eastspring investments

A Prudential plc company

Monthly Investment Updates

June 2025

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Macro Overview

Growth

- As geopolitical tensions escalate in the Middle East, we think Iran will refrain from closing the Strait of Hormuz or attacking neighbouring oil infrastructure. However, even with a closure, we do not see oil prices staying persistently high, given more benign demand- supply conditions, lower world oil intensity and the US' net oil importer status. Asia is better positioned to weather an oil price shock than in the past - if prices sustain around USD79/bbl, we estimate that it would only subtract about 0.1% - 0.2% from GDP growth.
- The impact of tariffs on US and Asian growth has been more delayed and gradual. A risk exists that US President Trump could impose his "reciprocal" tariffs in July as the 90-day truce expires, but his actions so far suggest he is more likely to extend the deadline, at least with the US' most important trading partners - China, the European Union, and probably Japan, Korea, and Taiwan.

Inflation

- US consumer prices rose 0.1% in May over the previous month, less than economists anticipated. Nevertheless, an increasing number of leading US companies has signaled that they will be raising prices in the coming months. The lags from imports to inventory to retail shelves however mean that US consumers will only begin to experience meaningfully higher prices from June.
- Oil prices around USD79/bbl would add about 0.2% - 0.3% to Asia's inflation with the Philippines and Thailand being most sensitive to oil prices changes while China being the least. Nevertheless, this is unlikely to impact the region's inflation picture significantly as inflation is currently below most central bank targets across Asia.

Monetary policy

- The US Federal Reserve ("Fed") kept the Fed Funds rate on hold in June and is likely to wait till December to cut rates. We expect a 25 basis points (bps) cut but will not rule out a 50 bps move if the US unemployment rate jumps above 4.5% by November.
- While higher oil prices are unlikely to derail Asia's rate-cut trajectory, currency stability would probably impact the region's rate cut plans more. An oil price shock could weaken Asian currencies by weakening both the Japanese yen and Asian trade balances. Within Asia, trade balances in India, Korea, the Philippines, and Thailand are most sensitive to oil prices.

Asset class view

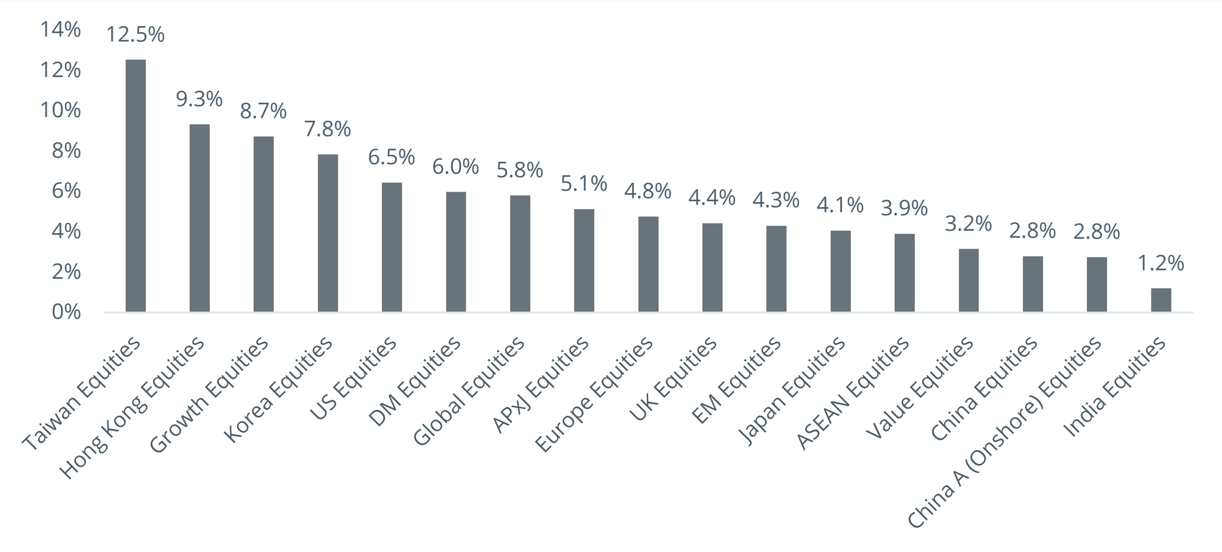
- The conflict in the Middle East can significantly impact investor sentiment, however it is prudent not to overreact until there is further clarity. Historically, markets have tended to "look-through" such events, as such, near-term market volatility presents opportunities. Money market liquidity conditions are flush amid interest rate cuts by many central banks this year. This creates an environment in which, absent new shocks from oil or tariffs, equity markets could still have some runway in the near-term to try to re-test their highs. Within equities, we tactically favour Asia and Emerging Market equities, where market valuations and macro conditions make them more attractive versus the US.
- We continue to be constructive on government bonds including US Treasuries as a safeguard against any potential risks of recession or growth slowdown scenarios and will look to increase duration exposure if economic data clearly indicates a downturn.

Top 3 Risk Areas of Concern	Likelihood	Magnitude of Impact on Markets
Trade war uncertainty persists. President Trump's focus on trade balances (rather than actual barriers to trade) stymies the ability of countries to conclude negotiations with the US. Tariffs are likely to add to inflation and exert downward pressure on economic growth. With the 90-day tariff truce inching towards the July 9th deadline, it remains to be seen if the US may extend trade talks (and deadlines) for certain countries.	High	High
Geopolitical instability. While trade tensions have served as a key source of market volatility, geopolitical tensions still loom in the background and can have a significant impact on investor sentiment. This is seen from the recent escalation in the Israel-Iran tensions. Supply-side inflation shocks may emerge in the near-term, such as a rise in energy prices or some other event that would raise inflation expectations.	Medium	Medium
China's growth slowdown (and its impact on global growth overall) may persist if Beijing's stimulus response to the trade war remains slow and inadequate. The lack of sufficient, timely support for the domestic economy may cause China's GDP growth to fall below 4%, leading to a decline in Asian export growth and lower commodity prices. We would like to see more targeted support measures aimed at a broad-based recovery (versus merely stabilising growth).	Medium	Medium

Market Recap and Update

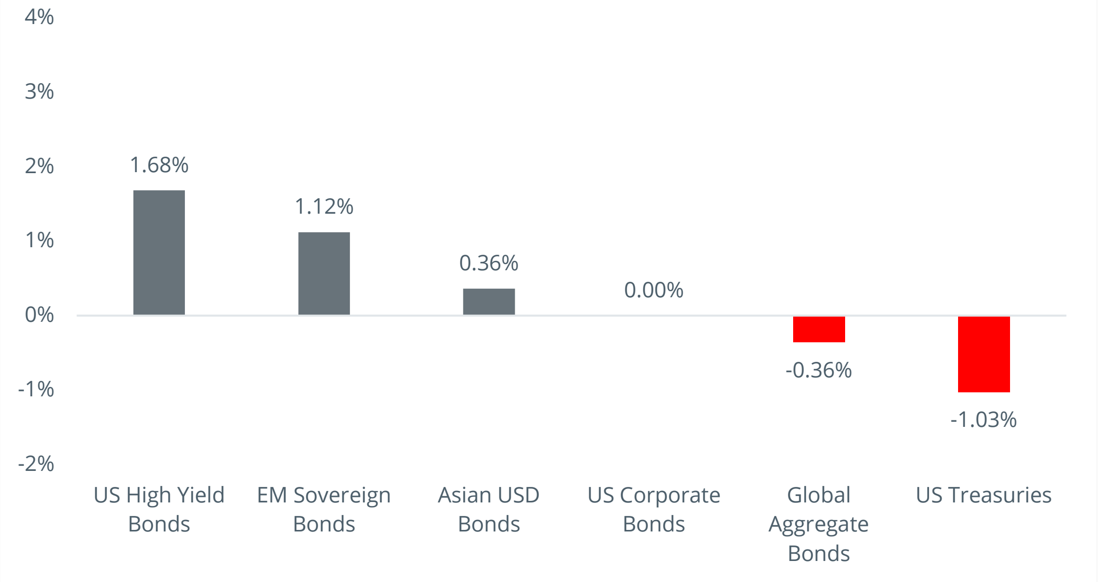
Global Equity Markets

(Monthly gross returns as of 30 May 2025, in USD)*



Global Bond Markets

(Monthly gross returns as of 30 May 2025, in USD)*



- In May, progress in the US-China trade negotiations helped to alleviate investor concerns of a recession, fueling rallies across the equity markets. Amid easing tariff tensions, Developed Markets (MSCI World) returned +6.0%, buoyed by a strong US performance of 6.5%, overall outperforming the Emerging Markets which rose 4.3%. European equities also benefitted from recovering sentiment and progress in the US-EU trade talks, gaining +4.8% in USD terms.
- Within Emerging Markets, Taiwan (+12.5%) and South Korea (+7.8%), which are bellwethers for global trade, were standout performers. China equities gained 2.8% in USD terms during the month. The People's Bank of China cut the one-year Loan Prime Rate (LPR) to 3% and five-year LPR to 3.5% to support the economy and boost the housing market. Indian equities rose by 1.2% in May amid volatility, supported by foreign inflows, particularly into the automotive, telecommunications, and financial sectors.
- Asia Pacific excluding Japan returned 5.1% in USD terms. The MSCI Hong Kong Index gained +9.3% index, driven by the Financials sector which benefited from strong earnings and the de-escalation in US-China trade tensions.

- With the advancement of the tax bill in Congress, and Moody's downgrade of the US' credit rating, concerns over rising inflation and interest rates pushed US Treasury yields higher. The yield on the 10-year US Treasury note climbed by 24 basis points to 4.41%, while the yield on the 2-year note increased by 29 basis points to 3.89%.
- Global aggregate bond markets, relative to credit markets, experienced a slight lag amidst persistent volatility. Global aggregate bonds returned -0.4% while US Treasuries fared worse, returning -1.0%. US high yield bonds returned 1.7%, as spreads experienced their largest monthly tightening since June 2023, aided by easing global trade tensions, a respectable earnings season and supportive technical; US investment grade bonds had a flat performance, largely due to rising US yields. Emerging Market (EM) USD sovereign bonds recovered in May, delivering a 1.1% return, as high yield issuers outperformed. Asian USD bonds posted positive returns in May, driven broadly by tighter spreads; high yield debt outperformed investment grade.

Data source: Eastspring Investments, LSEG Datastream and MSCI. *Monthly total returns are provided as of 30 May 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: "US Corporate Bonds": ICE BofA US Corporate Index (USD) TR Index gross; "EM Sovereign Bonds": J.P. Morgan EMBI Global Diversified (USD) TR Index gross; "US Treasuries": Bloomberg Barclays US Treasury Index (USD) TR Index gross; "Asian USD Bonds": J.P. Morgan Asia Credit Index (USD); "Global Aggregate Bonds": Bloomberg Barclays Global Aggregate (USD) TR Index gross; "US High Yield Bonds": ICE BofA US High Yield Index (USD) TR Index gross.

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