eastspring investments

A Prudential plc company

Monthly Investment Updates

August 2026

Macro Overview

Growth

- The artificial intelligence (AI) capital expenditure (capex) cycle continues to support the US economy. The Q2 announcements from the US hyperscalers pushed up 2027 capex spend to USD1.3 to USD1.4 trillion. This spend is underpinned by growing profits and markets still eager to finance the spend, albeit at a higher risk premia. This capex spend should in turn support US employment although smaller US job gains may be the new normal given immigration curbs and the trend fall in labour force participation.
- Asia's July's purchasing manager indexes (PMI) reinforce the outlook for strong growth in the region. Notably, the July PMIs for countries that are most geared to the technology hardware sector such as Japan, Singapore, Korea, Taiwan, Malaysia and Thailand were significantly higher than their 3-year averages. In contrast, countries with less exposure to the electronics cycle – India, Indonesia, and the Philippines – displayed weaker industrial sector activity.
- Consensus gross domestic product (GDP) growth forecasts for most Asian economies rose over the past month. China is a notable exception as its domestic data continued to weaken in July and new fiscal stimulus has yet to emerge.

Inflation & Monetary policy

- The limited second-round price impact so far from the Iran war has led US inflation to moderate in July. US Core Consumer Price and Producer Price Indexes slowed to 2.5% and 4.2% year on year (YoY), respectively, leading the markets to reduce the probability of a Federal Reserve (Fed) rate hike in September. In addition, markets are no longer pricing in a full rate hike before year-end.
- Persistent fiscal concerns continue to drive the US term premium higher, contributing to a steepening of the Treasury curve. If US long-end yields continue to rise and inflation does not re-accelerate meaningfully, the resulting tightening in financial conditions could allow the Fed to remain on hold for longer.
- Nevertheless, inflation risks remain relevant for Asia, particularly for economies with a heavy reliance on energy imports. El Niño-related food price pressures could also add to headline inflation in 2027. Asian central banks are likely to remain in or move further into a tightening cycle over the coming quarters, except for China and Thailand.

Source: Eastspring Investments. 18 August 2026.

Asset class views

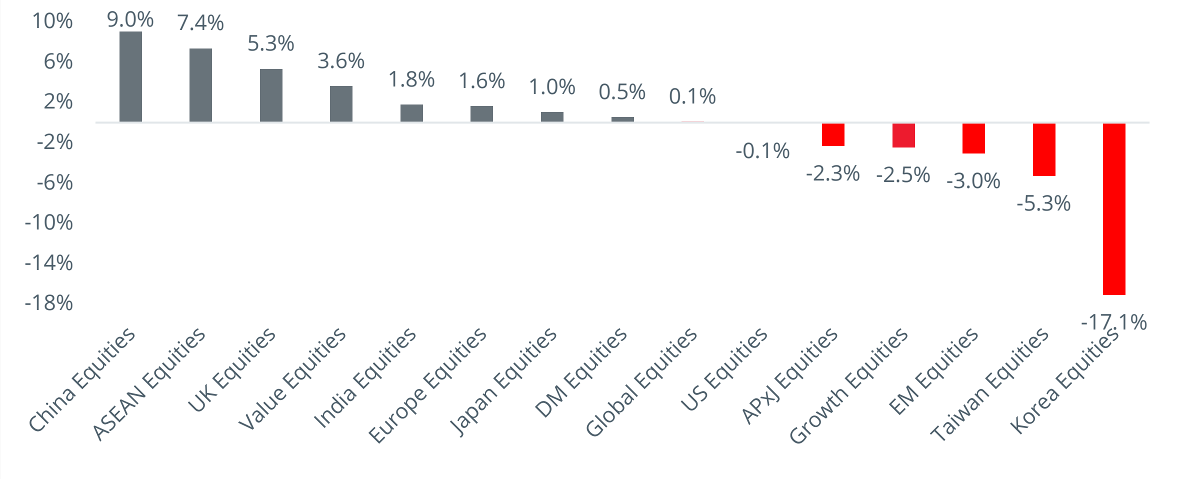
- The near-term outlook for global equities remains constructive, supported by steady US growth, robust consumer spending, a still-tight labour market, reshoring and ongoing investment in AI infrastructure. Nominal GDP growth remains sufficient to support earnings momentum, while the absence of meaningful recessionary signals across labour markets, credit spreads, and leading indicators, reinforces a favourable risk-on environment for now.
- Within equities, markets outside Europe (e.g., Emerging Markets/Asia) are preferred on the back of more attractive relative valuations. In the US, despite the recent strong rally, there is scope for continued upgrades to earnings expectations. In fixed income, the recent rise in longer-end US Treasury yields has created a more attractive entry point for US duration, in our view, supporting a modest positive stance on US Treasuries.

Top key risks to monitor	Likelihood	Magnitude of Market Impact
Two main downside US risks stand out. US inflation and wage growth remain risk factors for the second half of 2026. Purchasing Manager Index Prices Paid subcomponents have risen to multi-year highs pointing to inflationary pressure in goods. US employment has also been stronger than expected and Fed surveys suggest employment may remain robust. This could lead to a reacceleration in wage growth. If these risks materialize, they would imply larger than expected Fed rate hikes and tighter global liquidity conditions. A second key risk is the sustainability of the AI infrastructure spending which has become a major driver of Asian exports. Any slowdown could weigh on exports and growth across the region.	Medium	High
Key upside risks include a recovery in US job creation that pushes US growth above 2.5% without increasing wage growth significantly. This could come from the combination of AI capex and adoption increasing demand for labour while also boosting productivity sufficiently to restrain unit labour cost increases.	Medium	Medium
Geopolitical instability. A lasting settlement to the Iran-US conflict remains elusive. Ceasefires are likely to remain fragile for the foreseeable future. We also continue to monitor the potential for stress emerging from China-Taiwan cross-strait relations as well as disputes between China and the Philippines about territorial water boundaries.	Low	High

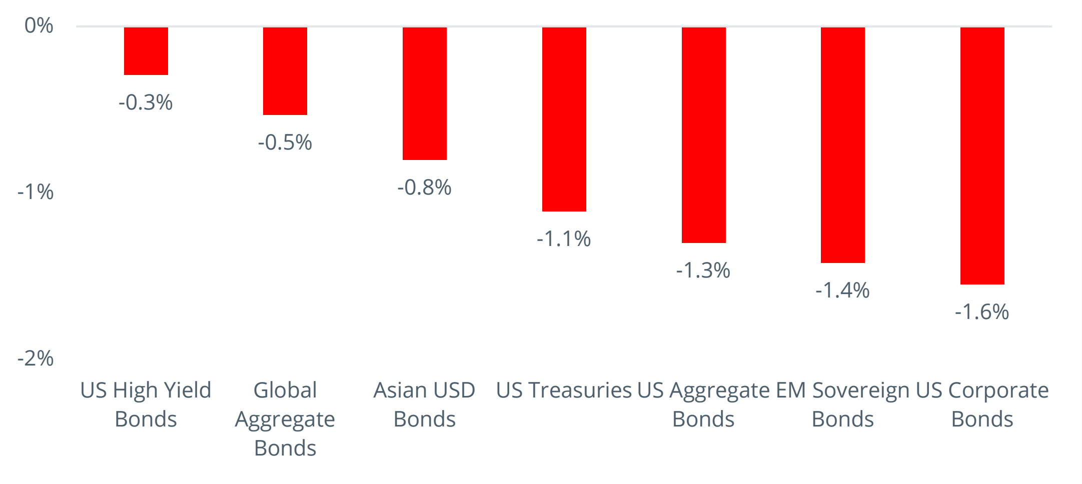
Views provided herein are subject to change without prior notice.

Market Recap and Update

Global Equity Markets
(Monthly gross returns as of 31 July 2026, in USD)



Global Bond Markets
(Monthly gross returns as of 31 July 2026, in USD)



- Global equities as proxied by the MSCI All Country World Index (ACWI) rose marginally by 0.1% as risk appetite weakened amid a drawdown in the Artificial Intelligence (AI) complex, higher inflation risks, and rising geopolitical uncertainty. The escalation in the US–Iran conflict and disruptions across key shipping routes (including threats and attacks affecting the Red Sea traffic) pushed oil prices higher during the month. At the same time, reports of new US tariff actions added to trade-policy uncertainty.

- During the month, investors rotated out of growth oriented sectors like technology into value-oriented sectors such as energy and financials. As a result, the MSCI USA Index fell -0.1% while European equities outperformed, rising 1.6%.

- The MSCI Emerging Markets (EM) Index fell 3.0% in July as risk sentiment weakened. MSCI Korea (-17.1%) and MSCI Taiwan (-5.3%) fell while Chinese equities rebounded sharply. The MSCI China Index gained 9.0% as investors rotated away from tech-heavy markets such as Taiwan and Korea and moved into the more attractively valued banks and internet stocks in China.

- Global fixed income markets posted broadly negative returns in July as higher energy prices, escalating geopolitical tensions in the Middle East, and expectations that major central banks would keep interest rates elevated for longer drove sovereign yields higher. US Treasury yields, particularly in the intermediate and longer duration segments of the yield curve, increased and the curve steepened during the month. The 2-year yield rose 14 basis points (bps) to 4.28%, the 10-year yield increased 31 bps to 4.75% and the 30-year yield rose 36 bps to 5.27%.

- Amid rising US yields, both the Bloomberg Global Aggregate Index (-0.5%) and the Bloomberg US Aggregate Index (-1.3%) posted negative returns. US investment grade corporates were more affected given their longer duration and greater sensitivity to rising yields. The ICE BofA U.S. Corporate Index fell 1.6%. The US high yield market as proxied by the ICE U.S. High Yield Constrained Index declined 0.3% on the back of the rising scrutiny on data center spending. Emerging market sovereign debt, as represented by the J.P. Morgan EMBI Global Diversified Index, declined by 1.4%.

Data sources: Eastspring Investments (Singapore) Limited, LSEG Datastream and MSCI. **Equity Markets** - “Global” : MSCI ACWI, “DM” : MSCI World Index, “APxJ” : MSCI AC Asia Pacific ex Japan Index, “EM” : MSCI Emerging Markets Index’ “Value” and “Growth” : MSCI World Value Index and MSCI World Growth Index, respectively, and “China” : MSCI China Index. **Bond Markets -** "U.S. Corporate Bonds": ICE BofA U.S. Corporate Index, “EM Sovereign Bonds”: J.P. Morgan EMBI Global Diversified Index, “U.S. Treasuries” : Bloomberg U.S. Treasury Index, “Asian USD Bonds”: J.P. Morgan Asia Credit Index, "Global Aggregate Bonds": Bloomberg Global Aggregate Index, “U.S. Aggregate Bonds": Bloomberg U.S. Aggregate Index, and "U.S. High Yield Bonds": ICE BofA U.S. High Yield Constrained Index. Past performance of the indices is not indicative of future performance of the indices.

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