Springtime?

June 2020

The World in five bullet points

- **Covid-19 cases** worldwide hit 10 million and deaths almost 500,000 just as some countries eased lockdown restrictions further and moved to re-open their economies. China was forced to impose a lockdown in an area close to Beijing after an outbreak there and, while Brazil topped more than 1 million cases, the US remained the epicentre of the disease with an accelerated number of cases in Texas, Arizona and Florida in particular.
- **Equity markets** posted their third month in a row of gains, despite a few down days toward the end of the month. Europe outperformed the US – a rarity in recent years – as Covid cases threatened to slowdown the rate of lockdown easing and President Trump slumped in the polls ahead of the November election. Trump's opponent, Joe Biden, has proposed reversing half the corporate tax cut introduced by the White House 18 months ago, potentially leading to a 10% hit on US corporate EPS, according to some estimates, adding extra weight to the US markets this month.
- Also weighing on US stocks was an escalation in the **US-China trade dispute,** with worries that it could extend into a broader dispute drawing in other countries. The UK weighed on whether to exclude Huawei from its 5G network and Japan said it was offering subsidies to companies to reconfigure their supply chains away from China. But the focus of the tension remained anchored in the US-China dispute with the US Pentagon ramping up tensions by declaring 20 companies, including Huawei, as being owned by the Chinese military.
- Tensions between **North and South Korea** increased markedly when the north blew up a liaison building in Kaesong, cut all lines of communication with the South, and threatened to end the inter-military agreement in response to South Korean defector groups sending anti-North Korean regime leaflets across the border. The North also said it would consider moving troops into the disarmed border zone.
- In other news, tensions between **China and India** rose substantially when soldiers from both sides attacked one other with bamboo poles, stones and iron pikes on their shared border in the Himalayas. As many as 20 Indian soldiers and an undeclared number of Chinese officials were killed. The **IMF** lowered its global economic growth forecast to -5% from -3% it estimated as recently as April. **OPEC and Russia** agreed to extend to the end of July an oil production cut, boosting oil prices (see Commodities section below). **Macroeconomic** data generally showed signs of improvement globally. PMI levels rose in the major industrial and service-based economies, retail sales and consumer spending also gathered pace and unemployment numbers at least steadied and improved in places, leading some to declare the worst of the economic slowdown was over and pointing to new growth in the economy.

Figure 1. MSCI AC World Index

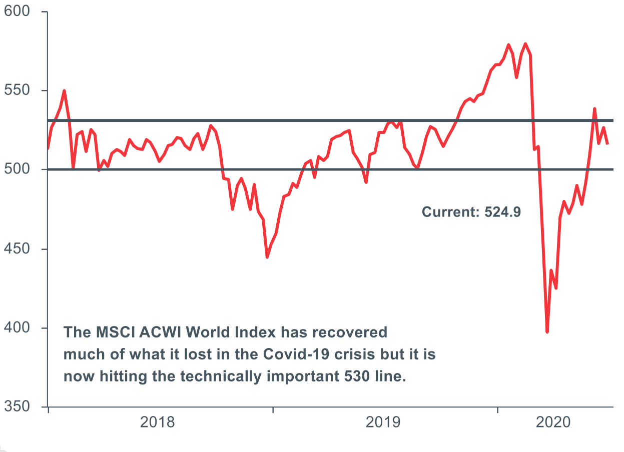
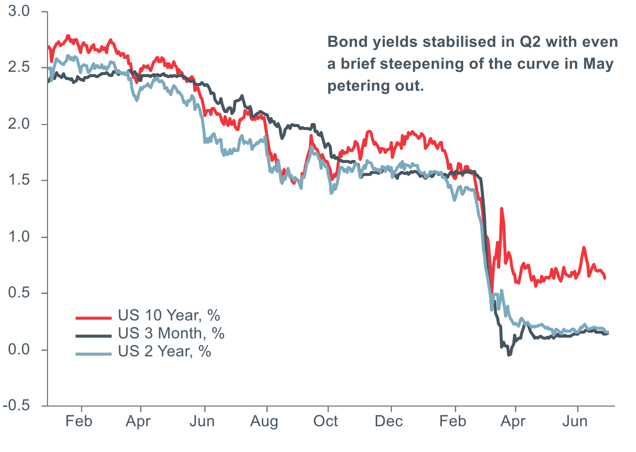


Figure 2. US 2yr, 10yr and 3-month Bond yields



Source: Eastspring Investments. Chart data from Refinitiv Datastream as of as of 30 June 2020.

Equity Markets

- **Europe's rare outperformance against the US** was underscored by the positive reception to the EU's Recovery Plan laid out in May as well as weakness in the US Covid cases rose sharply and President Trump's took a wobble in the polls. **Italy**, likely to be one of the main beneficiaries of the plan, rose 7.9% while the large industrial economies of **Germany** and **France** pulled their MSCI indices 6.1% and 6.3% higher respectively. The **UK** under-performed again to gain just 1.4% as Brexit talks again showed signs of stalling.
- **Emerging Markets** gained 7.4%, supported by the weakening of the US dollar and higher-than-expected levels of monetary and fiscal stimulus. Asia ex Japan (+8.4%), Latin America (+5.3%) and EMEA (+3.4%) all gained for the third month in a row. Within the Asia block, **China** gained 9.0% as macro data continued to point to a 'V' shaped recovery. However, it was **Taiwan** that led, adding 9.2% as Apple supply-chain stocks gained from a robust H2 outlook from the US tech giant. **Korea** added just 8.2% as its macro data improved and investors shrugged off the increased tensions with North Korea.
- In ASEAN, **Indonesia** (+7.2%) and the **Philippines** (+8.2%) also performed well as their economies eased out of lockdown and their central banks cut rates. **Thailand** (+2.1) and **Malaysia** (+2.7%), notably under-performed, the former weighed by new banking regulations.
- In other Emerging Markets, despite the rising Covid cases and increasing political uncertainty, **Brazil** still managed to outperform the rest of the region to add 7.4% with **Mexico** (-0.1%) weighing on an accelerated Covid outbreak, which is still not under control in the country, and dire economic figures. EMEA was pulled lower by **Greece (-**2.7%) and **Russia** (-1.9%), offset by gains in **South Africa** (+10.4%) and **Turkey (+7.4%)** despite MSCI saying it may reclassify the country into its Frontier category.
- Other notable market movers in June included **Australia** up 6.4%, aided by a 3.5% surge in the Australian dollar, and **Hong Kong** that gained 11% as its resilient property sector again outperformed. **Japan** flatlined as the government's ETF buying programme reached its year-end limits. **India** gained 6.8% despite rising Covid cases and a ratings downgrade by several agencies and the increased tensions with China.
- **For the quarter**, global equity markets posted one of their highest positive returns in ten years. Despite June's underperformance, the **US** led the world with a 21.8% gain while **Europe** was also buoyed by the EU's Recovery Plan and falling Covid numbers to add 15.6%. MSCI **Emerging Markets** added 18.2% with a narrow regional split with Asia ex Japan gaining 16.8%, Latin America 19.2% and EMEA 19.1%.

Figure 3. Regional Equity Indices

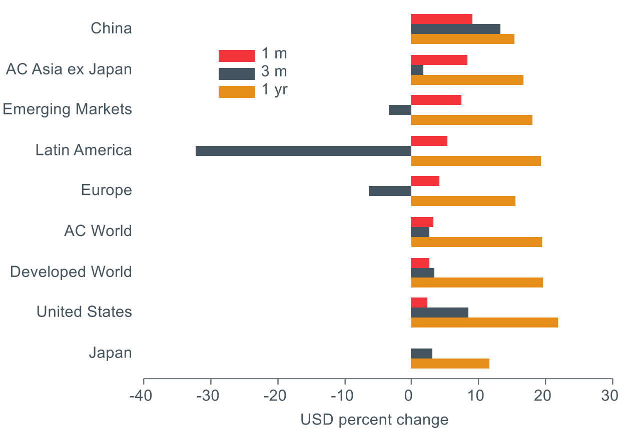
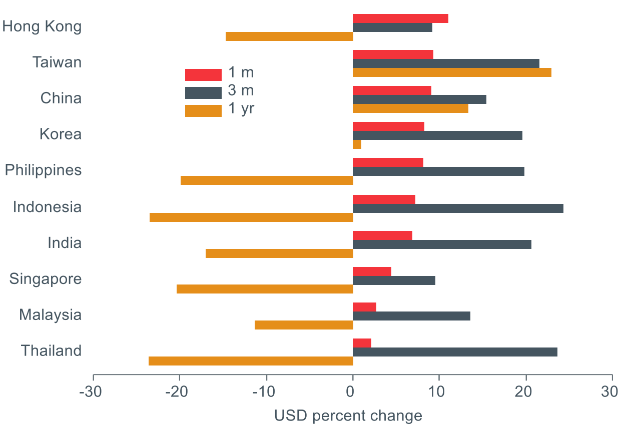


Figure 4. Asia Equity Indices



Source: Eastspring Investments. Chart data from Refinitiv Datastream as of 30 June 2020. For representative indices and acronym details please refer to notes in the appendix. Quoted returns are MSCI, US dollar denominated total returns.

Fixed Income

- **Global government bond yields** were little changed over the month. While positive surprises in economic data resulted in some unwinding of safe-haven trades at the start of the month, growing concerns over a second wave of Covid-19 infections and continued monetary policy support led to government bond yields retracing lower.
- In the **US**, economic data pointed to a rebound in economic activities in tandem with the partial easing of lockdown measures. Job data came in stronger than expected as non-farm payrolls jumped by 2.5m and unemployment rates declined from 14.7% to 13.3%. Retail sales surged by a record 18% in May, while flash Purchasing Managers' Indices (PMI) for June registered near a double-digit improvement.
- Nevertheless, the Federal Reserve (Fed) kept interest rate steady at the June FOMC meeting, while the dot plot indicated its expectation the fed funds target rate would remain underpinned through the end of 2022. The Fed also announced in June it has commenced the purchase of corporate bonds under its secondary market corporate credit facility. Against the mixed macro backdrop, the **2-year Treasury** (UST) yield edged lower by 1bp to 0.15%, while the **10-year yield** remained steady at 0.66%.
- In **Asia**, performance was uneven across local rate markets. Domestic government bond yields in **Indonesia** and **Philippines** declined on the back of their respective interest rate cuts. Renewed portfolio inflows in Indonesia also lifted performance. In contrast, government bond yields rose in several local rate markets, including **China** and long-dated **Malaysia** government bonds, where supply concerns amid increased funding needs of the government exerted upward pressure on yields.
- Asia and broader **Emerging Market (EM)** USD credits delivered a stronger performance as the supportive risk sentiment and continued portfolio inflows led to a narrowing of credit spreads while a rebound in oil prices also lifted sentiment. Within the **Asian USD credit market**, high-yield bonds led the charge with strong rebound seen in previous laggards such as Sri Lanka sovereigns and Mongolia metal and mining credits.
- Asian Investment grade credits, including both sovereigns and corporates, registered a more muted performance. Similarly, in the EM, **high-yield sovereign** and quasi-sovereign markets outperformed strongly versus the investment grade. By region, Africa and Middle Eastern debt markets fared well during the month, while Emerging Europe markets lagged.

Figure 5. Bond Indices Performance in USD

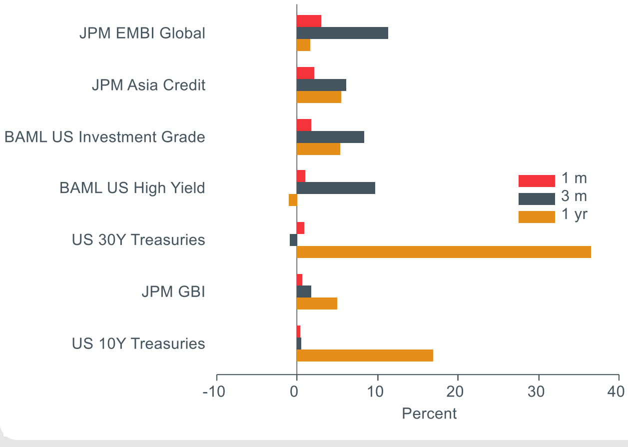


Figure 6. Key Bond Yields (%)

Source: Eastspring Investments. Chart data from Refinitiv Datastream as of as of 30 June 2020. For representative indices and acronym details please refer to notes in the appendix. For representative indices and acronym details please refer to notes in the appendix.

eastspring investments

A member of Prudential plc (UK)

Economics

- **US** data was very mixed: Retail Sales surged by 18% in May, 6pp above market expectations. Flash Composite Output Index, which tracks the manufacturing and services sectors, rose to 46.8 in June from 37.0 in May while the Services sector flash PMI rose to 46.7 from 37.5 in May. On the downside, Industrial Production growth was just 1.4%, well below expectations, while the weekly initial jobless claims at the end of the month were worse than hoped for after ticking higher earlier. Non-farm payrolls rebounded by 4.8m in June, with the unemployment rate falling to 11.1%, much lower than expected. New home sales increased 16.6% and pending home sales surged 44% in May, but existing home sales and house prices both fell.
- The **eurozone** composite PMI rose to 47.5 in June versus expectations of 43.0 and 31.9 in May. The composite PMI New Orders index improved to 45.5 from 29.7 in May with similar gains in both manufacturing new orders and services new business. Flash Composite PMI recovered to 47.5 from May's 31.9, moving closer to the 50-mark separating growth from contraction (it hit a record low of 13.6 in April). The **UK** Manufacturing PMI jumped to 50.1 in June from 40.7 in May while the BoE kept rates on hold and raised its asset purchase programme by £100bn.
- **Japan** kept all its monetary policy actions in place including its core interest rate level. The country's PMIs also surged but almost all of the gains were due to expansion in the domestic-orientated Services sector while the export-centric Manufacturing segment remained static. **Australian** GDP for Q1 fell 0.3% qoq largely because of the bush fires and, while Q2 will fall substantially, monthly data is showing signs of improvement: consumer confidence is at pre-Covid levels, employment data is picking up and retail sales rose a record 16.3%.
- Elsewhere, **Mexico** reduced its key interest rate by 50bps to 5%, the lowest level since September 2016 while saying its economy had likely shrunk 17% in April. **Brazil** delivered another 75bps rate cut to a record low of 2.25% and left the door open to more cuts ahead. **Russia** cut its key rate by a full 1% to 4.5%.
- The **Philippines** lowered its benchmark RRP rate by 50bps to a record low of 2.25%, **Indonesia** cut its benchmark rate by 25bps to 4.25%, and **Taiwan** kept its rates on hold, against market expectations. **China's** PBoC also left its loan prime rate on hold but signalled it would likely lower its Reserve Requirement Ratio to create more liquidity for the banking sector. The country's manufacturing PMI came in at 50.9 and non-manufacturing at 54.4, both in line with expectations.

Figure 7. Central Banks Interest Rates

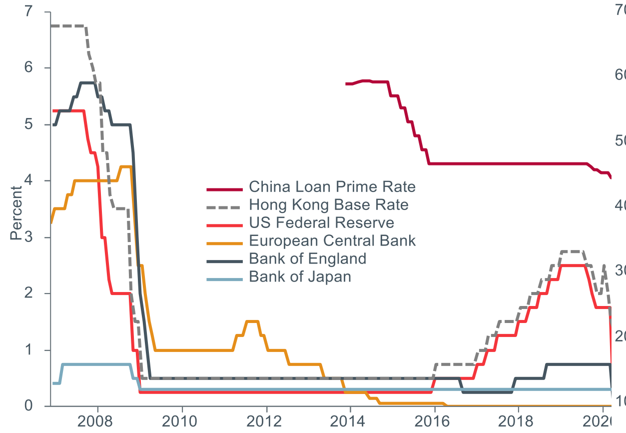
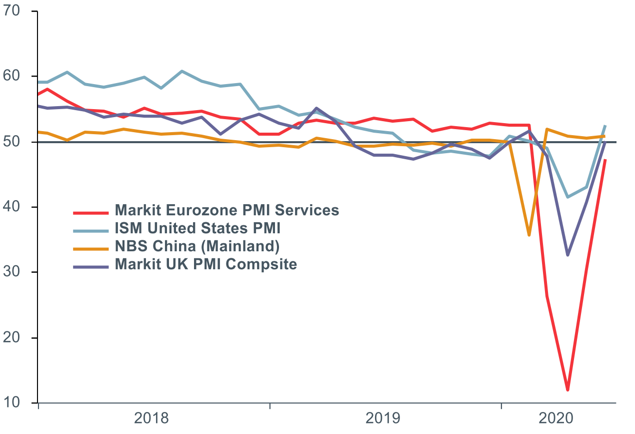


Figure 8: PMI Data



Source: Eastspring Investments, Refinitiv Datastream as of 30 June 2020.

본 자료는 이스트스프링자산운용의 계열사인 Eastspring Investments (Singapore) Limited (아시아지역운용본부)에서 작성한 자료로서 고객에 대한 정보제공의 목적으로 작성되었습니다.

Commodities

- **Oil** continued its recovery as Saudi Arabia and Russia agreed to extend existing record output cuts by a month and Brent moved into backwardation for a time, suggesting physical demand was improving. Floating storage tanks were also being taken out of service in the Gulf of Mexico. Capping the gains were comments from the IEA that said oil demand would likely not recover to pre-lockdown levels until 2022 due to the collapse in air travel. Nevertheless, both blends rose 16.5%.
- **Gold** rose 2.9% to hit its highest level since October 2012, as demand was boosted by worries over a jump in Covid-19 in the US as well as hopes of more stimulus measures to combat the economic blow. Gold prices in India hit record highs on the final day of the month as the tensions with China increased.
- The S&P **Industrial Metals** index rose 7.7% as base metals surged on better-than-expected demand from China. **Copper** prices rose after Chilean state miner Codelco announced stricter safety measures and suspended some construction projects after two workers died from Covid-19. Production from Peruvian mines was also cut.
- **Iron-ore** also gained again as supply from key mines in Brazil flatlined and demand from China rose as its inventory levels fell to record lows. This also led the key **Baltic Dry Index**, a key measure of freight rates, to record its best ever monthly gain of 257%.

Currencies

- The US dollar index (DXY) was choppy in June as it depreciated in line with the risk on sentiment in the first 10 days before rebounding slightly in the latter half. The index ended down 1.9% on the month, and is now broadly unchanged year-to-date. All G10 currencies, with the exception of the Japanese yen appreciated against the US dollar. The New Zealand dollar and Australian doller were the key outperformers in the G10 space, appreciating by nearly 4% each in June.
- Emerging markets' currencies were mixed. The Latin America vs Asian FX outperformance seen in May turned around last month with Latin American currencies at the bottom of the pack against the US Dollar. The Mexican Peso was down 3.5%, while the Brazilian Real and Argentine Peso were down around 2.5%, despite being high beta. In contrast, Asian FX outperformed, with Korean won, Thai baht and Indonesian rupiah appreciating between 2.5-3% each.
- As new infections continue to rise in Latam and countries still struggle to reopen, the underperformance of the region might be warranted. As US-China trade tensions, which had escalated in May, remained more muted, it was reflected in Asian currency performance. The Chinese renminbi appreciated modestly against the US dollar, and is back to 7.07.

Figure 9. Commodities Performance in USD

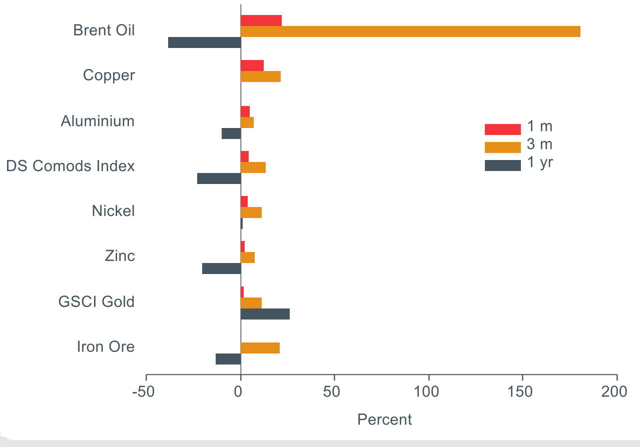
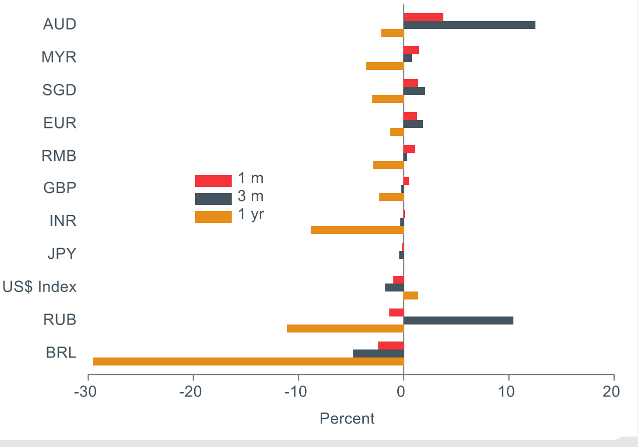


Figure 10. Currencies Performance vs USD

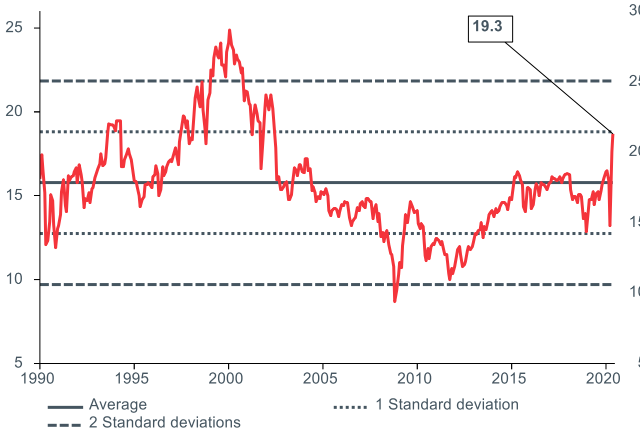


Source: Eastspring Investments. Chart data from Refinitiv Datastream as of 30 June 2020.

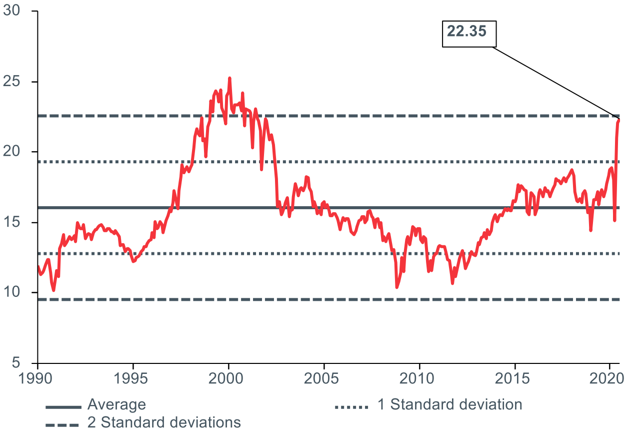
본 자료는 이스트스프링자산운용의 계열사인 Eastspring Investments (Singapore) Limited (아시아지역운용본부)에서 작성한 자료로서 고객에 대한 정보제공의 목적으로 작성되었습니다.

eastspring investments
A member of Prudential plc (UK)

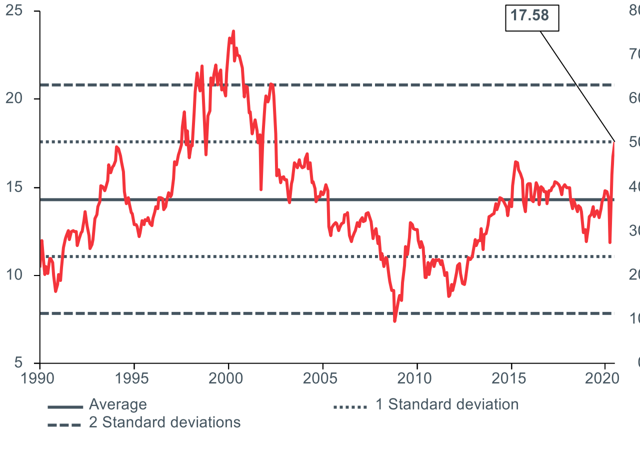
MSCI AC World 12M Forward PE



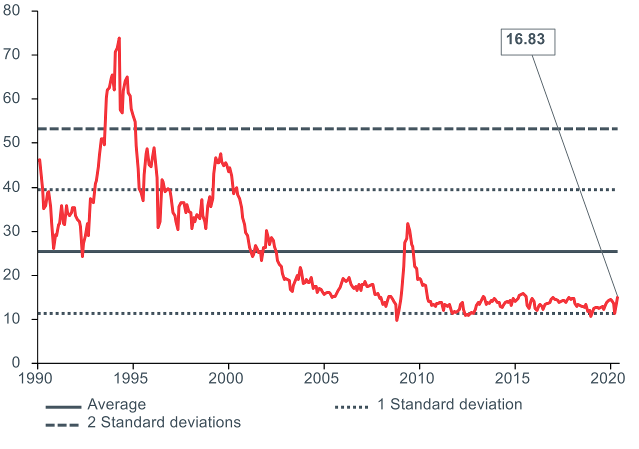
MSCI USA 12M Forward PE



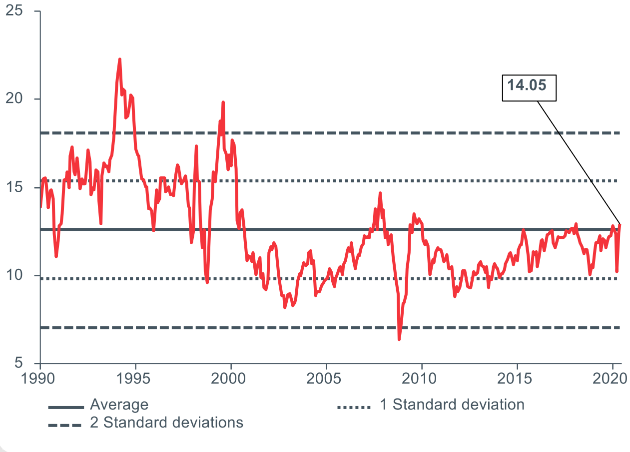
MSCI Europe 12M Forward PE



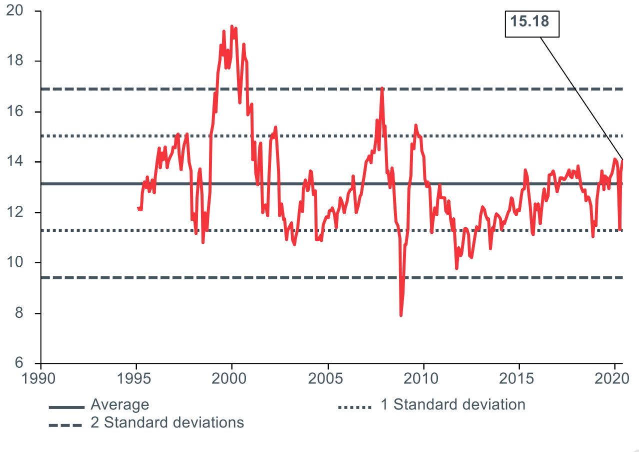
MSCI Japan 12m Forward PE



MSCI Emerging Markets 12M Forward PE



MSCI Asia Pac ex Japan 12M Forward PE



Source: Eastspring Investments. Chart data using IBES estimates from Refinitiv Datastream as of 30 June 2020.

eastspring investments

A member of Prudential plc (UK)

MSCI monthly, quarterly and year-to-date data

	Jun-20	May-20	Apr-20	Mar-20	Q2	Q1	YTD	2019
World	3.2	4.4	10.8	-13.4	19.4	-21.3	-6.0	27.3
Developed World	2.7	4.9	11.0	-13.2	19.5	-20.9	-5.5	28.4
United States	2.3	5.2	13.2	-12.7	21.8	-19.6	-2.2	31.6
Europe	4.1	4.7	6.1	-14.4	15.6	-24.2	-12.4	24.6
Japan	0.0	5.9	5.4	-7.0	11.6	-16.6	-6.9	20.1
Emerging Markets	7.4	0.8	9.2	-15.4	18.2	-23.6	-9.7	18.9
Asia Pac Ex Japan	8.2	-0.3	9.8	-14.0	18.5	-20.7	-6.0	19.5
Asia Ex Japan	8.4	-1.1	9.0	-12.0	16.8	-18.4	-4.6	18.5
Latin America	5.3	6.5	6.3	-34.5	19.2	-45.6	-35.1	17.9
Brazil	7.4	8.5	5.4	-38.2	22.9	-50.2	-38.8	26.7
EMEA	3.4	3.8	11.0	-21.1	19.1	-33.9	-21.3	16.3

	Jun-20	May-20	Apr-20	Mar-20	Q2	Q1	YTD	2019
Australia	7.0	4.6	15.3	-25.1	29.0	-33.2	-13.9	23.1
New Zealand	12.4	3.1	10.5	-11.2	28.1	-16.3	7.2	38.8
Hong Kong	11.0	-8.4	7.3	-12.2	9.2	-17.3	-9.7	10.3
China	9.0	-0.5	6.3	-6.6	15.4	-10.2	3.6	23.7
Korea	8.2	2.2	8.2	-11.5	19.6	-22.4	-7.2	13.1
Taiwan	9.2	-2.5	14.1	-13.4	21.5	-19.0	-1.6	37.7
Thailand	2.1	4.4	16.1	-17.4	23.8	-33.7	-17.9	9.8
Malaysia	2.7	4.8	5.5	-10.2	13.6	-19.2	-8.2	-2.0
Singapore	4.4	-3.2	8.4	-19.9	9.5	-28.2	-21.3	15.0
Indonesia	7.2	3.3	12.2	-29.3	24.4	-39.4	-24.7	9.7
India	6.8	-2.8	16.1	-25.1	20.6	-31.1	-16.9	7.6
Philippines	8.2	1.6	9.0	-21.4	19.8	-32.0	-18.5	11.0

	Jun-20	May-20	Apr-20	Mar-20	Q2	Q1	YTD	2019
Mexico	-0.1	6.5	4.3	-29.2	11.0	-35.4	-28.3	11.8
Chile	6.1	-5.4	16.2	-17.8	16.7	-33.4	-22.2	-16.0
Hungary	0.3	6.9	6.6	-26.5	14.3	-39.0	-30.3	19.4
Poland	2.3	8.2	9.2	-19.9	20.8	-36.5	-23.2	-5.3
Czech Republic	7.2	4.1	11.2	-27.5	24.1	-38.5	-23.7	6.6
Russia	-1.9	8.7	11.5	-23.3	18.9	-36.3	-24.3	52.7
Turkey	7.4	5.9	4.5	-19.0	18.8	-30.0	-16.9	11.7
South Africa	10.4	2.0	13.2	-24.8	27.5	-40.3	-23.9	10.7
Qatar	-0.0	2.2	4.9	-10.8	7.2	-17.3	-11.3	-1.0
Saudi Arabia	2.2	0.1	10.6	-13.7	13.1	-23.1	-13.0	9.1
United Kingdom	1.4	1.1	5.1	-16.0	7.8	-28.8	-23.2	21.1
Germany	6.3	8.9	9.8	-17.0	27.2	-27.0	-7.1	21.7
France	6.1	5.1	4.4	-17.6	16.5	-27.5	-15.5	27.0
Netherlands	7.1	7.3	8.7	-11.2	24.9	-20.6	-0.9	32.7
Austria	1.9	1.7	10.6	-28.0	14.5	-38.2	-29.2	18.4
Italy	7.9	5.9	1.9	-22.5	16.4	-29.2	-17.6	28.7
Spain	4.3	4.3	1.5	-22.1	10.5	-29.7	-22.4	12.7
Greece	-2.7	4.7	9.0	-26.0	11.0	-45.1	-39.1	43.6
Portugal	0.5	11.0	1.4	-11.0	13.1	-13.1	-1.7	25.2
Switzerland	3.1	2.9	5.2	-4.2	11.5	-11.1	-0.9	33.6

Source: Eastspring Investments. Chart data from Refinitiv Datastream as of 30 June 2020. Data and commentary prepared by Peter Bennett.

- 본 자료는 Eastspring Investments (Singapore) Limited (아시아 운용 본부)에서 작성한 것으로 이스트스프링자산운용 계열사에서 공유하는 자료입니다.
- 본 자료는 고객에 대한 정보제공의 목적으로 사용된 것이며, 본 자료에 수록된 시장 전망은 특정시점의 시장상황을 바탕으로 서술한 것으로서 고객에게 수익증권의 매입을 권유하기 위하여 작성된 자료가 아닙니다.
- 시장 예측에 대한 자료는 단지 참고 자료로서 작성되었고 당사는 예측에 따른 고객의 행위에 대한 직, 간접적인 책임을 지지 않습니다.
- 본 자료에 포함된 모든 정보는 당사의 승인 없이 복제되어 유통될 수 없습니다.
- 이스트스프링자산운용은 영국 프루덴셜 그룹의 계열사로, 미국에 본사를 둔 푸르덴셜 파이낸셜과 아무런 제휴관계가 없습니다.
- 과거의 운용실적이 미래의 운용 성과를 보장하는 것은 아닙니다.
- 본 자료에 대한 확실성이 보장되는 것은 아닙니다. 본 자료의 내용은 사전 공지 없이 변동 가능합니다.

Eastspring Investments (Singapore) Limited (UEN. 199407631H)

10 Marina Boulevard
#32-01 Marina Bay Financial Centre Tower 2
Singapore 018983

eastspring.com