eastspring investments

A Prudential plc company

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Monthly Investment Views

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Summary – November 2023

Macro Overview

Growth: Global growth held up stronger than expected in 2023, bolstered by the US economy. However, the positive momentum in the global economy is likely to trend lower in 2024. The recent higher equity valuations and bullish investment sentiment (as measured by the AAII survey and Ned Davis Crowd Sentiment indicator) seemingly reflect market participants' expectations of a 'soft landing'. In our view, a US recession (albeit a mild one) remains probable over the next 6-12 months. Although US pandemic savings are winding down (i.e., buffer from excess savings is fading), strong household and corporate balance sheets plus room for the Fed to lower rates should help the US economy to better navigate the recession.

Inflation: US Consumer Price Index rose 3.1% in November, in line with expectations. This helped to alleviate some pressure on the Fed and while still some ways from its 2% target, the disinflation trend is likely to persist into 2024. Overall, our view remains that inflation is likely to head lower.

Monetary Policy: The Fed kept policy rates steady at its final meeting of 2023 in December. We believe that as inflationary pressures continue to ease, global central banks are probably near or at the end of their rate-hiking cycles. However, they are likely to be cautious about declaring victory over price increases too quickly. Although much attention has been given towards potential rate cuts in 2024, significant policy easing is unlikely without a recession, especially if the still tight labour market poses some upside inflation risk.

Key Risks

Inflation: Core inflation in the developed market countries has generally been moderating alongside the recent softer US job market data. However, the on-going crude oil production cuts by Saudi Arabia/Russia, the still tight US labour market, among other factors, could still reignite inflationary fears.

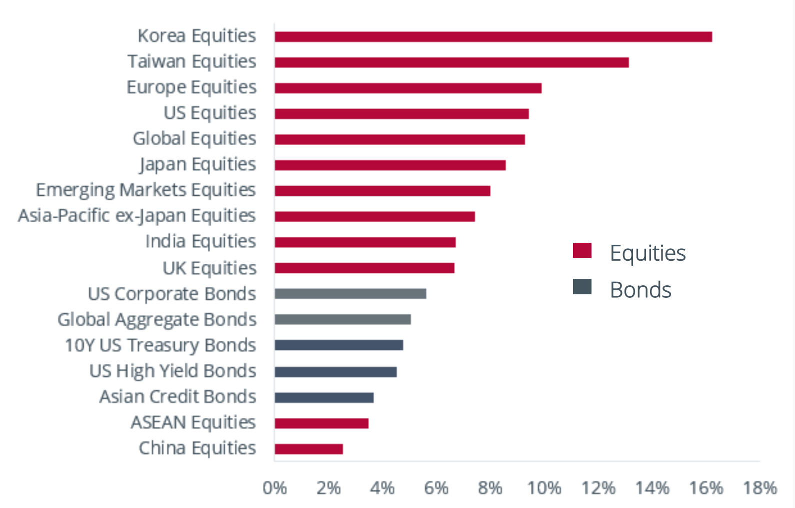
Geopolitics: Investor sentiment continues to be affected by rising political risks and social instability; complacency on war risks is ill-advised. The team continues to monitor updates on the Israel-Hamas conflict, Russia-Ukraine war and the Taiwan Straits tensions, etc.

Political Elections: Upcoming political elections in Taiwan, India, and especially the US, among others, are crucial to monitor as they can result in significant policy changes that can impact financial markets and increase volatility.

Robust US Growth: The relatively strong US consumer remains key to the resilience of the US economy and a potential soft landing scenario, as the propensity to spend remains relatively high (though consumer spending has cooled recently), owing to previous fiscal support and pandemic savings, among other factors. This upside growth risk may challenge the MAPS Team's 12-month investment preference for high quality, safe haven assets.

Market Recap and Update

Global Financial Assets – Monthly Performance (November 2023)
% monthly total returns (in USD unless otherwise stated)*



Equities: Global equities snapped back in November, with the MSCI World index rising over 9% in USD terms amid optimism that central banks have reached the end of their tightening cycles. The US Treasury 10-year yield declined sharply from over 4.9% at the end of October to just over 4.3% at the end of November. Global growth and technology stocks outperformed value. Within Developed Markets, Europe and the US outperformed during the month in USD terms; Tech-heavy Taiwan benefited from falling yields and Korea also rallied. China underperformed although it posted a positive absolute return.

Fixed Income: Government bond yields generally declined in November. The yields on the US Treasury 2-year, 5-year and 10-year notes fell by 41 bps, 59 bps and 90 bps to 4.68%, 4.27% and 4.33% respectively. Other fixed income markets also gained from lower yields; the US High Yield market (proxied by ICE BofA US High Yield Constrained Index) returned 4.57%. Asian Credit (proxied by the JP Morgan Asia Credit Index (JACI)) registered its highest monthly return in 2023, generating 3.69%, boosted by positive returns from both Investment Grade and High Yield bonds.

Source: Eastspring Investments, Refinitiv Datastream. *As of 30 November 2023.

Asset Class Views

	3-month view			12-month view			Rationale
	Underweight	Neutral	Overweight	Underweight	Neutral	Overweight	
Equities			●	●			There continues to be upside potential in the near term if fundamentals remain positive. The US earnings season continues to surprise on the upside, but we acknowledge that earnings and performance are concentrated within the top stocks. Over the medium-term, the fading fiscal impulse and weakening labour market are likely to slow economic growth and send equities lower.
10Y Government Bonds		●				●	We have a less bullish tactical view on bonds given our neutral technical indicators. Nevertheless, the US Treasury 10-year yield is still relatively attractive at current levels despite recent declines. Going forward, there is less scope for yields to rise as the Fed nears the end of its rate hiking cycle. If the US economy slows down meaningfully over the medium-term, higher rate cut expectations should drive a bull steepening of the US yield curve.
Corporate bonds	●			●			The maturity wall from 2023 to 2025 is approaching for US Investment Grade (IG) corporates. Over the near-term, we prefer to fund our tactical overweight in equities with a lower allocation to US IG bonds.
Cash		●				●	We are overweight cash in the medium term as part of our risk-off positioning over the next 12 months.
Equities							
US			●	●			While there is scope for upside in the near term, the decelerating economic growth on the cumulative effects of the Fed's rate hikes leads us to be underweight in the medium-term.
Europe		●		●			Weak economic growth data (e.g., manufacturing) and restrictive ECB policy continue to weigh on economic conditions. European equities are likely to move lower over the next year, in line with recessionary trends.
Emerging Markets	●				●		Emerging Market (EM) equities (and their idiosyncratic nature) remain the bright spot over the medium-term as recessions are concentrated within the developed markets.
Asia Pacific ex-Japan	●				●		As APxJ constitutes a sizeable portion of EM, the short-term overweight in US equities is 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. China's economy is at the edge of a turning point, but recent policy actions are only marginally positive.
Government Bonds							
US		●				●	As the US economy slows, higher rate cut expectations should drive a bull steepening of the US yield curve.
Europe		●			●	●	Rising odds of a recession make bonds attractive over the medium term.
Singapore		●				●	We turned neutral on Singapore Bonds in the near term given weaker technicals.
Corporate Bonds							
US High Yield			●	●			More rating upgrades versus downgrades are 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 the next 12 months as higher spreads are offset by lower base rates.
Emerging Markets			●		●		Relatively dovish EM central banks should help support overall EM bond spreads.
Asian Credit			●		●		Corporate bond yields in Asia are likely to be better behaved relative to Developed Market (DM) bond yields as economic growth slows by a lesser extent.
FX							
USD			●			●	Despite the recent risk-on sentiment and peak in US rates, the recessionary environment should drive investors into safe-haven currencies, such as the USD in the medium term.
EUR	●			●			The persistence of weaker Eurozone data will likely weigh on the EUR/USD.
SGD	●	●		●	●		As SGD shifted higher in Nov, short-term overextension and weaker economic data could move USD higher vs SGD.

Source: Asset class views are as of the investment team's most recent meeting in early December 2023, 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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