Monthly Investment Updates

February 2025

Macro Overview

Growth

- While the US economy remains relatively resilient, especially relative to the rest of the world, there are potential headwinds we remain cautious of: (1) **economic uncertainty** will likely delay, if not reduce business investment growth (2) **lower net immigration** will likely lead to slower labour force growth and hence, much slower overall employment growth and (3) **Trump's tariffs**, which, while the full extent is still uncertain, are expected to cut into US growth and impact US households, amongst other factors.
- The **uncertainty** around President-elect Trump's **tariff policy remains a key concern**. A targeted and gradual approach is expected to have a relatively small impact on US growth and inflation, while an aggressive approach could have a more negative impact on both US and global growth, and global rates and inflation.

Inflation

- Despite the January 2025 US consumer price inflation data surprising to the upside, we believe inflation is generally moving towards the US Federal Reserve's (Fed) 2% target. However, the **path may be gradual and uneven** as short-term inflation risks remain (e.g., Trump's tariffs).
- We are also closely monitoring the labour market as **wage inflation** has a very high correlation to core inflation.
- We remain vigilant of **potential supply-side shocks** (e.g., Middle East tensions impacting oil supply) and the **inflationary impact of the new US administration's policies under Trump 2.0,** especially on the trade and tariff fronts.

Monetary policy

- Persistent inflation may delay Fed rate cuts into the second half of this year. That said, the Fed will likely continue to **focus on incoming data**, **especially relating to core inflation data** (i.e., consumer price index and personal consumption expenditure), in addition to the labour market, in order to guide its monetary policy.
- The **path for US rates still remains uncertain** as much will depend on the timing of tariff implementation amongst other factors.

Asset class view

- With the Trump administration, expectations are for tax cuts and pro-corporate policies to boost US corporate earnings. While we acknowledge that much of the "US Exceptionalism" is already priced into lofty US valuations, risk assets such as global equities and US high yield bonds may continue to offer attractive tactical opportunities over the near term.
- We remain cautious on US Treasuries given the strength of the US economy and the fact that in the near term the odds of a recession have lowered and now have shifted towards inflationary growth.
- In 2025, we may see cheaper valuations and improving earnings growth lift investor sentiment towards Asia and Emerging Market equities. Gold may be an effective hedge against both inflation and US protectionist policies while the energy sector can act as a potential hedge against geopolitics when/if supply comes under pressure/threat.

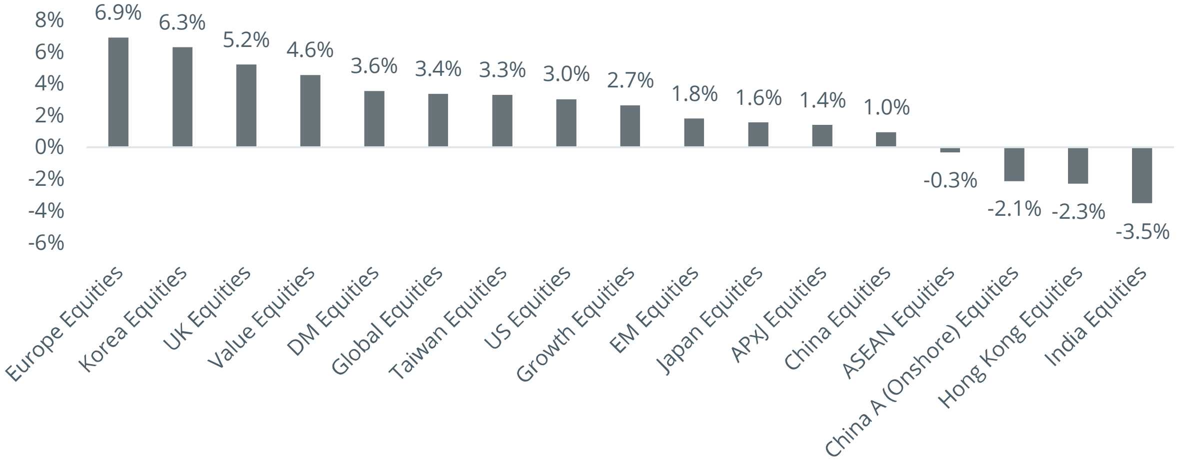
Top 3 Risk Areas of Concern	Likelihood	Magnitude of Negative Impact on Markets
The probability of a resurgence in US inflation can have a negative impact on the US economy and the potential to disrupt (i.e., delay) the US Fed's easing cycle.	Medium	High
Geopolitical risks can significantly impact investor sentiment, but fundamentals will ultimately drive market returns. The 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 as stimulus fails to meaningfully accelerate the economy. Persistent deflationary trends in China pose a risk of negative spillover effects to the global economy.	Medium	Medium

Market Recap and Update

PRUDENTIAL

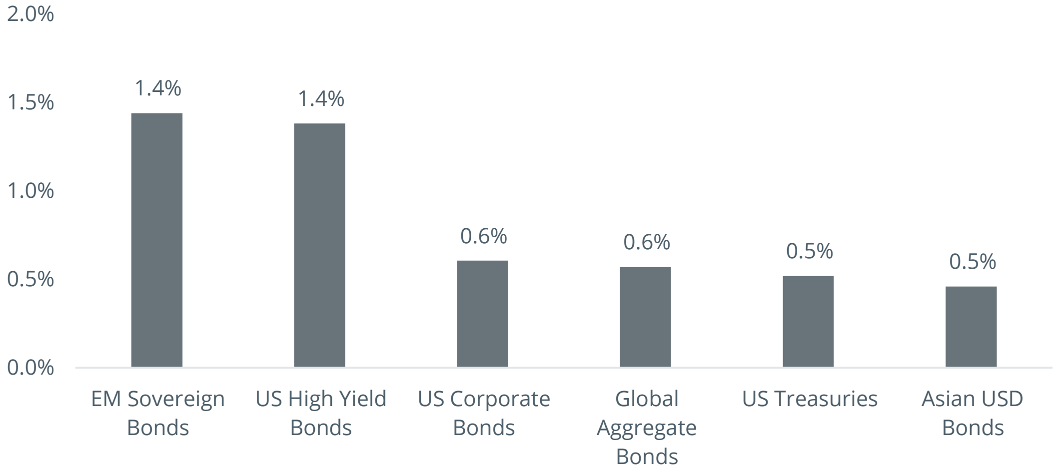
Global Equity Markets

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



Global Bond Markets

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



- Early 2025 saw a rocky start, with growth and AI stocks facing headwinds due to the introduction of China's DeepSeek, an AI model that competes with OpenAI's models but comes at a reduced price. Despite this, global equities, as proxied by the MSCI ACWI, rose by 3.4% in January, with most equity markets delivering positive returns. Developed Markets, led by strong performances in Europe, especially from Sweden (9.8%), Germany (9.4%), and Switzerland (8.2%), outperformed Emerging Markets (EM), which returned 1.8%.
- Europe equities gained 6.9%, driven in part by a rotation away from large cap US tech stocks. The MSCI China Index's higher tech company content likely benefited from the DeepSeek story and rose 1% while the China A Index, more tied to the domestic economy, lagged by 2.1% due to persistent deflation and awaited stimulus. The Hong Kong Index is also less tech-centric with a greater concentration towards financials and hence benefited less from the DeepSeek story. Korean equities surged by 6.3%, supported by investment-friendly policies amid economic and political uncertainty. Indian equities declined by 3.6%, continuing their downward trend for the fourth consecutive month; investor sentiment has been dented by slowing growth and dull earnings.

- US Treasury yields rose at the start of January, with long-term rates hitting year-highs before stabilising: the 2-year yield fell 3 bps month-on-month to 4.22%; the 10-year yield hit a high of 4.79% before finishing unchanged at 4.58%. Against this backdrop, US Treasuries and global aggregate bonds gained 0.5% and 0.6% respectively, supported by softer-than-expected US inflation data.
- Credit spreads narrowed marginally across high yield and investment grade bonds. US high yield bonds outperformed global investment grade bonds and sovereign bonds in January. Emerging Market USD sovereign bonds delivered 1.4%, with high yield credits outperforming investment grade credits. Asian USD bonds rose 0.5%, primarily owing to the positive performance of investment grade issuers.

Data source: Eastspring Investments, LSEG Datastream and MSCI. *Monthly total returns are provided as of 31 January 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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Information is correct as at 19 February 2025, unless otherwise stated.