eastspring investments

A Prudential plc company

May 2024

Monthly Investment Views

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Summary – May 2024

Macro Overview

Growth: The J.P. Morgan Global Manufacturing Purchasing Managers Index expanded for the third consecutive month in April with a reading of 50.3, suggesting that global manufacturing output growth continues to stabilise. Despite overall tighter monetary conditions across most advanced economies, global economic activity in 2024 has been stronger than expected, supported primarily by still resilient US growth. Looking ahead, US consumer spending, a key driver of US growth, will eventually slow on the back of dwindling excess pandemic savings, decelerating wage growth, and tighter lending standards.

Inflation: US Consumer Price Index (CPI) readings were generally robust in the first quarter of 2024. US core CPI, which excludes food and energy, experienced three consecutive monthly gains during the quarter. The strong core CPI reading can be partially attributed to higher rents, which accounts for roughly a third of the overall CPI basket. That said, we still believe that overall disinflationary trends will outweigh the recent "hot" inflation data. And as the US labour market cools further, wage growth, a key driver of inflation in our view, is expected to decelerate.

Monetary Policy: At the May FOMC meeting, the Fed Funds target rate was left unchanged at 5.25% to 5.5%, for the sixth consecutive time. Based on Chairman Powell's comments, interest rates are likely to stay higher for longer to "let restrictive policy do its work". Still, the emphasis remains on the timing of the first rate cut than the possibility of rate hikes. We believe that the strong reflation in the first quarter likely buys the Fed more time. Going forward, the Fed will likely rely on data to navigate the path towards lower rates.

Key Risks

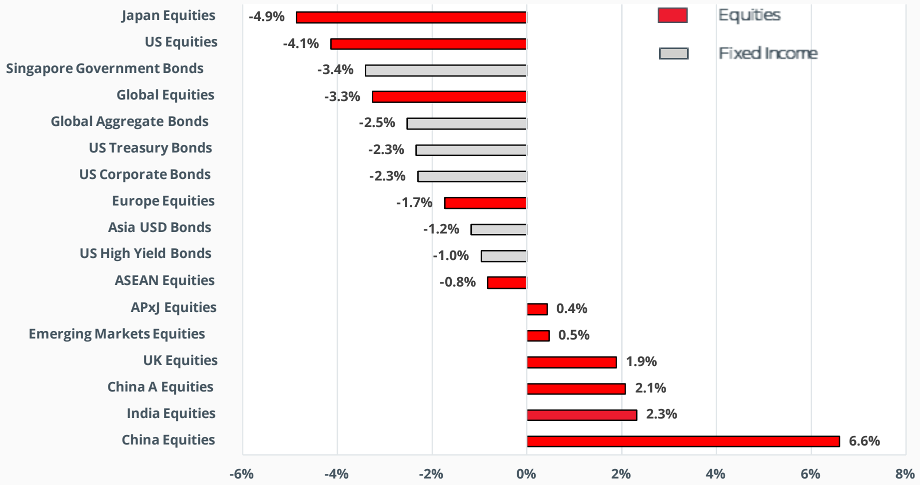
Sticky Inflation: Reflationary US CPI prints in Q1 reinforced concerns of persistent "sticky" inflation. While forward-looking indicators in the US labour market (e.g., job openings rate, hiring rate) suggest that inflation would move lower, there still remains uncertainty about the pace at which this will occur. As such, US wage inflation is a key driver for the future path of inflation.

Middle East Tensions: Tensions stemming from the broader Gaza-Israel conflict (e.g., Iran-Israel and US-Iran) 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. To this end, geopolitical risks are on our radar.

China Growth: Limited impact from the recent Chinese stimulus measures may fuel concerns of further growth slowdown in China. This is particularly the case as China debt has effectively increased in real terms amid deflationary headwinds and weak domestic demand. A meaningful recovery in the economy requires more sizeable stimulus measures. The persistent deflationary trend in China poses raises concerns about further potential drag on global economic growth.

Market Recap and Update

Global Financial Markets – Monthly Performance as of 30 April 2024
Monthly Gross Returns % (in USD)*



Equities: There was an increase in global risk aversion in April, as both the equity and fixed income markets generally sold off amid still hot US inflation and continued expectations that the central banks are unlikely to cut rates sooner than later. Against this backdrop, both the US and European equities fell by 4.1% and 1.7% respectively. Meanwhile Asia Pacific ex-Japan ("APAC") markets returned 0.4% while China stood out, rising 6.6% amid a new set of policy easing measures discussed in the Politburo meeting. ASEAN markets underperformed both the broader Asian region and Emerging Markets during the month.

Fixed Income: In April, the yields on 2-year, 5-year and 10-year US Treasury notes soared by 42 bps, 50 bps and 48 bps to 5.04%, 4.72% and 4.68% respectively. Likewise, yields on Singapore government bonds climbed 14 bps, 36 bps and 34 bps to 3.50%, 3.40% and 3.45% respectively. Both government and credit bonds generally underperformed during the month amid the rising yield backdrop, reflecting the markets' scaled back expectations of the Fed's rate cut trajectory in 2024. Global bonds fell by 2.5%. Singapore bonds (7-10Y) posted -3.4%. The US high yield market returned -1.0%, outperforming its more interest rate sensitive US investment grade counterpart (-2.3%). The Asian USD bond market returned -1.2%.

Data source: Eastspring Investments, Refinitiv Datastream. *Equity returns are proxied by the respective MSCI market indices. The fixed income markets are represented by the following; "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; "Singapore Government Bonds": iBoxx ABF Singapore Government 7-10 (USD) TR Index gross.

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