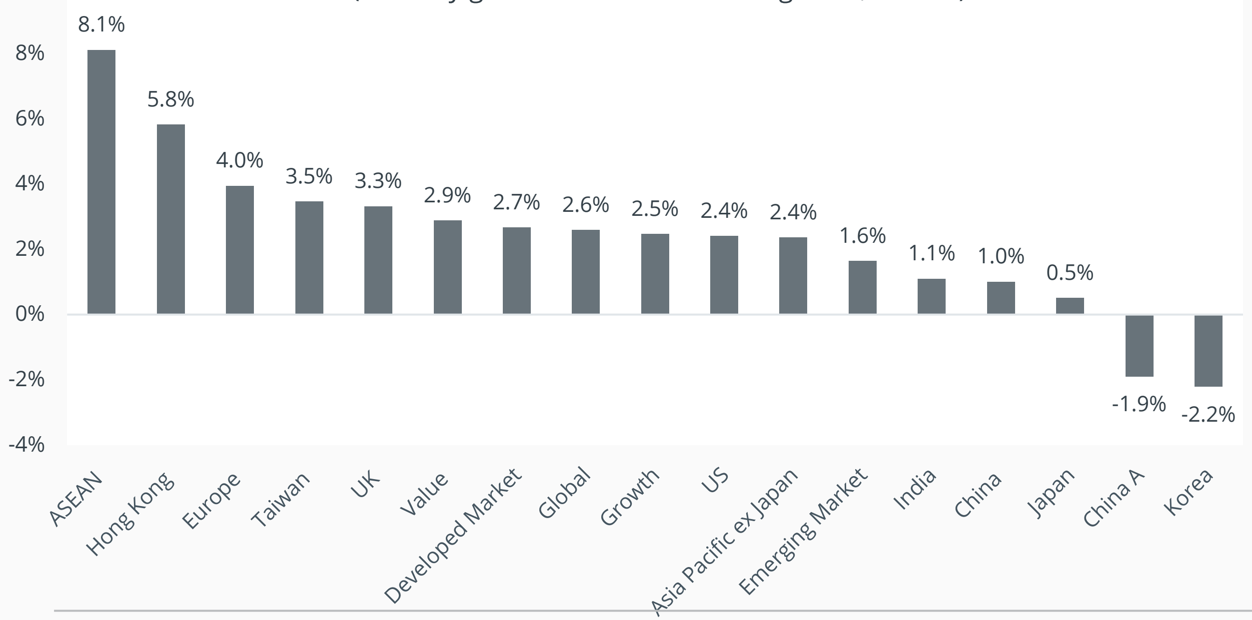
Asset class view

- The market correction in early August was triggered by the unwinding of Yen carry trades and fears of a US recession. Markets are likely to remain volatile, especially leading up to the US elections. This environment and the moderating macroeconomic backdrop warrant a more cautious approach towards equities.
- Equity markets that are more attractively priced relative to the US, 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 remain attractive over the longer term.
- 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.

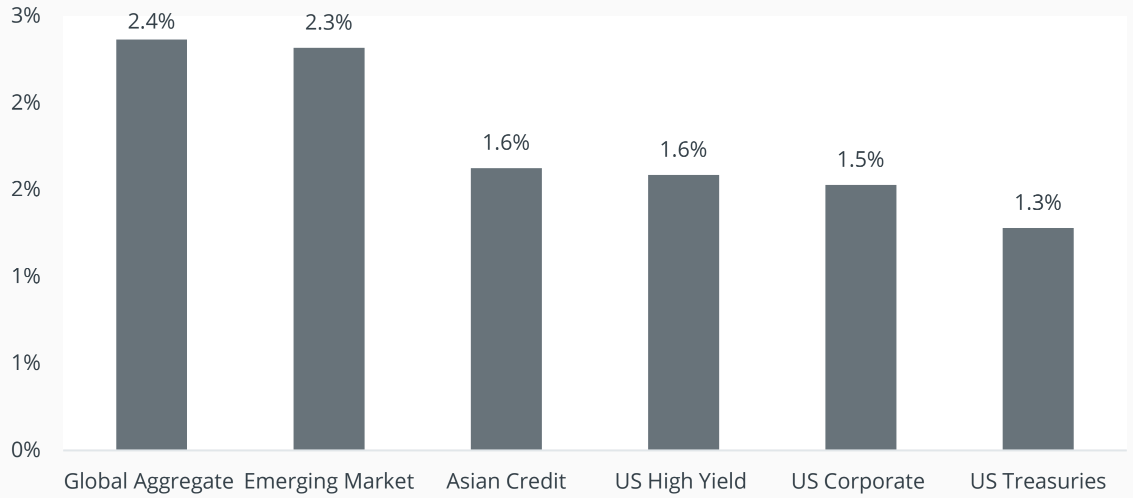
Top 3 Risk Areas of Concern	Likelihood	Magnitude of Negative Impact on Markets
Global elections in 2024, especially the US presidential election will potentially introduce higher volatility over the next 3-to-12-months. The third quarter remains a key watchpoint as the US election heats up.	High	Medium
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 30 Aug 2024, in USD)*



Global Bond Markets
(Monthly gross returns as of 30 Aug 2024, in USD)*



- Global stock markets rose 2.6% in August despite a sharp correction early in the month which was triggered by a combination of factors, including the unwinding of Yen carry trades, poor US manufacturing data, US recession fears, and worldwide political unrest. The correction was short-lived, with markets eventually recovering on the back of easing US inflation, rate cut hopes, and renewed carry trade interest.
- Developed Market (DM) equities gained 2.7%, outperforming Emerging Market (EM) equities which rose 1.6%. Within DM, Europe led with a 4.0% gain while US equities rose 2.4%.
- ASEAN outperformed (+8.1%) as their currencies rallied against the USD, outpacing the Asia Pacific ex Japan (2.4%) markets and EM. Within ASEAN, Philippines (+10.4%) led as its central bank became the first in the region to cut rates. MSCI China gained marginally (+1.0%).

- Global bond markets rallied in August, as easing inflation and a slowing US labour market supported the case for a potential rate cut by the Fed in September. Fed Chair Jerome Powell's speech in Jackson Hole indicated a shift towards a more relaxed monetary policy from September.
- Global aggregate bonds returned 2.4% while US Treasuries gained 1.3%. The US 10-year Treasury yield fell 18 bps to 3.91%. US investment grade bonds and US high yield bonds produced positive returns of 1.5% and 1.6%, respectively.
- EM debt fared well, up 2.3%, supported by falling US Treasury yields and a weaker USD.

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

Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore by Eastspring Investments (Singapore) Limited (UEN: 199407631H)

Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

Indonesia by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

Malaysia by Eastspring Investments Berhad (200001028634/ 531241-U) and Eastspring Al-Wara' Investments Berhad (200901017585 / 860682-K).

Thailand by Eastspring Asset Management (Thailand) Co., Ltd.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

United Kingdom (for professional clients only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 1 Angel Court, London, EC2R 7AG.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as Eastspring Investments. The views and opinions contained herein are those of the author, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments. Reliance upon information in this document is at the sole discretion of the reader. Please carefully study the related information and/or consult your own professional adviser before investing.

Investment involves risks. Past performance of and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.
Eastspring Investments companies (excluding joint venture companies) are ultimately wholly-owned/indirect subsidiaries of Prudential plc of the United Kingdom. Eastspring Investments companies (including joint venture companies) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company Limited, a subsidiary of M&G plc (a company incorporated in the United Kingdom).