eastspring investments

A Prudential plc company

Monthly Investment Updates

May 2025

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Macro Overview

Growth

- US economic growth is expected to stay weak in 2025, at around 1.2% to 1.5%. Regardless of the outcome of the US' tariff negotiations with trading partners, the tariff endgame equates to a roughly 15% effective tariff rate for the US. That implies a tax hike of about 1.5% of US GDP.
- High tariffs, high uncertainty, and slower US growth implies that Asia will see slower growth. India is probably Asia's largest winner as its exports to the US are the second lowest in Asia at only 2.2% of GDP. Japan's growth depends on securing a trade deal with the US while there will be varied outcomes across ASEAN countries, with higher impact felt by trade-dependent economies.
- China's economy is showing signs of slowing down, with April data revealing weaker consumer and business activity. The housing market is also under pressure, Despite current challenges, China's GDP is expected to grow by 4.4% this year, supported by a fiscal stimulus.

Inflation

- The US annual inflation rate slowed more than expected in April to 2.3% driven by weaker demand for discretionary services and falling grocery prices. Although April's inflation data showed a decline, upcoming tariff hikes could push prices higher again in the months ahead.
- Over in Asia, inflation remains stable or cooling in most countries. China faces deflation risk with consumer prices falling for a third month. The recent drop in India's headline inflation to 3.2% year-on-year in April, below the Reserve Bank of India's 4% target, creates room for more rate cuts.
- Slower growth suggests that central banks are likely to adopt a more accommodative stance, particularly in countries where inflation has declined.

Monetary policy

- The US Federal Reserve ("Fed") is expected to cut the Fed Funds rate if the US unemployment rate rises above 4.4% to 4.5% and weekly initial job claims exceed 350k on a four-week moving average basis. This could lead to two 25 basis points (bps) rate cuts by September or October. If job claims rise faster to over 400k, a 50bps reduction might occur.
- If US unemployment and job claims remain stable below 4.4% and 300k respectively, while inflation increases due to tariffs, the Fed may keep the rate unchanged longer.

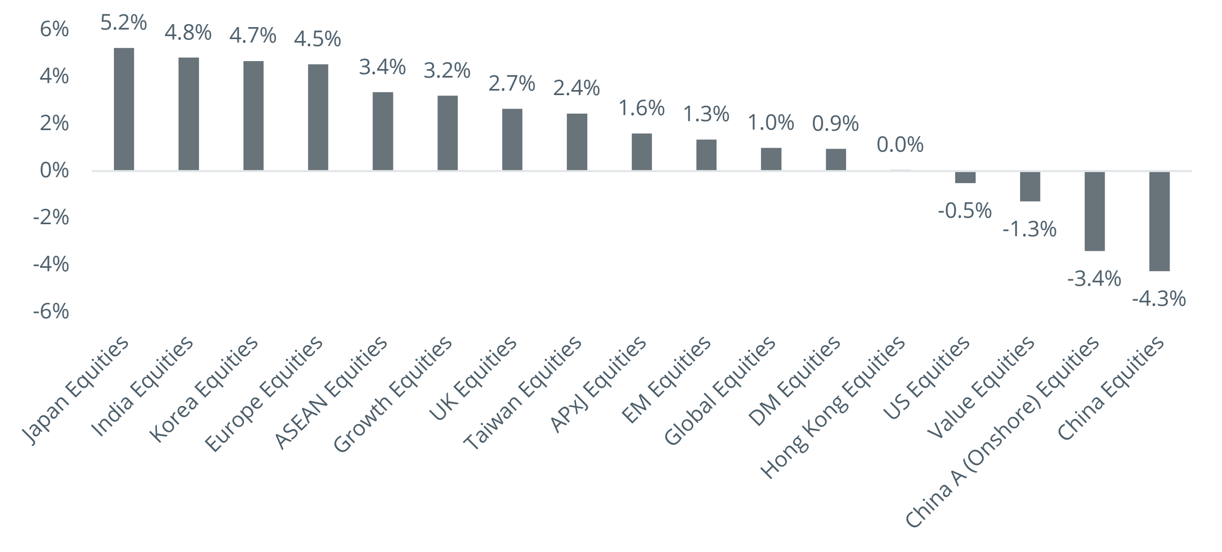
Asset class view

- Against a backdrop of high policy uncertainty and market volatility, we recently became less bearish on equities over the tactical horizon, given our view of a lower risk of a sizeable drawdown in the near term. Within equities, tactically we favour the rest of world equities such as Europe, Asia and Emerging Market equities, which currently have more attractive valuations, compared to the expensive US equities.
- We continue to favour government bonds, particularly 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. Corporate bonds may underperform if the economic outlook worsens, but US investment grade credits are expected to outperform high yield bonds due to their higher quality during 'risk-off' scenarios.

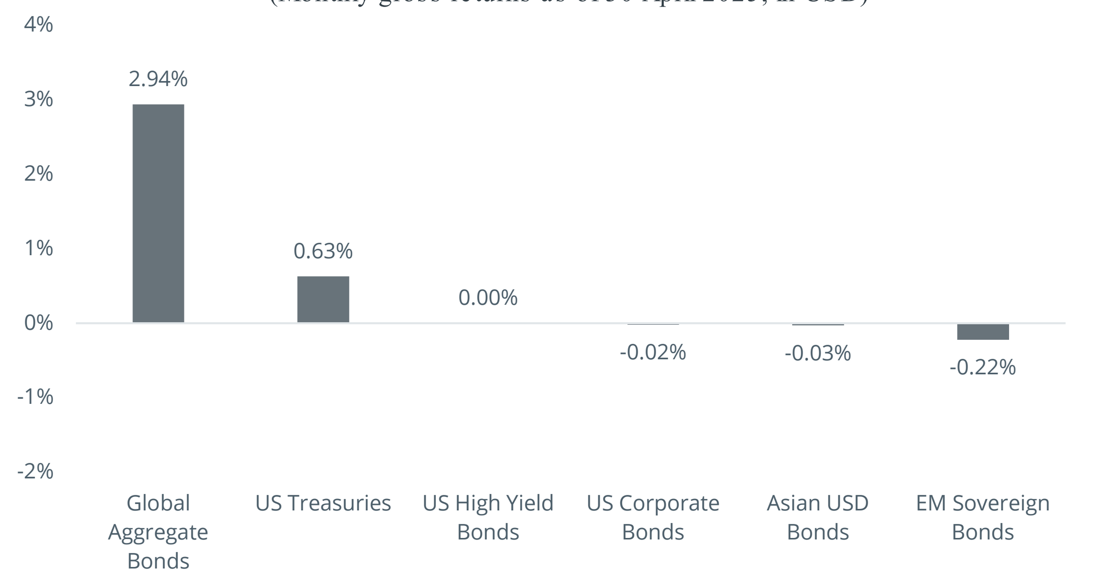
Top 3 Risk Areas of Concern	Likelihood	Magnitude of Impact on Markets
Trade war intensifies. Trump's focus on trade balances (rather than actual barriers to trade) stymies the ability of countries to conclude negotiations with the US. Tariffs are likely to add to inflation and exert downward pressure on economic growth.	High	High
Key upside risks remain as Trump responds to market pressures with trade deals. The extreme uncertainty of the Trump administration policy means being nimble to the possibility that Trump announces a series of trade deals that lower tariffs bilaterally sooner than expected. However, the ultimate end-point is likely a higher overall effective tariff rate for the US, potentially contributing to slower economic growth and lower equity valuations.	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 drop to below 4%, leading to a decline in Asian export growth and lower commodity prices.	Medium	Medium

Market Recap and Update

Global Equity Markets
(Monthly gross returns as of 30 April 2025, in USD)*



Global Bond Markets
(Monthly gross returns as of 30 April 2025, in USD)*



- US President Trump's trade agenda unsettled the world order in April, leading to economic growth concerns, volatile financial markets, and significant uncertainty around the ultimate implications; however, equities and bonds managed to rebound and finish the month only modestly weaker (as compared to the subsequent days following 'Liberation Day"), aided by a pause in reciprocal tariffs.
- Global equities were volatile in April but gained marginally by roughly 1.0%. US equities underperformed with a -0.5% return. European equities returned 4.5% and outperformed global equities. Emerging markets (EM) returned 1.3%, outperforming developed markets (DM), with India and Brazil leading the outperformance while China equities returned -4.3%, lagging global markets. Indian stocks performed well with a 4.8% return, bolstered by a weaker USD and strong earnings from banking stocks. Japan equities posted a strong gain of 5.2%, buoyed by broad-based weakness in USD during the month.

- The Bloomberg Global Aggregate Index gained 2.9% and the Bloomberg U.S. Treasury Index returned 0.6%, but experienced significant tariff-driven intra-month volatility. On US Treasuries, the yield on the 10-year note declined slightly by 6 basis points (bps) to 4.17%, while the yield on the 2-year note decreased by 29 bps 3.60%. On the longer-end, the yields on the 20-year and 30-year tenors rose by 6 bps and 7 bps, to 4.68% and 4.66%, respectively.
- After Trump's new tariff announcements on April 2nd, US credit spreads, both investment grade (IG) and high yield (HY), widened but later retraced as news of a 90-day pause in reciprocal tariffs calmed markets. To end the month, both US IG and US HY markets finished relatively flat. Asian USD bonds also ended mostly unchanged, with investment grade outperforming high yield. Emerging Market (EM) USD sovereign bonds delivered a -0.2% return, as high yield issuers lagged.

Data source: Eastspring Investments, LSEG Datastream and MSCI. *Monthly total returns are provided as of 30 April 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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