eastspring investments

A Prudential plc company

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Monthly Investment Views

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Summary

Macro overview

Growth: Global growth has held up stronger than expected over the past quarter, supported by the services sector and resilient consumer spending. However, the Services New Orders Index recently trended below the '50-mark', an important threshold separating expansion from contraction, reflecting the lagged impacts of tighter monetary policy on the overall sector. The Manufacturing New Orders Index rebounded but remained in contraction phase. Positive momentum in the global economy is slowing overall, albeit gradually, while consensus expectations of a 'soft landing' is growing.

Inflation: Inflation pressures have eased dramatically over the past few months, particularly in the G10 economies. However, a discernible downtrend in wage inflation, a key structural driver of core inflation, is needed for core inflation to move meaningfully lower, and for policymakers to be comfortable about meeting their price stability objective. Overall, we expect the trend, momentum, and direction of travel for inflation to head lower.

Monetary Policy: The Fed held rates steady recently, but should growth and labour market data continue to surprise on the upside, an additional rate hike may be on the cards. We expect the cumulative effects of the Fed's rate hikes to eventually kick-in and slow the labour market. This will drive the Fed to steady its rate hikes gradually.

Key risks

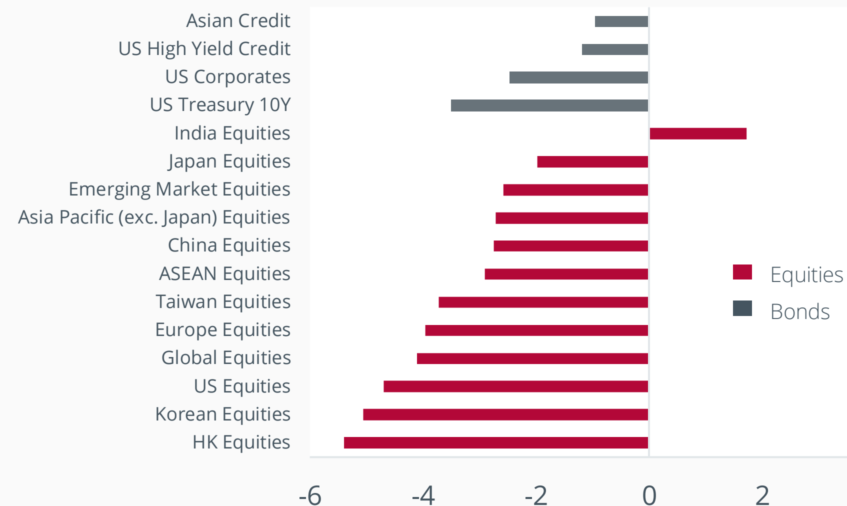
Inflation: While core inflation in developed market countries is cooling, crude production cuts amidst dwindling inventories and higher food prices due to weather conditions could reignite inflationary fears.

Geopolitics: Investor sentiment continue to be affected by rising political risks and social instability (e.g., tensions between China and the US, China and Taiwan, Gaza-Israel conflict).

US Growth: US consumers' propensity to spend remains relatively high, owing to previous fiscal support, a 3.9% US personal savings rate, and positive real income growth. This upside growth risk may challenge the team's 12-month outlook.

China Growth Slowdown: Despite positive signals from Chinese leaders/regulators since late 4Q22, there has been limited timely follow-through and implementation of stimulus measures. Further, China debt in real terms has effectively increased amid the disinflationary backdrop.

Market update



Equities: Global equities declined in September, with sentiment remaining under pressure following a weak August. Developed markets broadly underperformed on a USD basis, with the US market being one of the worst performers. The US 10-year Treasury yield closed the month at its highest level since 2007. Higher yields weighed on technology and growth stocks - globally, value stocks outperformed growth stocks. Within Asia and Emerging Markets, rising oil prices supported the energy sector and selected countries while ASEAN markets mildly underperformed. Improved macro data helped support the China market. India strongly outperformed broader EM on news that the country's GDP grew at its fastest pace in a year during the most recent quarter.

Fixed Income: The Fed kept rates on hold during September, but signaled a further hike later in the year, whilst also suggesting that rates will remain higher for longer. In the fixed income markets, global yields generally rose; yields across the US Treasury curve rose across most key maturities, with the 10-year and 30-year leading the way with increases of 50 bps and 53 bps, respectively.

Source: Eastspring Multi Asset Portfolio Solutions team. *Refinitiv Datastream. As of 30 September 2023.

Asset class views

	3-month view			12-month view			Rationale
	Underweight	Neutral	Overweight	Underweight	Neutral	Overweight	
Equities			●	●			There is still scope for upside in near-term if constructive fundamental data indicators persist, such as positive US economic surprises, rebounding US manufacturing. Fading fiscal impulse and weakening labor market are likely to drive slowing growth and economic recession, which in turn drive equities lower over the medium-term.
10Y Government Bonds			●			●	Slightly less bullish m/m as US yields climb amid resilient US growth; though 10Y yields appear attractive at around 4.80% currently. As the US economy slows over the medium-term, markets will price in more rate cuts (i.e., lower growth expectations), driving a bull steepening of the US yield curve.
Corporate bonds	●	←	●	●			For US IG corporates, we are cognizant that the maturity wall from 2023 to 2025 is seemingly high. Over the near-term, we prefer to fund the overweight in equities with a lower allocation to US IG.
Cash		●				●	Positioning for risk-off assets over a 12-month time horizon keeps us overweight cash over the medium-term.
Equities							
US			●	●			Underweight position in the medium-term is driven by decelerating growth and cumulative effects of Fed hikes.
Europe		●	← ●	●			Weak Euro Area data (e.g., manufacturing) and restrictive ECB policy weigh on economic conditions; European equities are likely to drive lower over the next year, in line with recessionary trends.
Emerging Markets	●				●		Though partly driven by China macro data, EM equities (and their idiosyncratic profile) remain the bright spot over the medium-term as the global recession is driven by developed markets.
Asia Pacific ex-Japan	●				●		Our overweight US equities is tactically funded by underweights in EM/APxJ. While APxJ valuations are relatively attractive within EM, Asian equities are likely to trade range-bound over the medium-term as global headwinds are offset by improving fundamentals in China and as the global recession likely to be concentrated in DMs.
Government Bonds							
US			●			●	As the US economy slows, markets will price in more rate cuts, driving a bull steepening of the US yield curve.
Europe		●	← ●		●		Following a recent 25bp rate hike, the ECB acknowledged that although inflation is easing, it is expected to stay higher for longer, thus driving our less bullish views on European duration.
Singapore			●			●	With a narrowing growth forecast and easing inflation outlook, MAS does not seem likely to adjust its NEER policy. Current yield levels look attractive for investors to enter.
Corporate Bonds							
US High Yield			●	●			The rating migration continues to be supportive in the short-term. However, despite relatively lower default rates, corporate refinancing risk may be underpriced as the maturity wall swells in the next few years.
US Investment Grade	●				●		Investment Grade credit may trade sideways over 12-months as higher spreads are offset by lower base rates.
Emerging Markets			●		●		EM central banks have remained relatively dovish, which should help support overall EMBI spreads.
Asian Credit			●		●		As growth slows in the region (though not as much as in DM economies), corporate bond yields in Asia likely to be better behaved relative to DM counterparts.
FX							
USD			●			●	Higher real yields and growth expected to hold up USD in the near-term. The recessionary environment will generally drive investors into safe-haven currencies, such as the USD.
EUR	●			●			The persistence of weaker Eurozone data will likely weigh on the EUR/USD.
SGD		●			●		No discernible trend as Singapore's economic data looks mixed and SGD looks to be fairly valued at the moment.

Source: Asset class views are as of the Multi Asset Portfolio Solutions team's most recent meeting in October, and should not be taken as a recommendation. The information provided herein is subject to change at the discretion of the Investment Manager without prior notice.

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