eastspring investments

A Prudential plc company

April 2024

Monthly Investment Views

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Summary – April 2024

Macro Overview

Growth: The US economy added a higher than expected 303,000 jobs in March with the unemployment rate falling to 3.8%. Meanwhile, Japan avoided a technical recession after it revised its annualized 4Q GDP growth up to 0.4%. China's economy showed signs of improvement as its manufacturing PMI, an economic indicator on the conditions of its manufacturing sector, reached 50.8 in March, the highest in six months. Nevertheless, we expect global growth in 2024 to slow, with the risk of a US recession remaining over the next 6 to 12 months. While the multi asset team is positive on risk assets in the short term, the team expects US growth to slow more meaningfully over the longer term, which should drive equity valuations lower.

Inflation: US consumer prices rose by 3.5% in the year to March, up from 3.2% in February, driven higher by gasoline and shelter costs. Core inflation increased by 0.4% month on month. Given the stronger than expected inflation readings, the futures market is now expecting only one to two quarter-point rate cuts in the US for the remainder of the year. The team expects to see lower inflation in the US from mid to late 2024. US wages is one of the key drivers in determining the future path of inflation.

Monetary Policy: The Federal Reserve and the European Central Bank (ECB) left rates unchanged in March, but ECB President Lagarde hinted that the ECB could start cutting rates in June. Bucking the trend, Bank of Japan formally exited its negative interest rate policy and raised rates for the first time in 17 years. The Fed is trying to balance between keeping cutting rates and risk stoking inflation versus keeping rates high and causing economic growth to slow down excessively. At this stage, with growth remaining strong and inflation not falling rapidly, the Fed is unlikely to cut interest rates in the first half of the year.

Key Risks

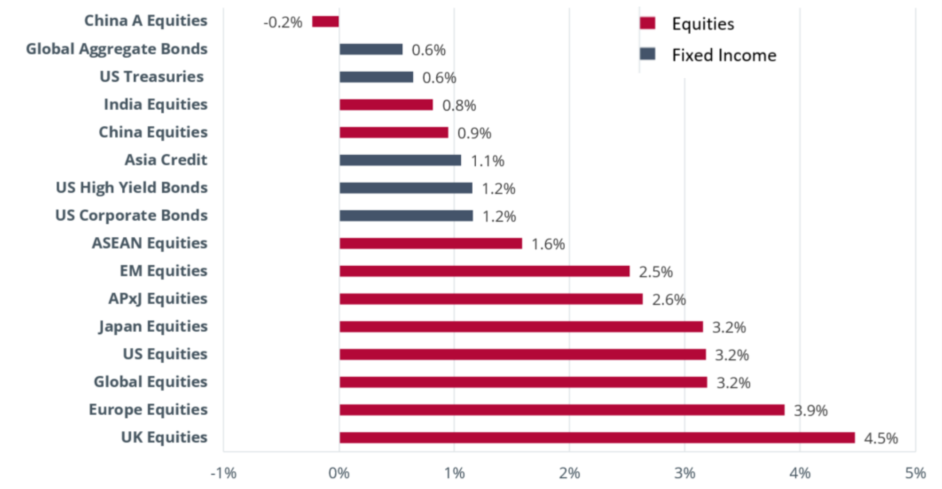
Inflation: Inflation persisting at levels higher than what is being priced in the markets. While forward-looking indicators suggest that inflation would move lower, there is uncertainty about the pace at which this will occur. US wage inflation is a key factor among others that the team is monitoring which would impact the future path of inflation.

Middle East tensions: Tensions stemming from Iran-Israel and also Gaza-Israel conflict, may cause further oil price volatility, raise energy-related inflation and increase global trade costs (i.e., rising shipping costs). Geopolitical tensions can disrupt supply (i.e., oil flows) and hence, put upward pressure on prices. The team will continue to monitor the potential of a US-Iran escalation, among other factors.

Robust US Growth: Stubbornly strong US growth challenges the team's 12-month bearish outlook on equities. If US growth continues to beat expectations, the Fed may keep interest rates at higher levels for longer than expected.

Market Recap and Update

Global Financial Assets – Monthly Performance (As of 31 March 2024)
Monthly Gross Returns % (in USD)*



Equities: Global equities continued to rise in March. MSCI US rose by 3.20%. Notably, the new Gang of Four (including Nvidia, Microsoft, Meta Platforms, and Amazon.com) contributed to 47% of the YTD return. European markets also posted decent performance with MSCI Europe up 3.9%, as the ECB signaled that rate cuts are on the way. Japan equities rose 3.2% as a weak yen, corporate governance reforms, and Japan's exit from deflation, contributed to improved corporate bottom lines. Within Asia, Taiwan outperformed with MSCI Taiwan gaining 7.7% (in USD terms) in March, driven by the AI rally.

Fixed Income: Government bonds posted modest gains in March. Yields on the 2-year US Treasury note stayed relatively flat but yields fell by 3.3bps and 5bps for the 5-year and 10-year US Treasury notes to 4.21% and 4.20% respectively. US corporate credit spreads narrowed in March given robust economic data. The Bloomberg Barclays Global Aggregate Index was up 0.6%. The US high yield market (proxied by ICE BofA U.S. High Yield Constrained Index) gained 1.2% while the Asian credit market (proxied by J.P. Morgan Asia Credit Index) returned 1.1%.

*Source: Eastspring Investments, Refinitiv Datastream. *Equity returns are proxied by the respective MSCI market indices. "Asia Credit": J.P. Morgan Asia Credit Index. "US Corporate Bonds": ICE BofA US Corporate Index (USD) TR Index gross. "US High Yield Bonds": ICE BofA US High Yield Index (USD) TR Index gross. "Global Aggregate Bonds": BBG Barclays Global Aggregate (USD) TR Index gross. "US Treasuries": Bloomberg Barclays US Treasury Index (USD) TR Index gross*

Asset Class Views

Underweight	Neutral	Overweight

Asset	Underweight	Neutral	Overweight	Rationale
Global Equities				As US equities forms 64% of global equities, the team maintains its positive outlook on global equities for now based on the near-term strength of the US economic data, such as strong employment and a potential revival of the US manufacturing sector. The new record highs achieved by the S&P 500 and Nasdaq make equities susceptible to future sell-offs, especially if corporate profits get squeezed; however, the short-term upside potential remains on continued positive fundamental data. Over the 12-month horizon, dwindling US pandemic savings and weakening labour market demand are likely to slow US economic growth, and hence, drive equity valuations lower.
3m			●	
12m	●			
10Y Govt Bonds				The team maintains a short-term neutral stance on government bonds i.e., US, Europe. While US yields have risen higher year to date on reduced expectations of Fed rate cuts in 2024, US yields are likely to remain range-bound for now. In line with the team's more risk-off or defensive positioning over the next 12-month horizon, US duration stands to benefit from a backdrop of slowing growth and disinflationary trends, in addition to the typical "flight-to-safety" moves.
3m		●		
12m			●	
Credit				US credit spreads remain tight following the strong late-2023 rally and increased market expectations of a potential "soft landing" scenario. To this end, over the one-to-three-month horizon, the short-term overweights in risk assets (e.g., global equities, US high yield bonds, EM bonds) across the team's multi asset portfolios are typically being funded out of US investment grade bonds. However, over the 12-month horizon, the team is more positive on US investment grade bonds, relative to its less interest rate sensitive US high yield bond counterpart, as the asset class can benefit from potential price appreciation as US yields decline over the 12-month horizon.
3m	●			
12m		●		
Cash				The team's cash positioning remains neutral over the short-term given the risk-on short-term positioning but overweight in the medium term based on the defensive, risk-off positioning over the 12-month horizon.
3m		●		
12m			●	

Global Equities	Underweight	Neutral	Overweight	
US				In March, US equities continued to rise, with a more diverse group of companies participating in the S&P 500 rally. Despite the potential for continued gains over the one-to-three-month horizon, especially if US economic data and AI sentiment remain firm, the upside may be more limited. The team's view for the next 12 months is that growth will slow, and the cumulative impact of previous rate hikes will eventually lead to a decline in equity valuations, which are already at historically high levels (e.g., S&P 500, Nasdaq). Therefore, we maintain an underweight stance on US equities over the 12-month horizon.
3m			●	
12m	●			
Europe				The team maintains a neutral short-term view on Europe equities given no major changes in our model's key indicators. Over the 12-month horizon, European equities are expected to face headwinds due to their high sensitivity to the global business cycle; generally weaker economic growth, driven by a combination of a decline in manufacturing activity and lower German exports, is likely to negatively impact the performance of European equities.
3m		●		
12m	●			
Emerging Markets				The team maintains a less positive outlook on EM equities over the 3-month horizon, especially as China's stimulus policies continue to disappoint. Over the 12-month horizon, EM earnings growth has the potential to outpace that of the developed markets (DM) economies; this is especially the case if a global recession transpires and is concentrated in the DM economies i.e., US, Europe).
3m	●			
12m		●		
Asia Pacific ex-Japan				As Asia Pacific ex-Japan (APxJ) region makes up about 73% of EM equities, the team's short-term underweight in EMs will by default result in an underweight in APxJ. Over the 12-month horizon, Asian equities are likely to trade range bound as the global recession will likely be concentrated in DM countries. Furthermore, Asian valuations are relatively more attractive than the US.
3m	●			
12m		●		

Source: Multi Asset Portfolio Solutions team. Asset class views are as of the team's most recent monthly meeting in April 2024 and should not be taken as a recommendation. 3m = 3-month view. 12m = 12-month view. The information provided here is subject to change at the discretion of the Investment Manager without prior notice.

Asset Class Views

	Underweight	Neutral	Overweight	
Government Bonds				
US				The team believes that US yields are likely to remain range bound for now, and hence remains neutral over the short-term. Over the 12-month horizon, we expect yields to move downwards, especially as wage inflation meaningfully deteriorates; US duration stands to benefit from a backdrop of slowing growth and disinflationary trends, in addition to the typical "flight-to-safety" moves.
3m		●		
12m			●	
Europe				The team maintains its neutral short-term stance. Though there is a possibility of an ECB rate cut starting in June 2024, the ECB will remain cautious. Over the 12-month horizon, a combination of relatively weak economic growth and the lagged effects of rate hikes make Europe government bonds relatively attractive in a potential risk-off market scenario.
3m		●		
12m			●	
Singapore				As Singapore's economic growth tends to closely follow that of DM countries, please refer to our comments on US government bonds above.
3m		●		
12m			●	
Corporate Bonds				
US High Yield				The still positive fundamental indicators showing up in team's model and the near-term resilience of US economic data can continue to support the asset class in the short-term. That said, the asset class' current valuations (i.e., spread levels) will be subject to volatility over the 12-month horizon. The "maturity wall" will likely start to kick in from 2Q25 onwards; the currently tight spreads will widen over the 12-month horizon if clear signs of a recession or a growth slowdown start to emerge.
3m			●	
12m	●			
US Investment Grade				Given the current extremely tight US investment grade spreads, the team maintains a short-term underweight position. Over the medium term, the view is neutral given the team's defensive preference for government bonds and cash.
3m	●			
12m		●		
Emerging Markets				The team upgraded its tactical outlook on EM USD bonds, from neutral to now marginally positive, primarily on the back of improvements in economic surprise data. EM USD debt is less sensitive to EM monetary policies (i.e., more sensitive to changes to US rates), and hence less sensitive to local currency movements. Over the 12-month horizon, the team is neutral as higher quality, safe haven assets tend to outperform towards the end of the business cycle, especially as global growth slows down.
3m			●	
12m		●		
Asian Credit				Asian bond yields have come off their highs but given the lower chances of a severe recession and reduced expectations of rate cuts, the current conditions are still ideal for Asian USD debt. But we are mindful that sentiment can change quickly and over the next 12 months, will look into the strength of balance sheets. Nevertheless, corporate bond yields in Asia are likely to be better behaved than DM countries.
3m			●	
12m		●		
FX				
USD				The team recently the upgraded the short-term outlook on USD (broad) to slightly positive from a neutral stance on improvements in our model's technical indicators (e.g., trading sentiment). Strong US growth and high real rates should continue to support USD in the near term, but other catalysts are needed to support the upward momentum. Over the 12-month horizon, the USD, given its counter-cyclical nature, stands to benefit in a slowing global growth environment.
3m			●	
12m			●	
EUR				Over the shorter horizon, the team is more positive on the USD versus the EUR, as per the above rationale. Over the 12-month horizon, the EUR, given its pro-cyclical characteristic, will be weighed down amid a slowdown in the Euro area later in the year.
3m		●		
12m	●			
SGD				The SGD should remain relatively range bound at current levels as the Monetary Authority of Singapore would likely keep its FX policy status quo for now.
3m		●		
12m	●			

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