eastspring investments

A Prudential plc company

Monthly Investment Updates

August 2025

Macro Overview

Growth

- US Gross Domestic Product (GDP) growth is expected to slow from an annualised 2.4% growth rate in the fourth quarter of 2024 to an estimated 1.4% in 2025, as the economic drag from tariffs becomes more pronounced. Tariff implementation is likely to accelerate as exemptions expire and tariff collection improves. As US growth slows relative to that of the Emerging Markets', the US Dollar (USD) is likely to weaken. Narrowing interest rate differentials and the potential appointment of a more dovish Federal Reserve (Fed) Chair next year could further weigh on the dollar.
- The Chinese government's anti-involution campaign may weigh on China's growth in the near term as it curtails capacity expansion and production in some sectors. Chinese growth may slow over the next few months before the government responds with new measures. Meanwhile, falling inflation in India provides room for the central bank to ease more aggressively to boost growth. The government's recent proposed simplification of the Goods & Services Tax can partially offset the GDP drag from the looming 50% US tariffs.

Inflation

- US producer prices rose by a higher than expected 0.9% in July. This, combined with July's 0.2% month on month increase in US headline consumer prices suggests that inflation pressures are likely to start showing up in the US core Personal Consumption Expenditures (PCE) Index - the Fed's preferred inflation measure - later this year.
- On the other hand, inflation is below central bank targets in most countries in Asia except for South Korea and Japan. Softer economic growth, lower oil prices, and stronger Asian currencies point to Asian inflation remaining contained over the rest of 2025 and going into 2026.

Monetary policy

- The Fed will probably cut interest rates by 50bps by end-2025, possibly beginning in September. However, with US inflation expected to rise, the Fed will need the US unemployment rate to climb to justify rate cuts. Meanwhile, private hiring has stalled, and the Department of Government Operations and Expenditure is implementing public sector cuts. A break higher in weekly unemployment insurance claims towards 300k would signal that the US labour market is cracking.
- We expect most Asian central banks to cut by at least 25 to 50 basis points this year and next as export growth starts to slow and Asian currencies appreciate in the second half of 2025.

Asset class view

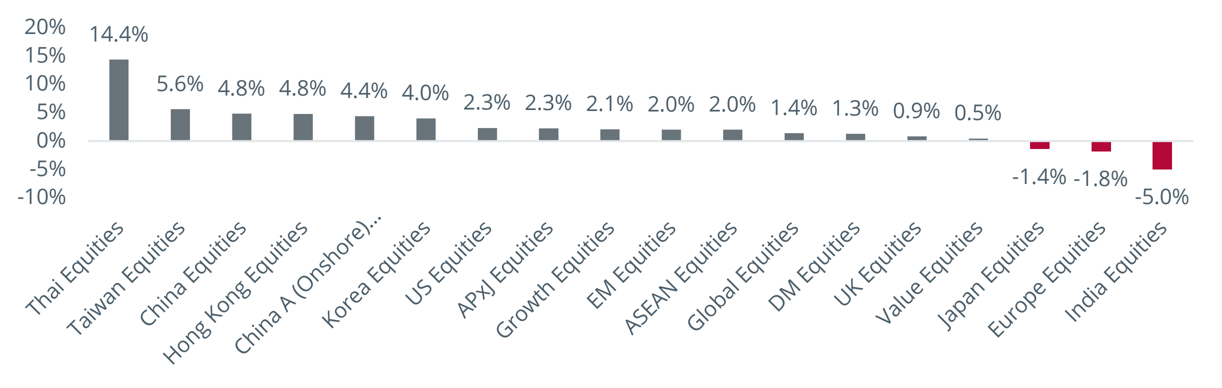
- Trade uncertainty has abated since Liberation Day, underscored by the European Union (EU)-US trade deal on 28 July and the more recent 90-day extension of the US-China tariff deadline. We remain positive on risk assets, such as global equities, in the near-term. The solid US earnings season in the second quarter, more constructive global trade developments/news and the more accommodative stance by many global central banks to date, create an environment where, absent new negative shocks from tariffs or geopolitical tensions, the equity markets can continue grinding higher in the near-term. That said, the market's upside is likely more limited from here as compared to Q2.
- Meanwhile, we remain tactically constructive on US Treasuries as US yields remain attractive at current levels. US Treasury yields have traded in a narrow range, caught between the inflationary impact of tariff policies and the economic slowdown.

Top 3 Risk Areas of Concern	Likelihood	Magnitude of Negative Impact on Markets
On-going trade policy developments Trade uncertainty has abated since Liberation Day, underscored by the EU-US trade deal (28 July) and the more recent China-US tariff deadline extension (for another 90 days). Despite recent generally constructive trade developments, Trump could still surprise with more aggressive than expected sectoral tariffs in the fourth quarter of 2025 and first quarter of 2026, following results of various Section 232 investigations.	Medium	High
Geopolitical developments While recent geopolitical tensions have somewhat eased, we continue to closely monitor such events due to their potential to impact investor sentiment. Although such events typically have limited long-term effects, we remain mindful of the risk of short-term supply-side inflation shocks that could drive energy prices higher or other events that might raise inflation expectations.	Medium	Medium
US fiscal policy instability The recent enactment of the One Big Beautiful Bill Act, a massive US law combining tax cuts, spending hikes and policy changes central to President Trump's second-term agenda, on 4 July is expected to increase the US' primary deficits by over USD2.4 trillion over the next decade, based on a recent cost estimate from the Congressional Budget Office (CBO). We remain cognizant that an uncontrolled debt spiral of sorts would lead to a large (sizeable) uptick in the risk premium for US Treasuries over the longer-term.	Medium	Medium

Market Recap and Update

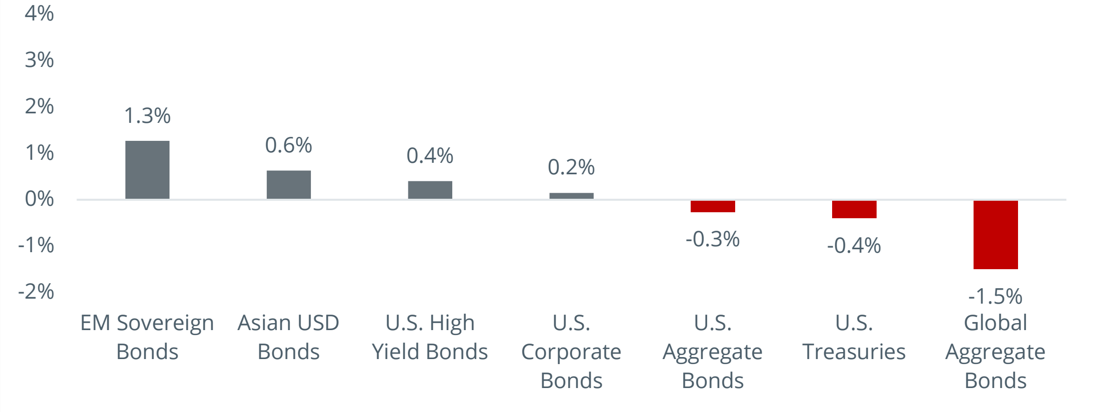
Global Equity Markets

(Monthly gross returns as of 31 July 2025, in USD)*



Global Bond Markets

(Monthly gross returns as of 31 July 2025, in USD)*



- Global equities rose by 1.4% overall in July on the back of easing trade tensions. The S&P 500 Index gained 2.3%, supported by robust corporate earnings, especially from Artificial intelligence (AI) –linked companies. European equities fell by -1.8%, as the initial optimism over the US-EU trade deal faded amid emerging concerns that the terms appeared to favour the US. Emerging Markets (EMs) rose 2.0%. Japan equities fell 1.4% on tariff uncertainty and after the Upper House election delivered political gridlock and fears of fiscal deterioration.

- China equities (MSCI China) rose by 4.8%, supported by easing trade tensions with the US, stimulus measures and foreign fund inflows. The People's Bank of China (PBoC) maintained the one-year loan prime rate at 3%, citing slow growth and demand affected by US tariffs. Thailand and Taiwan were also top performers within EMs, up 14.4% and 5.6% respectively. Thailand gained on increased foreign investor interest and optimism over its trade negotiations with the US, its largest export market in 2024. Meanwhile, Taiwan was supported by the optimism surrounding the AI boom. Indian equities were amongst the largest laggards, falling -5.0% on weak quarterly corporate results, foreign outflows, and the imposition of an extra 25% tariff by the US.

- The Fed held its policy rate steady at 4.25% to 4.50% for the fifth consecutive meeting, amid strong labour market conditions and persistent inflationary pressures. US Treasury yields were volatile during the month, as investors assessed the implications of recent trade developments, increased debt issuance, and newly released GDP data. US Treasury yields generally rose along the curve; the 2-year yield rose by +22 basis points (bps) to 3.94%, while the 10-year yield climbed by +13 bps to 4.37%.

- Global government bond prices generally declined in July, weighed down by rising concerns over widening fiscal deficits and geopolitical tensions. The Bloomberg Global Aggregate Index returned -1.5% and the Bloomberg U.S. Aggregate Index returned -0.3%. US credits fared relatively better than US Treasuries. EM USD sovereign bonds, as measured by the JPMorgan EMBI Global Diversified Index, rose by 1.3% in July, extending its June gain as investors sought to diversify from US bonds. The Asian USD bond market, proxied by the JP Morgan Asia Credit Index, rose 0.6%, with the high yield segment outperforming its investment grade counterpart.

Data source: Eastspring Investments, LSEG Datastream and MSCI. *Monthly total returns are provided as of 31 July 2025. Equity returns are referenced by the respective MSCI market indices quoted in USD, in gross return terms. "Global" is represented by the MSCI ACWI; "DM" is represented by the MSCI World Index. "APxJ" is represented by MSCI AC Asia Pacific ex Japan Index. "EM" is represented by MSCI Emerging Markets Index. "Value" and "Growth" are represented by the MSCI World Value Index and MSCI World Growth Index, respectively. "China" is represented by the MSCI China Index and "China A" is presented by the MSCI China A Onshore Index. The fixed income markets are represented as follows: "U.S. Corporate Bonds": ICE BofA U.S. Corporate Index (USD) TR Index gross; "EM Sovereign Bonds": J.P. Morgan EMBI Global Diversified (USD) TR Index gross; "U.S. Treasuries": Bloomberg U.S. Treasury Index (USD) TR Index gross; "Asian USD Bonds": J.P. Morgan Asia Credit Index (USD); "Global Aggregate Bonds": Bloomberg Global Aggregate (USD) TR Index gross; "U.S. Aggregate Bonds": Bloomberg U.S. Aggregate (USD) TR Index gross; "U.S. High Yield Bonds": ICE BofA U.S. High Yield Index (USD) TR Index gross.

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