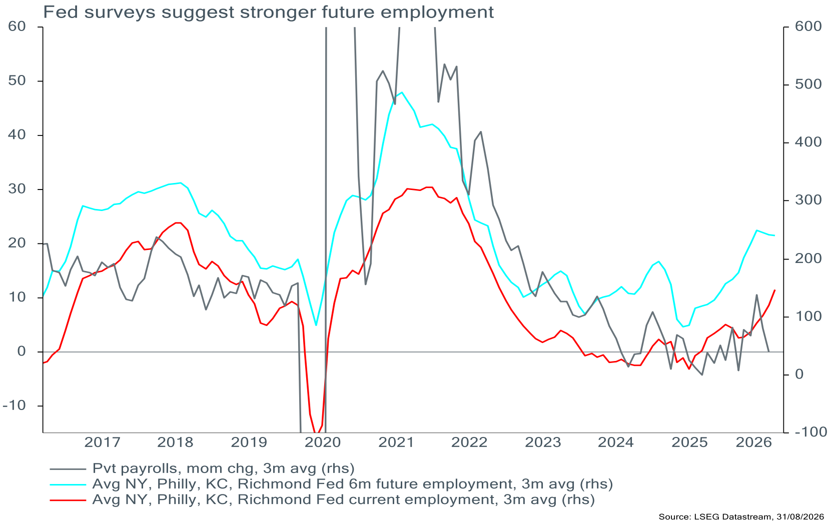
Toward G3 monetary tightening

Fed Chairman Warsh moves toward a rate hike

Federal Reserve Chairman Warsh's more hawkish speech on Friday at the Fed's Jackson Hole conference sustains our expectation for the Fed to raise the Fed Funds rate. We read the speech as not just expressing concern about inflation persisting above the Fed's target but also recognising that amidst robust economic growth and a historically low unemployment rate of 4.1%, monetary policy is not restrictive.

If we are right, markets will need to focus more heavily on the unemployment rate in this Friday's US labour data than on the headline change in payrolls. We have noted recently that the fall in the US labour force resulting from the combination of net negative immigration and the downtrend in the labour force participation implies that even small payrolls gains can keep the US labour market tight.

We expect payrolls to at least match the current Bloomberg consensus for a 55k gain in payrolls in August and an unchanged unemployment rate of 4.1%. Our bias is to expect slightly higher payrolls, and we would not be surprised by a fall in the unemployment rate to 4.0%. Regional Federal Reserve bank surveys point to stronger employment. Initial jobless claims fell in the first three weeks of August, and the ADP weekly employment indicator rose in early August. A robust employment report could lead markets to fully price a rate hike in October, if not September.



Ahead of the Fed we expect the European Central Bank (ECB) to hike 25bps at its September 10 meeting and for the Bank of Japan to hike 25bps on September 18. The recent rise in Euro area PMIs shows that growth momentum has improved and we expect CPI inflation to rise to 3.4% in August from 2.9% in June, well above the ECB's 2% target.


Vis Nayar
Chief Investment Officer
Eastspring Investments

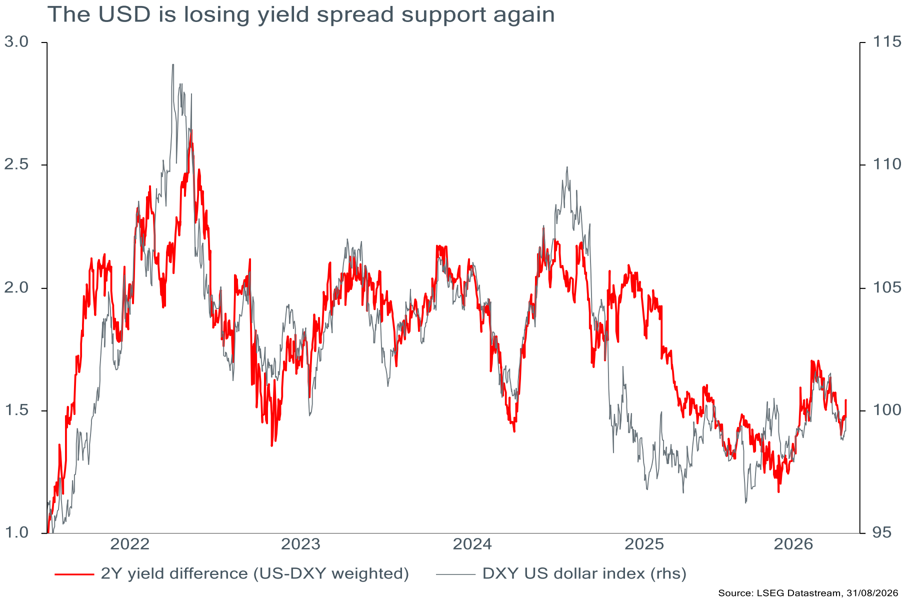

Ray Farris
Chief Economist
Eastspring Investments


Viola Wang
Economist
Eastspring Investments

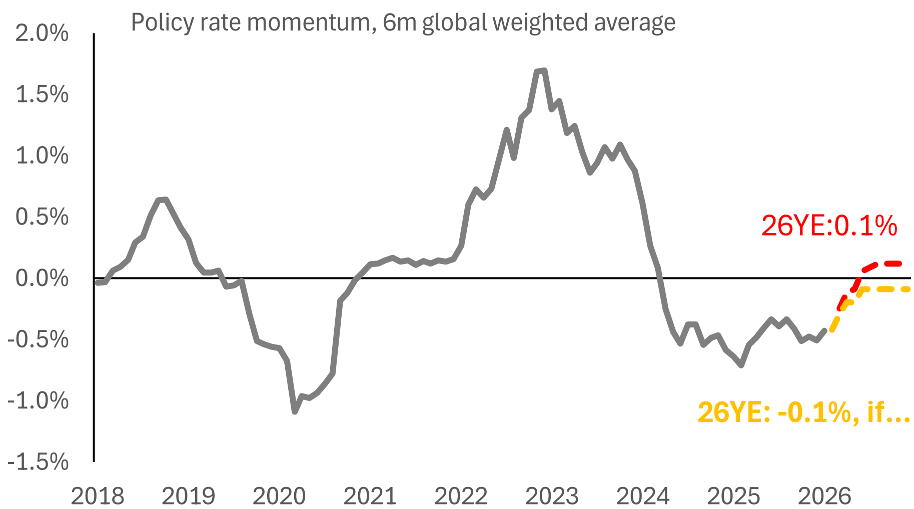
For more insights from our investment experts please visit eastspring.com/insights

Similarly, in Japan recent indicators suggest growth remains strong. The unemployment rate was lower than expected at 2.4% in July, down from 2.5% in June and retail sales grew a larger 2.4% mom in July on top of a 2/10ths upward revision to June. Against this background persistent yen weakness supports a need for BoJ hikes in September and January.

Two key implications for Asia stand out. First, rate hikes in these major economies and in Asia are limiting the US dollar's ability to rally in response to the Fed by limiting moves in interest rate differentials in favour of the USD. We continue to judge the US dollar to be a long cyclical decline. One or two Fed hikes may delay this slightly, but the sooner they come the more likely the USD will be to weaken in 2027, in our view. Dollar weakness has historically benefited Asian equity markets by encouraging funds inflows into Asia.



Second, after large global monetary policy easing in 2024 and 2025, policy is now tightening slightly. This implies a creeping headwind for equity markets in 2027 that should increase the importance of well researched active security selection rather than broad index investing.

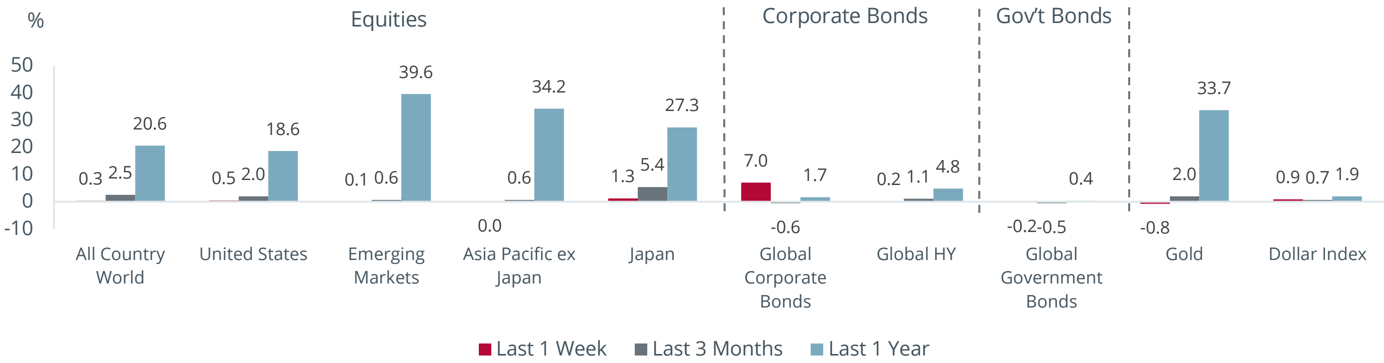


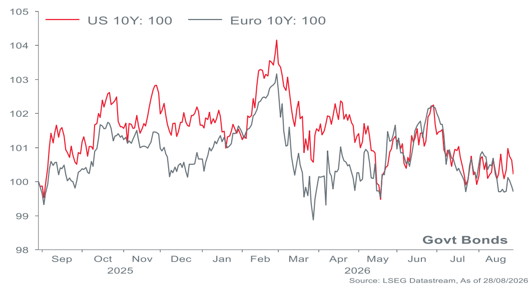
Market Review

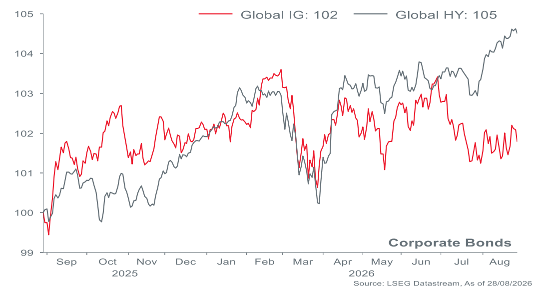
Global equity markets were mixed over the week, with the MSCI AC World Index gaining 0.3%. US equities outperformed, with the S&P 500 and Nasdaq rising 0.5% and 0.9% respectively. Emerging markets increased 0.1% followed by Japan which gained 1.3%. Asia Pacific ex Japan remained unchanged over the week.

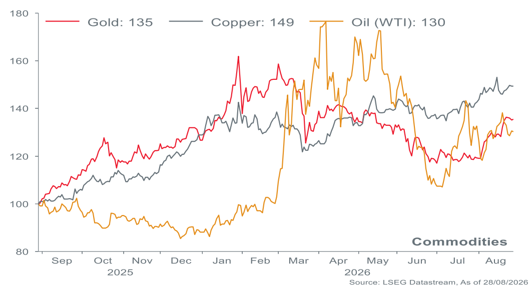
Gold fell 0.8% over the week, and the US dollar index strengthened by 0.9%. Bond markets were mixed with Global Corporate Bonds increasing significantly by 7.0% and Global High Yield bonds rising 0.2%. Global Government bonds declined 0.2%.

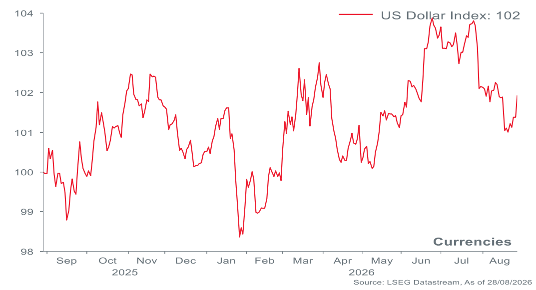
Asset Performance

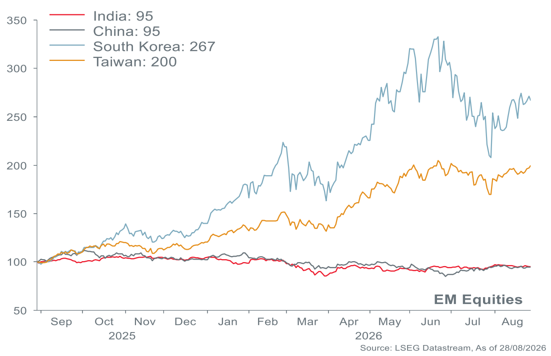


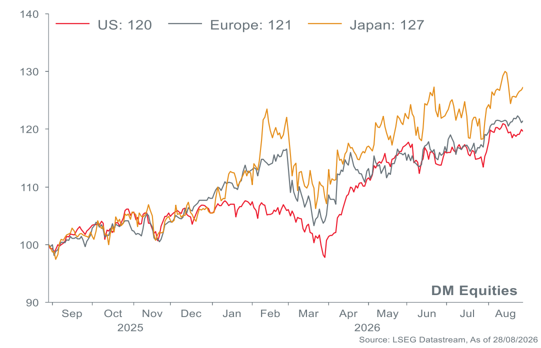












Market Data

Government Bonds	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
US Treasury Yield (%)								
10 Year	4.72	-0.34	2.56	5.99	12.24	13.70	4.75	3.95
10 Year Bond Yield (%)								
Japan	2.93	1.84	5.39	8.64	80.93	41.59	2.94	1.56
China	1.70	0.29	-1.51	-1.51	-4.82	-8.70	1.93	1.68
Australia	5.09	1.07	2.35	3.71	18.38	6.89	5.12	4.10
Singapore	2.34	-0.43	-2.58	13.95	29.09	5.34	2.47	1.75
Malaysia	3.88	2.15	4.82	8.15	14.36	11.12	3.88	3.40
Indonesia	6.96	-	-5.61	3.74	10.44	13.74	7.48	5.92

	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
Bond Indices								
Bloomberg Global Aggregate USD	92.60	-	-0.54	-1.26	-2.03	-2.17	95.69	92.58
Bloomberg U.S. Aggregate USD	91.76	0.05	-0.41	-1.35	-1.56	-2.46	95.21	91.56

Equity Indices	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
World								
MSCI AC World Index (USD)	1,153.16	0.29	4.44	2.53	20.58	13.65	1,160.81	945.10
North America								
US S&P 500 Index	7,711.76	0.49	3.81	1.96	18.61	12.65	7,816.70	6,316.91
US Nasdaq Composite Index	26,402.42	0.85	6.13	-1.91	21.64	13.60	27,190.21	20,690.25
Europe								
MSCI Europe	2,897.69	-0.35	3.34	4.71	17.91	9.64	2,917.43	2,411.25
Asia Pacific								
MSCI Asia Pacific ex Japan	891.03	-0.00	8.44	0.63	34.23	23.38	925.80	662.48
Japan Nikkei 225	66,405.56	0.59	6.48	2.65	55.05	31.92	72,831.75	41,835.17
Shanghai Stock Exchange Composite	3,952.18	1.20	3.64	-3.57	2.83	-0.42	4,258.86	3,732.84
Hong Kong Hang Seng	25,584.79	-1.63	1.08	2.31	2.34	-0.18	28,056.10	22,518.00
Taiwan TAIEX	46,331.45	2.45	11.36	6.18	91.16	59.96	48,218.87	23,885.41
Korea KOSPI	6,788.88	-1.79	12.70	-17.06	112.40	61.10	9,385.59	3,135.02
India NIFTY 50	24,175.65	-0.31	0.79	1.12	-1.33	-7.48	26,373.20	22,182.55
Australia Stock Exchange 200	9,092.30	0.37	1.62	5.81	1.25	4.34	9,296.70	8,262.40
Indonesia Jakarta Composite	6,518.12	-0.12	6.32	6.33	-18.03	-24.62	9,174.47	5,317.91
Thailand SET	1,588.22	-1.58	-2.23	1.23	27.05	26.08	1,657.55	1,230.55
Malaysia FTSE Bursa KLSE	1,725.88	-0.61	0.78	2.43	8.75	2.72	1,771.25	1,561.36
Philippines Stock Exchange PSE	5,956.33	-4.52	-5.52	1.65	-3.78	-1.60	6,673.61	5,584.35
Singapore FTSE Straits Times Index	5,699.93	0.19	1.49	14.25	34.00	22.68	5,774.21	4,240.81

Currencies (vs USD)	Latest	1 week Change	1 Month Ago	3 Months ago	1 Year Ago	YTD	52 week high	52 week low
Developed Markets								
EUR	-0.58	-0.81	1.75	-0.58	-0.84	-1.37	1.20	1.14
GBP	-0.43	-0.73	1.87	0.68	0.16	0.45	1.38	1.30
CHF	0.63	1.04	-1.18	3.24	1.00	2.13	0.82	0.76
JPY	0.41	0.70	-2.31	0.51	8.93	2.16	163.85	146.48
Asia								
CNY	0.09	0.07	-0.66	-0.79	-5.67	-3.82	7.14	6.72
HKD	0.01	-0.01	-0.02	0.07	0.59	0.74	7.85	7.77
INR	-0.18	-0.33	-0.50	-0.32	8.92	6.14	96.82	87.56
MYR	-0.20	-0.32	-1.64	1.18	-4.56	-0.84	4.23	3.88
KRW	-0.36	-0.67	-5.25	-7.99	-0.64	-4.44	1,559.08	1,376.49
SGD	0.27	0.41	-1.38	-0.07	-0.59	-0.86	1.31	1.26
TWD	-0.15	-0.62	-2.26	0.72	3.77	0.94	32.40	30.05
IDR	-0.17	-	-2.05	-0.51	8.23	6.09	18,170.00	16,300.00

Disclaimer

Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 27 August 2026. Equities: using MSCI indices in USD, United States is using the S&P 500. Corporate Bonds: using ICE BofA indices in USD. Government Bonds: using the FTSE Global Sovereign Bond index, in USD. Gold is London Bullion Market US Dollar per Metric Tonne. DXY is US Dollar Index. **(line charts)** Eastspring Investments, Refinitiv, as at the end of the prior week, rebased to 100 as at 1 year ago. Equities: MSCI indices, in USD. Corporate Bonds: using Bloomberg indices in USD. Government Bonds: using ICE BofA US 10 Year US Treasury and ICE BofA 7-10 Year Euro Government indices. Commodities: Gold is London Bullion Market US Dollar per Metric Tonne Ounce. Copper is LME Copper Grade A Cash US Dollar per Metric Tonne. Oil is Crude Oil WTI Spot Cushing US Dollar per Barrel. US Dollar is US Dollar Index.

Market data: Eastspring Investments, Refinitiv, as of 27 August 2026. Equities: MSCI indices in USD, other indices in local currency. Other indices or assets as stated. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The historical performance or forecast presented in this slide is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for the future or likely performance of the Fund.