eastspring investments

A Prudential plc company

Monthly Investment Updates

September 2025

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Macro Overview

Growth

- The US Gross Domestic Product (GDP) is likely to grow about 1.6% in 2026 with possibility of higher growth of 1.8% - 1.9% if the US Federal Reserve cuts more than expected. While tariffs are widely seen as a drag on global growth, their relative impact on the US versus affected economies are still unclear. In fact, August's US retail sales rose much stronger than expected as did the manufacturing production. However, consumption and housing are weak but spending on Artificial Intelligence is supporting the economy.
- Purchasing Managers' index rose somewhat in almost all Asian economies in August, suggesting slightly better growth in the region. Looking ahead, a key uncertainty for China's 2026 growth is how much new fiscal stimulus China introduces. Meanwhile a weaker US dollar will allow Asian central banks to cut interest rates to support domestic demand and offset much of the negative effect of tariffs on exports to the US.

Inflation

- In the US, headline consumer price inflation (CPI) rose to 2.9% year-on-year (yoy) in August versus 2.7% in July while core CPI which rose 3.1% (yoy) matched July's gain and was in line with consensus expectations. The core Personal Consumption Expenditures (PCE) index which the US Federal Reserve closely monitors for its 2% inflation target, remained elevated at 2.9%.
- Inflation is low in most Asian economies. Measured by both headline and core CPI, inflation momentum in the past 3 months is well below the historical average for most Asian economies and close to the target floor for those who have an inflation target.

Monetary policy

- The US Federal Reserve (Fed) cut the Fed funds rate by 25 basis points to 4.00% - 4.25% as expected in September and surprised the markets by suggesting the possibility of two more cuts by the end of 2025. Chairman Powell signaled the Fed's priority is avoiding further weakness in the US labour market, even if it means tolerating inflation near 3% to keep unemployment below 4.5%.
- A dovish Fed and a weaker US dollar will facilitate further cuts to Asia's policy rates. There will likely be additional cuts by year-end from India, Indonesia, the Philippines, Thailand, and potentially China and Taiwan.

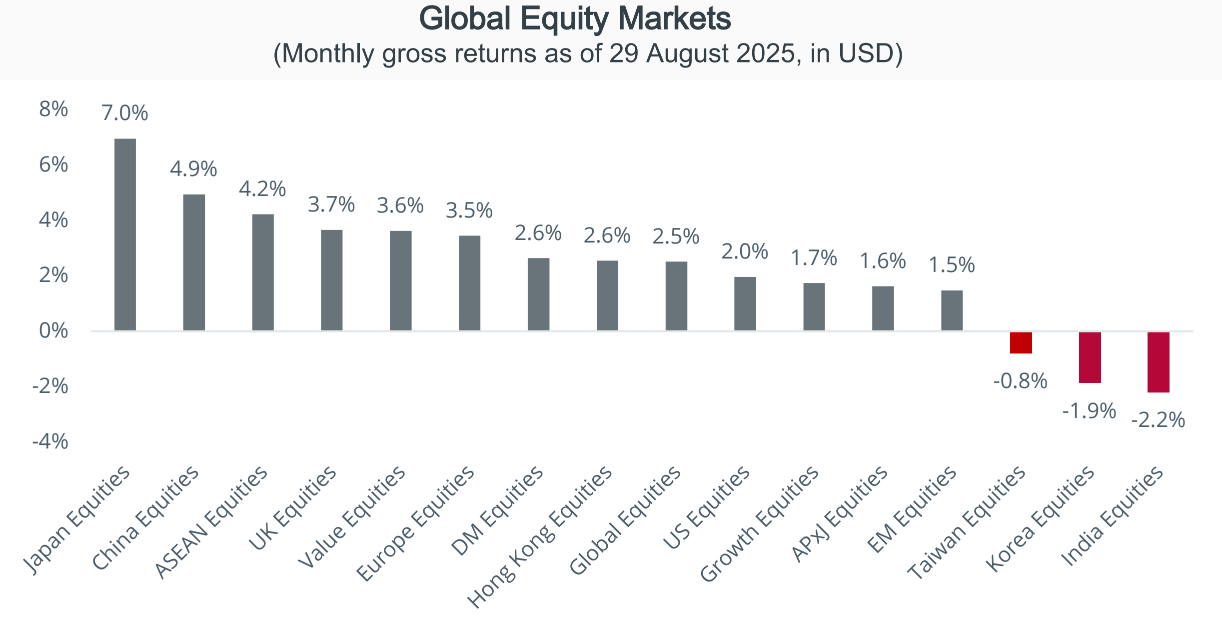
Asset class view

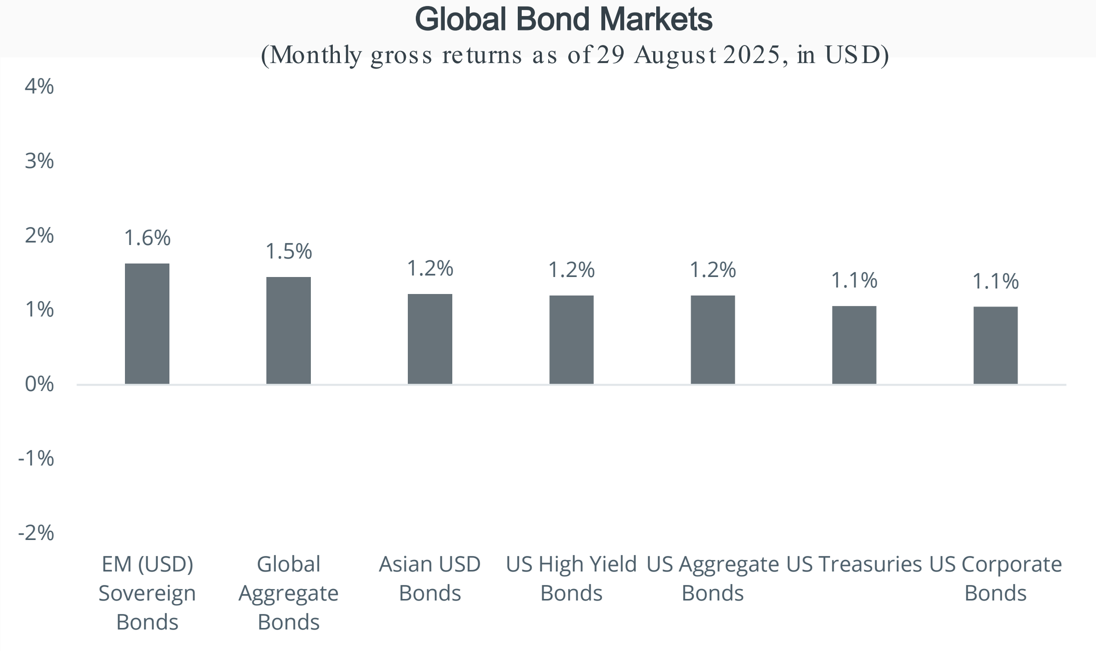
- Trade uncertainty has abated since Liberation Day, underscored by the European Union (EU)-US trade deal on 28 July and the more recent 90-day extension of the US-China tariff deadline. We remain constructive on risk assets, such as global equities, in the near term. The more constructive global trade 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 the second quarter.
- Meanwhile, we remain tactically constructive on US Treasuries. While we remain cognizant of near-term inflation concerns related to tariffs, any signs of a material weakening in US economic data (e.g., consumer spending), and the labour market in particular, should exert downward pressure on yields.

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 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

* Views may be subjected to changes without notice, 24 Sep 2025

Market Recap and Update





- Global equities rose overall in August, with the MSCI AC World Index gaining 2.5% and MSCI USA Index gaining 2.0%, driven by easing trade tensions as the US lowered tariffs and extended relief measures for some nations, coupled with strong corporate earnings, particularly in artificial intelligence (AI)-related sectors. Developed markets (DM) returned 2.6%, outperforming Emerging markets, which returned 1.5% in USD terms. Within DM markets, Japan, the United Kingdom and Europe were the top performers.

- The Asia Pacific ex-Japan region rose by 1.6%, supported by strong gains in China and Singapore. Chinese equities rose by 4.9%, buoyed by a 90-day extension of the US-China trade truce and improved government stimulus measures. The People's Bank of China held the one-year and five-year Loan Prime Rate steady at 3% and 3.5%, respectively, despite signs of economic slowdown as evident in July's softer retail sales, slower industrial output growth, and sluggish property investment. Indian equities were a key laggard, pressured by persistent foreign capital outflows, weak corporate earnings, and Trump's additional 25% tariff penalty for India's continued purchase of Russian oil. Taiwanese equities fell as softened domestic fundamentals weighed on Taiwan's market sentiment.

- U.S. Federal Reserve (Fed) Chairman Jerome Powell signaled possible future rate cuts, citing labour market weakness and inflation risks. Yields on U.S. Treasuries (UST) declined as markets began to factor in expectations of a more accommodative policy stance from the Fed. The 2-year UST yields dropped by 34 bps to 3.62%, the 5 year fell 28 bps to 3.70%, and the 10 year eased 15 bps to 4.23%.

- August proved to be a generally positive month for global fixed income markets, driven by improved investor sentiment regarding the economic outlook and growing expectations of near-term Fed rate cuts. The Bloomberg Global Aggregate Index returned 1.5% and the Bloomberg U.S. Aggregate Index returned 1.2%. EM (USD) sovereign bonds, as measured by the JPMorgan EMBI Global Diversified Index, rose by 1.6%, supported by falling US Treasury yields and marginally tighter spreads. The Asian USD bond market, proxied by the JP Morgan Asia Credit Index, rose by 1.2%, 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 29 August 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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