Bulls still in charge. Just

eastspring investments
A member of Prudential plc (UK)

July 2019

The World in five bullet points

- **Equity markets** ground their way higher in July with the MSCI World Index adding just 0.3% over the month. Some negative signals on the health of the global economy and tensions in the Middle East, battled it out for supremacy with the US Fed cutting rates, the ECB also becoming more dovish on rates and a cooling off in the Sino-US trade dispute. By month end, equity markets were very mixed with the US once again outperforming Europe and Emerging Markets.
- The **US Federal Reserve** cut interest rates by 25 basis points as was almost universally expected but Fed chair Jerome Powell was firm in saying it was not the start of a long series of cuts. However, he added almost instantly that this may not be the only cut either, signaling that a second cut may happen if the data deteriorates. But this disappointed equity traders who sent the US indices down by 1% on the final day of trading on Wall Street (see Figures 1 and 2).
- An unlikely trade dispute in Asia between **Japan and Korea** ratcheted up a notch when Japan *de facto* embargoed sales to Korea of fine chemicals used in the chip and panel display sectors, and said it was considering removing Korea from its “White List” of countries to export to. According to some sources, the move is in retaliation for a court decision last October allowing Koreans to file for compensation from Japanese firms who used forced labour in Korea during World War II despite a 1965 deal between the two countries that abrogated such claims.
- British Royal Marines seized an **Iranian oil tanker** in Gibraltar allegedly for violating EU sanctions against Syria, to which the tanker was bound. In retaliation, Iran boarded and seized a UK tanker near the Straits of Hormuz, just days after the US said it had shot down an Iranian drone. The increase in tensions in the region sent crude prices higher for a time despite attempts at mediation. By the end of the month, however, both tankers were still in custody.
- Boris Johnson won the battle to become the **UK’s** next Prime Minister and immediately reiterated his plans to take the UK out of the European Union on 31 October with or without a deal. Three government ministers immediately resigned promising to block a no deal exit and even to vote against the government in any no-confidence vote that could follow a ‘proroguing’ (or suspension) of parliament if Mr. Johnson tried it. The UK pound subsequently fell sharply to levels not seen since 2016 in the aftermath of the referendum result as Mr. Johnson said he would pursue a “Hard Brexit” if the EU deal was not renegotiated (see Figure 6).

Figure 1. Central Banks Interest Rates

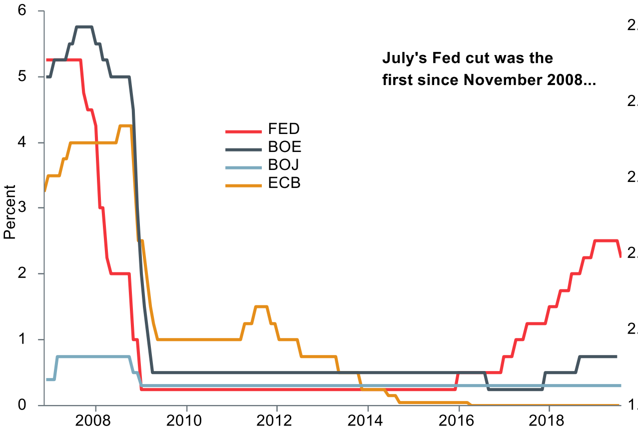
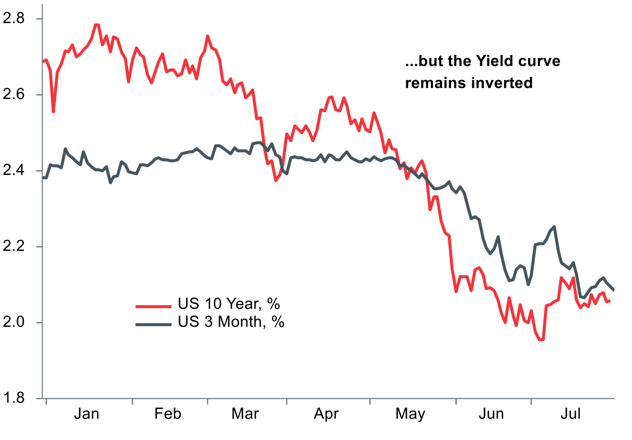


Figure 2. US 10-year and 3-month Bond yields



Source: Eastspring Investments. Chart data from Thomson Reuters Data stream as of 31 July 2019. For representative indices and acronym details please refer to notes in the appendix. For representative indices and acronym details please refer to notes in the appendix.

Equity Markets

- **Global** equity markets edged higher with the US leading every other region once again, returning 1.5%. The MSCI **US** Index is now more than six percentage points ahead of Europe and nine points ahead of the MSCI Emerging Markets index year to date in a pattern of outperformance that has lasted 18 months almost without a monthly break. For July, the catalyst proved to be a signal at the beginning of the month from the Fed that it would cut rates at its end-of-July meeting, which it duly did.
- **European** equities underperformed the US and fell 1.9% for the month with **Germany** pulling down the eurozone area with a 3.5% contraction after weak Purchase Managers Index data pointed to further weakness ahead for Europe's largest economy. **French** stocks performed mildly better although were still lower while the UK fell 1.8% although the FTSE 100 index did reach year-highs during the month as its dollar earners took advantage of the pound's weakness to record some gains.
- **Emerging Market** regional indices were mixed by the close of the month with **Latin America** gaining just 0.1% and **EMEA** underperforming to drop 0.5%. **Brazil** once again pulled up the rest of the Latam region with its MSCI index adding 2.6% after its pension reform programme passed through the country's parliament with a larger than expected majority but other country indices fell sharply with **Mexico** dropping almost 5% on weak economic metrics including construction data that fell the most in one month since records began. **Chile** was another underperformer losing 5.0%. EMEA saw **Russia** give back some of June's nearly 10% gain as oil prices eased and profit takers arrived, while **Turkey** gained 11.3% as the US cut its interest rate.
- Asian markets gained in the first few weeks before falling back and ending close to the flatline as further evidence of economic slowdown in China and Korea emerged to weigh on stocks. The MSCI **China** index ended 0.5% lower while **Korea** gave up another 6.2% with weak macro economic headlines and a growing trade dispute with Japan dominating. **Thailand** gave up some of its recent gains on profit taking.
- Elsewhere, **Japan** gained 0.1% despite some very soft economic data as investors began to look to the central bank adopting a more dovish tone in the second half of the year. **Australian** stocks again defied expectations to book a 0.6% gain with **New Zealand** gaining another 4.0% - it has now returned over 26% year to date behind only Greece in the performance league table. (see page 7).

Figure 3. Regional Equity Indices

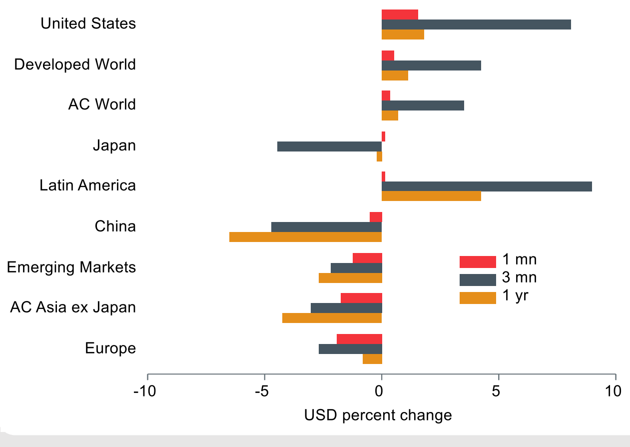
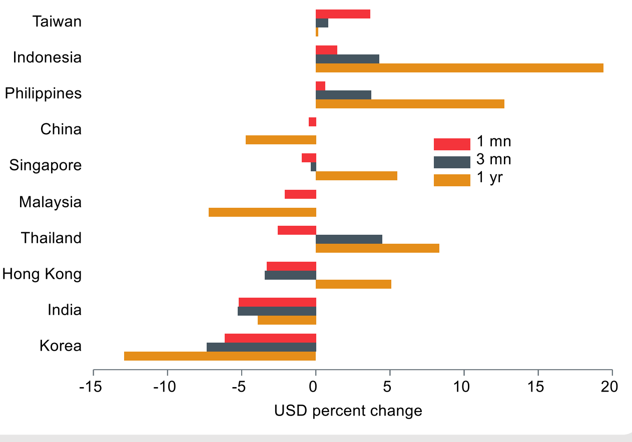


Figure 4. Asia Equity Indices



Source: Eastspring Investments. Chart data from Thomson Reuters Data stream as of 31 July 2019. For representative indices and acronym details please refer to notes in the appendix. For representative indices and acronym details please refer to notes in the appendix.

eastspring investments

A member of Prudential plc (UK)

Fixed Income

- **Global** bond markets posted mixed returns in July, as investors remained focused on monetary policy expectations while trade tensions receded into the background somewhat.
- In the US, surprisingly robust employment and GDP data prompted investors to temper hopes for a 50bps Fed rate cut, which placed upward pressure on Treasury yields. The Fed's subsequent 25bps rate cut at the month-end disappointed further, particularly when Chairman Jerome Powell downplayed the potential for a lengthy easing cycle ahead. The two-year **US** Treasury yield rose 11.7bps to 1.9%, whereas the benchmark 10-year yield was little changed at 2.0%.
- Emerging-market local-currency bonds were generally firmer in local-currency terms. Of note were **Turkish** bonds, which sustained an initial sell-off following the sacking of the central bank governor, but later rebounded when the new chief delivered a massive rate cut to revive the recession-hit economy. **South Africa** also cut rates, although this was widely expected and bond yields there ended higher.
- In Asia, bond yields were mostly lower. **India** outperformed on a total-return basis, and the 10-year yield was down nearly 50bps. The government announced a lower fiscal deficit target for 2020, highlighting its commitment to keep borrowing under control. **Korean** and **Indonesian** bonds strengthened, partly on policy rate cuts in these markets.
- **Brazil** cut rates by more than expected at its July meeting; with most analysts expecting a 25bps cut, the central bank cut it by 50bps. In response, yields rose and the Brazilian peso fell against the US dollar.
- **Emerging-market US dollar credits** also delivered positive returns in aggregate, mainly on the back of accrual income. In Asia, investment-grade and high-yield returns were similar. High-yield sovereigns outperformed overall, whereas high-yield corporates and quasi-sovereigns lagged. Within the high-yield corporate sector, Indonesian high-yielders were under some pressure due to a number of credit-rating downgrades.

Figure 5. Bond Indices Performance in USD

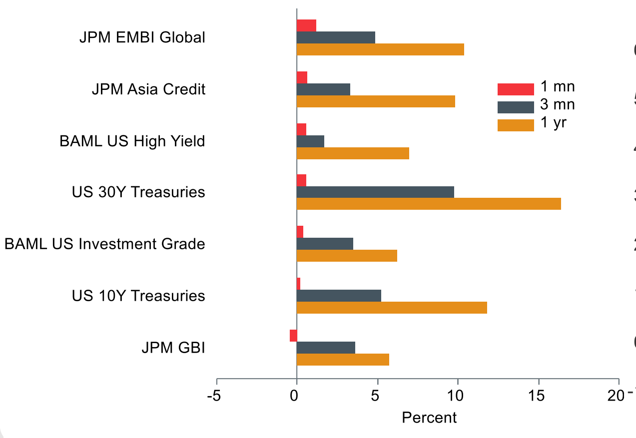
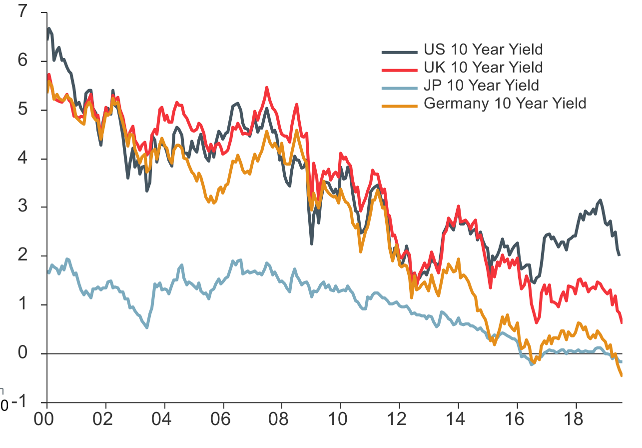


Figure 6. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Bank of America Merrill Lynch, JP Morgan, Refinitiv Datastream as of 31 July 2019. For representative indices and acronym details please refer to notes in the appendix. For representative indices and acronym details please refer to notes in the appendix.

eastspring investments
A member of Prudential plc (UK)

Currencies

- **US dollar** strength prevailed against most G10 currencies in July. The **UK pound** and the **Swedish koruna** saw the biggest declines against the dollar, with both seeing drops of around 4%. The pound suffered in the first few weeks of the month in the run up to the election of the new leader of the Conservative Party. When Boris Johnson, who is known to be sympathetic to a hard Brexit, won, and was subsequently named the new Prime Minister, he rattled the currency markets further by suggesting there is no need for the Irish backstop, and saying he wanted to reopen talks with the EU, which the EU refuses to do. This potentially may lead to a "Hard Brexit".
- The **Canadian dollar** and the **Japanese yen** were least hurt by the latest surge in the dollar. The yen continued to serve as a protection in a risk off environment while the Bank of Japan held their meeting at the end of July promising to do more if it needed to.
- **Emerging markets'** performance was mixed in July. The best performer was Turkey's lira, up almost 4% despite the Central Bank of Turkey cutting rates more than expected. Earlier in the month the currency sold off when President Erdogan fired the sitting governor due to his reluctance to cut interest rates. Meanwhile the **Brazilian real** gained nearly 1% thanks to progress being made on the pension reforms in Parliament. The **Argentine peso** lost more than 3% against the dollar; in the run-up to the primary elections in Argentina, dollar demand has increased as his been the case before previous elections. Political risk continues to be a key factor for the peso's stability.
- In Asia, the **Korean won** declined nearly 2.5% against the dollar. While economic data remains disappointing, the current trade row between Japan and Korea is also now weighing on sentiment after Japan imposed trade restrictions on exports to South Korea including hi-tech exports used in South Korea's semiconductor industry. The BoK reacted to the trade tensions by cutting policy rates at the July meeting.
- Elsewhere in Asia, the **Indonesian rupiah** outperformed against the dollar, gaining just under 0.8%. Bank Indonesia cut rates at the July meeting in light of a dovish Fed. The **Philippine peso** saw similar gains after data showed inflation was starting to fall, and the market expects more rate cuts from the central bank.

Figure 7. Currencies Performance vs USD

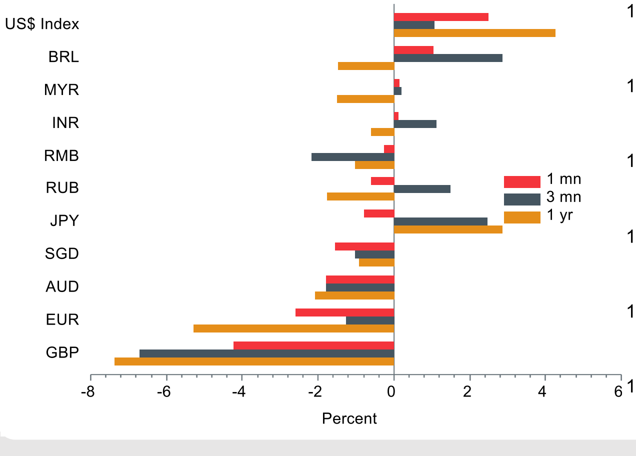
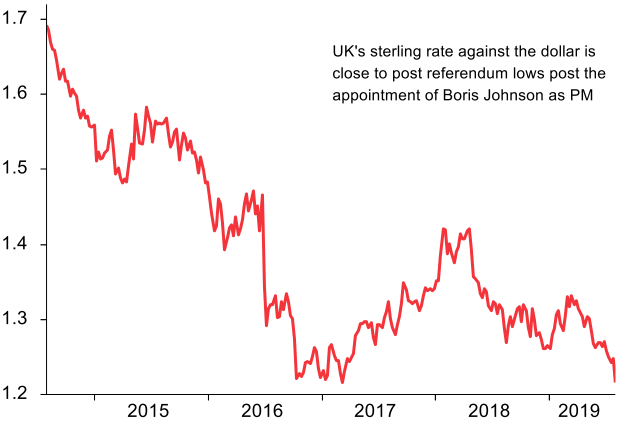


Figure 8. US dollar to UK pound



Source: Eastspring Investments. Chart data from Thomson Reuters Data stream as of 31 July 2019. For representative indices and acronym details please refer to notes in the appendix. For representative indices and acronym details please refer to notes in the appendix.

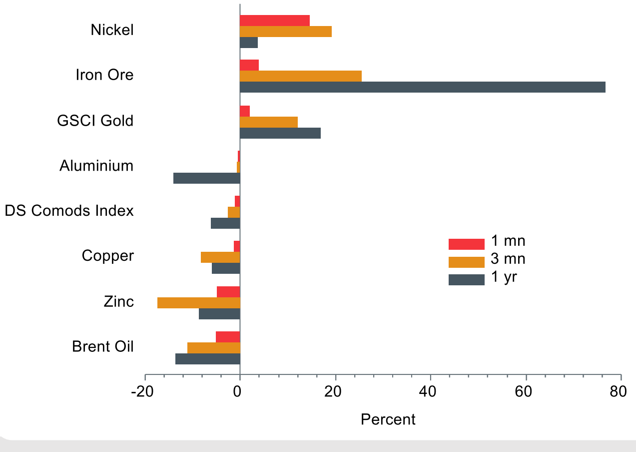
eastspring investments

A member of Prudential plc (UK)

Commodities

- **Oil** prices were volatile in July and ended the month lower. Propping up prices at the beginning of the month, Saudi Arabia, Russia and Iraq backed an extension of supply cuts for another six to nine months, while the seizure of first an Iranian oil tanker by the UK, then a UK tanker by the Iranians, increased geo-political tensions in the Gulf region. But sending prices lower were comments from OPEC that forecasted slower demand in 2020 and inventory data in the US that showed stockpiles had fallen less than expected, suggesting weaker demand in the key US 'driving season'.
- **Copper** prices fell despite an uptick into the close of the month on expectations of an interest rate cut in the US. But those gains were capped on evidence from top consumer China that its economy was slowing and then on disappointment that US rate cuts would not be more extensive. **Iron ore** continued to gain but only just, with the worst seemingly over for the weather-related, and tailings-dam disruption earlier this year.
- **Gold** prices rose early in the month on geo-political tensions especially in the Gulf before falling from their peaks after the comments from Fed Chair Powell on interest rates pushed up the US dollar and weighed on gold prices.

Figure 9. Commodities Performance in USD



Economics

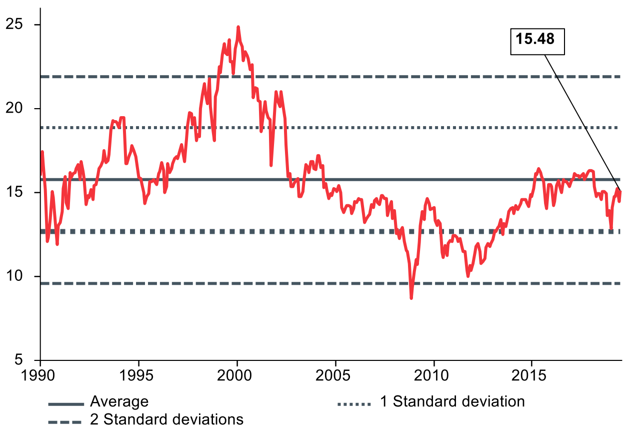
- **US** GDP slowed to 2.1% growth in Q2 from 3.1% in Q1 but was well above expectations of 1.8%. For July, the economy had its 121st consecutive month of expansion, surpassing the previous expansion record that began in 1991. Employers added 224,000 jobs and unemployment rose to 3.7% and, while the PMI readings for June held up at 51.7, the New Orders component touched 50.0 – the lowest such reading in more than three years.
- **Eurozone GDP** growth fell to 1.1% yoy in Q2 from 1.2% in Q1 with inflation hitting a 17-month low. July Business growth was weaker than expected with the PMI Index at 51.5, down from 52.2 in June, with manufacturing seeing a contraction to 46.4 and the Services component falling to 53.3 from 53.6. Consequently the ECB effectively pledged to ease policy by potentially restarting its bond purchase programme and, more likely, cut rates. The **UK's** PMI also fell to 48.0.
- **Japan's** Tankan survey for July showed the country's business confidence at a three-year low and a Reuters poll of economists subsequently pointed to expectations the BoJ would ease its policy as its next move.
- **China's** economic growth slowed to 6.2% in Q2 from 6.4% in Q1 but this was better than expected. June manufacturing PMI dipped below 50 for the first time since January but the non-manufacturing component stayed at an expansive 53.7. Retail Sales grew 1% for June with auto sales notably strong. Exports also stayed strong in June with exports to the US actually rising 2.2% despite the imposition of tariffs in early May.
- **Korea's** exports for the first 20 days of July fell 13.6% yoy, the seventh such monthly decline in a row, with semi-conductor sales down 30%. The central bank subsequently cut rates by 25bps. **Indonesia's** central bank also cut rates by 25bps to 5.75%, and **Russia** cut its rates also by 25bps to 7.25%.

Source: Eastspring Investments. Chart data from Refinitiv Datastream as of 31 July 2019.

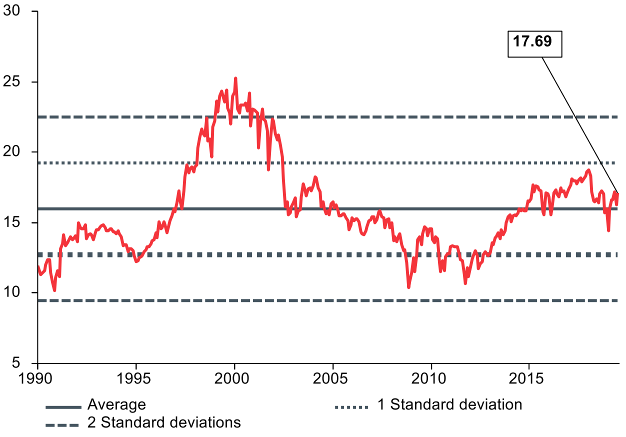
eastspring investments

A member of Prudential plc (UK)

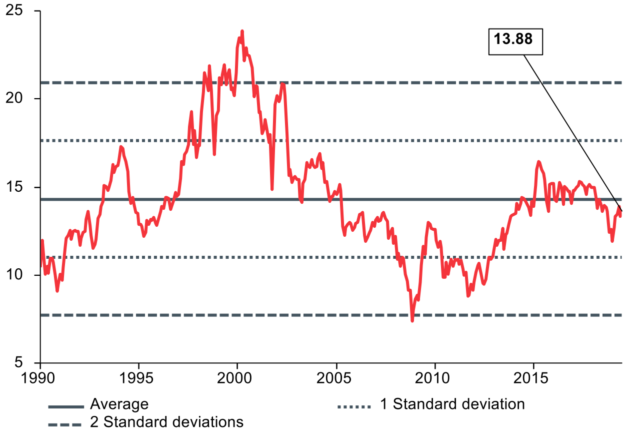
MSCI AC World 12M Forward PE



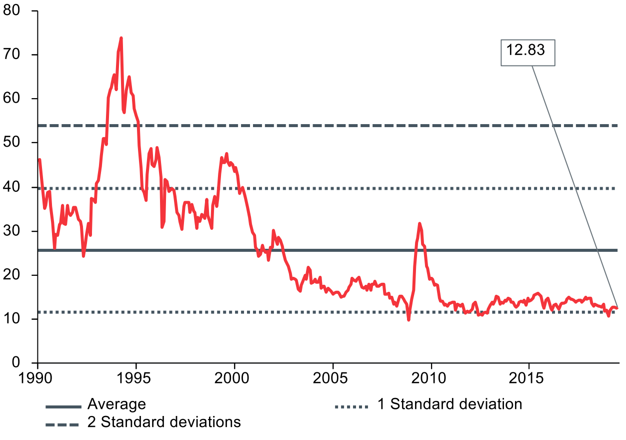
MSCI USA 12M Forward PE



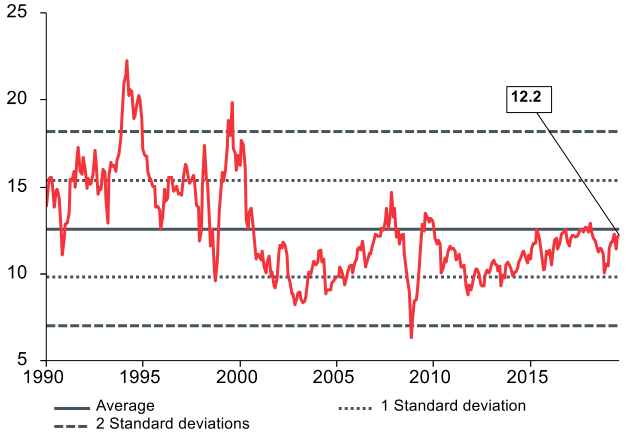
MSCI Europe 12M Forward PE



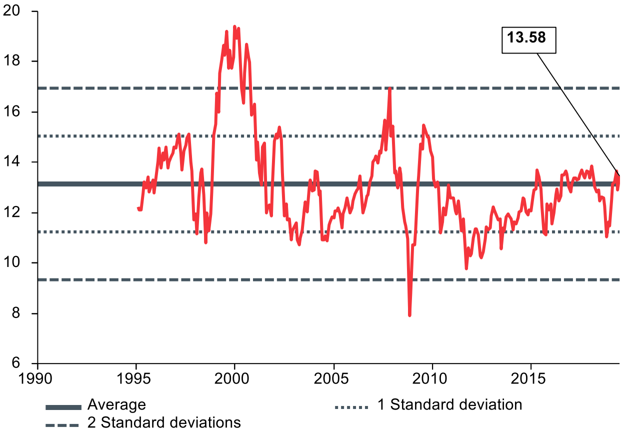
MSCI Japan 12m Forward PE



MSCI Emerging Markets 12M Forward PE



MSCI Asia Pac ex Japan 12M Forward PE



Source: Eastspring Investments. Chart data using IBES estimates from Refinitiv Datastream as of 31 July 2019.

MSCI monthly, quarterly and year-to-date data

eastspring investments

A member of Prudential plc (UK)

	Jul-19	Jun-19	May-19	Q2 19	Q1 19	H1 19	YTD	2018
World	**0.3**	**6.6**	**-5.8**	**3.8**	**12.3**	**16.6**	**17.0**	**-8.9**
Developed World	**0.5**	**6.6**	**-5.7**	**4.2**	**12.6**	**17.4**	**18.0**	**-8.2**
United States	**1.5**	**7.0**	**-6.3**	**4.3**	**13.9**	**18.8**	**20.6**	**-4.5**
Europe	**-1.9**	**6.8**	**-5.3**	**4.9**	**11.0**	**16.5**	**14.2**	**-14.3**
Japan	**0.1**	**3.8**	**-4.0**	**1.0**	**6.8**	**8.0**	**8.1**	**-12.6**
Emerging Markets	**-1.1**	**6.3**	**-7.2**	**0.7**	**10.0**	**10.8**	**9.5**	**-14.2**
Asia Pac Ex Japan	**-1.3**	**6.4**	**-6.9**	**0.8**	**11.5**	**12.4**	**11.0**	**-13.7**
Asia Ex Japan	**-1.7**	**6.7**	**-8.5**	**-0.6**	**11.4**	**10.8**	**8.9**	**-14.1**
Latin America	**0.1**	**6.2**	**-2.0**	**4.6**	**7.9**	**12.9**	**13.0**	**-6.2**
Brazil	**2.6**	**6.2**	**1.7**	**7.2**	**8.2**	**16.0**	**19.0**	**-0.2**
EMEA	**-0.5**	**5.9**	**-3.6**	**7.4**	**5.6**	**13.4**	**12.8**	**-15.5**

	Jul-19	Jun-19	May-19	Q2 19	Q1 19	H1 19	YTD	2018
Australia	0.6	5.3	0.7	7.4	11.4	19.6	20.4	-11.8
New Zealand	4.0	5.3	-1.9	4.0	16.9	21.5	26.3	-3.5
Hong Kong	-3.3	7.0	-6.7	1.0	15.6	16.8	12.9	-7.8
China	-0.5	8.1	-13.1	-3.9	17.7	13.1	12.5	-18.7
Korea	-6.2	8.9	-9.3	-0.9	5.0	4.1	-2.4	-20.5
Taiwan	3.7	5.5	-7.8	1.1	9.0	10.2	14.2	-8.2
Thailand	-2.6	9.6	-2.1	9.4	7.5	17.7	14.6	-5.3
Malaysia	-2.1	2.9	-0.7	1.2	0.3	1.5	-0.7	-6.0
Singapore	-0.9	10.3	-8.8	7.0	6.2	13.6	12.6	-9.4
Indonesia	1.4	5.5	-2.6	3.7	4.3	8.1	9.6	-8.7
India	-5.2	-0.3	0.2	0.5	7.2	7.7	2.1	-7.3
Philippines	0.6	2.2	0.8	4.6	8.0	13.0	13.7	-16.1

	Jul-19	Jun-19	May-19	Q2 19	Q1 19	H1 19	YTD	2018
Mexico	-3.8	3.5	-7.0	1.3	5.6	6.9	2.8	-15.3
Chile	-5.0	5.8	-8.4	-4.9	4.4	-0.7	-5.7	-18.9
Hungary	0.2	-0.8	-4.5	-4.1	6.0	1.7	1.9	-6.1
Poland	-4.2	6.7	-4.2	3.6	-0.6	3.0	-1.3	-12.5
Czech Republic	-1.7	4.9	0.2	3.9	3.8	7.9	6.0	-2.2
Russia	0.7	9.0	3.6	17.3	12.2	31.6	32.6	0.5
Turkey	11.3	7.6	-0.6	3.1	-3.0	0.0	11.4	-41.1
South Africa	-2.8	6.3	-7.1	6.8	4.6	11.7	8.6	-24.3
Qatar	1.0	1.0	-5.3	0.6	-3.5	-2.9	-1.9	29.8
Saudi Arabia	-1.0	3.2	-8.7	1.4	14.9	16.5	15.3	19.2
United Kingdom	-1.8	5.0	-6.0	0.9	11.9	13.0	10.9	-14.1
Germany	-3.5	7.4	-6.1	7.8	7.0	15.4	11.4	-21.6
France	-2.4	8.6	-5.6	7.3	10.8	18.9	16.1	-11.9
Netherlands	0.9	6.5	-6.0	6.1	13.6	20.5	21.6	-12.8
Austria	-1.7	5.5	-8.0	3.1	8.6	11.9	10.0	-23.2
Italy	-1.3	9.9	-7.7	3.6	14.7	18.9	17.3	-17.0
Spain	-4.2	4.9	-6.1	2.9	7.1	10.2	5.6	-15.7
Greece	0.4	6.7	2.8	16.4	12.8	31.3	31.8	-36.7
Portugal	-0.5	4.2	-3.2	2.6	10.2	13.1	12.6	-10.1
Switzerland	-0.7	7.0	-0.1	9.0	13.5	23.7	22.9	-8.2

Source: Eastspring Investments. Chart data from Thomson Reuters Data stream as of 31 July 2019. Data and commentary prepared by Peter Bennett.

eastspring investments

A member of Prudential plc (UK)

For more information visit eastspring.com

This document is produced by Eastspring Investments (Singapore) Limited and issued in:
Singapore and 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 Kongby Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

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

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, 125 Old Broad Street, London EC2N 1AR.

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 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 posting is at the sole discretion of the reader. Please consult your own professional adviser before investing.

Investment involves risk. Past performance 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 (excluding JV companies) companies are ultimately wholly-owned/indirect subsidiaries/associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) 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.

Eastspring Investments (Singapore) Limited (UEN. 199407631H)

10 Marina Boulevard
#32-01 Marina Bay Financial Centre Tower 2
Singapore 018983

eastspring.com

Bangkok | Chicago | Ho Chi Minh City | Hong Kong | Jakarta | Kuala Lumpur | London | Luxembourg | Mumbai | Seoul | Shanghai | Singapore | Taipei | Tokyo