eastspring investments

A Prudential plc company

November 2023

Monthly Investment Views

eastspring.com

Summary – October 2023

Macro Overview

Growth: While global growth has held up stronger than expected, especially during the first half of 2023, positive momentum in the global economic environment is seemingly slowing down overall with consensus expectations of a 'soft landing' on track. October 2023 global PMI data are sending signals of further deterioration in growth. The services sector, which has in part supported growth is now seeing some weakness, having fallen to 49.6, which is below the '50-mark', an important threshold separating expansion from contraction. Manufacturing remains in the contractionary territory at 48.6. Global growth will continue to be challenged by the softening service sector in addition to the lagged effects of tighter monetary policy more generally.

Inflation: Inflation pressures have moderated in the past few months, particularly in the G10 economies. However, a discernible downtrend in US wage inflation, which is a key structural driver of US core inflation, is needed for core inflation to start meaningfully following downward, and for policymakers to be comfortable in achieving their price stability objective. Overall, our view is that the trend, momentum, and direction of travel for inflation are likely headed lower, although it is uncertain how quickly the pace of disinflation will occur.

Monetary Policy: The Fed recently held its policy rate steady in the 5.25%-5.50% range, deliberating between whether the US economy can remain resilient and continues to surprise to the upside, or if financial conditions are already tight. The MAPS Team believes that the cumulative effects of the Fed's rate hikes are still working their way through the economy (albeit gradually) and will eventually slow down the labor market further, driving the Fed to steady its rate hikes.

Key Risks

Inflation: Core inflation in developed market countries has generally been moderating alongside recent data which shows that the US job market is slowing down. However, the on-going crude oil production cuts by Saudi Arabia/Russia, the US labour market potentially remaining relatively tight over the medium-term, among other factors, could still reignite inflationary fears.

Geopolitics: Investor sentiment continues to be affected by rising political risks and social instability; investors should not be overly complacent on war risks.

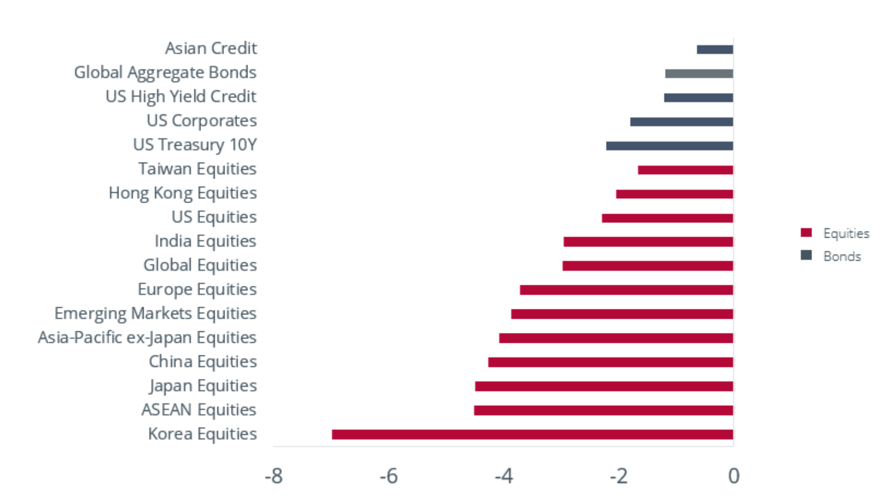
- The Gaza-Israel Crisis may broaden Middle East conflict to drive oil volatility and heighten energy-related inflation.
- The Russia Ukraine Crisis remains a significant source of risk, with a chance of a geopolitical mis-step (i.e., inadvertent escalation) being a key concern.
- The Taiwan Straits Conflict is a potentially high-impact (though lower probability) event, which may cause global market volatility and supply chain disruptions.

Robust US Growth: The strong US consumer remains key to the resilience of the US economy and a potential soft landing scenario. The propensity to spend remains relatively high, owing to previous fiscal support and pandemic savings, among other factors. This upside growth risk may challenge the MAPS team's 12-month view of favouring high quality, safe haven assets.

*Refinitiv Datastream. As of 31 October 2023.

Market Recap and Update

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



Equities: A broad-based sell-off returned in October. Global equities declined with sentiment under pressure as the US 10-year Treasury yield continued to rise on the expectation of "higher for longer" US interest rates and the start of the Israel-Hamas conflict dampened risk appetite. US equities largely led the DMs, supported by strong economic data, including GDP growing at a better-than-expected annualized 4.9% rate during the third quarter. Chinese equities were relatively weak, with the ongoing weakness of the property sector, mixed economic data and the news of further US restrictions on chip exports to China weighing on sentiment. ASEAN markets underperformed the broader Asian region and Emerging Markets ("EM") during the month; South Korea equities were among the biggest laggards amid heavy foreign sell-off.

Fixed Income: The resilience of the US economy has seemingly increased the term premia of US Treasuries. The US Treasury yield curve increased by double-digits primarily along the key tenors, with the US 10-year yield up by +29bps to 4.88%, up from 4.59%. The Bloomberg Barclays Global Aggregate index was down 1.2%. In credit, US High Yield was down 1.2%, faring better than its Investment Grade counterpart's 1.8% decline. Asian Credit (JACI) was among the better performers in fixed income, down 0.65%.

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. US earnings season continues to surprise on upside, but the price action remains biased to downside across sectors and market sentiment tilting toward pessimism (contrarian indicator). Fading fiscal impulse and weakening labor market are likely to drive slowing growth and economic recession, and equities lower over the medium-term.
10Y Government Bonds		●	●			●	Less bullish tactical view on bonds as US yields continued to climb amid resilient US growth though US 10Y yield is still at attractive level around 4.58% currently. The closer the Fed is to the end of its hiking cycle, the less scope for further rises in yields. 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 our tactical overweight in equities with a lower allocation to US investment grade bonds.
Cash		●				●	Our risk-off positioning over the 12-month time horizon keeps us overweight cash over the medium-term.
Equities							
US			●	●			While scope for upside in near-term remains, the underweight position in the medium-term is driven by decelerating growth and cumulative effects of Fed hikes.
Europe		●		●			Weak economic growth data (e.g., manufacturing) and restrictive ECB policy continue to 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 nature) remain the bright spot over the medium-term as the global recession is driven by developed markets.
Asia Pacific ex-Japan	●				●		As APxJ constitutes a sizeable portion of EM, the tactical 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 with global recession likely to be concentrated in DMs. China's economy is at the edge of a turning point, but recent policy actions are marginally positive.
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		●			●		The ECB is near the end of the cycle and unlikely to hike further, driving our neutral view on European duration.
Singapore		●	●			●	Weaker recent technicals drove the team's change in tactical positioning for Singapore Bonds to neutral.
Corporate Bonds							
US High Yield			●	●			Less downgrades (vs. upgrades) continue 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 investment team's most recent meeting in early November 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.

Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore by Eastspring Investments (Singapore) Limited (UEN: 199407631H)

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 Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

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

Malaysia by Eastspring Investments Berhad (200001028634/ 531241-U) and Eastspring Al-Wara' Investments Berhad (200901017585 / 860682-K).

Thailand by Eastspring Asset Management (Thailand) Co., Ltd.

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, 1 Angel Court, London, EC2R 7AG.

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 are those of the author, and 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 document is at the sole discretion of the reader. Please carefully study the related information and/or consult your own professional adviser before investing.

Investment involves risks. Past performance of 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 companies (excluding joint venture companies) are ultimately wholly-owned/indirect subsidiaries of Prudential plc of the United Kingdom. Eastspring Investments companies (including joint venture companies) 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 or with the Prudential Assurance Company Limited, a subsidiary of M&G plc (a company incorporated in the United Kingdom).