MONTHLY STRATEGY SUMMARY

MULTI-ASSET PORTFOLIO SOLUTIONS (MAPS) TEAM

July 2022

Top of Investors' Minds

Another Hot US CPI Print in June

Following May's hotter than expected headline CPI inflation reading of 8.6% y/y (the fastest pace since the 1980s), June's print topped expectations with another stronger than expected 9.1% y/y (1.3% m/m from 1.0% m/m). Gasoline, shelter and food were the primary drivers of the strong headline CPI print. Along with strong job gains in June, the hotter-than-expected headline CPI significantly increases the odds of another 75bp hike in the upcoming FOMC meeting in late July. The Fed is data dependent and will remain hawkish until there is a clear peak in inflationary pressures. The theme of global central banks facing persistent price pressures and front-loading rate hikes seems to feature prominently as of late, especially with the Bank of Canada's (BoC) recent jumbo hike of 100bp on Wednesday, July 13th.

Yield Curve Inversion, Back At It Again

The 2-year/10-year yield curve inverted again in middle July, reaching the biggest point since 2000, which is raising the probability of a recession and more analysts are watching on recessionary signposts. The 3 month/10-year curve has yet to invert in July, but with the Fed continuing to raise rates in line with market expectations, it will likely be a matter of time before this curve segment also inverts. Historically, the yield curve does not experience prolonged periods of inversion. Once the Fed is forced to make a dovish pivot, the yield curve will experience a sharp steepening trend as seen the past 4 cycles. In looking at returns of different countries' indices post yield curve inversion going back to 1985, it is interesting to note that outside of the dot com bubble and GFC for the US, most markets do not experience a sustained drawdown after yield curve inversion. On average, global markets experience some sort of drawdown at the 12-month mark post inversion, but in most cases rebound by the 18th month with the exception of the aforementioned two cases.

Other Recessionary Signposts

Economic surprises have been coming in on the downside and the leading indicators are heading south. ISM new orders have fallen below the fifty level (a contraction as compared to the previous month) and the Conference Board's LEI is contracting which has preceded previous recessions. The MOVE index, a well-recognized measure of U.S. interest rate volatility, has shown some extreme volatility in the bond market where it is >150 for only the 11th time in the past 35 years. The other 10 times includes various of the previous financial crisis including dot com bubble, GFC and Covid. Global markets are still suffering large outflows YTD through the month of July where bond outflows still dominate the majority. Flows have reversed dramatically since Covid 2020.

Recession fears, falling commodities hurt IDR asset

Extremely hawkish central banks, led by the Fed, exacerbated global recession fears and caused commodities to fall sharply in June, led by copper (-13%) and oil (-5%). Crude palm oil, one of Indonesia's largest export items, fell >20% in the same month.This, in turn, drove foreign to sell Indonesian Equities by as much as US$500mn (double the previous month selling). Foreign also recorded outflow in Indonesian Bonds by as much as US$1bn. June'22 headline CPI was recorded at +4.35% Year-over-Year/ +0.6% Month-over-Month, which was the highest in 5 years and marks the first time since 2016, that CPI has exceeded BI's target. Weakening IDR, falling foreign reserves and high CPI might force BI to rethink its dovish stance.

ASSET CLASS VIEWS

Asset Class	Under Weight	Neutral	Over Weight	Conviction*
Equities				
Global Equities		●		Neutral
US Equities		●		Neutral
Asian Equities		●		Neutral
Emerging Market Equities		●		Neutral
European Equities		●		Neutral
Indonesian Equities			●	+
Indonesian Syariah Equities			●	+
Bonds				
Global Bonds		●		Neutral
US Government Bonds		●		Neutral
US High Yield Bonds		●		Neutral
Asian Local Bonds		●		Neutral
Emerging Market Bonds		●		Neutral
European Bonds		●		Neutral
Indonesian Bonds		●		Neutral
Indonesian Syariah Bonds		●		Neutral
Currency				
USD Broad			●	+

Source: Eastspring Investments (Singapore). All data as of 20 May 2022 unless otherwise stated. Asset class views should not be taken as a recommendation. The information provided herein is subject to change at the discretion of the Investment Manager without prior notice.*Conviction ranges from a minimum of '- - - - -' to 'Neutral' to a maximum of '+ + + + +'.

All data as of 13 July 2022 unless otherwise stated

DISCLAIMER

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

• **Singapore and Australia (for wholesale clients only)** by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.
• **Hong Kong** by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.
• **United States of America (for institutional clients only)** by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.
• **Luxembourg (for institutional and professional investors only)** by Eastspring Investments (Luxembourg) S.A., Grand-Duchy of Luxembourg
• **United Kingdom (for institutional and professional investors only)** by Eastspring Investments (Luxembourg) S.A. – UK Branch, 125 Old Broad Street, London EC2N 1AR.
• **Chile (for institutional clients only)** by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as **Eastspring Investments**.

The views and opinions contained herein are those of the author on this page, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments.

Investment involves risk. Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication, but Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments (excluding JV companies) are ultimately wholly-owned / indirect subsidiaries / associates of Prudential plc of the United Kingdom. Eastspring Investments companies (including JVs) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company, a subsidiary of M&G plc, a company incorporated in the United Kingdom