eastspring investments

A Prudential plc company

Monthly Investment Updates

July 2026

eastspring.com

Macro Overview

Growth

- June's Purchasing Manager's Index (PMIs) indicated that global manufacturing activity remained healthy despite some moderation. The US and Europe continued to exhibit solid manufacturing conditions, providing an important source of demand for Asian exports.

- Artificial Intelligence (AI) infrastructure spending remains a key driver of global growth, supporting US Gross Domestic Product (GDP) growth of around 2.1% in 2026-27. Strong hyperscaler and powergrid investment is helping offset weakness in housing and broader business spending, while economies deeply embedded in semiconductor and AI hardware supply chains, including Korea, Taiwan, Hong Kong, Singapore and Malaysia, continue to benefit from robust export growth.

- China's Q2 GDP is expected to have slowed to around 4.5% year-on-year (yoy) from 5.0% yoy in Q1. Investment remains weak and retail sales are subdued. Fiscal underspending is likely to reverse in second half (H2), essentially creating a mild policy boost from backloading rather than the government introducing new stimulus. India's GDP growth should slow to 6.5% due to the energy shock and a weak monsoon drag on agriculture.

Inflation & Monetary policy

- The resumption of hostilities between US-Iran clouds the environment for Asian financial markets, particularly through higher oil prices and renewed upside risks to US inflation and policy rates. There is a growing divergence in Asian monetary policy – three Asian central banks (Bank of Korea, Bangko Sentral Filipinas and Bank Indonesia) tightened in June and July to control inflation. China remained accommodative, Thailand and Malaysia stayed on hold while Singapore remains modestly hawkish.

- Persistently higher oil prices would increase the risk that the US Federal Reserve would hike the Fed Funds rate later this year – markets currently price 33bps of hikes through December. This would likely support the US dollar vs Asia currencies, adding to pressure for rate hikes in India, Indonesia, Korea and the Philippines.

Source: Eastspring Investments, 21 July 2026.

Asset class views

- The near-term outlook for global equities remains constructive, supported by a steady US growth, robust consumer spending, a still-tight labour market, and ongoing investment in AI infrastructure and reshoring. 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.

- Within equities, we continue to maintain a stronger tactical preference for markets outside Europe, as our selective allocations target more attractive relative valuations globally. Despite a recent strong rally, we see scope for continued upgrades to earnings expectations in the US. With energy-related inflation risks broadly offset by higher US yields, moderating growth expectations and potential safe-haven flows, we maintain a neutral view on US government bonds.

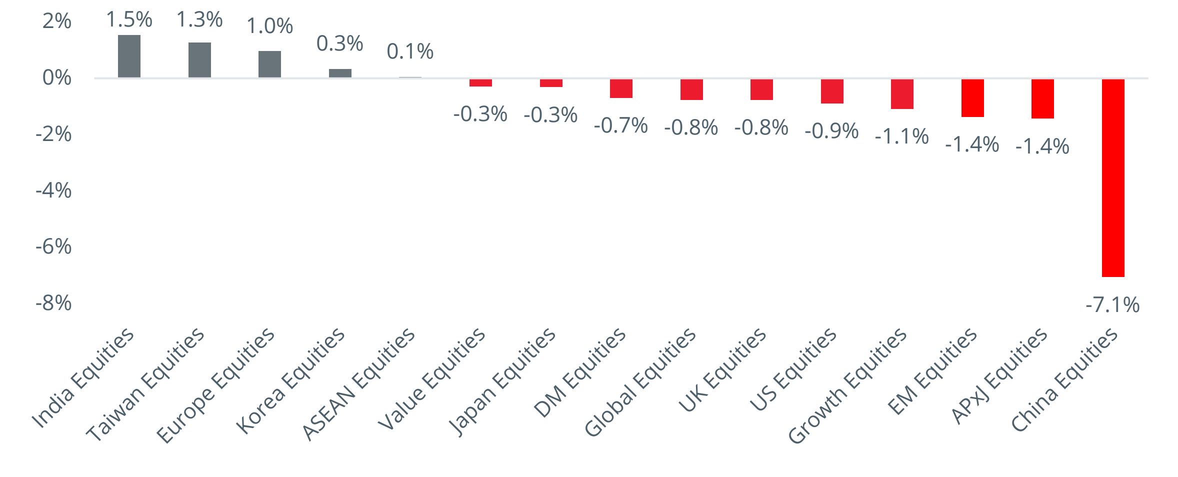
Top key risks to monitor	Likelihood	Magnitude of Market Impact
Two main downside US risks stand out. Although US inflation and wage growth moderated through June, both remain risk factors for H2. Purchasing Manager Index Prices Paid subcomponents have risen to multi-year highs pointing to inflationary 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 materialise 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 both.	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 capital expenditure (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

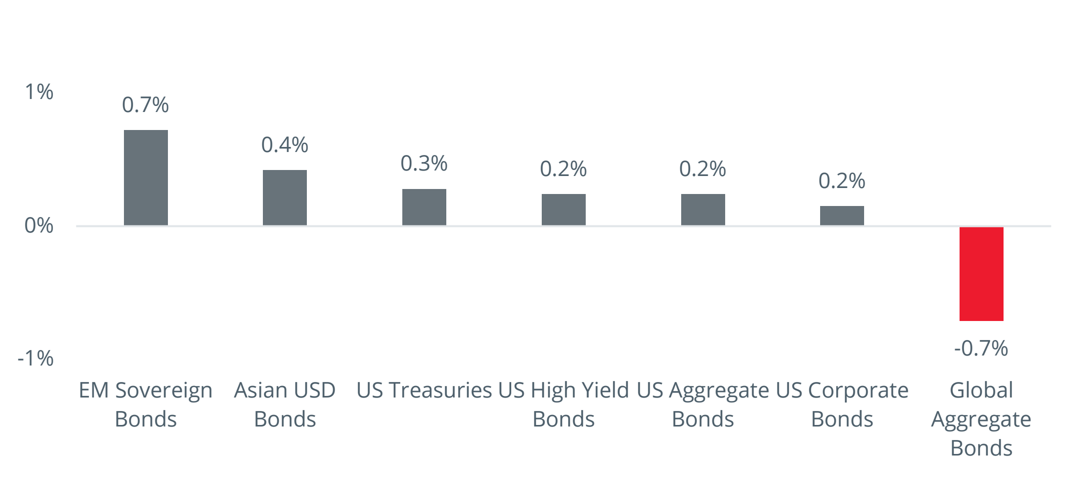
Global Equity Markets

(Monthly gross returns as of 30 June 2026, in USD)



Global Bond Markets

(Monthly gross returns as of 30 June 2026, in USD)



- June marked a shift towards a more selective market environment. While the global economic backdrop remains broadly supportive, investors are increasingly focusing on valuations, earnings quality and policy sensitivity. Global markets softened in June as investors reassessed the outlook for inflation, interest rates and technology-sector earnings. While geopolitical tensions in the Middle East eased and oil prices retraced, concerns over a prolonged higher-rate environment and stretched valuations in AI-related stocks prompted a rotation away from some of the market's best-performing growth companies. Global equities declined modestly, with the MSCI All Country World Index (ACWI) falling 0.8%. US equities underperformed global peers, with the MSCI USA Index declining 0.9%, reflecting profit-taking across AI beneficiaries and a broader rotation away from long-duration growth stocks. Investors became more cautious as earnings expectations for AI-related companies moderated following an extended period of exceptionally strong performance.

- Asian equities broadly underperformed during June, with the MSCI AC Asia ex-Japan Index declining 1.4%, largely due to weakness in China. China was the notable laggard, with the MSCI China Index falling 7.1%, amid weak consumer demand, continued property sector challenges, and limited policy stimulus. In contrast, India and Taiwan remained relatively resilient, supported by healthy domestic demand and ongoing AI-related export strength, respectively. South Korea also posted modest gains despite increased volatility in semiconductor stocks.

- Fixed income markets were shaped by central bank policy expectations. The US Federal Reserve (Fed) kept policy unchanged at 3.50%-3.75%, while the European Central Bank (ECB) raised rates by 25 basis points and signalled continued vigilance on inflation risks. Short-term US Treasury yields remained closely tied to Fed policy expectations, with the reduced probability of imminent rate cuts supporting upward pressure on the front end. The US yield curve bear-flattened in June, as the rise in short-term yields outpaced long-term yields; the 10-year Treasury yield was relatively flat, closing the month at 4.44%.

- Global fixed-income markets came under renewed pressure in June as major central banks maintained a cautious, higher-for-longer policy stance amid persistent inflation concerns. The Bloomberg Global Aggregate Index declined 0.7% over the month, tracking weaker performance across global government and investment-grade bond markets. By comparison, US government bond markets fared better as the Bloomberg US Aggregate Index posted a modest 0.2% gain, underscoring underlying resilience. US high yield bonds returned 0.2%, outperforming investment grade corporate bonds, based on the ICE U.S. High Yield Constrained and the ICE BofA U.S. Corporate Indices, respectively. Emerging market sovereign debt gained 0.7% while Asian USD-denominated bonds also performed positively, returning 0.4%.

Data source: Eastspring Investments, 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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