eastspring investments

A Prudential plc company

Monthly Investment Updates

March 2025

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Macro Overview

Growth

- Concerns about Trump's **tariff policies** and **weaker consumer spending** (especially as the previous "tailwind" from the pandemic-induced excess savings fades) have featured prominently in news headlines recently. The combination of the near-term inflation shock from tariffs, the cuts to Federal spending by the Department of Government Efficiency (DOGE), and the rapid reduction of immigration are likely to **weigh on US growth** going forward.
- **US economic policy uncertainty**, as proxied by the U.S. Economic Policy Uncertainty (EPU) Index, is now close to levels last seen during the COVID-19 pandemic, which will likely delay or further reduce business investment growth. Lower net immigration will slow labour force growth and overall employment growth. While tariffs are expected to be inflationary over the short-term, we are more concerned about the **longer-term negative growth effects**.

Inflation

- US' February's inflation, measured by the Consumer Price Index (CPI) and generally seen as a lagging indicator, was softer than expected, contrasting with **rising inflation expectations** which have dented consumer sentiment. The University of Michigan Index of Consumer Sentiment, a broad survey that aims to gauge consumer confidence, fell from 64.7 to 57.9 in March. In addition to trade data and other factors, we are closely monitoring the labour market as wage inflation is highly correlated to core inflation.
- We remain vigilant of potential supply-side shocks, such as Middle East tensions impacting oil supply, and the near-term inflationary impact of Trump's tariffs.

Monetary policy

- The anticipated inflationary impact from tariffs will likely keep the Federal Reserve (Fed) on hold for the time being. Persistent inflation may push Fed rate cuts further into the latter part of the year. That said, the Fed will likely continue to **focus on incoming data, especially core inflation data** (e.g., core US CPI, core US Personal Consumption Expenditures), and labour market conditions to guide its monetary policy.
- However, the **path for US policy rates remains uncertain** over the near-term as much will depend on further clarity on the inflation-impact of tariffs amongst other factors.

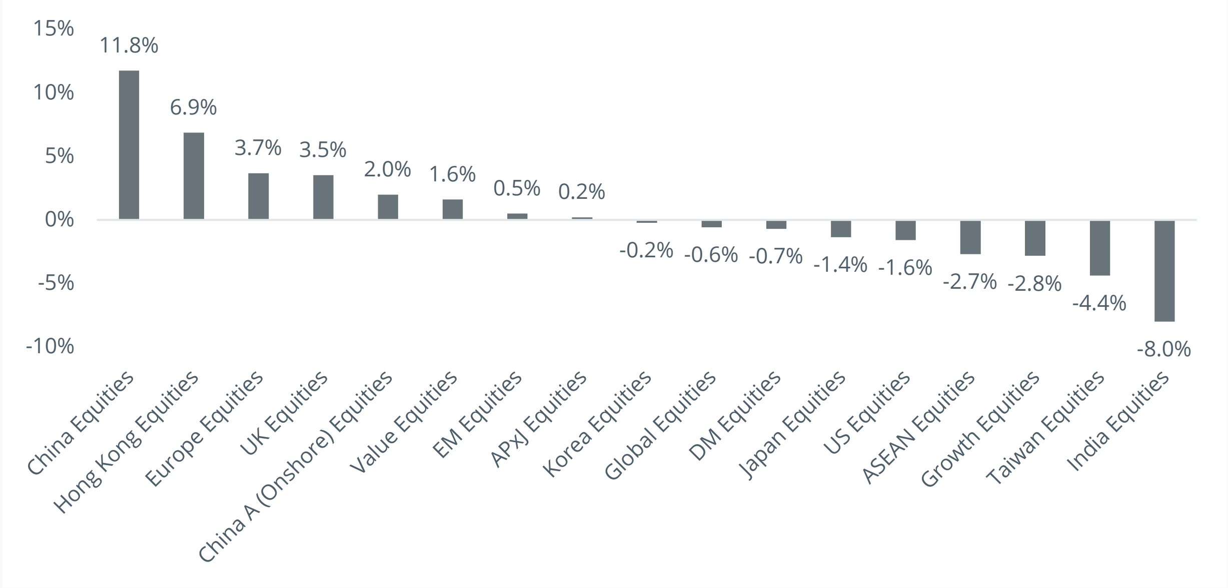
Asset class view

- A **US recession is still not within our near-term base case**. Although the earnings and macroeconomic indicators which we monitor have deteriorated marginally, they still point to a **constructive outlook for equities over the near-term**.
- We **prefer European equities over US equities** in the near-term, as Europe starts to embrace fiscal stimulus. Germany's recently approved spending package should improve Europe's growth outlook, while "US Exceptionalism" appears to be losing a bit of steam. We remain **neutral long-dated US Treasuries**.
- Trump's policies and the retaliation from the rest of the world is driving increased market volatility, especially given higher starting US equity valuations and tight credit spreads. Amid still uncertain US trade policy and higher market volatility, maintaining **a nimble portfolio and actively managing risk will be essential**.

Top 3 Risk Areas of Concern	Likelihood	Magnitude of Negative Impact on Markets
The probability of a resurgence in US inflation can have a negative impact on the US economy and the potential to disrupt (i.e., delay) the US Fed's easing cycle. Full scale, reciprocal tariffs can potentially drive growth lower and inflation higher globally.	Medium	High
Geopolitical risks can significantly impact investor sentiment, but fundamentals will ultimately drive market returns. The recent Syria regime change reminds us of continued geopolitical risks and volatility in the market.	Medium	Medium
China's growth slowdown (and its drag on global growth overall) may continue for longer, especially if the announced stimulus at the recent National People's Congress fails to meaningfully boost the economy. Persistent deflationary trends in China may have negative spillover effects on the global economy.	Medium	Medium

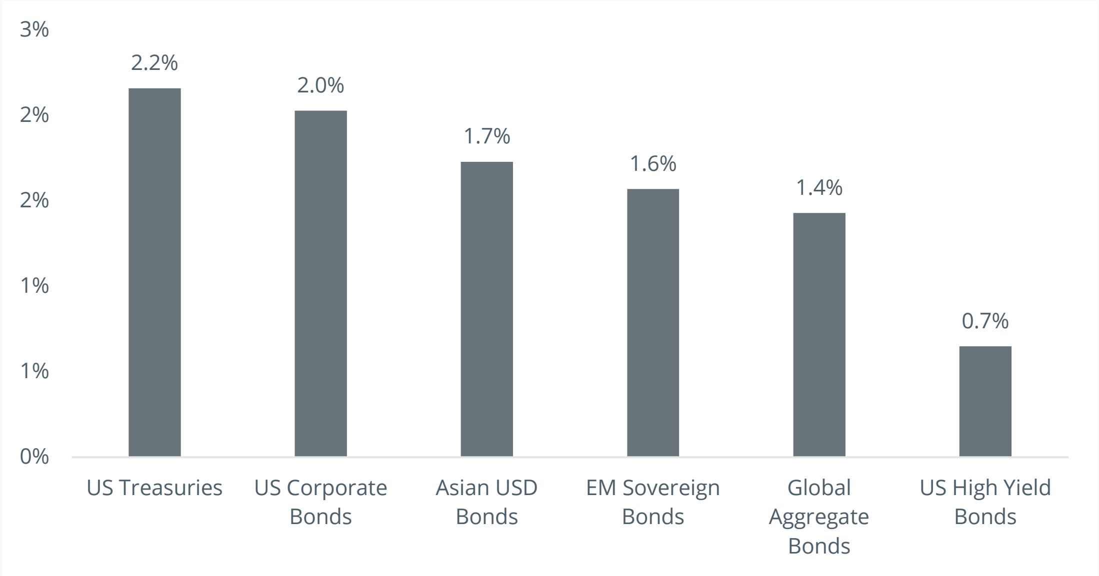
Market Recap and Update

Global Equity Markets
(Monthly gross returns as of 28 February 2025, in USD)*



- Global equities fell -0.6%, weighed down by the US (-1.6%). The fall in US equities was driven by economic uncertainty, global geopolitical risks, and federal layoffs. International trade confrontations, weakening economic data, and tariff fatigue also dampened investor sentiment.
- European equities outperformed both global equities (-0.6%) and developed markets (DM) equities (-0.7%), rising by 3.7% in USD terms, as the market was buoyed by strong corporate earnings, lower interest rates, and the potential resolution of the Russia-Ukraine conflict. Emerging markets (EM) returned 0.5%, outperforming DM, with China, Poland, and Colombia contributing the most to performance.
- Chinese equities, proxied by the broader MSCI China Index, rose 11.8% in USD terms, on the back of a DeepSeek-fueled rally, global capital inflows, and stimulus policies. Indian stocks fell -8.0% in USD terms, due to outflows from foreign institutional investors (FIIs). Taiwan equities were dragged lower by the technology sector, which has a large weighting in the index.

Global Bond Markets
(Monthly gross returns as of 28 February 2025, in USD)*



- Global bond markets rose with the Bloomberg Global Aggregate Index and the Bloomberg U.S. Treasury Index gaining 1.4% and 2.2%, respectively. US Treasury yields generally fell as weak economic data, services sector contraction, and US policy uncertainty fueled expectations of Fed rate cuts. The 10-year note yield fell by 34 basis points to 4.24%, while the 2-year note yield decreased by 23 basis points to 3.99%, slightly narrowing the yield spread.
- Credit spreads widened marginally as fears of a US economic slowdown, US policy uncertainty, and stagflation risks drove investors towards safer government bonds. US Corporate Bonds gained 2.0% as the fall in yields helped offset spread widening. Global sovereign and investment-grade (IG) bonds outperformed U.S. high yield (HY) bonds. Emerging Market (EM) USD sovereign bonds delivered 1.6%, with IG credits outperforming. Asian USD bonds rose 1.7%, with gains in both IG and HY bonds.

Data source: Eastspring Investments, LSEG Datastream and MSCI. *Monthly total returns are provided as of 28 February 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 U.S. Treasury Index (USD) TR Index gross; "Asian USD Bonds": J.P. Morgan Asia Credit Index (USD); "Global Aggregate Bonds": Bloomberg Global Aggregate Bond (USD) TR Index gross; "US High Yield Bonds": ICE BofA US High Yield Index (USD) TR Index gross.

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