eastspring investments

A Prudential plc company

March 2024

Monthly Investment Views

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Summary – March 2024

Macro Overview

Growth: Global growth is likely to decelerate over the following months due to the lagged impact of aggressive monetary tightening. While the probability for a soft landing has increased, supported by the recent slew of better-than-expected US economic data, market participants appear to be pricing in a more optimistic scenario. Nonetheless, on a 12-month view, our base case is that a global recession remains possible (albeit a shallow one in magnitude), led by the Developed Markets as the lagged effects of rate hikes start to impact growth.

Inflation: US CPI data continued to run hotter-than-expected in February. While "stickier" inflation and still resilient US growth may delay the Fed's pivot, we believe the disinflationary trend will continue to play out over the medium term. This is likely to be the case as the US labour market demand starts to cool (i.e., wage inflation is moderating) and US consumption starts to run out of steam (i.e., excess savings is depleting).

Monetary Policy: Developed Markets' central banks are already at the end of their respective rate-hiking cycles. After holding its key rate steady in January for the fourth straight meeting, there is a 99% probability the Fed will again hold the policy rate steady at the upcoming March 2024 meeting. We believe the Fed will remain cautious and continue to walk a fine line between proactively loosening its policy (potentially risk restoking inflation) and remaining too restrictive (further contributing to a growth slowdown). The data to watch for is wage growth. This needs to come down enough to lower overall core inflation towards the Fed's target to compel the Fed to pivot to rate cuts.

Key Risks

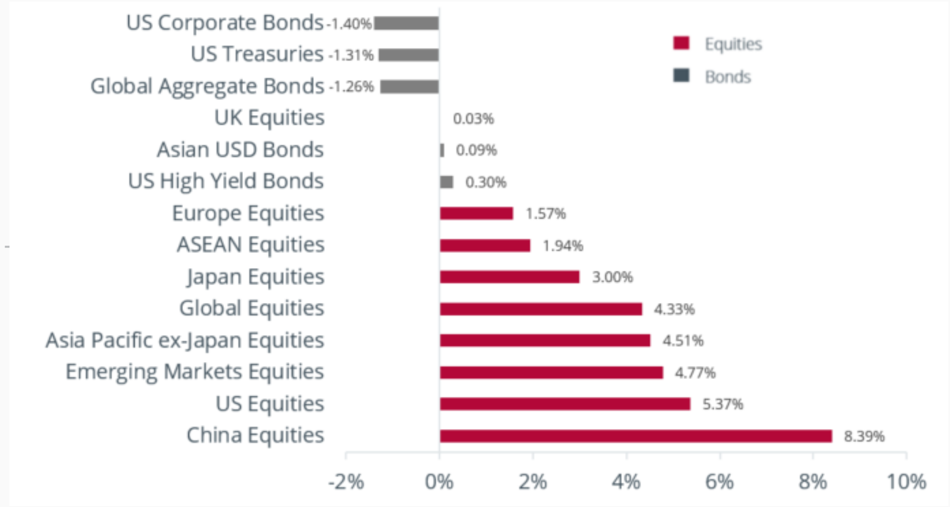
Geopolitics: Investor sentiment will continue to be affected by rising political risks and social instability. As such, complacency on geopolitical (and war) tensions is ill-advised. Tensions in the Middle East may broaden further, potentially disrupting oil supplies. This may increase shipping costs and heighten energy-related inflation. The team will also continue to monitor the potential risks if there is an escalation of US-Iran tensions.

Political Elections: 2024 is a record year for elections. The US and India are amongst the many notable countries holding national elections. Election outcomes in these major markets may result in significant policy changes that consequently raise volatility in financial markets.

Robust US Growth: The upside growth risk scenario (i.e., "stickier" inflation) would challenge our 12-month investment preference for defensive positioning, especially if government yields remain elevated. That said, recent data shows that growth risks have become better balanced. We continue to monitor both the upside (i.e., persistent inflation) and downside (i.e., deteriorating growth) growth risks scenarios.

Market Recap and Update

Global Financial Assets – Monthly Performance (As of 29 February 2024)
Monthly Gross Returns % (in USD)*



Equities: Global equities continued to rise in February, supported by resilient earnings, most notably, from several of the 'Magnificent Seven' stocks and Chinese equities. As US inflation came in stronger-than-expected, the US 10-Year Treasury yield rose over the month from under 4% to end closer to 4.3%-month end. Against a backdrop of rising US yields, US stocks still outperformed, with five of the 'Magnificent Seven' meeting or exceeding earnings expectations. Asia ex Japan equities posted positive returns, supported by the snapback in China equities. Signs of improving macro data and news of various support measures - including a cut to the five-year loan prime rate (i.e., key mortgage reference rate), and restrictions on short selling (and securities lending) by China's securities regulator - buoyed the Chinese market over this period.

Fixed Income: Government bonds were generally under pressure in February, amid markets scaling back expectations of Fed rate cuts in 2024. Yields on 2-year, 5-year and 10-year US Treasury notes climbed by 41bps, 41bps and 34bps to 4.62%, 4.24% and 4.25% respectively. The Bloomberg Barclays Global Aggregate Index was down -1.26% amid higher yields. The US high yield market (proxied by ICE BofA U.S. High Yield Constrained Index) posted 0.30% while the Asian credit market (proxied by J.P. Morgan Asia Credit Index) returned 0.09%.

*Source: Eastspring Investments, Refinitiv Datastream. *Equity returns are proxied by the respective MSCI market indices. "Asian USD Bonds": J.P. Morgan Asia Credit Index. "US Investment Grade 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*

Asset Class Views

Underweight | Neutral | Overweight

Asset	Rationale
Global Equities 3m 12m	The MAPS team maintains its constructive stance on global equities, having recently upgraded its tactical outlook in early March 2024, on the back of upgrades in multiple technical (e.g., NDR sentiment) and fundamental indicators (e.g., economic surprise data, earnings revisions ratio, PMI). While the short-term upside potential remains if constructive fundamental data indicators persist, we are cognisant that the recent record highs in the S&P 500 and Nasdaq, for example, may be susceptible to future sell-offs, especially when/if corporate profits get squeezed. Over the medium term, both depleting US pandemic savings and weakening labour market demand are likely to cause a more meaningful deceleration in US growth, and drive equity valuations lower.
10Y Government Bonds 3m 12m	The team's short-term US duration view was tactically downgraded to neutral given the recent better-than-expected economic surprise data and earnings revisions ratio. In line with our more risk-off (i.e., defensive) positioning over the next 12-month horizon, US duration stands to benefit from a backdrop of decelerating growth and disinflationary trends, in addition to its inherent "flight-to-safety" characteristic.
Corporate Bonds 3m 12m	US credit spreads are much tighter following the strong late-2023 rally. Over a one-to-three month horizon, our tactical overweights in risk assets (e.g., global equities, US high yield) are being funded out of US investment grade bonds.
Cash 3m 12m	Our defensive / risk-off positioning over the 12-month horizon keeps us overweight in cash over the medium term.
Global Equities	
US 3m 12m	While there is more room for upside in the near term (albeit a shorter one given rich valuations), the 12-month underweight view is driven by decelerating growth and the fact that the cumulative (and lagged) effects of rate hikes will eventually weigh on already over-extended equity valuations.
Europe 3m 12m	The tactical upgrade to neutral was primarily due to improving EU fundamental data. Over the next 12 months, European equities are likely to slide against a weaker growth backdrop (i.e., weak manufacturing, weak German exports).
Emerging Markets 3m 12m	We tactically downgraded EM equities to an underweight position, primarily due to a downgrade in a key indicator (e.g., 3M forward EPS change). Over the medium term, EM earnings growth has the potential to outpace that of DM countries, especially as the global recession will likely be concentrated in DM economies (e.g., US, Europe).
Asia Pacific ex-Japan 3m 12m	Compared to the US, Asian valuations remain relatively attractive. The tactical downgrade arose by default following the tactical downgrade in EM equities (as Asia Pacific ex-Japan constitutes a sizeable portion of the EM universe). Asian equities are likely to trade range-bound over the medium term as the global recession will likely be concentrated in DM countries.

Source: Asset class views are as of the investment team's most recent meeting in early March 2024, 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. 3m = 3-month view. 12m = 12-month view.

Asset Class Views

Underweight | Neutral | Overweight

Asset class	3m	12m	View
Government Bonds			
US	Overweight → Neutral	Overweight	The tactical outlook for US government bonds was downgraded to neutral on the back of the recent better-than-expected economic surprise data and earnings revisions ratio.
Europe	Neutral	Overweight	Rising odds of a recession and the lagged effects of rate hikes suggest that Europe duration will be more attractive over the medium term.
Singapore	Overweight → Neutral	Overweight	Please see our comments on US government bonds above, given that Singapore's growth trajectory tends to follow closely those of DM countries. The Monetary Authority of Singapore's (MAS) April policy statement should remain relatively hawkish as the economy stays relatively resilient despite the 2nd GST hike early this year.
Corporate Bonds			
US High Yield	Overweight	Underweight	We remain tactically constructive on US High Yield as the key fundamental indicators remain positive. While US growth remains stable for now, valuations will be subject to volatility over the medium-term. The "maturity wall" will likely kick in from 2Q25 and the current tight spreads will widen over the 12-month horizon if clear signs of a recession or meaningful global growth slowdown start to emerge.
US Investment Grade	Underweight	Overweight	Given very tight US investment grade spreads currently, the team maintains a tactical underweight. Over the medium term, falling US yields may provide some cushion in terms of price appreciation, relative to riskier assets (e.g., equities, high yield).
Emerging Markets	Neutral	Neutral	The team's view of a potential underpricing of geopolitical risks in Emerging Markets' (EM) bonds suggests the current spread levels are relatively less attractive.
Asian Credit	Overweight	Neutral	We believe that developing Asian countries should continue to see growth on the back of stable consumption and investment trends. Over the medium term, corporate bond yields in Asia are likely to be better behaved than DM countries.
FX			
USD	Overweight → Neutral	Overweight	The team recently tactically downgraded the USD to neutral. Strong growth and high real rates may support USD in the near term, but other catalysts are needed to continue the near-term uptrend momentum. Over the longer term, we believe that investors will seek safe-haven currencies such as the USD in the event of a global recession.
EUR	Underweight → Neutral	Underweight	The tactical upgrade to neutral was on the back of improving Europe Economic Surprise Index data, which is now close to the positive territory. The Euro area growth is expected to stagnate in the 1H24 as the impact of tighter ECB monetary policy kicks in; persistently weak Europe data will also weigh on EUR over medium term.
SGD	Neutral	Underweight	The SGD should remain relatively range bound at current levels as the MAS would likely keep its FX policy status quo during its April review.

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