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## abrdn Pacific Equity Fund (SGD and USD)

### Investment and Market Review

Asian equities continued to perform well over the year as inflationary pressures eased and investors welcomed signals from the US Federal Reserve that it was moving its monetary policy towards potential rate cuts in 2024. Early in the period, sentiment was weighed down by concerns about China's stalled recovery amid continued property woes, a higher for longer interest rate environment and conflict in the Middle East. The Chinese authorities implemented various measures through the review period to support sentiment, financial markets and the broader economy. While there are still concerns about the possibility of further US tariffs and sanctions, investor sentiment towards the mainland China market improved towards the end of the period.

The technology-heavy market of Taiwan was the top performer in the region as investors judged that the semiconductor cycle was nearing its trough and responded to rapid developments in artificial intelligence (AI). Indian equities also made strong gains thanks to the buoyant economy, growth in the corporate sector and substantial foreign capital inflows. Investors shrugged off initial concerns about the uncertain outcome of the general election and the market recovered quickly. By contrast, the Hong Kong market was among the key laggards, with concerns over China's macro outlook compounded by the impact of heavy foreign capital outflows.

### Market Outlook and Investment Strategy

We continue to be positive on the outlook for Asian equities, although we see short-term noise and volatility ahead of the US election in November. Rates and inflation have likely peaked in the US setting the scene for rate cuts in Asia, and the outlook is bright due to the broad-based growth across Asia and the fundamental strength of the companies in the portfolio which are typically leaders in the industries or markets in which they operate. Furthermore, the turnaround in the IT and semiconductor cycle, green transition and near-shoring as a result of geopolitics continues to benefit companies and countries in Asia. China is clearly showing signs of bottoming and recent corporate results have underscored the strength of some business franchises. Ultimately, we continue to have conviction in our holdings and their ability to navigate the various crosswinds buffeting markets.

Source: abrdn Asia Limited.

## Amundi Cash USD

Investment and Market Review

Economic data:
The economic indicators published in June confirmed the slowdown in the US economy that began last month.

Price inflation slowed sharply: headline inflation (CPI) was reported at 0% (vs. +0.3% last month), while Core-CPI rose by just 0.2% (vs. +0.3% last month). Core PCE inflation, the Fed's preferred indicator, came out at 0.1% (vs. +0.2% last month), or 2.6% on an annualized basis.

In the labor market, the number of job vacancies fell sharply to 8.059 million (from 8.488 million the previous month), suggesting that employment is returning to normal. The unemployment rate has risen to 4%, but wages are still rising (+4.1% on an annualized basis). Household consumption slowed to 1.5% (versus 2% the previous month) and retail sales rose by just 0.1%.

The ISM indices moved in opposite directions, with the Manufacturing ISM falling to 48.7 (from 49.2 last month) and the Services ISM rising to 53.8 (from 49.4 last month).

The third estimate of first-quarter growth came in at 1.4%, in line with expectations.

Monetary policy:
While the Fed kept its rates unchanged (in a range of 5.25% to 5.50%) after the June 12 FOMC, the monetary policy meeting was perceived as hawkish: the Fed members acknowledged that inflation has slowed, but believe it will be higher than they forecast in March, and have therefore raised their forecasts to end-2024, with Core PCE rising from 2.6% to 2.8% on an annual basis.

Logically, the majority of committee members are considering a single rate cut between now and the end of the year - whereas they were still forecasting three rate cuts back in March - reckoning that monetary policy should remain restrictive until the economy has shown tangible signs of slowing down.

Market environment:
Bond yields fell over the month, losing between 10 and 13bp depending on maturity.
In France, the poor result of the Presidential party in the European elections led to the dissolution of the National Assembly and the calling of early legislative elections.

This surprise decision caused credit spreads to widen, with the 1-3 year IG US Corporate index up 14bp to +80bp at the end of June.
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In the money market, the rate at issuance of top-ranking bank issuers stood at 5.42%, 5.43% and 5.38% respectively for 3-, 6- and 12-month maturities at the end of the month, stable for 3-month maturities but down 3bp and 15bp for 6- and 12-month maturities. Over the month, average spreads against OIS

swaps were +8bp, +15bp and +35bp respectively for 3-, 6- and 12-month maturities, with spreads unchanged for 3- and 6-month maturities but up 4bp for 12-month maturities.

Market Outlook and Investment Strategy

**Market Outlook and Investment Strategy**

The slowdown in inflation should prompt the Fed to lower rates in the near future. The portfolio's weighted average maturity (WAM) was therefore maintained at 74 days at the end of June, close to the maximum authorized for this fund (90 days).

On credit, we preferred to adopt a cautious approach, taking into account the political context in France and even though credit spreads have tightened significantly over the past few months.

The weighted average life (WAL) therefore decreased month on month, from 130 days to 124 days. Most of the investments during the month were in fixed-rate securities with maturities of between one and five months. The average yield on these securities is of 5.57% for an average duration of 3.5 months. Some investments were also made in fixed-rate bonds with maturities of over six months. The average yield on these securities is of 5.55% for an average duration of nine months.

The liquidity position was maintained, mainly via overnight deposits, reverse repos with a 24-hour call on US Treasuries and commercial paper with a residual maturity of less than seven days.

The proportion of investments with a maturity of less than three months remained stable month-on-month at 52%, as did the weighting of bonds at 17% of assets and the weighting of BBB-rated issuers (13%).

The average long-term rating of the securities held in the portfolio was A+ at the end of the month. The portfolio's credit risk indicator as measured by Fitch (WARF or Weighted Average Risk Factor) stood at 0.41 at the end of June, well below the 0.90 limit set for AAF-rated funds.

Source: Amundi

## Amundi Funds Pioneer US Bond (USD and SGD Hedged)

Investment and Market Review

Government bond markets were buffeted about during June as Investors navigated around macroeconomic and political events. In the US, Treasury yields rallied sharply as cooler than-expected inflation and softer domestic economic activity reports early in the month boosted investor confidence that U.S. monetary policy would shift to be marginally more accommodative by year-end 2024.

However, later in the month, investor attention pivoted to concerns about US fiscal health and European political stability and accordingly unwound most, if not all, of the early month gains. The net impact by month-end was lower US Treasury yields, a steeper US yield curve and mixed credit and equity markets. The most significant data surprise during the month was May's core CPI inflation reading, which reported a month-on-month gain of 0.2% and modestly "beat" expectations for a 0.3% monthly gain. monthly number brought the year-on-year core inflation rate down to 3.4% from 3.6% in April and marked the slowest annual gain in core consumer prices since April 2021.

The cooling was welcomed by investors as the subdued inflation report supported Fed Chair Powell's belief that the early year increases in monthly inflation marked just temporary headwinds to the, still intact, trend of overall domestic disinflation towards the Fed's long-term inflation goal. On the growth front, retail sales, capital goods orders, and new home sales all fell short of expectations. One positive growth note was the reported increase of 272,000 new jobs during May from the non-farm payroll employment report.

Optimism around the "headline" number was somewhat tempered by a rise in the unemployment rate from 3.9 to 4.0%. The June FOMC meeting was largely overshadowed by economic data as a somewhat hawkish revision to the Fed's "dot plot" forecast was not enough to counteract the decline in yields caused by the softer consumer inflation data released earlier that day. Specific to the Fed's updated forecasts, the median projection of FOMC members indicated an expectation for only one 25 basis point rate cut by the end of the year. That projection was lowered from just three months earlier where the median Fed member projected 75 basis points of rate cuts by year-end. US Treasury gains partially reversed later in the month as investors reacted to the first U.S. Presidential debate and priced in higher odds of a Trump return to the White House and also digested a Congressional Budget Office (CBO) announcement where the Federal government bean-counters increased a February estimate for this year's US government deficit by 36%, from $1.4 to $1.9 trillion.

French President Emmanuel Macron chose to dissolve the National Assembly and hold early legislative elections following the European parliament election in France, in which the populist National Rally party made significant gains at the expense of Macron's Ensemble party. Uncertainty about the outcome of the snap elections and the broader impact of rising national populism weighed on the performance of French financial assets.

US Treasury yields ended the month 15 basis points lower for two- and five-year Treasuries while ten- and thirty-year yields declined ten and nine basis points, respectively. The US Treasury index returned 1.01% while the US Aggregate returned 0.95%, two basis points worse than comparable Treasuries, as investment-grade corporates underperformed on the month. The US Investment Grade corporate index retuned 0.64% (0.56% less than comparable Treasuries) and the index spread widened from 85 to 94 basis points over Treasuries, as lower yields and macro uncertainties warranted higher risk premia from investors.

Agency MBS and securitized credit performed in line with comparable Treasuries. The performance of other spread sectors did not meaningfully differ from corresponding Treasuries: high-yield corporates returned 0.9%, leveraged loans returned 0.3%, Emerging Market sovereign debt returned 0.6%, and

Emerging Market corporates, 0.9%. The S&P 500 index posted a 3.6% return for the month on continued strength in mega-cap technology companies. Oil prices bounced back from $77 to $82 a barrel following an extension of output cuts at the OPEC+ meeting. The US dollar index was up 1.2%, bouncing back from May's decline.

Performance Review
The Amundi Funds Pioneer US Bond Fund topped the Bloomberg U.S. Aggregate Bond Index for the month as well as for the year-to-date period.

Month of June:

Duration positioning, sector allocation and security selection drove outperformance over the month.

Contributors
The relative long duration position of 0.71 years compared to the Index contributed, as 10-year Treasury yields fell. In addition, yield curve positioning benefited from the overweight to the 5-year key rate duration.

Sector allocation benefited from the 2% overweight to CMBS, the 2% allocation to catastrophe and the 4% exposure to non-agency MBS. These benefits were partly offset by underperformance of the 11% overweight in financials.

Security selection benefited from outperformance within Financials and Industrials. European bank holdings within financials aided relative returns while issue selection in transportation helped within industrials.

Detractors
The 22% underweight to Treasuries modestly detracted from relative returns.

Market Outlook and Investment Strategy

We expected continued slowing in real final sales as real income growth has softened, consumer sentiment has softened, and labor demand has normalized**.** The decrease in home sales during May highlights a new headwind to US economic growth in the short term, and May's pending home sales reaching an all-time low in the 23-year history of the series could portend further slowing in the homebuilding and housing finance sectors. The surge in new home construction post-COVID is surpassing demand, leading to the highest inventory of new homes for sale since 2010. Builders are likely to reduce new construction significantly until the surplus inventory is reduced, negatively impacting GDP growth in at least Q2 and Q3. Additionally, uncertainties related to the upcoming US elections may further hamper business investment in the immediate future. We maintain a preference for a slightly longer duration compared to the benchmark, focusing on short to intermediate maturities, and are prudently managing our exposure to Investment-Grade and High Yield Corporates, which currently have historically narrow spreads. We are more optimistic about the wider spreads available on

Agency MBS, and we choose to concentrate credit exposure on well-collateralized residential securitized and asset-backed markets.

Source: Amundi

## Amundi Funds Pioneer US Equity Fundamental Growth

Investment and Market Review

The S&P 500 Index (SPX) returned 4.18% in the second quarter on the back of continued enthusiasm for artificial intelligence (AI) and the Magnificent 7. Companies related to the AI theme performed exceptionally well, with a return of more than 14% in the quarter, while the rest of the market had a negative return (-1.2%), according to FactSet. Six of the seven Magnificent 7 stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) outperformed in the quarter, with only Meta Platforms underperforming the S&P 500 Index. NVIDIA alone contributed more than 30% of the SPX return.

The outperformance of the Magnificent 7 caused the SPX to outpace the returns of the average stock in the quarter. The S&P 500 Equal Weighted Index, which measures the performance of all stocks equally, returned -2.77%. Growth stocks continued to outperform value stocks, with the Russell 1000 Growth Index (RLG) returning 8.27%, compared to the -2.32% return of the Russell 1000 Value Index (RLV).

Year-to-date, the SPX returned 15.05%, with 31 record closing highs during the period. The strong performance of the SPX was driven by a combination of rising stock valuations as measured by price-to-earnings (P/E) multiples along with better-than-expected earnings (most notably, from NVIDIA). The Russell 1000 Growth Index (RLG) outperformed the Russell 1000 Value Index (RLV), with returns of 20.57% and 6.28% respectively, largely due to sustained enthusiasm for artificial intelligence (AI).

**Performance Attribution**

The portfolio underperformed the return of the Russell 1000 Growth Index in the second quarter. With the Magnificent 7 accounting for more than half of the Russell 1000 Growth Index, the Portfolio’s weighting in those stocks has been the biggest driver of benchmark relative returns over the past few years. The second quarter of 2024 was no exception. Due to position size limits for risk control purposes, the Portfolio was underweight relative to the Russell 1000 Growth Index in stocks such as graphic processing unit (GPU) giant NVIDIA that performed exceptionally well in the quarter on the back of strong AI related demand. The underweight in NVIDIA was the single biggest detractor to performance in the quarter, and accounted for all of the year-to-date underperformance of the portfolio.

The reason for the Portfolio's underweight in **Nvidia**, in addition to position size limits, is valuation. While financial results for Nvidia this year have been impressive, the stock valuation in our opinion leaves little room for disappointment should the company fail to meet high investor expectations related to market share and revenue growth. On the competitive front, many of Nvidia's customers are trying to build their own GPUs and/or find other sources such as Advanced Micro Devices. We continue to hold Nvidia shares, but believe there are alternative growth investments with better risk-adjusted return potential.

Another headwind in the second quarter was our underweight to **Apple**, which rose sharply. Shares of Apple were under pressure earlier in the year due to concerns about sluggish growth and market share losses in China. The stock rebounded in the second quarter on the back of solid financial results and expectations that the company will launch an iPhone with AI capabilities in 2025. We added modestly to our Apple holdings in the quarter, but remain underweight due to position size limits and valuation.

Another headwind in the second quarter was our overweight to **Mastercard**, as the stock slid after the credit card and payments giant cut its 2024 outlook. The payments company now expects full-year net revenue and adjusted earnings to increase on the low-end of low double-digit figures, compared to its previous views of high-end low double-digit growth. We continue to hold Mastercard due to its high level of profitability and the ongoing global shift toward digital forms of payment.

A significant contributor in the second quarter was our overweight in **Amphenol**, which makes connectors used in a variety of applications. The stock price rose after first quarter 2024 sales and EPS exceeded the high end of the company's guidance. Sales increased from the prior year by 9%, driven by growth in the IT datacom, commercial air, automotive, and defense markets. In April, the company also completed its $2 billion stock repurchase plan and approved a new three-year $2 billion plan. We believe Amphenol will benefit from AI spending, and continue to hold the shares.

**Eli Lilly** was also a top contributor, helped by strong sales of Mounjaro, its blockbuster diabetes and weight loss drug. While we reduced our position size on strength, we believe there is additional sales potential as the drug has shown early promise in patients with a liver disease known as metabolic dysfunction-associated steatohepatitis, or MASH.

Another individual contributor for the quarter was our overweight to **QUALCOMM**, which outperformed the broader market. The company recently announced a groundbreaking partnership with Microsoft to power the next generation of AI-powered personal computers. This strategic alliance marks a significant milestone for both companies. It also opens up a vast array of opportunities in the rapidly expanding AI world. The collaboration will utilize Qualcomm's Snapdragon X platform known for its performance and energy efficiency. The partnership integrates Qualcomm's AI chips into Microsoft's surface PCs to enhance user experience, but also offerings from other OEM partners, such as Acer, ASUS, Dell, HP, Lenovo, and Samsung.

The underweight to the Magnificent 7 meant that the Portfolio was underweight the information technology sector since most of the stocks are in the information technology sector.

The underweight in information technology and overweight in financials for stock specific reasons caused sector allocation to be negative in the quarter.

Market Outlook and Investment Strategy

Outlook: cautious due to elevated equity valuations and a slowing economy

There is a wide and increasing gap between the performance of the Cap Weighted indicis and the average stock (Equally Weighted indicis). A large part of this may be due to the superior earning growth of the MAG7 over the past 12 months, and most particularly year to date. This may in part be driven by what appears to be a slowing economy as the lagged impact of prior rate hikes takes effect despite the positive fiscal stimulus, whilst much of MAG7 earnings growth has been driven by the AI theme and investments.

This earnings outperformance gap is expected to decline in the second half, and during 2025 as year over year growth rates for the MAG 7 decline, & the earnings of the broader market increase somewhat. If current expectations for AI related earnings suffer any kind of setback, then Cap Weighted indicis may struggle.

Inflation has been moderating of late, after surprising to the upside earlier in the year. However, further progress may prove to be slower than currently anticipated, as the stickier elements remain quite firm. The Fed may continue its pause for longer than currently anticipated and disappoint the market should it not start to ease in September. Still, the Fed could react with cuts if the economy weakens faster than expected or there be some kind of negative shock, for example an adverse geopolitical event.

The political outlook in the US, in common with many western countries, is becoming more polarized and elections are becoming more contentious. There appears to be less willingness to engage in bipartisan policy making. The forthcoming US election in November will have important implications for different sectors, industries and companies. It may be too early to predict a winner despite the media's reaction to the first debate.

Whilst it would be unusual for the economy to fall into recession during an election year, the risks remain elevated that a recession could occur towards year-end, or in the beginning of 2025 no matter how the elections unfold later this year.
Overall, we remain cautious, as elevated valuations reflect an optimistic outcome with respect to the economy, interest rates, inflation, the federal debt, and the elections.

<u>Positioning: Underweight information technology for valuation reasons</u>
We are highly selective in the stocks that we add to the Portfolio, seeking to avoid speculative and unprofitable companies that could easily fall out of favor again, as they did in 2022.

At the sector level, the Portfolio is overweight non-bank financials and health care for stock-specific reasons, and underweight information technology. The underweight in technology is primarily due to limited exposure to Apple.

Source: Amundi

## Architas Flexible Bond Fund

Investment and Market Review

Architas Flexible Bond delivered a return of 8.88% for the 1 year period ending 30th June 2024.. This was modestly behind its internal benchmark (35% ICE BofA Gbl HY TR USD Hdg + 35% JPM EMBI Global Diversified TR USD + 15% Bloomberg Global Aggregate Corporate TR Hedged USD + 15% JP Morgan JACI TR.)

Manager selection was a positive contributor to performance with a number of key holdings outperforming their respective benchmark. Neuberger Berman EM Debt Hard Currency was the top contributor as it outperformed Emerging market debt indices due to its strong credit selection and country allocations.

High yield was also a modest detractor with the iShares Global High Yield Sustainable Credit Screened underperforming.

Most notable detractors were the AXAWF Emerging Market Bond Fund which underperformed its respective Emerging market debt benchmark due to weaker credit selection.

Asset allocation was a detractor to performance in 2024. An overweight to Emerging market investment grade corporate detracted as the Asian HY market rallied during the period.

The portfolio remains balanced across the fixed income spectrum with allocations to high yield, emerging market debt and investment grade bonds.

The portfolio maintains an underweight to Asian high yield following renewed concerns on the Chinese property sector.

Market Outlook and Investment Strategy

Architas is positioned for a soft landing with a moderate overweight in US equities, supported by positive earnings growth despite demanding valuations. They have downgraded European equities to neutral due to rising political risks. French equities may underperform in Europe. Their stance on Japanese equities remains neutral after profit-taking in June. Potential policy tightening by the Bank of Japan and interventions to support the yen could introduce volatility. They are moderately underweight in emerging equities due to China's economic weakness and political risks. They have reduced Eurozone bonds to neutral, given political risks and priced-in ECB rate cuts. They are also neutral credit, including investment grade, high yield, and EM debt. Inflation, employment, political risks, and corporate earnings will remain the key drivers of financial markets in the second half of the year.

Source: Architas

## Architas Flexible Equity Fund

Investment and Market Review

Over the course of H12024 the fund returned 10.05%, underperformed its benchmark (11.33%). Despite outperforming in Q1, narrow equity market leadership, particularly in the US and Asia ex-Japan, resulted in a much more challenging environment. Within the US, NVIDIA accounted for 30% of the MSCI USA return YTD and beyond that, the top 5 contributors accounted for 57% of the markets return. The effects of this were visible by the 10.2% dispersion between the market cap S&P 500 relative to the equal weighted index. This was even more pronounced in Q2 were the market cap S&P 500 delivered a 4.3% return compared to the 2.6% decline of the equally weighted index. In Asia ex Japan, the narrow market breath could also be seen, as Taiwan Semiconductor accounted for 45% of the markets return on its own.

In that backdrop, manager selection in both regions detracted as active mangers struggled to keep pace. The portfolio was helped by its underweight in European equities and overweight to US. Additionally, within the US, the bias to growth equities helped. Top contributors were AB American Growth and iShares MSCI EM Asia. On the negative side, Fidelity Asia Pacific Opportunities hurt due to their underweight in TSMC and Indian equities. Elsewhere, Selection US detracted as narrow market breath resulted in lower its upside capture.

Market Outlook and Investment Strategy

Architas is positioned for a soft landing with a moderate overweight in US equities, supported by positive earnings growth despite demanding valuations. They have downgraded European equities to neutral due to rising political risks. French equities may underperform in Europe. Their stance on Japanese equities remains neutral after profit-taking in June. Potential policy tightening by the Bank of Japan and interventions to support the yen could introduce volatility. They are moderately underweight in emerging equities due to China's economic weakness and political risks. They have reduced Eurozone bonds to neutral, given political risks and priced-in ECB rate cuts. They are also neutral credit, including investment grade, high yield, and EM debt. Inflation, employment, political risks, and corporate earnings will remain the key drivers of financial markets in the second half of the year.

Source: Architas

## Architas Multi-Asset Balanced Fund

Investment and Market Review

Over the course of H12024 the fund returned 6%, underperformed its benchmark (6.3%). Despite outperforming in Q1, narrow equity market leadership, particularly in the US and Asia ex-Japan, resulted in a much more challenging environment. Within the US, NVIDIA accounted for 30% of the MSCI USA return YTD and beyond that, the top 5 contributors accounted for 57% of the markets return. The effects of this were visible by the 10.2% dispersion between the market cap S&P 500 relative to the equal weighted index. This was even more pronounced in Q2 were the market cap S&P 500 delivered a 4.3% return compared to the 2.6% decline of the equally weighted index. In Asia ex Japan, the narrow market breath could also be seen, as Taiwan Semiconductor accounted for 45% of the markets return on its own.

Within fixed income, the performance of major fixed income markets has been disappointing. Central banks in the US and Europe have dampened optimism over swift rate cuts in 2024, despite a first cut in June by the ECB. Government Bonds printed negative total returns in the US and Europe. High Yield and Emerging Debt outperformed credit indices with higher quality and duration but did not exceed cash returns.

Over the course of H1, asset allocation added to performance driven by an overweight in equities funded by an underweight in global aggregated.

Within the equity allocation manager selection in both regions detracted as active mangers struggled to keep pace. The portfolio was helped by its underweight in European equities and overweight to US. Additionally, within the US, the bias to growth equities helped. Top contributors were AB American Growth and iShares MSCI EM Asia. On the negative side, Fidelity Asia Pacific Opportunities hurt due to their underweight in TSMC and Indian equities. Elsewhere, Selection US detracted as narrow market breath resulted in lower its upside capture.

Within fixed income, an underweight in global aggregated to fund an overweight in global high yield and emerging market debt added to the funds performance. Manager selection within fixed income was flat as active managers delivered returns in line with their benchmarks.

Market Outlook and Investment Strategy

Architas is positioned for a soft landing with a moderate overweight in US equities, supported by positive earnings growth despite demanding valuations. They have downgraded European equities to neutral due to rising political risks. French equities may underperform in Europe. Their stance on Japanese equities remains neutral after profit-taking in June. Potential policy tightening by the Bank of Japan and interventions to support the yen could introduce volatility. They are moderately underweight in emerging equities due to China's economic weakness and political risks. They have reduced Eurozone bonds to neutral, given political risks and priced-in ECB rate cuts. They are also neutral credit, including investment grade, high yield, and EM debt. Inflation, employment, political risks, and corporate earnings will remain the key drivers of financial markets in the second half of the year.

Source: Architas

## AXA World Funds Europe Real Estate

Investment and Market Review

Risk assets were mixed as US and Asian bourses gained while European indices were down. In European elections, the far-right made gains in several countries, notably France. PMI data came in strong for the

US but weakened in Europe. There were calls for President Biden to end his campaign after a disastrous debate against former President Trump as concerns mounted regarding his mental health.

Within the European property sector, performance was largely negative. Hotels and diversified outperformed, returning 0.3% and -0.8%, respectively. Meanwhile, retail and residential underperformed, returning -6.0% and -5.7%, respectively. The European real estate index underperformed the broader European equity index with the FTSE EPRA NAREIT Developed Europe Capped 10% returning -3.4% versus -1.2% for the STOXX Europe 600. In terms of regions, the US (3.8%) was the strongest, outperforming Australia (2.0%), Asia-Pacific (-1.0%) and Europe (-3.4%) for the month in euro terms.

On the monetary front, the Federal Reserve kept interest rates steady as policy easing hinges on further progress in the disinflation process. Policymakers scaled back their expectations for rates cuts to just one in 2024 on the back of a more resilient economy. The European Central Bank cut interest rates by 25bps to 3.75%, as inflation has come down. Nonetheless, the ECB remains vigilant on inflation as price pressure still remain strong. The Bank of England kept interest rates on hold at 5.25%. However, minutes from the last meeting were dovish and keep a rate cut in August on the table.

On the economic front, US nonfarm payrolls increased by 272k in May, coming in well ahead consensus estimates. The unemployment rate slightly increased to 4.0%. S&P Global Flash US PMI clocked in at 54.6 in June, marking a twenty-six-month high. Meanwhile, HCOB flash Eurozone Composite PMI came in at 50.8, marking a three-month low. The core inflation rates in the US and the UK in May decelerated to 3.4% and 3.5%, respectively. Meanwhile, core inflation in the Eurozone remained steady at 2.9%.

Performance was closely tied to political uncertainty during the month as the far-right made gains in several countries during European elections, which uneased investor fears of threats to the European economy and national budgets. In France, President Macron dissolved parliament and called for snap elections.

Market Outlook and Investment Strategy

Global economic growth has remained resilient in spite of the fastest rate rise in recent history. Inflation is slowing and central bank rhetoric has shifted to higher for longer, but this does not mean higher for ever. Real assets typically priced off the longer end of the yield curve which hasn't seen as much volatility as the short end.

Source: AXA Investment Manager

## AXA World Funds – Global Inflation Bonds (SGD Hedged)

Investment and Market Review

The performance of inflation-linked bonds was positive in June, with the short part of the curve outperforming in particular. Nevertheless, it was the Eurozone, and particularly French bonds, that suffered in the wake of the political instability. Inflation breakevens posted a negative performance despite rising energy prices and favourable inflation carry. Inflation continued to normalise. In the United States, it fell below expectations for May. The increase in core inflation was the lowest in more than three years with service inflation falling. Headline inflation in the Eurozone rose to 2.6% and core inflation to 2.9% year-on-year, driven by services inflation, which reached 4.1%. In the UK, headline inflation returned to the 2% target. This masks persistent inflation in services, which fell to only 5.7% compared to the Bank of England's 5.4% forecast. The RPI was 3%below market expectations at 3.1%.

The performance of inflation-linked bonds was positive. Canada and Sweden were the best performers, as the Bank of Canada surprised markets by cutting key rates and the Riksbank surprised them with its dovish message, pointing to further rate cuts this year. The Eurozone was the worst performer, as markets reacted negatively to the surprise announcement of the French elections. The French sovereign spread (versus German bonds) widened to 80 basis points, a level not seen since the second round of the 2017 presidential election. Following these announcements, we decided to neutralise the portfolio's French exposure. Structurally, we still prefer long-duration positions on maturities of less than five years in the US and the Eurozone (via Spain), which will benefit from the key rate cuts expected in the second half of 2024.

Market Outlook and Investment Strategy

Since the rise in nominal rates has come with a decline in breakevens, we now find them attractive. We expect breakevens to be supported by strong demand for this asset class in July as a result of strong index expansion in the US and higher oil prices at the start of the summer holiday season.

Source: AXA Investment Manager

## AXA World Funds Europe Small Cap

Investment and Market Review

Politics took centre stage this month. In Europe, the elections of MEPs led French President Emmanuel Macron to call for early elections in order to clarify the political landscape, thereby playing the game of extremes. Fears that one of these extreme parties would come to power, with expensive programmes for an already heavily-indebted France, shook the markets and drove the French sovereign spread to widen substantially. Despite an initial 25bp cut in key rates by the ECB, investors fear that an increase in France's cost of financing could lead to a slowdown in the economy that would also affect its European partners. In the United States, although Trump has been ahead in the polls for the November presidential election for some time now, they haven't factored in the possibility of Biden withdrawing in favour of a younger candidate. Signs of a macroeconomic slowdown are multiplying in leading indicators and corporate communications (particularly in consumer goods), fuelling hopes that the start of monetary easing isn't far off. However, the Fed seems more determined than ever to stand its ground, as inflation levels have not yet fully returned to normal.

Lastly, in China, there is no sign of a swift end to deflation, which is weighing on global growth forecasts.

Against this backdrop, the performances of stock market indices were very mixed. The US indices continued to forge ahead as the NASDAQ and the S&P 500 reached new record high levels. Conversely, European indices fell sharply, with French stocks proving particularly vulnerable. Small caps suffered more than large caps.

The euro declined against the dollar and the pound sterling. The yen continued to fall. Volatility indices soared in Europe but remained stable in the United States. Lastly, crude oil ended the period at slightly over USD 80 a barrel.

From a sectoral point of view, financials and energy stocks fell less than the index, while cyclicals were subject to profit-taking (construction, chemicals, auto and industry). The fund underperformed its index, the STOXX Small 200, over the month. The underperformance was mainly due to the stock-picking effect, which had a negative impact in consumer discretionary, financials and industrials.

Market Outlook and Investment Strategy

The macroeconomic outlook suggests lower interest rates in 2024. Markets may have got ahead of the game in terms of the extent to which rate cuts are priced in, but as growth is expected to slow and inflation ease, the risk of further rate increases has diminished. How much will inflation fall is a key question as it will determine how quickly rates are cut and how much nominal GDP will slow. This has implication for the strength of companies ‘revenue growth which in turns impact their earnings per share and more generally total return for equity investors. It also impacts leverage ratio and balance sheet quality. Against this background, we remain faithful to our approach, and continue to target companies with strong pricing power, good visibility on their growth prospects thanks to exposure to promising themes, and a solid financial structure.

Source: AXA Investment Manager

## AXA World Funds - Global High Yield Bonds

Investment and Market Review

The AXA World Funds Global High Yield Bonds outperformed its benchmark, the ICE BofA Developed Markets High Yield Constrained Index, during the month of June. The fund’s outperformance was primarily driven by security selection, particularly in the highest yielding portion of the market. The positive security selection was partially offset by the fund’s macro and geographic positioning. More specifically, the fund’s overweight to the short duration segment of the market and its slight overweight to the European portion of the market both detracted from relative performance. Cash holdings were an additional small drag on relative performance as the market produced a positive total return.

From a sector perspective, security selection in the Consumer Goods sector was the largest positive contributor to relative performance. The fund’s performance was also positively impacted by its underweight to the Telecom sector, which underperformed. The fund's performance was negatively impacted by security selection in the Insurance and Basic Industry sectors.

Market Outlook and Investment Strategy

The global developed high yield market posted another strong total return in June. The ECB cut rates at the beginning of the month and investor expectations for further rate cuts across the EU, UK and US continued to solidify on the back of benign inflation data. While we acknowledge that there are pockets of weakness in the global economy, we continue to believe that the default rate of the global developed high yield bond market is unlikely to increase to a level significantly higher than its long-term average. Based on our outlook for the global economy and current valuations, we maintain that the global developed high yield market can deliver an attractive total return over the next 12 months.

Source: AXA Investment Manager

## BlackRock China Fund

Investment and Market Review

The fund outperformed its benchmark this month. China equity recorded negative return in June. Lower expectations for strong policy stimulus by the Third Plenum, mixed economic activity data, M1 contraction and no MLF/LPR cut, as well as a depreciating CNY vs USD, sent China equities lower.

Market Outlook and Investment Strategy

We are most overweight Information Technology driven by selective holdings in Taiwanese technology. We are also overweight in Communication Services due to a positive view on the mobile gaming sector. We are most underweight Consumer Staples with no position in the sector. We saw mounting growth and earnings pressure for the sector amid macro headwinds in China. We are also underweight Energy after our recent profit-taking in some energy names. We see large profit-taking pressure in the sector overall, as well as risks of US sanctions on SOE energy names.

Source: BlackRock (Luxembourg) S.A.

## BlackRock Global Allocation Fund

Investment and Market Review

Global stocks, as measured by the MSCI World Index, gained +2.0% in June, but the advance was limited mainly to U.S. large-cap stocks and emerging market (ex-China) equities. More specifically, most of June's stock market gains were narrowly concentrated in major U.S. Technology, Consumer Discretionary, and Communication Services stocks, with 6 of the 11 sectors that comprise the S&P 500 Index declining. Outside the U.S., equities generally fell in U.S. dollar terms.

Political uncertainty in France weighed heavily on stocks and bonds in that country. Meanwhile in China, a contraction in factory orders for the second consecutive month, weighed on investor sentiment in the world's second-largest economy. In Japan, stocks declined in U.S. dollar terms as the yen fell to a 34-year low against the USD. Bonds enjoyed their second consecutive month of gains during June. Slightly better-than-expected U.S. inflation data, coupled with signs of moderation in the U.S. labour market, helped provide a boost to bond prices, particularly at the long-end of the U.S. Treasury and municipal curves. Meanwhile, U.S. high yield bonds continue to benefit from an environment of supportive of credit conditions broadly, as economic growth decelerates but continues to exhibit healthy nominal expansion. Duration sensitive U.S. investment grade bonds, along with emerging market sovereigns also benefited from more benign U.S. data.

International sovereign bonds were the only major bond sector to post declines during June, as the combination of a strong U.S. dollar and a pronounced weakness in French sovereign bonds weighed on total returns.

The fund's equity exposure decreased slightly in June as the team sought to manage the fund's broader equity exposure ahead of what could be a period of increased market volatility. That said, we are comfortable maintaining an overweight on the view that economic strength could provide further support for corporate earnings growth.

Continue to emphasize secular growth companies, that are cash flow generative with consistent profitability as we believe these characteristics have the potential to outperform against a backdrop of decelerating economic growth. This positioning is balanced with exposure to parts of the energy and commodity complex, as both a potential hedge in an environment where inflation may prove to be more persistent as well as an indirect play on AI where certain commodities are positioned as beneficiaries of buildout.

The bulk of our equity positioning is aligned with long-term structural trends, such as the proliferation of AI, advancements across healthcare and a resilient, yet bifurcated consumer.

Market Outlook and Investment Strategy

Asset allocation (as % of net assets*): Equity: 66%, Fixed Income: 27% Precious Metals: 0%, Cash Equivalents: 6%.

Restrictive monetary policy in the U.S. is creating a "two-speed" economy. High cash flow corporations and high-end consumers have experienced little negative impact from the Fed's "higher for longer" approach, and instead are benefitting from the higher returns that their cash is currently earning. However, rate-sensitive entities, including small businesses, regional banks, commercial real estate, and lower cohort consumers are showing signs of fatigue. We are comfortable maintaining an overweight to equities as many of the large-cap companies that dominate the market capitalization-weighted equity indexes across the developed markets fall into the former category, as it relates to the rate environment. We remain underweight duration, with aggregate positioning relatively stable over the month. Within U.S. rates, we prefer exposure at the intermediate part of the U.S. yield curve and remain cautious on long-dated U.S. government bonds due to the level of Treasury issuance needed to finance the U.S.'s historically high budget deficits, placing episodic upward pressure on long-term yields going forward. Looking beyond Treasuries, however, we'd argue that the nominal yields that investors are receiving in other corners of the bond market are quite compelling relative to the past 15 years and provide access to attractive level of income that could augment equity positioning. The bulk of our fixed income exposure remains in a diversified basket of corporate credit, securitized assets, and emerging market sovereigns. In-line with the fund's risk aware mandate, we hold exposure to an array of portfolio hedges (in addition to duration), including derivatives, cash, commodity-related and FX positioning.

Source: BlackRock (Luxembourg) S.A.

## BlackRock Global Equity Income Fund

### Investment and Market Review

Global equity markets nudged higher in June, with the MSCI ACWI returning +2.2% amid AI-driven market indices reaching all-time highs, fuelled by growing investor optimism regarding the economic outlook across Europe, Asia and America.

All eyes continued to focus on inflation data and the consequent expectations for rate cuts; thus U.S. consumer price index (CPI) falling in May to 3.3%, indicating a slight easing of inflation sent both the S&P 500 index and tech-focused index Nasdaq to all-time highs.

The narrowness of the market continued though, with AI-themed areas of the market dominating. Whilst there was more broadening from AI-themed companies, NVIDIA was once again was the top contributor of the MSCI ACWI, reaching $3.3 trillion market cap. Its share price has now tripled over the past year.

In Europe, the European Central Bank (ECB) reduced key interest rates by 25 basis points early in the month, but a rise in year-on-year eurozone inflation to 2.6% led to speculation that the cut may have been premature. In the UK inflation fell to 2.0% in May, leading to heightened expectations around future rate cuts. The Bank of England (BoE) remains optimistic, raising its second-quarter growth forecast to 0.5%, an upward revision from its May 2024 prediction of 0.2%. The UK will hold elections in early July with polls anticipating a Labour majority. In France, after suffering a loss at the European Union (EU) elections, President Emmanuel Macron called a snap election to be held between 30 June and 7 July, with this announcement creating political uncertainty for affecting the European markets. Following the news, France's CAC 40 index fell by 6.4% in June.

Moody's also warned of France's increased fiscal risk, while Citigroup downgraded European stocks from overweight to neutral, due to rising political risks.

In Asia, China's consumer inflation remained stable with the consumer price index (CPI) rising 0.3% in May from a year earlier, matching a gain in April, while the decline in producer prices slowed down.

Moody's also raised China's growth forecast to 4.5%, up from 4.0% previously. In Japan, the yen, which has lost more than one-third of its value since early 2021, fell to a 38-year low against the US dollar.

Overall, the global equity landscape continues to be fragmented, with a narrow group of technology stocks driving U.S. and global indices to all-time highs, and then on the other side political uncertainty and inflation concerns weighing on European markets.

During the month, once again the Information Technology sector delivered most of the returns, adding 221 bps to the MSCI ACWI's performance, with Communication Services and Healthcare also contributing, while Industrials, Materials and Utilities underperformed. From a regional perspective, the US stood out delivering the most significant returns in the month.

Market Outlook and Investment Strategy

The first half of this year has been dominated once again by AI, an industrial revolution in technology that has sent shockwaves through markets and driven significant earnings revisions in narrow segments of the overall market. While many low/non dividend paying mega cap companies like Nvidia have dominated those returns, the fund has benefited elsewhere across the technology supply chain and we continue to find attractive fundamental opportunities where our vantage point as global investors helps us identify mis-priced opportunities. The market's focus on AI through the lens of compute, power and data has led to a dramatic re-appraisal of growth across certain subsectors of hardware and semi's, data centres, power suppliers and those businesses with significant data that could benefit from new AI models in presenting to clients. While promising, outside of Ad tech advancements in targeting, we are yet to see meaningful applications of AI in software with a return on investment attached which, in combination with traditional prudence in new technology adoption from corporates, means that we've seen a large bifurcation in the performance of hardware and software. This is an area in which we remain highly focused.

As we anticipated, interest rates have remained higher for longer thus far in 2024, echoing 2023; in both years we have assumed 6 rate cuts at the start of the year, with expectations progressively falling as the year goes on. We currently expect the Fed will likely cut rates in Q4 2024, but believe the US election will be key to this outlook. Polls currently suggest the Republicans are likely to win the Presidential election, which could imply more sticky inflation going forward given their policies on immigration and tariffs related to trade. Tighter restrictions on immigration could reduce the rate of labour force growth, potentially slowing the rate of growth more broadly. As a result, finding quality equities with secular growth drivers in our view is key.

Lately, we have seen some disappointing economic data, such as new order numbers and some bellwether companies reporting weakness, whilst simultaneously input cost inflation is continuing to normalise. This aligns with our anticipation of an economic slowdown, but we do not expect this to lead to a recession. We continue to look to invest in a balanced portfolio to navigate this, avoiding any major shift towards defensive assets as we seek to deliver strong returns in varying market environments. We expect that it will be high quality companies with pricing power that are once again likely to differentiate themselves in the second half and deliver margin gains if weaker demand continues.

We continue to see high levels of valuation dispersion across the market, with materially different economic expectations priced into stocks with similar characteristics. We continue to focus on the long-term potential of businesses and look to take advantage of short-term market noise to make investments at attractive valuations. We believe that quality companies offer resilience and are most likely to continue to grow in a volatile environment. Their well-invested brands, pricing power and intellectual property driving differentiated products and services are likely to be able to maintain and grow profitability. We continue to seek idiosyncratic stories and structural growth opportunities which we think will be critical in navigating through this period. We believe it is alpha rather than beta which will continue to drive returns as we see greater dispersion in equity markets. Ultimately our disciplined process focused on quality stocks at attractive valuations gives us confidence that we can continue to construct a well-diversified portfolio that can perform in a range of environments and deliver for you, our clients.

Source: BlackRock (Luxembourg) S.A.

## BlackRock World Energy Fund

Investment and Market Review

The BGF World Energy Fund returned -0.6% during June, compared to its benchmark, the MSCI World Energy 30% buffer 10/40 index, which returned -1.9%.

In June, US CPI inflation data was weaker than expected, following the stickier inflation prints of recent months. The US Fed has signalled a willingness to lower interest rates, but to date, data has not supported cuts and so the market took the June CPI print positively. Additional data remains mixed with US housing suggests a possible slowing economy.

Election uncertainty was a key factor, with the surprise dissolution of parliament in France following European Parliament election results, impacting on French equities. This raised uncertainty around the future path of regulatory support for renewable energy. We view the focus on energy security in Europe as key and renewables remain the main tool to improve domestic energy production in Europe.

Global equity markets as represented by MSCI AC World Index returned 2.2% during the month. Within energy, oil prices end the period higher, recovering from May's decline, but this masked notable volatility during the month with the Brent oil price down -5% to $75 at the low point. At the start of the month, OPEC announced an intention to add back oil production later in the year, with oil demand expected to continue to rise and this was initially taken negatively by the market.

The Brent oil price rose 9.9%, whilst WTI rose 6.2%, ending the month at $87/bbl and $82/bbl respectively. The US Henry Hub natural gas price rose +0.8% during the month to end at $2.60/mmbtu.

Market Outlook and Investment Strategy

Whilst there remains some market uncertainty around near-term oil demand, indicators point to continued oil demand growth through 2024 and over the next three years, whilst global economic growth remains positive. We expect oil demand to continue to increase and remain supportive for the oil price, provided the US and Europe avoid a sharp recession.

Market concerns for the sector over the past year have focused on the stronger than expected oil supply growth in 2023, however we do not expect to see a similar supply surprise in 2024 given sources of new supply are well known and are not expected to exceed demand growth.

Importantly, we have seen investors force capital discipline onto the energy sector and many energy companies have committed to return free cash flow to shareholders rather than return to maximising production. Additionally energy company balance sheets are much stronger today than in the past, suggesting greater resilience.

We expect inflation to remain sticky (reshoring, geopolitics, tighter labour markets, commodity resource constraints) and we believe energy is an attractive portfolio hedge against higher inflation, whilst the duration of oil demand strength is underestimated, in our view and is not reflected in current energy company valuations.

Russia’s invasion of Ukraine and the recent conflict between Israel and Hamas have introduced significant new geopolitical risks for investors to consider. Europe has looked to diversify its energy supplies, which has driven in increased demand for LNG, from the US and Middle East, whilst investment in artificial intelligence linked data centres is likely to create additional demand for natural gas (and renewables).

OPEC’s actions to reduce announced production targets (in October 2022, 2023 and YTD 2024) demonstrates a willingness, in our view, to be more active to manage oil prices. As oil demand increases we expect the cuts to be reversed, as announced in the May OPEC meeting.

Within our energy portfolios, key themes that are shaping portfolio construction this year include a bias towards higher quality international oil producers and selective exposure to US shale. Valuations appear attractive with energy companies expected to maintain capital discipline and deliver high free cash flows.

Source: BlackRock (Luxembourg) S.A.

## BlackRock World Gold Fund

Investment and Market Review

Gold equities exhibited beta to the gold price falling -1.3% in June.

It was a particularly challenging month relative to broader equity markets, with the MSCI ACWI TR Index rising +1.4% supported by outperformance from the information technology sector.

US dollar strength acted as a headwind for gold, with the DXY Index rising from 104.7 to 105.9. Gold was also pressured after it emerged that China's Central Bank had paused gold buying following ~18 months of significant purchases.

These factors were partly offset by several central banks cutting interest rates, including the European Central Bank and the Bank of Canada, but this had broadly been expected. Physically-backed gold ETFs recorded modest inflows as total holdings rose from 2,507 tonnes to 2,515 tonnes. Meanwhile, net length in the Comex gold futures markets rose from 20.4 Moz to 24.3 Moz.

Elsewhere, the silver price declined -8.6%, pulling back after a strong rally in May.

Market Outlook and Investment Strategy

The gold price has risen substantially over the past 18 months, bolstered by strong central bank demand and robust physical demand in Asia. Our medium-term base case is for gold to continue trending gradually higher and we see: structurally-higher geopolitical risk, stickier-than-expected inflation and rich broader equity market valuations as strong reasons for having exposure today.

However, considering the move in the gold price, the performance of precious metals equities has been somewhat disappointing. The primary reason, in our view, is that producers have experienced significant cost inflation over the past 3 years, which has meant that higher gold prices haven't translated into the margin expansion one might have expected. Another factor has been that gold equities appear to have been out of favour with investors, highlighted by outflows from active and index gold equity funds. Looking ahead, we believe the worst of the cost inflation is behind us. Meanwhile, our experience is that typically the time to get most positive on gold equities is when sentiment is severely depressed.

At current gold prices, producers are generating strong levels of free cash flow – key will be what they do with that cash and so we see the upcoming Q2 reporting season as a particularly important one.

Source: BlackRock (Luxembourg) S.A.

## BlackRock World HealthScience Fund

Investment and Market Review

Global equity markets advanced in June, with the MSCI World Index returning 2.0%. The index ended the first half of 2024 up +11.7%, led higher by mega-cap tech stocks exposed to the artificial intelligence (AI) theme.

In the US, the S&P 500 Index gained +3.6% in June, while the tech-heavy Nasdaq Composite Index returned +6.0%. May's US jobs report exceeded expectations for new job additions and renewed optimism around a soft landing. Headline CPI came in cooler than expected, leading yields to fall and growth to outperform value. At the same time, uncertainty regarding the upcoming Presidential election led to higher volatility towards the end of the month.

In Europe, the European Central Bank (ECB) delivered its first rate cut since 2019, despite resilient inflation and wage growth. Contrastingly in the UK, the Bank of England (BoE) held interest rates steady. National elections across the UK and

EU drew investor attention over the period. In China, equities traded down as the government's proposed capital market reform was interpreted as a potential challenge for investors.

From a sector perspective, Information Technology and Communication Services were the strongest performing sectors while Materials and Utilities declined.

Regionally, the US had the highest returns while Europe and emerging markets underperformed.

Market Outlook and Investment Strategy

Despite strong equity market performance in the first quarter of 2024, we continue to navigate an uncertain political and economic environment. We seek opportunities in segments of the health care sector with attractive valuations, stable growth, and promising product pipelines over the medium-to-long term. We also consider new innovations and technological developments for selective growth opportunities in the biotechnology, pharmaceuticals, and medical devices space.

From a policy perspective, we believe the environment should be benign in the near-term. With the passage of drug reforms included in the Inflation Reduction Act, there is now more certainty following years of speculation. President Biden announced ten drugs his administration will target for price negotiations as part of the prescription drug provisions included in the Act. The administration aims to leverage Medicare's market power to decrease prices for top-selling drugs treating blood clots, diabetes, cancer, and arthritis. Negotiations will take place over the next year for changes to take effect in 2026.

We expect continued market volatility and seek attractive opportunities in stable, strong cash flow generating companies across all health care industries. Over the long-term, secular drivers for the sector remain in place; firstly, aging demographics in both developed and developing countries and secondly, innovation in medical technology. The combination of these secular trends, with favourable valuation creates an attractive long-term investment opportunity.

Source: BlackRock (Luxembourg) S.A.

## BlackRock World Mining Fund

Investment and Market Review

It was a difficult month for the mining sector, particularly relative to broader equity markets as the MSCI ACWI TR Index returned +1.4%.

Most mined commodity prices posted declines through June, with iron ore (62% fe), copper and gold prices falling -10.9%, -8.9% and -1.3% respectively.

Economic data from China was weak with its manufacturing PMI below 50 indicating contraction, whilst average house prices recorded the largest year-on-year decline since 2015.

Meanwhile, US dollar strength provided an additional headwind for commodities, with the DXY Index rising from 104.7 to 105.9. Interest rate expectations declined modestly, with the US 5-year yield falling from 4.5% to 4.3% which supported the performance of growth sectors such as technology over value sectors like mining.

Market Outlook and Investment Strategy

Constrained mined commodity supply, an evolving demand picture, strong balance sheets and valuations below historic averages make us optimistic about the outlook for the sector.

Mining companies have focused on capital discipline in recent years, meaning they have opted to pay down debt, reduce costs and return capital to shareholders, rather than investing in production growth.

This is limiting new supply coming online and there is unlikely to be a quick fix, given the time lags involved in investing in new mining projects.

The cost of new projects has also risen significantly and recent M&A activity in the sector suggests that, like us, strategic buyers see an opportunity in existing assets in the listed market, currently trading well below replacement costs.

Other issues restricting supply include cases of governments closing mines, permitting issues and a general lack of shovel ready projects.

Meanwhile, the demand side of the equation appears to be evolving.

The commodity super-cycle (2002 – 2011) was all about China's extraordinary demand growth. Today, China remains the most important individual economy for mining, but we are expecting this importance to gradually decline through to the end of the decade. We expect global infrastructure spending to drive the next wave of demand, with low carbon transition-related infrastructure particularly meaningful.

Offshore wind, for example, requires 5.4x more steel and 2.9x more copper per megawatt of power capacity when compared with gas (source: BHP analysis, Hatch, ArcelorMittal, August 2023).

The other area gaining attention is the implications for materials from the build out of AI-related data centres, both for the centres themselves but also for the increased power infrastructure required.

Source: BlackRock (Luxembourg) S.A.

## BlackRock World Technology Fund

Investment and Market Review

The BGF World Technology Fund returned +9.4% in June (A2 share class in USD, net of fees), underperforming its benchmark, the MSCI ACWI Information Technology 10/40 Index, which returned +8.8%.

Global equity markets rose in June, with the MSCI ACWI returning +2.2%. The index ended the first half of 2024 up +11.3%, led higher by mega-cap tech stocks exposed to the artificial intelligence (AI) theme.

In the US, the S&P 500 Index gained +3.6% in June, while the tech-heavy Nasdaq Composite Index returned +6.0%. May's US jobs report exceeded expectations for new job additions and renewed optimism around a soft landing. Headline CPI came in cooler than expected, leading yields to fall and growth to outperform value. At the same time, uncertainty regarding the upcoming Presidential election led to higher volatility towards the end of the month.

In Europe, the European Central Bank (ECB) delivered its first rate cut since 2019, despite resilient inflation and wage growth. Contrastingly in the UK, the Bank of England (BoE) held interest rates steady. National elections across the UK and EU also weighed on equities over the period.

In China, equity markets traded down as the government's proposed capital market reform was interpreted as a potential headwind.

Commodity indices delivered positive returns over the month. By the end of June, the price of crude oil had increased to $82/barrel, nearing recent highs due to growing geopolitical concerns.

Global sectors had mixed returns in the month. Information Technology and Communication Services were the top performers in June, while Utilities was the most challenged sector. From a regional perspective, Emerging Markets and North America were the strongest performers. Elsewhere, Europe underperformed over the month.

Market Outlook and Investment Strategy

We believe that we are in the early stages of the AI era, which will drive exponential growth and value creation in the tech sector and beyond. AI is the next frontier of innovation and is one of the biggest singular technology trends that the global economy has ever seen. The opportunity it presents to investors is significant and will continue a dynamic we've seen over the past three decades: the technology sector's superior growth to all other sectors as it has disrupted existing industries and created new markets.

While the initial beneficiaries of the AI theme have been mega-cap tech names building the physical infrastructure required to train generative AI models, we see a variety of opportunities in companies aligned with the theme going forward.

We maintain our exposure to long-term secular themes within the portfolio, such as artificial intelligence, cloud computing, and electric vehicles, as well as more nascent themes such as metaverse, space, and quantum computing.

While growth assets were penalized as interest rates rose, the fundamentals of the companies within the portfolio remain compelling. The secular growth trends driving technology are multi-year transformations that we expect to persist, regardless of the macroeconomic environment or geopolitical risk.

Source: BlackRock (Luxembourg) S.A.

## FAM Global Income Fund

Investment and Market Review

With interest rates remaining at historic highs in the first half of 2024, investors rushed into obvious choices such as money market funds for those with low-risk tolerance or credit opportunities offering high single to low teen returns for those willing to accept higher volatility.

However, it was not a smooth ride for all income investors, as interest rate volatility resulted in a challenging environment. For reference, the Bloomberg Global Aggregate Index is down -3.16% year to date as interest rates remain volatile, highlighting the need to be selective.

Despite the challenging environment, FGI's focus on undervalued positions within fixed income with higher coupon and yield paid off. We believe this is a better strategy than timing the FED's next interest rate move. FGI delivered positive returns of 4.02% year to date and achieved top quartile within its peer group in the past 6 months and 1-year periods.

Market Outlook and Investment Strategy

The current high interest rate environment presents a unique opportunity to lock in attractive yields across various fixed-income segments. We maintain a blend of high-yielding segments such as Emerging Markets High Yield and Investment Grade within the US. These segments provide compelling risk-reward as we take advantage of strong credit fundamentals within the current economic up-cycle.

Going forward, we expect the various fixed-income engines in FGI to continue to contribute meaningful income as we do not yet expect any meaningful deterioration in fundamentals. Furthermore, cooling inflation and expectations of Fed rate cuts could lead to potential capital appreciation.

While we are optimistic about the current income opportunity, we remain vigilant about potential risks. Government bonds and alternative income provides resilience during times of widespread stress and improves the overall quality profile of the portfolio.

Source: Finexis

## FAM Global Opportunities Plus Fund

Investment and Market Review

Amid volatile markets over the past few months, marked by fluctuating Fed interest rate expectations, FGO Plus's strategy of allocating across Equity, Fixed income, and Alternatives has resulted in a more resilient journey for investors. We provide a review for each distinct segment within the portfolio below.

Equity: In Q1 2024, expectations of a 'soft landing' enabled our recovery positions such as US Small Caps and Emerging Markets to rally strongly. Subsequently, uncertainty over interest rates and excitement over AI resulted in a crowded and narrow rally amongst the few mega-cap stocks, causing weakness in the YTD performance.

Fixed Income: The focus on higher-yielding segments with lower duration contributed meaningfully to performance. While broader bond markets posted negative returns of -3.16% in the first half of 2024, our fixed-income positions provided high single digit income to the portfolio.

Alternatives: Trend-following demonstrated its value as an effective diversifier, posting gains of 8.62% when traditional diversifiers such as global bonds posted negative returns of -3.16%. Notably, Alternatives posted positive returns for each of the first four months of the year, even during periods when equity or bond markets declined.

Market Outlook and Investment Strategy

We continue to remain in a window of economic up-cycle that would benefit risk assets, which we take advantage of through our recovery positions. However, we expect increased volatility in 2H 2024 with some early signs of economic softening.

To reflect our cautious optimism, we have been building positions in select higher-quality large-cap segments to complement our other recovery positions i.e. US Small Caps and Europe. Recent data shows improved margins and positive earnings revisions in quality large-cap companies in the US, presenting a good opportunity for us to improve the quality of our portfolio.

Within fixed income, we remain invested in higher-yielding fixed-income segments. They are expected to continue delivering attractive income in the current high interest rate environment, while also providing a buffer during volatile markets. Trend-following Alternatives are also expected to offer powerful diversification in varying market environments.

Overall, FGO Plus's diversified portfolio provides a good balance of high income and recovery potential alongside an overall higher quality profile which allows investors to capture future upside while facing any near-term volatility with confidence. We continue to monitor markets closely and expect to use periods of volatility to accumulate positions with strong fundamentals at lower prices.

Source: Finexis

## FAM Millennium Equity Fund

Investment and Market Review

The year started with a volatile January, as markets took a breather after strong gains in late 2023, before the resumption of the uptrend in February and March as markets grew confident in the 'soft landing' scenario of cooling inflation and resilient economic data.

Market dynamics shifted in Q2 as uncertainty over interest rates and excitement surrounding AI led to a crowded and narrow rally amongst a few mega-cap stocks such as the 'Magnificent 7'. The narrow rally led to a challenging environment for more diversified strategies such as FME, causing weakness in the year-to-date performance.

To highlight, the allocation to Vietnam equities (and reduction of China equities) within our Emerging Market bloc benefitted. Vietnam delivered strong performance on the back of recovering exports and continued strong Foreign Direct Investments (FDI).

Market Outlook and Investment Strategy

We continue to remain in a window of economic up-cycle that would benefit risk assets, which we take advantage of through our recovery positions. However, we expect increased volatility in 2H 2024 with some early signs of economic softening.

To reflect our cautious optimism, we have been building positions in select higher-quality large-cap segments to complement our other recovery positions i.e. US Small Caps and Europe. Recent data shows improved margins and positive earnings revisions in quality large-cap companies in the US, presenting a good opportunity for us to improve the quality of our portfolio.

Overall, FME's current positioning is a good balance of quality and recovery that would allow investors to capture further upside while facing any near-term volatility with confidence. We continue to monitor markets closely and expect to use periods of volatility to accumulate positions with strong fundamentals at lower prices.

Source: Finexis

## Federated Hermes Global Emerging Markets Equity Fund

Investment and Market Review

The Strategy rose by 5.64% (5.38% net)over the quarter, outperforming its benchmark by 64bps (38bps net). Our zero exposure to Saudi Arabia and stock selection in South Africa, Taiwan and India contributed most to our relative return, while selection in China, South Korea and Indonesia detracted the most.

Samvardhana Motherson International, a global auto component supplier, contributed most to our relative return at the stock level, rising thanks to strong operating performance and a healthy order book. Tencent, China's leading social entertainment provider, rose by 25% following the successful launch of a mobile version of its Dungeon and Fighter game. Tencent Music, China's leading music streaming business, rose due to strong online music revenues, record-high new subscribers, higher margins and improving shareholder returns.

Shenzhen Inovance, a Chinese manufacturer of automation components, fell due to a downturn in solar-driven demand impacting pricing. Bank Rakyat Indonesia, a leading micro lender, fell due to more non-performing loans and higher credit costs. Itausa, a Brazilian investment company, fell as high interest rates in the US are resulting in elevated borrowing costs and reducing the scope for Brazil's central bank to cut rates.

Market Outlook and Investment Strategy

Developments this year reinforce our optimistic outlook as policy action in many emerging economies has the potential to translate into a conducive environment for businesses to operate and flourish. Elections in India and Indonesia are reassuring for reform momentum and there is potential for accelerated reforms in South Africa. While volatility followed the Mexican election, the new government is expected to adopt a market-friendly stance on issues that matter to investors. Korea's corporate 'value up' programme will provide a helpful tailwind if implemented well, while China continues to support the property sector and make progress towards a higher value-added economy. We continue to prioritise investments in high-quality businesses that have the capacity to grow structurally, maintain low levels of leverage and trade at reasonable valuations. We believe such firms are well placed to outperform in a world that may experience higher-for-longer interest rates, slower growth and more geopolitical uncertainty.

Source: Federated Hermes

## Fidelity Global Financial Services Fund

Investment and Market Review

The global financials sector advanced during the quarter, in line with global equities. Markets initially responded poorly to robust economic data from the US in April, on concerns that an overheated economy could reduce expectations for interest rate cuts. Positive momentum from the first quarter of 2024 eventually caught up with the soft / no scenario, driven by investor optimism surrounding policy easing as signs of cooling inflation in the US raised expectations for an interest rate cut as early as in September. Against this backdrop, major regional indices ended in a positive territory, with the US emerging as the best performer as technology giants lifted major stock indices to all-time highs. Easing inflation led investors to increasingly price in rate cuts, while the US Federal Reserve (Fed) said it expects one rate cut by the end of the year. European equities underperformed as French political uncertainty overshadowed the European Central Bank's long-awaited first interest rate cut of the easing cycle. UK equities maintained their upward trajectory. Japanese equities advanced in local currency terms, but uncertainties about the Bank of Japan's policy path weighed on investor sentiment, limiting market gains. Emerging markets outperformed developed markets, driven in part by China, and in particular the Hong

Kong market, which rallied as sentiment among international investors improved. At an industry level, banks and consumer finance performed particularly well.

Market Outlook and Investment Strategy

The portfolio management team invests in long-term winners with strong governance, social environmental, social and governance (ESG) metrics and relatively attractive valuations. The focus is on three key characteristics, i.e. the fundamentals of the business (durable competitive advantages, solid operating fundamentals, improving stock specific drivers); quality (long-term winners in their industries, a bias towards companies with predictable, consistent profit growth, strong balance sheets); and the macroeconomic backdrop, which is crucial for assessing risks and tactical opportunities in the financials space.

Source: FIL Investment Management

## Franklin Global Sukuk Fund

Investment and Market Review

Global bond markets remained volatile throughout the second quarter of 2024, falling in April and then rebounding a little in May and June. The US Federal Reserve (Fed) kept the federal funds target rate unchanged at a 23-year high at its May and June meetings. In June, the Fed updated its 2024 rate-cut projection to one—down from a previous forecast of three—though Fed Chair Jerome Powell left open the possibility of two 2024 rate cuts. The European Central Bank embarked on a monetary policy easing cycle in June with a cut of 25 basis points (bps), as had been widely expected. Against this backdrop, the Sukuk market rose slightly.

In the second quarter of 2024, the fund’s asset allocation detracted from performance, primarily due to an off-benchmark exposure to Treasuries. Currency positioning also hindered fund returns, owing largely to exposure to the Turkish lira. Conversely, the fund’s security selection contributed to results, particularly in sovereigns, corporate financials and quasi-sovereigns. Its yield-curve positioning also proved beneficial, primarily due to Turkish-lira duration exposure (notably carry), though this was largely offset by US-dollar duration exposure, particularly at the longer end of the curve.

Market Outlook and Investment Strategy

Despite improving US inflation readings released in June, with the core personal consumption expenditures price index registering an annual rate of 2.6% in May (down from 2.8% in April) and the annual core Consumer Price Index coming in at 3.4% (down from 3.6%) for the same period, fixed income markets continued to exhibit elevated levels of volatility as participants focused on what fiscal policy and growth may look like under a potential Trump administration. As expected, rates volatility is likely to remain elevated as incoming economic data support conflicting growth and inflation narratives, along with a US presidential election cycle exacerbating policy uncertainty.

The Fed updated its 2024 rate-cut projection to one, down from a previous forecast of three; however, we are maintaining our overweight duration positioning, particularly as credit spreads continue to perform and provide fewer opportunities for returns.

While the market calibrates the timing and magnitude of rate cuts, it is important to keep in focus that the transition from a peak rate environment to a cutting cycle is supportive for interest rates but potentially challenging for risk assets. With the expectation that the Fed may hold rates higher for longer, we believe pressure on consumers, companies and governments will continue to increase—particularly on those with weaker financial profiles.

Geopolitical risks are also increasing, with limited progress on a ceasefire in Gaza and escalating tensions between Israel and Hezbollah that are not reflected in regional spreads and valuations of risk assets more broadly, in our assessment.

Our positioning, therefore, continues to show a preference for higher-quality credits that have financial buffers to manage slowing economic activity. Where we do take on higher-risk positions, they are increasingly selective and idiosyncratic and, in our view, compensate us for the elevated risks involved. On average, however, our portfolios do have higher credit quality than their historical average.

Our outlook supports an increase in defensive allocations to higher-quality fixed income sectors—of which global Sukuk are a good example—as we transition to rate cuts in 2024.

Source: Franklin Templeton

## Franklin Income Fund

Investment and Market Review

During the second quarter of 2024, all three major US indexes reached new record highs. While the Dow Jones Industrial Average ended the period with losses, fervor for artificial intelligence lifted the S&P 500 Index and NASDAQ Composite Index to solid quarterly gains. Optimism that the US Federal Reserve (Fed) might begin cutting interest rates in September also boosted stocks. Out of the 11 sectors in the S&P 500, information technology (IT) and communication services performed strongly, while materials and industrials were among the six sectors that experienced negative results. Large-capitalisation stocks collectively rose and outperformed mid- and small-cap stocks, both of which generally declined.

The Fed kept the federal funds target rate unchanged at a 23-year high during its May and June meetings and reduced its projected number of rate cuts for 2024 from three to one. The Fed's preferred inflation gauge, the core personal consumption expenditures price index, rose in May at the slowest rate since March 2021 but remained above the Fed's target. Moreover, the US labour market remained strong during the quarter; while the unemployment rate rose in April and May, jobs and average hourly earnings grew at a faster pace in May after softening in April. Meanwhile, US gross domestic product expanded in 2024's first quarter at a significantly slower annual rate than in the prior quarter as consumer spending, exports, and state and local government spending grew at slower rates and federal government spending declined; conversely, residential fixed investment accelerated.

The 10-year UST note's yield increased 20 basis points during the quarter, reaching 4.40% by period-end. The fund's fixed income allocation decreased to 55% of the portfolio by quarter-end and contributed to absolute returns. Fixed income returns were driven by the health care, materials and financials sectors. Top contributors were Bausch Health and Community Health Systems within health care, as well as CommScope Holding within IT. Conversely, USTs detracted from returns, along with Multiplan and Altice within the health care and communication services sectors, respectively.

The fund's equity allocation decreased slightly to 42% of the portfolio by the end of the period. Stocks contributed to absolute fund returns, led by the utilities, financials and IT sectors. Southern and NextEra Energy performed best within utilities, while Texas Instruments assisted returns within IT. In contrast, the health care, materials and consumer discretionary sectors hindered absolute equity returns during the quarter. On an individual issuer basis, Intel was the largest detractor within IT, while Bristol-Myers Squibb and CVS Health weakened returns within health care.

Market Outlook and Investment Strategy

Economy: The economic growth outlook has been a major area of focus for the fund, as central banks around the world have raised interest rates over the last two years to combat elevated inflation. Central bankers around the world have shifted their stance away from a targeted fight solely against inflation in favour of a more balanced approach to monetary policy. The US economy remains resilient despite some cooling to start 2024, largely driven by a strong labour market and robust consumption in goods and services, despite the federal funds target rate increasing by 525 basis points over the past two years. We continue to monitor financial conditions as a leading indicator of future economic performance and Fed policy. The lagged effect of Fed policy has resulted in a broad tightening of financial conditions; nominal yields and mortgage rates have moved higher, while loan growth across various categories has slowed due to banks reporting higher standards for lending.

Equities: We remain selective in engaging with equities, given current valuations, as markets digest the lagged effect of monetary policy tightening, the shape of the yield curve, the cost of capital implications as rates remain higher for longer, and geopolitical risks. We have found select opportunities within the consumer discretionary, industrials and materials sectors. Market breadth has been narrow over the last year, but opportunities are starting to present themselves below the index levels, which we feel favours active management. As income-focused investors, our asset allocation mix is driven primarily by bottom-up security selection, with a focus on company fundamentals as opposed to the direction of the broader equity market. While the capital return story differs by sector, our holdings are focused on businesses that show an ability to support attractive dividend yields and grow them over time.

Treasuries/Government-Backed Bonds: Deficit spending, combined with the demand dynamics of Fed quantitative tightening and the increase in supply of USTs, has resulted in a broad increase in the 10-year UST note's yield thus far in 2024. Recent higher inflation readings relative to consensus expectations, along with labour market resiliency, have led to the market now expecting a later start to

Fed easing, as well as fewer rate cuts in 2024. We continue to believe that the Fed will remain vigilant to ensure inflation does not return, and we continue to expect a lack of fiscal constraint to weigh on balancing budgets. We believe these factors should provide attractive yields, while exposures can help to hedge the portfolio against volatility should we see a drawdown in risk assets.

Investment-Grade Corporate Bonds: We retain a balanced view of the corporate investment-grade sector as the attractiveness of higher-quality assets has increased over the past 18 months. While absolute yield levels are still attractive for an income-generating strategy, credit spreads have contracted materially over the past year, which has marginally decreased the attractiveness of investment-grade corporate bonds, in our assessment.

High-Yield Corporate Bonds: While the high-yield market offers attractive yields, we remain balanced and selective due to the potential for higher refinancing costs impacting companies' fundamentals. The potential for growth deceleration necessitates a vigilant approach to security selection within our high-yield portfolio, so our preference continues to be companies that have a greater degree of flexibility to deal with upcoming maturities.

Source: Franklin Templeton

## Franklin India Fund

Investment and Market Review

Despite some volatility, Indian equities ended on a positive note for the second quarter of 2024 as the incumbent prime minister won the elections. Expectations of policy continuity were rife despite a coalition government.

Larsen & Toubro is a manufacturer of engineering equipment. It also undertakes large-scale engineering projects. A lower guidance for revenue, margins and orders for the fiscal year ending March 2025 added onto existing share price pressures from expectations of slowing orders as India's new government eases in and pauses spending on infrastructure—a significant portion of the company's revenue comes from government orders. While the share price recovered slightly on the back of new-order wins and alongside the broader Indian equity market as the incumbent prime minister was re-elected, the stock still traded lower for the quarter. In our view, we believe that margins are normalising. The company is also improving on its working capital—as witnessed from its significant improvement in its working capital cycle—which we feel that the market is overlooking.

Cognizant Technology is a US-listed technology services company that derives much of its earnings from services provided from India. Its share price slipped as several analysts reduced their target prices for the company—continued pressures on discretionary spending due to macroeconomic and geopolitical concerns have resulted in a cautious view towards spending on the information technology (IT) sector. However, its shares recovered slightly alongside IT services companies as a technology consulting company reported better-than-expected new bookings for its fiscal third quarter.

Trent operates a chain of retail stores. It sells apparel, cosmetics and toiletries. Its share price rose on the back of its strong earnings results for the latest quarter. Positive analyst comments also supported share price gains. With easing inflationary pressures, we believe that demand for items such as apparel should continue to recover. Trent's aggressive store expansion and online presence, in our view, should complement the expected improvement in discretionary demand.

Market Outlook and Investment Strategy

While the performance of Indian equities has been generally climbing since the start of 2024, the Indian stock market faced some volatility during the country's latest elections. We believe that Prime Minister Narendra Modi's Bharatiya Janata Party (BJP)-led National Democratic Alliance will likely continue its policy direction in the three growth drivers of India. The focus could remain on developing the manufacturing base through the Production Linked Incentive scheme, the transition of infrastructure growth from the public to the private sector—focused on areas including renewable energy—and stimulating consumption, with potentially renewed attention on rural incomes.

Despite the short-term volatility, we believe that the medium- to long-term performance outlook for Indian equities remains unchanged. We believe that the government's focus—centred around economic growth—should be helpful to corporations in growing their earnings. In the long run, we believe that reforms are entrenched, and India continues to be a long-term structural growth story.

Our Indian equity strategy, in our view, was well-positioned for the elections. We believe that the post-election outlook for India remains supportive of the fund's longer-term investment themes. India's growing middle class, investment and industry upgrades, and digital transformation are among the structural growth pillars from which, in our analysis, the portfolio is positioned to potentially benefit.

Source: Franklin Templeton

## Franklin K2 Alternative Strategies Fund

Investment and Market Review

Although June political developments in Europe pressured results in that region, enthusiasm about artificial intelligence (AI) helped drive collective gains in global equities during the second quarter of 2024, particularly in the United States. Renewed optimism about an economic "soft landing" in many regions, an interest-rate cut in the eurozone, and investor expectations for potential rate cuts in the United Kingdom and the United States during the second half of this year also aided investor sentiment. Global manufacturing activity expanded in June for the fifth consecutive month, and flash reports for June indicated services activity expanded in many regions. As measured by MSCI indexes in US-dollar terms, emerging market equities outperformed a global index, while developed market equities underperformed it. Global growth stocks significantly outperformed global value stocks. Fixed income spread sectors saw mixed absolute returns during the quarter as financial market sentiment oscillated between caution at hawkish-leaning central bank rhetoric and relief at a resumption of the disinflationary trend in the United States. Lower-rated credits generally fared better than their higher-rated counterparts, with US and major regional high-yield bond indexes posting broadly positive absolute returns.

On a gross basis, two of the four strategies contributed to the portfolio's performance in the second quarter, while seven of the 10 underlying managers produced positive results. The long/short equity strategy was the key driver of positive performance, while the relative value strategy made a modest contribution. The strategic overlay, formerly known as the conditional risk overlay (CRO), was also a substantial contributor along with cash positioning. Overall, at the asset class level, long equity positioning was the key contributor along with cash positioning. Within equities, the industrials sector drove positive performance, followed by equity index futures (long). In contrast, currency hedges and long fixed income positioning weighed on returns, while credit positioning detracted modestly. In fixed income, emerging market government bonds were the key detractors.

The long/short equity strategy was by far the largest contributor to positive absolute performance, driven by gains in the equity portfolio, which was long overall. The largest sector contributor within equities was industrials, with an additional, more modest gain from equity index futures, especially in the United States. All three subadvisors posted quarterly gains, with Electron and ActusRay as the top two overall contributors regardless of strategy. Electron continued to sharply outpace the MSCI World Utilities Sector Index during the quarter, boosted as demand for energy to meet AI and electric vehicle needs led to a focus on core sectors of utilities, infrastructure and renewables. Flows in all subsectors reversed in June, but the strategy was more resilient than the utilities index during the month, and the selloff was not driven by fundamental or regulatory changes. Notable contributors included a lithium-ion battery maker that rallied in June, driven by a recent contract to supply an augmented reality company, and a Texas-based power producer and retail energy provider that benefitted from expectations for power demand from AI, as well as an earnings beat and raised guidance. Subadvisor ActusRay was a strong contributor in April as quant factor spreads based on alpha models continued to tighten, and the portfolio held up well in a more challenging environment in May and June, when global investors focused heavily on macroeconomic factors. Subadvisor Jennison continued to outpace its benchmarks on a year-to-date basis, but it was a more modest contributor given weakness in biotechnology and pharmaceutical stocks early in the quarter.

The strategic overlay (formerly known as the CRO), was a meaningful contributor during the period, owing to its exposure to Standard & Poor's® 500 Index (S&P 500) futures.

The relative value strategy also contributed, but modestly. Equity positioning, which was short overall, was the leading asset class, bolstered by short positioning in the information technology sector. All three subadvisors posted gains, led by Athena, supported by cash positioning. Subadvisor Lazard outdid its benchmarks across the quarter as the convertible basis widened, with some tailwinds in the credit and interest-rate portion of the portfolio. Subadvisor Apollo's challenging April gave way to a positive quarter for the markets, and the portfolio. A media company was among the top contributors as the firm's earnings provided optimism around its digital business, the scaling of which will likely help mitigate industry challenges.

During the quarter, the team substantially reduced exposure to the event-driven strategy and the lone subadvisor, Bardin Hill, given a tough current regulatory and political environment. In the relative value strategy, the team increased exposure to subadvisor Athena while reducing subadvisors Apollo and Lazard. The team also added exposure to the strategic overlay. Exposure to cash was significantly higher at quarter-end than at the end of March. The team continues to consolidate the portfolio into high-conviction managers, which the team believes can combine nimble beta management while aiming to deliver consistent alpha.

Market Outlook and Investment Strategy

For nearly a year, we've been suggesting that the Federal Reserve (Fed) is highly attentive to inflation. During the fourth quarter of 2023, the Fed intimated the potential for up to five or six rate reductions in 2024 as indicators of inflation began to show easing. Yet, despite the Fed's planned path, there is an abundance of Fed predictors. This seems a bit paradoxical since the Fed itself has expressed its approach of considering each data point and meeting sequentially, and it acknowledges the complexities of forecasting in this unparalleled historical period. We remain concerned that the actual neutral interest rate might exceed what both the Fed and the market are predicting, which could lead to a reassessment of risk levels.

Six months ago, we anticipated the market would be characterised by a pendulum of expectations, swinging from prospects of subdued growth and reduced future interest rates to scenarios of strong growth with consistent rates, and possibly even to vigorous growth with renewed inflationary pressures. This pendulum swing in expectations is expected to create numerous alpha opportunities across different investment factors, regions, asset classes, and trading strategies.

We still believe that the technology sector will likely dominate the market's overall performance. As this dominance begins to fade, we might observe a shift in trading focus towards the end of 2024. Indeed, the journey ahead is lined with the potential for obstacles and sudden changes. During this quarter, we anticipate that investors will closely monitor the earnings cycle, economic expansion, and central bank statements. Near the end of the summer, the US election cycle is expected to dominate the spotlight, with attendance being free but the repercussions potentially expensive.

Our greatest concerns hinge on the possibility that economic growth, inflation, and interest rates may remain elevated longer than currently anticipated by the market. We are actively questioning how these risks might come to fruition. Could AI have a more significant and rapid impact than expected? Is the growth in immigration in the United States contributing to the nation's economic engine? Geopolitical tensions continue to rise, but for the most part, the global markets have looked through such events with local and direct markets taking the brunt of the selling. Could there be an incident that triggers a lasting move away from risk? Should interest rates not decrease rapidly, what implications might this have for real estate, private credit, banks, and less-regulated financial entities?

Notable additions to our preferred strategies are equity market neutral and commodities. We believe there is untapped value in today's market related to the narrowing breadth of the equity rally. Given that most commodities are beaten up, the chance of inflation persisting longer than expected, supply disruptions/hot weather, and consistent demand all paint a very attractive mosaic for commodity appreciation in the next 12 months. We continue to endorse our strategic focus on discretionary global macro for all the reasons we've discussed over the last nine to 12 months. Investors should consider diversifying strategies and top-down–driven global macro to complement their long-only portfolios, which are increasingly becoming interrelated. It seems wise to anticipate future returns and risk distributions to be broader, with more pronounced extremes on both the upside and downside. Active asset managers, particularly hedge funds known for their agility and dynamism, may need to play a more significant role in asset owners' portfolios.

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Source: Franklin Templeton

## Franklin Templeton Western Asset Asian Opportunities

Investment and Market Review

Fixed income markets fluctuated throughout the month, influenced by the trajectory of central bank monetary policy based on incoming data and politically related volatility that affected several key global economies. U.S. Treasury (UST) yields traded in a wide range but ended the month lower. Moderating U.S. inflation and economic data helped to consolidate expectations that the Federal Reserve ("Fed") will soon begin to ease its restrictiveness of its monetary policy. Asia local bond markets generated positive returns for the month, with South Korea outperforming given declining yields. Indonesia bucked the trend with underperformance, driven by concerns of rising fiscal deficits on the back of President-elect Prabowo's campaign promises for a nationwide student lunch program. Asian currencies were a mixed bag in June, with no clear broad drivers. The Chinese yuan and Indonesian rupiah experienced some weakness, whereas the South Korean won outperformed on the back of improving current account flows.

Asian currencies and bonds generally rallied during the month, with the Fund benefiting from its overweights in India and the Philippines, as well as from outperformance in China and its UST exposure. Elsewhere, the Fund's overweight in the belly of the yield curves in South Korea, Malaysia and the Philippines and in USTs, as well as a long-end overweight in China, were additive for results. Finally, the Fund's U.S. dollar-denominated Asian investment-grade credits were a contributor on the back of UST yield moves.

<u>Market Outlook and Investment Strategy</u>

The Fund maintained a tactical approach in Asian assets and in selective Asian currencies, favoring higher-yielding markets such as Indonesia and India. The Fund actively managed duration, diversifying its positioning in view of monetary policy divergence and unique economic and political challenges, with an overall overweight duration portfolio stance. That said, the Fund maintained underweight durations in select markets where monetary tightening remained necessary in view of price pressures. Finally, the Fund maintained a selective overweight to high-quality Asian U.S. dollar-denominated corporate bonds supported by fundamentals. At current valuation levels, though, the manager continues to be highly selective in terms of its positioning.

Global growth and inflation rates continue to decline. Ongoing deflationary pressures in China, tightening financial conditions in the U.S. and Europe, and subdued demand for manufacturing and services in several countries are easing price pressures worldwide. These trends, coupled with the major central banks' measured and gradual approach to easing monetary policy, are expected to further dampen economic growth and inflation. This, in turn, should lead to lower developed market government bond yields and a modestly weaker U.S. dollar. However, concerns remain about potential monetary policy missteps, inflation rates stabilizing above central bank targets, stronger-than-expected growth in the U.S. and increased UST supply to cover a growing fiscal deficit. These factors could lead to periods of heightened market volatility. Asia, like most of the emerging markets (EMs), is benefiting from faster disinflation compared to developed markets. Sequential inflation is running below inflation targets in 43% of EMs today. However, EM growth remains soft in Asia, where it has been anchored by export-oriented economies such as Taiwan, South Korea and Vietnam. Asia is in a better state when it comes to fiscal dynamics compared to other EM economies such as Brazil, Mexico and South Africa, where the cost of debt exceeds nominal growth. Asia's relatively lower nominal yield is both a function of lower inflation and shallow monetary policy tightening in this cycle. With monetary easing not imminent, the region's sovereign yields are less attractive to foreign investors. That said, for investors seeking quality fixed income sovereign yield, Asia offers lower volatility, increasingly deep domestic anchorage, and significant improvements in liquidity, with average bid/ask yields and foreign ownership levels at close to decade lows. Meanwhile, Asian currencies remain subject to risk-off sentiments heading into the second half of the year, with rising headline risks from the U.S. election season, as well as in China and South Korea, as their economies are more exposed to geopolitical noise. In South Asia, idiosyncratic headwinds persist, including Thailand's weak current account, trade convertible debt securities due to its relationship with the underling equity. They are also generally not as senior as non-convertible debt securities and typically have lower ratings. Contingent convertible securities have additional risks to this due to more difficult valuation and discretionary coupon payments. There are no assurances of capital repayment. Fund operations: The fund is subject to the risk of loss resulting from inadequate or failed internal processes, people or systems or those of third parties such as those responsible for the custody of its assets, especially to the extent that it invests in developing countries. Complete information on the risks of investing in the Fund are set out in the Fund's prospectus.

Source: Franklin Templeton

## Franklin Templeton Western Asset Global Bond Trust

Investment and Market Review

The global fixed income market was volatile in 2023, but ultimately ended the year positive. expectations for a "higher for longer" interest rate environment given persistent inflation triggered a sell off in the second and third quarters. However, the market rallied sharply in the fourth quarter, as inflation moderated, and the Fed "pivoted" by indicating an end to its monetary tightening campaign. Risk assets also rallied in hopes that the Fed would be able orchestrate a soft landing.

Given this backdrop, the portfolio had strong positive returns for the calendar year. The top contributor to the portfolio was exposure to select emerging market local currency sovereign bonds. The Fund's exposure to Brazil, Mexico, and Colombia contributed on the back of attractive valuation opportunities driven by high nominal yields and peaking inflation following aggressive and early rate-hiking cycles.

U.S. Corporate high yield also contributed, followed by investment-grade credit. These sectors benefited from high starting yields and the narrowing of spreads. Within US investment grade credit, financials in particular outperformed, followed by industrials. Within US high yield, the communications sector underperformed, but broadly, every other sector performed well. Prime MBS also contributed given the resiliency in the U.S. residential housing market. Finally, UK Gilts that were added later in the year were accretive to the portfolio, as were tactical allocations to German and Spanish government bonds.

On that detractor side, US Treasury duration detracted given the second and third quarter bond sell off. However, we believe the recent fourth quarter rally in duration is encouraging and a sign that the market has pivoted away from a higher for longer scenario. In addition, a lower inflation backdrop along with the likelihood that central banks have reached peak rates are all encouraging for duration. Finally, a short to Japanese sovereign duration also detracted as did exposure to the Japanese yen.

Market Outlook and Investment Strategy

The Fund made several portfolio changes throughout the year. Overall portfolio duration slightly decreased during the year, but importantly where we held duration evolved. US Treasury duration starting the year was primarily invested on the 30-year part of the curve, however, as US economic data came in stronger than expected throughout the year, we rolled down the curve and added 5- and 10-year US Treasury exposure.

After the strong fourth quarter rally, we took some profits on our US Treasury position, and to end the year we remain invested to the 10-year part of the US Treasury curve. In the US, we continue to favour the intermediate part of the curve, as this can perform well either in soft landing or recession scenarios. The fund also initiated exposure to UK Gilts, German bunds and Spanish government bonds in the fourth quarter. The growth slowdown remains more evident in the UK and Euro area, while at the same time these central banks have also indicated an end to their rate hiking cycles. We increased positions to EM local currency sovereign bonds early in the year, and began selectively trimming some of that exposure later on as it performed well. We also trimmed some of our US RMBS exposure for profit taking. Finally, we initiated and then sold a Japan sovereign duration short.

Our base case coming into 2023 was that inflation would decline and it has. With inflation lower and major developed market central banks about to embark on rate-cutting cycles, the macro environment is generally favourable for bonds. With that said, there are still uncertainties in the economy that should dominate headlines in 2024. We are entering the year with major global economies in varying growth trajectories, with the Eurozone in below trend growth, China still weak, and the US economy holding on for now but with various aspects at play that could impact a hard or soft landing.

We therefore feel it’s important to employ an active and nimble approach in the coming year, as investors navigate the macro backdrop. We currently hold an overweight to high quality developed market duration, primarily via US Treasury duration, followed by UK Gilts and some European duration (German bunds and Spanish government bonds). In the US, we continue to favor the intermediate part of the curve, as this can perform well either in soft landing or recession scenarios.

It is also important to remember that a number of fixed income sectors continue to have strong yields, and are out yielding the S&P 500 Index, making the case for bonds compelling. We therefore also currently hold select US corporate credits with meaningful yield cushion. We believe US credits are a good place to be right now given that the Fed has reached peak rates and the starting yields remain compelling. With that said we are being selective in our credits and doing the bottom-up work, meaning we like companies with strong balance sheets and management teams. We see opportunities across fixed income sectors and through active, relative yield curve and cross-country positioning. Hard or soft landing, we believe the bonds we are invested should do well given a lower inflation backdrop, a central bank pivot, and higher starting yields. Finally, we believe that our portfolio represents a compelling opportunity, with a 7.3% YTM and an investment grade credit quality rating.

Source: Franklin Templeton

## Fullerton Total Return Multi-Asset Advantage Fund

Investment and Market Review

| **Index** | **Year to end Jun 2024 in USD** | **2023 Total Return in USD** | **2022 Total Return in USD** |
|---|---|---|---|
| MSCI AC World | 11.3% | 22.2% | -18.4% |
| MSCI Asia ex-Japan | 9.8% | 6.0% | -19.7% |
| MSCI China | 4.7% | -11.2% | -21.9% |
| Bloomberg Global Aggregate (USD hedged) | 0.1% | 7.1% | -11.2% |
| JP Morgan Asia Investment Grade Credits | 1.6% | 7.4% | -10.0% |

*Source: Fullerton, MSCI July 2024*

The positive momentum in equities that began in late 2023 and extended into the first quarter of 2024 continued into the second quarter (Q2). In dollar terms, the MSCI AC World Index delivered a 2.9% return over the quarter. The S&P 500 Index reached a new all-time high intra-month in June and returned 4.3%, driven by further gains from the Magnificent 7, over the quarter. European equities, on the other hand, saw fresh record highs in May alongside better-than-expected earnings, before retracing amid election uncertainty in both the UK and France. Nonetheless, the STOXX 600 Index ended the quarter 1.6% higher in euros and the return is similar for Japan's TOPIX Index in yen. Chinese authorities' stimulus policies, combined with strong demand for Korean and Taiwanese chips in artificial intelligence, helped the MSCI Asia ex-Japan Index post a strong 7.2% return in dollars over the quarter.

The European Central Bank and the Bank of Canada both delivered their first rate cut of 25 basis points since the pandemic. This came after the Swiss National Bank and Sweden's Riksbank led in kick-starting the monetary easing cycle. Meanwhile, the U.S. Federal Reserve held steady despite Core CPI for May easing to 3.4%, the lowest since August 2021. Given the strong performance in equities and a healthy economy, it is unsurprising that the median assessment of the Fed's June Summary of Economic Projections indicates just one 25 basis point rate cut this year.

U.S. Treasuries struggled in the quarter as investors priced in fewer rate cuts over the rest of the year, but the declining inflation trend was enough to drive the 10-year yield down 10 basis points in June to end the quarter at 4.40%. Nonetheless, this is 20 basis points higher over the quarter and 52 basis points higher since the start of the year. Meanwhile, the 10-year Japanese Government Bond (JGB) yield rose to its highest level since 2011 in May (1.09%) and remained elevated in June following the Bank of Japan's announcement of its intention to reduce JGB purchases. The USD-hedged Bloomberg Global Aggregate Bond Index returned 0.1% over the quarter, as mark-to-market capital loss from rising rates was offset by carry interest, while the JACI Investment Grade Index was up 1.0% in the same period.

Political developments were another focus in Q2 amid several global elections. The unfavourable outcome of the European parliamentary election led France's President Macron to announce a snap general election. Market concerns about the possible outcome introduced significant volatility, causing French equities to slide since mid-May and the 10-year French Government Bond yield to rise 25 basis points over the quarter. In late May, UK Prime Minister Rishi Sunak called a general election for July 4, leading to a sell-off in UK equities. Elsewhere, Indian equities resumed their ascent in June as investors bought in after the Indian general election, despite a much smaller than expected win by Prime Minister Modi's BJP.

Gold prices remained elevated in Q2. Despite rising U.S. Treasury yields, gold hit new all-time highs in May, primarily driven by central bank purchases and escalated tensions in the Middle East. Spot gold ended the quarter 4.3% higher at $2,327 per ounce. Brent crude closed Q2 some 3.0% lower at $84.20 per barrel, though intra-quarter saw significant volatility. Supply concerns were further alleviated given significant OPEC+ spare capacity and a built-up of U.S. crude inventories. The Dollar Index (DXY) gained 1.1% in June amid the Fed holding back on monetary policy easing and European political uncertainties. DXY ended the quarter 1.3% higher at 105.87.

Market Outlook and Investment Strategy

Led by the buoyant service sector, U.S. activity data continued to show signs of improvement in Q2. The S&P composite PMI inched higher to 54.6 in May, following a sharper increase in April. While fears of a U.S. economic slowdown were heightened after a string of negative activity surprises earlier in the quarter, these concerns were short-lived. Labour markets also held up in Q2, though there were some signs of slowing momentum, as initial jobless claims and unemployment rate crept higher.

In China, May's activity data presented a mixed picture. Trade reports showed steady export activity. Retail sales grew 3.7% year-over-year, but industrial production and fixed asset investment remained weak and moderately below expectations. Policymakers will remain in the spotlight as support to stabilise the property sector continued. Recall in Q2, the Chinese government announced a series of property policy measures, including easing mortgage rules and encouraging local governments to purchase unsold housing units. PPI deflation pressure eased in May, and the pace of trade growth showed signs of stabilsing, reflecting strong sentiment and potential bottoming in corporate earnings expectations. We expect China’s recovery story to be gradual given the authorities’ reluctance to initiate bolder policies to quicken the pace.

Despite Fullerton’s positive market views, two risks are worth mentioning: (i) Valuation and loss on sale on pockets of US commercial real estate (CRE) may continue to weigh on both owners and lenders; and (ii) Geopolitical risk remains a significant exogenous factor. In mid-May, U.S.-China trade tensions resurfaced as the Biden administration announced plans to increase tariffs on US$18 billion worth of strategic goods in the next three years. Also, as the ongoing conflict in the Middle East unfold, the risk of an escalation could derail the market. While the Fund can minimise its exposure to CRE, it would be quite difficult to avoid the spill-over of geopolitical tensions.

Our investment strategy remains focused on capitalising on the U.S. economic transition to trend growth, coupled with stable to falling interest rates, which we believe will provide a positive backdrop for global risk assets. We maintain an overweight position in U.S. equities due to clearer corporate growth prospects, while also considering opportunities in European equities once election uncertainties in France and the UK subside. The Asian technology sector continues to be favoured, benefitting Taiwan and Korean equities, and we see long-term potential in Indian equities as well as fixed income.

To balance these equity risk positions, we have previously added long-duration government bonds to cushion against potential volatility. Our approach emphasises nimbleness and vigilance towards geopolitical developments that could impact inflation, recession risk, or financial system stability.

To manage these various risk outcomes, we prioritise diversification across geographies, sectors, and themes. This balanced strategy aims to capitalise on growth opportunities while maintaining defensive positions to navigate the complex global economic and political landscape.

Source: Fullerton

## Goldman Sachs Emerging Markets CORE Equity Portfolio

Investment and Market Review

The MSCI Emerging Markets Index rose significantly during the second quarter of 2024.

Chinese equities rose in the first half of the quarter but erased some gains in the second half. The initial rally due to investors' interest in low value equities and increase in commodity exposure contributed positively. However, with lower-than-expected quarterly earnings, and data suggesting that retail sales marked a new post-pandemic low, investors began to worry about the economy's weak growth outlook.

Taiwan and Korea performed strongly in comparison to other Emerging market economies, owing to the tech stock performance on back of the global Artificial Intelligence stock rally, while Brazil continued to fall away. Indian equity markets rose moderately, marking its third consecutive rise monthly. Metals sector gained traction due to consistent rises in metal prices and strong quarterly earnings of the companies in the sector. In aggregate, EM equities rose in US dollar terms although they lagged developed market peers. Softer US macroeconomic data helped ease concerns about the timing of US interest rate hikes. Lower energy prices weighed on some of the Middle Eastern markets.

Market Outlook and Investment Strategy

The Goldman Sachs Emerging Markets CORE Equity Portfolio Class I Shares (Acc.) (Close) returned +4.05% during the period, outperforming its benchmark, MSCI Emerging Markets (Net Total Return, Unhedged, USD) (+3.94%), by 10 bps on a net basis. The Goldman Sachs Emerging Markets CORE Equity Portfolio Base Shares (Acc.) (Close) returned +3.96% during the period, outperforming its benchmark, MSCI Emerging Markets (Net Total Return, Unhedged, USD) (+3.94%), by 2 bps on a net basis. The bottom-up stock selection contributed positively to relative performance while the top-down country selection detracted from excess returns over the period.

Among investment themes, signals within the Themes and Trends pillar contributed particularly strongly to relative returns followed by the suite of signals within Sentiment Analysis. Conversely, signals within the High-Quality Business Models pillar detracted during the period. signals within the Fundamental Mispricings pillar remained relatively flat during the period.

Source: Goldman Sachs

## HSBC GIF Asia Bond

Investment and Market Review

High yield (HY) bonds outperformed Investment grade (IG) bonds as HY spreads tightened more than IG spreads over the period. From IG spreads perspective, the best performer was China diversified, bolstered by improving sentiment in the region as the government announced more supportive policies. India Infrastructure saw spreads tightening as a multinational port operator initiated a tender offer on its senior notes to partly prepay its near-term debt maturities. Indonesian utilities also experienced significant spread compression due to positive market sentiment. On the contrary, China real estate was the worst performer due to the fallout of a credit event of the largest private developer by sales and broad-based weaknesses in the sector. Malaysia sovereign experienced spreads widening as well.

In the HY arena, the best performer was Sri Lanka sovereign due to progress on the International Monetary Fund (IMF) bailout after the country’s agreement with China to restructure $4.2 bn of debt to secure more funds. Sri Lanka quasi-sovereign also performed well. Pakistan sovereign also saw resilient performance after reaching a preliminary deal with the IMF and making meaningful steps towards new financing access. Conversely, China real estate spreads widened due to increasing idiosyncratic headlines and a lack of liquidity support continuing to affect investor sentiment. Hong Kong real estate also dragged the performance as a debt-ridden property developer reported disappointing interim results. India Industrials also experienced widening spreads.

Market Outlook and Investment Strategy

Asia credit continue to remain resilient despite volatile rates in June. The renewed disinflation and policy pivot may be favourable for fixed income investments in the second half of the year. Asia credit has subtly and steadily, produced excellent returns throughout 2024, with both investment grade and high yield Asian dollar bonds outperforming their US and European counterparts. Asia high yield has been especially strong, with close to double digit returns year to date. Asia credit maintains a premium over global markets, and with the tailwind of positive macro drivers, it is reasonable to expect such outperformance to continue. Asia has been demonstrating a remarkable resilience amid challenges such as a prolonged period of high interest rates, growth slowdown in China, and a strong dollar. The conjuncture of relatively high yields, decent credit quality and positive cyclical dynamics is further boosted by some technical factors. Asia USD credit supply is limited as many companies are able to secure competitive rates to fund themselves in local markets.

In terms of positioning, we remained neutral to small overweight the China property sector as the government's property policy focus has now shifted to "digesting inventory" from "demand-stimulus". We considered this as the right direction as the central government has to address the oversupply problem in the China property space before buyers' confidence comes back. We remain selectively overweight strongest quality private developers with better visibility in repaying their near-term maturities, and those that are the best beneficiaries if any property destocking policy is announced by the central government. Meanwhile, we are overweight China consumer and industrial sectors in a selective manner. In addition, we are overweight the China TMT sector given the removal of regulatory risks and improving sector fundamentals. The fund continues to hold an overweight stance in bank subordinated debt given its relatively defensive nature and attractive yields, particularly those in China, Korea, and Singapore. On the other hand, we remain underweight sovereign and quasi-sovereign bonds given their broadly speaking lower yields than other sectors. Similarly, we are also underweight Korea and Malaysia. The fund continues to hold an underweight stance in banks, primarily through an underweight in the China bank senior debt. We are small overweight in duration positioning in view of the downward trend of US Treasury yields. We have also used interest rate futures to help manage our duration exposure actively.

Source: HSBC AM

## HSBC GIF Asia Pacific ex Japan Equity High Dividend (SGD)

### Investment and Market Review

The Asia Pacific ex Japan Equity High Dividend Fund rose 17.94% over the past year as of 30 June 2024 (SGD terms), while its benchmark, MSCI AC Asia Pacific ex Japan Net gained 13.21% (SGD terms) over the same period.

Taiwan was the best performing market, with its index hitting record highs in 2024 driven by artificial intelligence related euphoria. India outperformed the general Asia market, as its economy continues to recover with continued net inflows from both foreigners and domestic investors alike. South Korea also registered positive return during the period, thanks to its "Corporate Value-up Program" and strong foreign investment under the AI hype. On the other hand, Hong Kong (SAR) was amongst the worst performing markets, as it battled the collapse of China's second largest real estate developer and its liquidation order earlier this year.

The fund outperformed against the benchmark on a rolling 1-year basis. At geographical level, positive selection effects in South Korea, Taiwan and Hong Kong (SAR) contributed to performance, which was partially offset by the unfavorable allocation and stock selection effects in India and Indonesia. At sector level, positive selection effects in Industrials, Consumer Staples and Information Technology contributed to performance, which was partially offset by the unfavorable selection effect in Communication Services. Top stock contributors include SK Square, LCCTF and KB Financial Group, while major stock detractors include Baidu, Tingyi and Telkom Indonesia.

Market Outlook and Investment Strategy

Asian markets were up 10% YTD (end June) but there was significant divergence between markets, with Taiwan significantly outperforming the region (+30%) while China saw a significant rally in 2Q driven by policy support has raised regional returns. Asian regional valuations are generally attractive, earnings are stabilizing and positioning is light. which enables us to maintain a constructive view on Asian equities. It is also worth noting that valuation dispersion among stocks has increased in various global markets – suggesting higher alpha than beta markets currently, and benefits active equity managers like ourselves. Valuations at 13.2x forward P/E / 1.7x P/B are at value but with significant divergence within the region. India is the most expensive market at 24.0x while China being the cheapest at 9.5x (end June). In terms of earnings, earnings recovery in 2024 will be the main driver of returns given fair valuations. Consensus forward EPS in the region is now at 20% / 14% / in 2024 / 2025 with 2024 earnings growth primarily driven by Korea and Taiwan.

Overall, we remain positive on the cyclical earnings recovery in 2024 in tech heavy North Asian markets Taiwan and Korea. We do see selected opportunities in the information technology sector with AI improving demand for tech infrastructure, while demand supply dynamics continue to be favorable in the memory space. An additional medium term catalyst in Korea would be the value up program which could result in improvement in corporate governance and shareholder returns. We also remain positive in the medium to long term structural growth story in India and ASEAN driven by themes such as favorable demographics and supply chain diversification.

Source: HSBC AM

## HSBC GIF Global Lower Carbon Equity (USD)

Investment and Market Review

Global equities rose in the review period driven by the first quarter of 2024 and the fourth quarter of 2023. In Q1 2024, hopes of a soft-landing outcome for western economies and relatively strong earnings boosted sentiment and positively impacted global equities. Global equities also performed strongly in Q4 2023 amidst expectations of future rate cuts. AI-related enthusiasm remained a key driver of the strong performance of equities in developed markets.

Over the review period, the fund underperformed its market cap weighted index. Our overall exposure to Styles detracted from performance while our exposure to industries contributed to performance. With Styles, Value finished as the best performing factor as interest rates remained elevated across major regions globally. This was followed by Quality which demonstrated resilience amidst geopolitical tensions and macroeconomic uncertainty and also finished above the line. Meanwhile, our exposure to Low Carbon characteristics weighed on performance slightly. Finally, our exposures to Size, Industry Momentum and Low Risk detracted from performance in the review period.

On an industry basis, our overweight allocation to Insurance, along with our underweight exposures to Pharmaceuticals, Biotechnology & Life Sciences and Consumer Staples Distribution & Retail contributed to performance. Conversely, our underweight exposures to Financial Services and Utilities coupled with our overweight allocation to Health Care Equipment & Services weighed on performance.

Market Outlook and Investment Strategy

The Fund’s investment strategy uses a systematic bottom-up multi-factor investment process, based on five factors (Value, Quality, Momentum, Low Risk and Size), with an aim to maximise the portfolio’s risk-adjusted return. The strategy seeks to capture the shift to the lower carbon economy, by integrating lower carbon and ESG in portfolio construction, and deliver a significantly lower carbon intensity and an enhanced ESG profile compared to the benchmark (MSCI World).

As inflation unsticks itself amid cooling labour markets, we expect policymakers to pivot. Our base case remains a softish economic landing, but there are risks – particularly around geopolitics, elections, and higher-for-longer rates – that could cause asset price volatility. Rate expectations have been reset in 2024, but recent signs of economic cooling have revived hopes of near-term easing. We expect two cuts from the Fed in 2024, and similar moves in Europe and the UK before year-end. On the fiscal front, many Western governments are constrained by high debts and deficits and are under pressure to consolidate finances. Further fiscal easing could result in a pick-up in yields.

The strategy’s balanced exposure to factors should continue to help navigate the current macro environment and market conditions, and best serve long term outcomes. And the carbon and ESG considerations of the fund, to significantly reduce carbon intensity and enhance the overall ESG profile of the portfolio versus benchmark, should also help investors with climate transition and mitigate climate risks in their portfolios in the long run, irrespective of current market scenarios.

Source: HSBC AM

## HSBC GIF Global Short Duration Bond

Investment and Market Review

Over the year, the fund's value rose by 7.50%, underperforming the benchmark by 181bs (gross).

From a Rates perspective, overall duration positioning was slightly negative to performance. The fund was positioned for lower yields throughout the year. Although the Fed pivot in December boosted performance, subsequent data prints suggesting stickier inflation and the market pushing back the timing of interest rate cuts dampened performance. The yield curve also remains somewhat inverted, against our expectations for steeper curves.

Asset Allocation and Security Selection was a strong positive to performance and the main driver of returns. Our allocations to Financials and Securitised Credit in particular were noteworthy contributors, with both sectors benefitting from high interest rates and economic resilience over the period.

FX overall detracted which was predominantly the result of our short USD positioning. We anticipated interest rate cuts from the Federal Reserve which did not materialise. Along-side election risks outside of the US, the broad USD outperformed.

Market Outlook and Investment Strategy

Increasing signs of a growth moderation, resumption of the disinflationary process and the related prospect of Fed rate cuts in H2 should be supportive for Treasuries. The yield curve remains inverted and the trend in the second half of the year should be for further re-steepening.

Looking at Credit, a soft landing, supported by a continued reduction in inflation and lower but positive growth remains our core scenario, and should be positive for fixed income through lower yields. We remain positioned to benefit from rate cuts by global central banks, and modestly constructive on the overall credit outlook.

The broad US dollar is at expensive levels and already prices in election risk from EM countries and France, as well as some US exceptionalism and carry advantage while the US economy has started to show signs of slowing down. In that context, the broad USD should remain in a range. Our short term view remains positive on high beta currencies such as the NOK given our outlook for lower US yields and potentially some improvement in the growth outlook elsewhere combined with a positive risk sentiment. However, we are more cautious on EMFX and prefer to stick to high carry/low beta Asia FX.

Source: HSBC AM

## HSBC GIF Indian Equity

Investment and Market Review

The Indian Equity Fund rose 31.91% over the past year as of 30 June 2024 (SGD terms), while its benchmark, S&P IFCI/India Gross Index gained 38.78% (SGD terms) over the same period.

India was one of the few markets to outperform the region in the second half of 2023 driven by continued economic and earnings resilience, while net foreign and domestic inflows continue to support the market. The ruling party's landslide victory in the December state elections gave the market a further boost towards year end as investors expect policy continuity from the ruling party. Stepping into 2024, India stock market remained strong in the first half, with major gains led by small and mid-cap names thanks to growing demand from retail investors and the country's solid economic fundamentals.

The fund underperformed against the benchmark on a rolling 1-year basis. At sector level, positive allocation effect in Real estate and favorable selection effects in Consumer Discretionary contributed to performance, which was offset by the unfavorable allocation effect in Utilities and negative selection effect in Materials. Top stock contributors include Phoenix Mills, Zomato and Bharat Electronics, while major stock detractors include Housing Development Finance, SBI Cards and Payment Services and Dalmia Bharat.

Market Outlook and Investment Strategy

We are of the view that even with a reduced majority, policy continuity should remain intact at the broader level. Solid fundamentals and macro strength allow us to maintain our constructive view on Indian equities. It is worth noting that history shows any temporary post-election pullbacks have always been good opportunities for investors to add on India (e.g. in 2004 when BJP, contrary to opinion polls, lost the national elections). Currently foreign positioning is light and can potentially pick up as the entry points become more attractive. Domestic institutions continued to buy the market post elections, providing support despite foreign outflows.

We remain positive in the medium to long term structural growth story in India driven by themes such as favorable demographics, supply chain diversification and already implemented reforms that are working through the economy. The improvement of the balance sheet strength of Indian corporates and the much-improved health of the banking system is another advantage.

Source: HSBC AM

## HSBC Portfolios World Select 5 (SGD Hedged)

Investment and Market Review

Over the year the portfolio delivered strong positive returns, as equities, bonds and alternatives posted positive returns. Equity markets were supported by continued economic strength, strong company earnings growth, and market optimism around Artificial Intelligence. Fixed income markets were more volatile, as major central banks continued to hike rates early in the period. However, the later pause in monetary tightening, as well as the exceedingly attractive level of yield on offer, supported total returns.

Market Outlook and Investment Strategy

Global growth remains robust, with some signs of cooling in the US amid restrictive policy while we expect emerging markets to see steady growth and cyclical upside. While inflation has proven sticky, we expect price pressure to ease later this year. As a result, central banks in Europe and the UK will be able to cut rates this summer, ahead of the Fed later in the year. Lower government spending looks set to be a slight drag on growth in 2024, but we do not expect a return to 2010s-style austerity measures.

In light of the above, portfolio positioning has become more constructive. However, we remain selective with where we take risk, focusing on more profitable companies, and higher credit quality corporate bond issuers. Within government bonds, we are focusing exposure on regions we expect to be first movers in monetary easing e.g. Europe and the UK. Finally, given the brighter economic outlook, our portfolios are tilted towards select Eastern and Emerging markets, including Turkey and Taiwan.

Source: HSBC AM

## Invesco Asia Consumer Demand Fund

Investment and Market Review

Asia ex-Japan equities returned positively during the month, led by the Taiwan and Korea market. In particular, IT stocks noted strong returns. In Taiwan, the market delivered strong positive returns, led by IT. The Industrial Production (IP) increased 16.06% in May y/y, driven by tech-related IP. In terms of export orders, Taiwan witnessed a positive trend in May, with a growth rate of 7.0% y/y. On inflation, the headline CPI in Taiwan rose by 2.24% y/y in May.

Similarly, the Korean market also delivered strong positive returns, led by strong consumer discretionary sector and IT sector. South Korea's exports rose consecutive 8 months, rising 11.7% y/y in May, led by robust chip sales. The revenue for online retailers were up 16.5% in May, maintaining a double-digit growth for the 9 months. On inflation, consumer prices in South Korea had increased by 2.7% m/m in May.

The China market contracted this month, dragged by real estate and consumer staples. Notably, real estate fell on wider price declines, with no large scale easing measures update during the month. In economic front, fixed investment rose 4.0% y/y in first 5 months this year. Industrial production grew by 5.6% year-on-year in May, which was also slightly below expectations. Meanwhile, retail sales showed a modest improvement, growing by 3.7% y/y in May, following disappointing performance in recent months.

In India, the market delivered strong positive returns in all the sectors. IT was the best performing sector led by foreign flows. India’s national elections concluded in the month with the BJP-led NDA forming the government for the third consecutive time. On economic terms, India PMI rose to 58.3 in June, comfortably sitting within the expansionary territory. Meanwhile, on inflation, the CPI eased to 4.75% in May, down from 4.83% in the prior month.

The ASEAN market delivered a satisfactory performance, although it trailed behind other Asian markets primarily due to the underperformance of the Thailand and Malaysian market. In Thailand, the manufacturing production index fell 1.5% y-y in May, below expectation. Meanwhile in Malaysia, the consumer price rose 0.3%m/m, with rising price pressure in vegetables and food. On positive note, Malaysia noted improvement in trade, where there is a strong exports, rising 14.5% m/m in May.

Market Outlook and Investment Strategy

Asia ex Japan has continued to deliver positive YTD returns, with Taiwan and India maintaining their positions as the top performers.

Looking ahead, we remain optimistic about India. The political stability following the 2024 general elections is expected to provide a conducive environment for economic growth. The new government's focus on infrastructure development and digitalization could attract more foreign investments. Moreover, India's young and dynamic workforce is a key asset that could drive the country's economic growth. This growing middle- and high-income population will likely drive increased consumer spending. We also hold optimistic views on the Indian manufacturing sector, which we see the PMI being solid for consecutive monts, indicating strong growth potential.

China's economic performance in 1H 2024 has been resilient, largely driven by better exports. We maintain positive views regarding the overall outlook. In particular, we believe China's domestic consumption will be boosted by the upcoming holiday tourism.

As we approach July 2024, all eyes are on China's two significant meetings: the Third Plenum and the Politburo meeting. These meetings are expected to shape the economic trajectory of the country and have implications for professional investors worldwide. We will closely monitor the announcement and implications of the meeting.

In Taiwan and Korea, we see growth supported by the tech cycle and the structural strength of the tech sector due to the fast development of Generative Artificial Intelligence technology. This cyclical upswing and structural advantage are expected to drive the export and production recovery in the coming quarters. Further upward revisions are expected around the Q2 result season, with potential earnings growth driven by new product launches at the end of Q3 2024. We also see a boost in the consumer sector, especially boosted by tourism in the upcoming summer holiday.

For ASEAN, consumer spending gaining strength, supported by a strong labor market, which has so far held up consumption in the region and is likely to improve as monetary policy eases. Moreover, multinational companies are increasingly turning to the ASEAN region to diversify their manufacturing supply chains, resulting in robust inflows of foreign direct investment. Tourism in ASEAN will be beneficial, the recovery of China is expected to bolster tourism in ASEAN regions. Monthly arrivals of Chinese tourists have been on the rise since reopening and we believe the numbers are picking up.

MSCI Asia ex-Japan is trading at around 37% discount to MSCI US. We are positive on the Asia ex-Japan market, given the region's less intense inflation. The current valuation for the Asia market is attractive compared with other developed markets.

Source: Invesco

## Invesco Emerging Market ex-China Fund

Investment and Market Review

The Invesco Emerging Markets Equity Fund showed positive performance and outperformed the MSCI Emerging Markets Index in Q2. This report includes more insight on how we approach off-benchmark holdings and the opportunities we are identifying in IT services outside India.

Market Outlook and Investment Strategy

We continue to have a modest overweight position in Hong Kong & China, with a mix of large internet companies, auto parts manufacturers, as well as selected consumer-related stocks. The fund continues to have significant exposure to dominant semiconductor companies in Taiwan and Korea. Excitement surrounding AI-related demand persists, but it seems to us that the semiconductor cycle hasn’t fully played out and the level of semiconductor demand required to support the growth of AI has not been fully priced into some Asian tech stocks.

India, Taiwan, and Saudi Arabia remain the largest underweight positions.Notable changes in relative positioning include reducing allocations to Taiwan, in particular TSMC on strength. We also added to our positions in Financials (Brazil, Thailand) and Consumer Staples (Brazil, China), while trimming our allocation to Communication Services (China, Singapore).In terms of fund activity, we introduced China Oilfield Services (Chinese Energy) and EPAM Systems (US-listed global IT solutions provider). Please see end of document for full rationales.

Source: Invesco

## Janus Henderson Fund - Continental European Fund

Investment and Market Review

The top detractor from relative fund performance was not holding Roche (Swiss pharmaceutical). This more defensive firm saw its shares perform well amid the 'risk-off' theme.

Our holding in Saint-Gobain (French industrial) contributed negatively during the month. This was a consequence of cyclical stocks being sold in favour of more defensive stocks.

Adidas (German sportswear) also underperformed in June, after the company confirmed it was investigating possible compliance violations in China related to the bribery of some of its senior staff.

Shares in Novo Nordisk (Danish pharmaceutical) continued to perform well on the back of the success of its obesity and diabetes treatment Wegovy.

Two of the top three contributors were BE Semiconductor and ASML (both semiconductor capital equipment firms), as they benefited from the continued positivity surrounding artificial intelligence (AI).

Both companies sell into fabrication facilities such as Taiwan Semiconductor (TSMC) and Samsung. ASML is currently in late-stage discussions with TSMC on providing it with ASML's newest chip-making machine, which gave confidence to the market and boosted ASML's share price during the month.

Due to the uncertainty caused by conflicting economic data points and the election in France, we increased the fund's allocation to defensive holdings by buying Novartis (Swiss pharmaceutical) and topping up Nestlé (Swiss food and beverage).

We sold Aker BP (Norwegian oil) and recycled the capital into Shell (UK-listed energy company). Aker BP was the highest beta oil name in the portfolio and was trading at a higher price than our other holdings in this sector. We felt the capital from its sale would be better employed elsewhere.

Finally, we trimmed the position in Vinci (French construction) after the French election announcement generated uncertainty around future French governmental policy. Vinci has exposure in its concession business to French motorways, which both the far-left and far-right ends of the political spectrum want to nationalise, generating risk for this arm of Vinci's business. However, Vinci's concession arm also has exposure to airports in the UK, France, Portugal and Japan, which are heading back to pre-Covid levels of travel. The company has compounded well over time and is a great free cash-flow generator in our view. Therefore, we retain a position.

European equities fell 1.7% in June. The risk-off sentiment was driven by political uncertainty surrounding the upcoming French election after President Macron called a snap election during the month.

In the US, mixed macroeconomic data and inflation signals led to further debate about interest rate cuts later in the year.

The European Central Bank (ECB) became the third major central bank to cut interest rates, lowering its deposit rate by 25 basis points to 3.75%. However, the market considered the cut to be a 'hawkish' one, as the ECB revised its inflation forecast up for the year, from 2.3% to 2.5%, and pushed back on further rate cuts.

Market Outlook and Investment Strategy

Recent commentary from companies like Ryanair, American Airlines, McDonald's and Salesforce around slowing growth serves as a reminder that the macroeconomic picture remains unclear. This is leading to a possible counter-rotation. In June, more defensive companies - such as pharmaceuticals and consumer staples firms - began to perform well, while companies seen as more economically sensitive struggled. Given the heightened uncertainty around various macroeconomic data points and the forward path in terms of the rate-cutting cycle, we have felt the need to consider more defensive areas of the market for the portfolio.

In the long term, we expect a shift towards a multipolar world, of which deglobalisation is an outcome. We may also see a political shift in favour of populist/pro-labour policies. This could mean stronger wage inflation and greater labour market friction. It also leads us to believe equity investors will need to be more sensitive to company valuations when purchasing stocks.

The real economic implications will also present opportunities for stock-pickers in our view. Enablers of deglobalisation (such as industrial automation, digitalisation, electrification and construction materials firms) could thrive, while large incumbents (in industries such as brewing, food catering and enterprise software) could see their already dominant positions enhanced as the end of virtually 'free' money (very low interest rates) tempers the threat of disruption by unprofitable start-ups. Europe offers plentiful opportunities to access these themes, being home to large global champions trading at what we see as reasonable valuations.

Source: Janus Henderson

## Janus Henderson Horizon Fund - Pan European Absolute Return Fund

Investment and Market Review

Unfortunately, the fund suffered its second monthly drawdown of the year during June, albeit it was quite a mild one. It was some stock-specific situations that led to these losses. The short book worked well as a whole, whereas there were several problems in the long book. Our index hedging overlay also lost money as the wider equity market correction was too shallow to hit our long put strike levels.

Starting with the positives, our semiconductor long positions continued working nicely. We have held these positions pretty much consistently since August 2022, and they have worked nearly every month since October of that year. That is when the stock market began anticipating the semiconductor industry upswing that then started in April 2023. Historically, these upswings last between two and two and a half years in semiconductors. And while the trough and upwards inflection usually gets played by the semiconductor stocks one to two quarters in advance, there is historically little anticipation in share prices around the top of the cycle. Hence, we believe there is every chance that this will remain a winning trade for another year or so. The prior semiconductor sector downswing was the second-longest and second-deepest on record, so there is perhaps even a good chance that this present cycle upswing can also overshoot historic averages.

In the short book, there were quite a number of meaningful positive contributors. The uniting theme across them was that these are cyclical stocks from the wider industrials universe. Among them are a staffing company, a forklift truck and warehouse automation supplier, a chemicals distributor, a chemicals producer, a swimming pool equipment company, and semiconductor companies focused on the end markets of industrials and automotive. In recent days, we have mostly taken profit on these short positions as we thought the stocks had become oversold.

What clearly did not work were some stock-specific situations. Our long-standing long position in Rheinmetall fell by 10% during the month, as the stock market began foreshadowing a Donald Trump US presidential election win. Mr Trump made bold statements that he would end the Ukraine-Russia war easily upon being elected. This is a non-negligible risk, and could be achieved by either cutting off the flow of Western funding and weapons, or by actual negotiations. It would not change anything in respect to the very pressing Western ammunitions restocking and European rearmament needs, plus a President Trump would likely further raise the bar for European contributions to NATO, yet the knee-jerk stock market reaction would be significantly negative. As a consequence, we have reduced the fund's overall defence stock long position for now.

Another stock-specific situation we clearly got wrong was Carlsberg. The company under its new CEO announced a very surprising bid for UK soft drinks maker Britvic. The market did not like the deal so far. This marked a significant drift from our original investment thesis around owning shares in Carlsberg, and thus we exited the position.

Finally, the fund's Merck KGaA long position also caused losses. The company announced the termination of its Xevinapant phase III programme in head and neck cancer. There is no doubt that xevinapant has failed in both of its phase III studies. While in its own right this was only a 2% of the total sum-of-the-parts hit to the valuation of the stock, the market's lingering concern is that after the failures of Evobrutinib (and now Xevinapant) Merck has a thin pharmaceuticals pipeline and might therefore step up merger and acquisition (M&A) activity. This is seen as a risky strategy, in particular under a new management team. Thus, we have exited the position.

Market Outlook and Investment Strategy

As we type these lines, the first parliamentary election results from France are just in. They suggest a lack of a clear majority in parliament, and likely open a period of uncertainty over France's political direction. While the spectre of a far-right majority has been averted, the far-left fared a lot better than expected. It is not a cohesive group, but some members of the alliance have very questionable economic policy targets. Our hope is that the more centrist parties can break the leftist alliance and find a way to work together in parliament. Otherwise we could perhaps experience a breakdown in the Franco-German cooperation that is so crucial to hold the European Union (EU) together and shape it. This would be a new level of crisis, very different to experiences of the past when a strong and solid European core was dealing with troubles at the periphery. This could hit Europe at the core. Quite how the ECB would react is entirely unclear in our view.

Another concern that is reflecting in equity markets is the probability of a US recession. There has been a clear focus on recent weaker US economic growth and labour market data. In our view, however, the risks here are less pronounced. We think the chances for an economic 'soft landing' or (indeed 'no landing') are still fairly decent. For instance, the job vacancy rate is still much higher at 4.9% versus past episodes of labour market cooling, suggesting that unemployment starts to rise more quickly as the vacancy rate approaches 3.0-3.5%. Following last week's labour market data, the 3-month moving average of the unemployment rate rose to 3.96% in June, which is 53 bps above the cycle-low reached in April 2023. This is notable because it trips the ""Sahm Rule"" that over a 50bps change from the low indicates that the economy is already in a recession. We are somewhat sceptical that the rule is going to hold during this cycle (like so many other rules did not hold so far in this post-Covid strange new normal) due to the low level of the trough in the unemployment rate, the length of time it took for the 50 bps increase to accumulate, and as neither the current level nor the 3-month moving average have yet increased beyond the Fed's estimate of the long-run average.

Moreover, inventory destocking over the last two years should also have built up a safety cushion against a deep recession, given many of the global production chains are already undersupplying the rate of demand. Further deep inventory adjustments seem unlikely. Finally, against the backdrop of a softening labour market and receding inflation, the probability for Fed interest rate cuts should rise significantly, which is positive for equity markets.

So in conclusion, political uncertainty remains high while we think the developed markets economies are probably just strong enough to work themselves out of this very long manufacturing purchasing managers' index (PMI) stretch of below a reading of 50. The leading New Orders over Inventory series is encouraging. More monetary help seems on the nearer-term horizon. Against this background of likely volatility, but ultimately with a backstop for equities, we continue to feel good about our opportunity set at this half-year mark for 2024.

Despite the smaller June setback, the fund has had a strong year so far. The wider market environment we expect over the coming months should hopefully be fruitful for us on the long and the short side of the book.

Source: Janus Henderson

## JPM Global Income Fund (USD Hedged and SGD Hedged)

Investment and Market Review

Within equities, we broadly maintained our allocation. However, we made a tactical change as we reduced some of our global infrastructure allocation given that the economic backdrop remains less supportive.

We moved the proceeds to cash as dry powder to deploy should an opportunity arise. We hold a moderate conviction in equities as we expect a modest Fed cutting cycle to begin by year-end, subject to a further moderation in inflation. However, reaccelerating inflation and hawkish policy remain tail risks.

Our allocation to global equities contributed the most to overall performance as trend-like global growth is supportive of ongoing earnings growth and valuations are supported by the easing cycle. European equities, on the other hand, detracted despite the lowering of policy rates as the fallout from both the European parliamentary elections and the announcement of snap French elections weighed on investor sentiment. Elsewhere, our allocation to emerging market equities contributed, whereas global infrastructure equities detracted from overall performance.

Our dividend focus was a drag and our fixed income portion of the portfolio contributed to overall performance. Our allocation to high yield and investment grade contributed. We believe slower but positive nominal growth provides a good environment for credit. Both the US high yield and European high yield sectors are supported by strong coupon payments, with fading recession fears and improving quality.

Our duration position also contributed, but we believe negative carry and the elevated level of rates volatility relative to other assets further reinforce taking a cautious stance to duration.

Our allocation to non-agency securitised contributed to overall performance, whereas our allocation to emerging market debt marginally detracted. Within hybrids, our allocation to preferred equities contributed to overall performance.

Market Outlook and Investment Strategy

With our base case of cooling inflation and growth moderating to around trend levels, we maintain our pro-risk stance of leaning into equities.

Within duration, as there are challenges to our base case of slowing growth, cooling inflation and easing monetary policy, we have cautious outlook.

We maintain a modestly positive view on US credit, both investment grade and high yield, due to attractive carry and remain neutral on emerging market debt.

We see the greatest opportunity in high yield, which offers the highest yield with the shortest maturity profile.

Source: JPMorgan Asset Management

## JPMorgan Funds - Greater China Fund

Investment and Market Review

Greater China equities rose modestly in June, buoyed by contribution from Taiwan. Mainland Chinese equities declined somewhat, with onshore equities extending their year-to-date detraction of offshore equities, as did Hong Kong where retail sales remained weak.

Taiwanese equities led the region, driven mainly by large cap stocks. The annual Computex event was a highlight with Nvidia unveiling next generation GPUs (graphics processing units); supply chain companies in turn showcasing their own latest designs; and a more general mood of the acceleration of technological developments.

Meanwhile the modest pace of China's policy response contributed to risk off sentiment for domestic Chinese investors. The PBOC's reluctance to pursue monetary easing can be explained by a desire not to risk currency weakness. The authorities' purchasing of excess housing inventory is yet to accelerate, despite being endorsed by top policymakers. On the capital markets front the China Securities Regulatory Commission (CSRC) reemphasized shareholder returns and investor protection, but still in the form of "window guidance" (ie informal persuasion) to listed companies, without offering a structural framework. The stock makes up a substantial percentage of the index, while the fund has a regulatory ceiling for any name of 10%. We hold a number of related names as proxies. AI sensitives such as Aspeed, Quanta, Foxconn Industrial and Delta all contributed. However in a month in which TSMC performed notably strongly it was a challenge to keep up.

Elsewhere, internet stock Meituan rose on the announcement of a new buyback programme.

We initiated a position in a tech manufacturer which should benefit from edge computing and the PC replacement cycle. We added to names with improving fundamentals in areas such as gaming and the AI server supply chain. We funded these purchases by following our valuation discipline in other technology stocks and in transportation, and by taking capital out of certain lower conviction internet, consumer and media names.

Market Outlook and Investment Strategy

China's economic growth remains uneven, led by exports and new energy-related capex, while consumption and real estate lag. The Politburo's long-awaited Third Plenum is scheduled to take place in mid-July. These types of conclaves tend to be very high-level and strategic, and thus market expectations have been subdued. With the annual growth target of "around 5%" on track, the urgency for major stimulus remains low. That said, potential fiscal reforms are reportedly going to be discussed as a way to address local government challenges in the wake of the collapse in land sales revenues. In the meantime the AI story is highly positive for large parts of the Taiwanese equity market – although as ever we will need to monitor that valuations don't get ahead of themselves. That said, Asian tech stocks are typically much cheaper than US peers.

In terms of positioning, while the shape of the portfolio is largely unchanged, anchored by optimism around various areas of technology, we continue to pursue cheaper names whilst emphasizing near-term earnings and shareholder returns. For example we actively seek names which offer both dividend yield and growth. Trade tensions are a key near-term risk in this election year, so we have cautiously managed our bets in certain stocks which are highly exposed to exports.

Source: JPMorgan Asset Management

## Mirae Asset ESG Asia Great Consumer Equity Fund

Investment and Market Review

The MSCI All Country Asia ex Japan was up 9.92% (in USD terms) in the first half of 2024. By country/region, Taiwan and India were the leading outperformers, while Thailand and Hong Kong were the primary underperformers. Sector-wise, Information Technology and Energy were the leading outperformers, while Real Estate and Health Care were the main underperformers.

MSCI China was up 4.82% (in USD terms) over the six-month reporting period, mainly driven by announcements on a series of policy rollouts to support the market, especially the property sector, although later on this uptrend was partially offset by the rising concerns for potential geopolitical tensions and lower expectations for policy stimulus on the upcoming Third-Plenum. China implemented a round of policy stimuli such as the large 25 basis point (bp) cut in the 5-year loan prime rate (LPR) in February, the "new quality productive forces" scheme for selected equipment & appliances, as well as the Nine Initiative 3.0 on capital market reform. More importantly, the government's announcement of RMB 300 billion initiatives for local governments to help clear property inventories was welcomed by the market in terms of the policy direction, although the size was smaller than market expectation. Meanwhile, China's real GDP growth rate in 1Q24 recorded 5.3% y/y, driven by export volume and manufacturing investment, while consumption remained soft. However, approaching the end of 1H2024, geopolitical tension was revisited as the US presidential election approached, which impacted China's export segments, while concerns around weak domestic consumption persisted, as the 618 Shopping Festival sales data showed overall platform sales declined by 7% y/y.

India was one of the leading performers relative to the benchmark in 1H24, with equities returning 17.11% (in USD terms) over the six-month reporting period thanks to strong earnings results, while strong local demand fund inflows as well as investor sentiment quickly recovering from the surprisingly slim majority of the BJP-led-NDA coalition in the general elections. India's 1Q24 GDP growth reported 7.8%, surprising to the upside, with higher Net Indirect Taxes (NIT) providing a significant boost, amid strong domestic fundamentals and macro stability. The Reserve Bank of India (RBI) maintained the status quo across the 6.5% policy rate, as it remains focused on 'withdrawal of accommodation'. Additionally, the rupee was relatively resilient against the strong USD, while most of the emerging market Asian currencies weakened against the USD. Meanwhile, after the general election results were announced, the market underwent significant volatility, initially experiencing a sharp sell-off following the BJP-led-NDA coalition's unexpectedly slim victory, yet was able to promptly recover most of the loss in the following days, as investors remained constructive on India while anticipating policy continuity.

Korean equities delivered a 1H2024 return of 0.70% (in USD terms), during the reporting period. Despite the initial strong inflows from foreign investors since mid-January following the government's announcement of the "corporate value-up program, the Korean market later entered a downtrend given the rising macro uncertainties and correction across tech names due to the Fed's hawkish comments. However, the downtrend was offset in June, as the Korean market enjoyed heavy foreign money inflow as investors sought safe-haven amidst growing geopolitical uncertainties alongside the tech sector rallying on the back of rising prices of memory semiconductor chips. Meanwhile, Korea's real GDP growth surprised to the upside in 1Q24, recording 5.2%q/q, saar, thanks to better-than-expected consumption and strong exports.

In Taiwan, equities were up 29.62% (in USD terms) over 1H24, mainly driven by strong AI momentum, upbeat 1Q24 earnings results for Financials, and renewed upside in container shipping rates as transport bottlenecks persist in the Middle East. Despite export orders struggling during the first half of the reporting period, however entering into the second half, Taiwan made a positive turnaround and delivered solid numbers. The May export orders came in above expectations, rising 7.0% y/y, while tech orders showed a solid increase of 2.9% m/m s.a., reflecting a broad-based upturn in orders for electronics products as well as information and communication products. Meanwhile, the Taiwan central bank surprisingly decided to raise key policy rates by 12.5bps at the quarterly monetary policy meeting in March, presumably as a way to address inflation concerns.

Within the ASEAN region, Singapore and Malaysia were the leading outperformers, with equities returning 9.05% and 7.55% (in USD terms) in 1H24, respectively. On the downside, Thailand, Indonesia, and the Philippines were the region's underperformers, with equities down 12.45%, 9.84%, and 4.83% (in USD terms), respectively. In Singapore, tech drove a large part of the sequential expansion, especially in electronics modules and consumer electronics, even as semiconductor production was soft. Meanwhile, in Indonesia, the weak FX throughout the quarter provoked the Bank of Indonesia (BI) to unexpectedly raise the benchmark rate by 25bps to 6.25%. Although Indonesia continued to underperform due to the unexpected rate hike, soft 1Q24 earnings, and weak macro data, the market gradually began to regain confidence following the government's clarification of the fiscal budget outlook, while the fiscal deficit being still at a manageable level of 2.3-2.8%.

Market Outlook and Investment Strategy

The anticipated rate cut in the US has been delayed due to a stronger-than-expected economy and persistent inflationary pressure, leading to a "higher-for-longer" interest rate environment and continued strength of the US dollar. Many Asian economies have relied on exports for their growth in recent years, supported by strong external demand, while domestic demand has been weaker due to factors like higher interest rates and weaker currencies. However, as the US economy shows signs of cooling, the Fed is expected to start cutting interest rates in the second half. This should put central banks in Asia in a more comfortable position to cut rates and support domestic demand. This shift could help create a better balance between export and domestic demand as economic growth drivers. The efforts by governments and companies to improve shareholder returns is another factor to become more positive on Asian markets. Although the market will remain volatile due to upcoming events or trends, including the US election, the Fed's potential rate cuts, and in China, the 3rd plenum meeting and stabilization in the property sector, we will utilize market volatilities to build up positions in high-quality companies with more structural and healthier earnings growth.

We maintain our constructive view and overweight stance on the technology sector, particularly in Taiwan and Korea, as we believe that artificial intelligence is still in the early stages of a multi-year development cycle. Along with the increasing capital expenditure in the global AI area, the related companies that benefit from it are starting to experience upward revisions on both top-line and bottom-line estimates. Although the specific stock picks may change as the theme evolves, we remain optimistic about semiconductor and AI infrastructure-related companies, with a greater focus on the foundry, ASIC, and high-end memory sectors, among others. However, we will also be looking for opportunities in the AI application area going forward.

Another major overweight area is the Indian market. After India's general elections, the BJP-led NDA coalition formed the government for the 3rd term, which is anticipated to deliver macro stability and continued support for further structural reforms. India's virtuous cycle of domestic investment-driven economic growth is expected to continue, strongly supporting overall growth, while domestic consumption is also expected to grow faster as the government is likely to put more focus on this compared to the last term, in light of the election results. We expect the government's dividend revenue from RBI to make it easier, financially. The market is trading at a premium compared to other emerging markets, but we see it as a "buy-on-dip" market with a much longer-term perspective.

For China, we currently maintain an underweight position overall, with overweight positions on selective names only. However, we are carefully watching for the possibility that the government will try harder to boost the domestic economy at a later point this year if more weakening signals of external demands start to emerge. China's market may face volatility amid the upcoming US election, but the absolute magnitude of the market impact from further US rhetoric could be less than what we have experienced in the past, as some of the potential risks seem to be priced in the current valuations. Meanwhile, we are positive about the companies that stand to benefit from China's efforts for technology self-reliance, as this is likely to be one of the key focus areas that will be highlighted during upcoming policy events. We also maintain our positive view of online companies such as OTA, music download platforms, and mobile gaming.

Elsewhere, we maintain our positive view of Indonesia, with overweight positions in high-quality banks and retail sector names. The Indonesian market underperformed in recent months due to concerns over a higher-for-longer interest rate environment and a weakened currency. However, the expected pivot from the Fed in the second half of this year will likely be positive for the Indonesian market. In addition, policy-related overhang is also expected to diminish with an official handover of political leadership due in the fourth quarter. Our key holdings in the Indonesian bank sector are anticipated to continue demonstrating stronger loan growth compared to their peers, coupled with better control over costs and asset quality.

Source: Mirae

## Natixis Loomis Sayles Multisector Income Fund

### Investment and Market Review

After initially moving lower in April, the bond market recovered over the subsequent two months to close the second quarter with a respectable total return.

Investor sentiment was muted coming into the quarter, as a series of hotter-than-expected inflation reports in Q1 dampened expectations for the number of interest-rate cuts the US Federal Reserve (Fed) was likely to enact before year-end. Whereas at the start of the year the futures markets were indicating as many as six quarter-point reductions in 2024, by April speculation had mounted that the Fed may in fact need to delay its first cut until 2025. These concerns waned during May and June, however, as inflation pressures showed signs of abating and a series of weaker-than-expected data releases indicated that the economy may be cooling. Although the timing and extent of rate cuts remained in question, these developments helped boost confidence that the Fed would loosen policy in the second half of the year. Bonds recovered in response, allowing the major fixed-income indexes to finish the quarter in positive territory.

The US Treasury market registered a slight gain in the second quarter, with the contribution from income outweighing the impact of a slight increase in yields. The two-year note moved from 4.59% to 4.71% over the course of the three-month period, while the 10-year climbed from 4.22% to 4.36%. Still, both finished well off of their late April highs of 5.04% and 4.70%, respectively. Treasurys remained in negative territory on a year-to-date basis through the end of June, with positive returns on the short end of the yield curve offsetting weakness in longer-term issues.

Investment-grade corporate bonds had a slightly negative total return with income proving insufficient to offset a modest downturn in prices. Corporates slightly underperformed Treasuries as yield spreads—which began the period on the very low end of the historical range—inched higher. Lower-rated corporates outpaced their higher-rated counterparts. In terms of maturities, bonds in the one- to three-year range generated the best results. Corporates closed June with a modest loss on a year-to-date basis.

High yield bonds registered a positive absolute return and outperformed the investment-grade market in the second quarter. The asset class remained well supported by the combination of higher oil prices and investors' continued appetite for risk. Still, there was limited room for yield spreads to experience a

further compression given that they entered the quarter deep on the low end of the historical range. High yield remain firmly ahead of investment-grade issues on a year-to-date basis through June 30.

Securitized credit posted strong positive total returns and outpaced the broader investment-grade market in the second quarter. The tailwinds of lower interest rate volatility, greater clarity on the path of Fed rate moves, and strong investor demand contributed to a tightening of spreads despite elevated levels of new-issue supply. Commercial mortgage-backed securities were particularly strong performers following a significant selloff in 2023 that was brought about by concerns about fundamentals in commercial real estate. Commercial asset-backed securities (ABS) and consumer ABS also delivered strong returns amid broader strength in risk assets. Collateralized loan obligations and non-agency residential mortgage-backed securities (MBS) were also positive, while Agency MBS performance was roughly flat.

Global developed-market government bonds posted a small loss in the second quarter, with weak price performance exacerbated by weakness in foreign currencies against the US dollar. Emerging-market bonds delivered a gain, led by the Middle East/Africa region, thanks to the combination of their above average income and investors' continued appetite for risk.

Market Outlook and Investment Strategy

The Federal Reserve (Fed) appears to believe the US is back on a disinflationary path, adjusting June's Federal Open Market Committee (FOMC) policy statement to note that 'modest' progress had been made towards their 2% inflation objective. Recently, there has been some softening in economic data and supply/demand conditions in the labor market have continued to come into better balance. Further incoming data is likely needed to determine ongoing progress of the Fed towards their inflation goal, however, the Personal Consumer Expenditures (PCE) reading at the end of the quarter eased and is supportive to the Fed's stance. Coming into the year, the market was pricing in six rate cuts from the Fed in 2024, however, as of the end of Q2, the market had shifted to two. Investors now seem to be grappling with a more shallow and drawn out rate cutting cycle than previously indicated by the Fed.

During the quarter, investment grade and high yield spreads were slightly wider on a deceleration in economic data and interest rates moved higher as inflation data still remains stuck above the Fed's target and the probability of a 'no cut' scenario has increased.

In our view, the credit cycle is firmly in the 'late cycle' stage. Monetary policy still remains in restrictive territory and lending standards have tightened. The economy appears to be losing some momentum, with Q1 real gross domestic product (GDP) reported lower at 1.3% quarter-over-quarter. We have seen a small amount of marginal weakness in the consumer, however, the US labor market continues to underpin consumer spending. Corporate fundamentals still remain stable and are also supportive of economic activity. Looking forward, our base case calls for trend, or slightly below trend, US growth in 2024 consistent with a 'soft landing' scenario and we do not anticipate a recession. On a global basis, we see gradual improvement in European growth, led b improving business activity broadly in periphery economies, but there is upside risk to inflation that forces the European Central Bank to hold after just one cut. China is showing signs of gradual recovery, with business activity picking up, but we are mindful of persistent risks associated with a weak housing market.

We believe that inflation has peaked and positive real rates should have the effect of slowing growth and continuing to lower inflation over time. The market's expectation for a 'soft landing' implies inflation continues, unabated, back to the 2% Fed target with growth holding up. Further progress on inflation requires lower wage and house price inflation. To accomplish that, the Fed likely needs to maintain high policy rates to slow demand, in our view.

Current restrictive policy is leading to some initial signs of a moderating labor market with lower job openings and a lower quit rate, rather than lower payrolls. Our base case calls for 'unstable' inflation, meaning in the short-term inflation could remain sticky while over the long-term we believe it will be a recurring problem based on structural themes, such as deglobalization, decarbonization and the greenification of energy sources, aging demographics, and growing government deficits. We expect the path to 2% inflation to be a bit rocky and expect to see dips as cycles progress, but we also believe we are likely to experience higher lows than have been experienced over the last 15 years. As a result, we have moderated our view of future Fed cuts with the expectation that the cutting process will be more drawn out with less cuts in 2025 and a trough rate expectation of 3.50% to be hit in 2026.

Corporate fundamentals appear stable and while there has been some recent weakness in broader fundamentals, factors such as leverage and interest coverage ratios continue to remain attractive in a historical context. Corporate profits are ticking back up and the rolling recessions that we have witnessed in technology, housing, profits, and manufacturing have seemingly come to an end. Our Credit Health Index (CHIN) suggests defaults/losses will remain relatively low, while slowly increasing to more normal levels associated with a 'late-cycle' environment. Technicals remain supportive, with investment grade issuance front-loaded in the first half of 2024, as corporations potentially tried to issue debt ahead of a volatile US election period. In addition, specific to the high yield market, fundamentals also look relatively healthy, defaults may have already peaked for this cycle and most signs of distress seem idiosyncratic, in our view. The high yield maturity wall also seems manageable through 2025, not posing a major threat after a wave of refinancing earlier in the year.

We believe that long-term value has returned to fixed income markets with a combination of discount-to-par (positive convexity) and favorable yields. In our view, bond markets will likely be supported with strong demand as investors sit on record levels of cash that will be seeking yield as the Fed potentially cuts rates on the front end. We see long-term fair value in the 10-year US Treasury at 4.50% and believe the current range is 3.75% (soft landing scenario) to 5.00% (no cut scenario). We believe the belly of the curve presents the best risk/return trade-off. In a declining rate environment – based on lower inflation and Fed cuts – the belly offers investors the ability to capture most of the upside return of the long-end without the potential volatility. The US deficit and Treasury supply continues to be a topic of heavy discussion and will likely have a significant influence over long-end Treasury yields. Regardless of the US presidential winner, we believe the fiscal deficit is structural in nature and neither party will risk taking a hawkish stance on fiscal responsibility.

This will likely lead to continued growth in the deficit and more Treasury issuance, which we believe could lead to increased volatility and a floor under long-term Treasury yields.

We are mindful of the risks going forward, such as tighter financial conditions, geopolitical risk, further decline in the commercial real estate market, and the upcoming US and global presidential elections. Although risks exist, spreads have moved to the tightest levels of this cycle. We are not surprised by how buoyant credit markets are these days – fundamentals are stable with the potential for losses to remain benign, and buyers are showing up with an almost insatiable demand. Our view is that investors can feel comfortable going for the extra spread pick up available in the credit markets. We feel 2024 will likely be an environment where returns are driven by carry and it will be prudent to maintain a balanced risk profile between interest rate and spread risk. Spreads will likely live in a range that is typical of a non-stressed market, which for high yield corporates tends to be in the +300 to +450 bps range, and we are being patient and selective in deploying capital. Protectionism and isolationist policies could elevate volatility going forward and make for buying opportunities in credit, interest rates, and currencies, for which we would consider redeploying additional reserves faster. We believe the best approach is to maintain a yield advantage in our portfolios rather than waiting on the sidelines for a 'risk-off' environment that may never materialize.

Source: Natixis

## Natixis Loomis Sayles Multisector Income Fund

Investment and Market Review

After a strong start to the year, global equity market performance was mixed in the second quarter but was still positive overall as global disinflation trends generally continued, albeit unevenly across regions, and corporate earnings were resilient overall.

Some softness in U.S. economic data as the quarter progressed increased investor hopes of future Fed rate cuts, but the Fed, and other central banks across the world, maintained a cautious tone around monetary easing, emphasizing a data-dependent approach as inflation has proven more persistent than expected in the first half of the year. The updated Fed Dot Plot implies the Fed is now expecting one rate cut in 2024, down from an expected three cuts in 2024 as of March. Despite expectations for monetary policy easing and the possibility for a soft landing in some economies, we have continued to operate under the assumption of higher-for-longer interest rates and slowing global growth is still expected for 2024.

Regionally, emerging market equities outperformed developed market equities overall during the quarter, driven by the strong performance of the Chinese stock market as policy easing by the Chinese government focused on preventing further slowdown contributed to some stabilization in the region. The U.S. outperformed most other developed markets on average once again as U.S. tech companies delivered strong earnings results, with the Magnificent 7 stocks and others exposed to AI contributing outsized performance in the quarter. European equities, after a positive start to the quarter with recovering economic data, delivered more muted returns as the quarter progressed with stickier-than-hoped inflation numbers, and uncertainty driven by the European parliamentary elections, as well as the snap election announced by French President Macron as support for far-right parties grew across Europe. In global, developed market equities, the sectors dominated by the large cap tech stocks – Information Technology and Communication Services – performed best, with more mixed results across other sectors. Quality- and growth-oriented stocks generally outperformed lower quality and value-oriented stocks.

However, this was mainly concentrated in U.S. growth stocks, while value outperformed growth in European markets.

Market Outlook and Investment Strategy

The portfolio invests in companies offering solutions to and/or expected to benefit from the demographic, technological, environmental and governance related transitions that are expected to transform the world’s economies and societies during the next decade. Our portfolio also has a structural high-quality bias. Higher-quality companies are generally better positioned to weather difficult environments due to having better financial ability to manage through such periods (stronger balance sheets, lower financial leverage). Overall, we continue to prefer high-quality companies with strong balance sheets, solid management teams, and positive exposure to long-term secular trends. We are also more exposed to sectors such as Health Care and Utilities that are traditionally more defensive and tend do well on a relative basis during recessionary environments.

Geographically, the portfolio continues to have a bias to European names while being underweight U.S. names; this bias is a result of bottom-up fundamental analysis where we have found more attractively priced securities outside of the U.S. given the outperformance of the U.S. markets compared to international markets since 2011. Our European exposure is diversified, and the types of companies we invest in are generally global in their revenue exposure, supply chains and production.

In terms of sector exposure, the portfolio currently has no exposure to the GICS Energy (oil & gas extraction) or Real Estate sectors, and it is underweight Communication Services and Consumer Staples. This is mainly driven by valuation (Real Estate) and the thematic and sustainability approach we take. As trends like the digitalization of our economy, which saw strong growth as a result of COVID-19, are expected to continue to grow strongly, and support for the health care sector is expected to show solid growth as a result of an aging population and continued focus on health and well-being in the longer term, the portfolio remains strongly exposed to Technology and Health Care. Regarding our Health Care exposure overall, while it is the largest overweight in the portfolio and there may be similar risk factors for certain companies, we invest across diversified sub-segments in companies that are very different from one to another with different end markets, that benefit from strong organic growth and are very well managed businesses overall. Our strong exposure to the GICS Financials sector, which is approximately equal to the benchmark's weight in Financials, is driven in part by our conviction in the digitalization trend, particularly digitalization of payments. As a reminder, in early 2023 a new Transaction and Payment Processing subindustry was created within the Financials sector, which led to the reclassification of companies like Visa, Mastercard and Adyen from the Information Technology sector to the Financials sector. We remain underweight traditional banking and financial services companies. While we have an underweight position in the more defensive Consumer Staples sector, it is to some extent offset by an overweight position in Materials (mainly natural food ingredients). With many governments still committed to keeping global warming limited to a 2° Celsius scenario, we expect climate change to remain a driver of political debate, and the portfolio will continue to shy away from fossil fuel extraction in favor of renewables and companies focused on energy efficiency. The portfolio's overweight to the Utilities sector is driven partly part by the conviction in the transition away from fossil fuels. Our conviction in the transition away from fossil fuels, if anything, was strengthened as a result of the Russia/Ukraine conflict as the need for Europe to move toward energy independence was reinforced and alternative energy will need to be a part of that. Regulation globally, including the passing of the IRA in the U.S., at least in the near-term provides additional visibility on the growth of renewables and energy-efficiency solutions.

Overall, we aim to maintain diversification across and within long-term secular growth drivers and our portfolio continues to deliver that today.

Source: Natixis

## Neuberger Berman Strategic Income Fund

Investment and Market Review

Against a backdrop of rising U.S. Treasury yields and mixed credit spreads, the Fund delivered a positive total return for the second quarter. From a sector perspective, the Fund's securitized credit exposures, particularly credit risk transfers and CMBS, were standout contributors to absolute performance. Allocations to high yield, senior floating rate loans and CLOs were other notable bright spots, while the Fund's agency MBS and developed markets sovereign exposures were modest contributors. Conversely, the Fund's exposure to EMD detracted from absolute performance.

During the quarter, we made some relative value positioning adjustments. We reduced exposure to U.S. high yield, and we added exposure to securitized credit, agency MBS and financial hybrids.

U.S. investment grade fixed income, as measured by the Bloomberg U.S. Aggregate Index, and global investment grade fixed income, as measured by the Bloomberg Global Aggregate Index (USD hedged), generated positive total returns of +0.07% and +0.12%, respectively, during the second quarter. Performance across most of the major fixed income sectors was positive, including U.S. high yield, Pan-European high yield, hard currency emerging markets, senior floating rate loans, U.S. CMBS, U.S. TIPS, Pan- European IG corporates and U.S. Agency MBS. U.S. IG corporates and local currency emerging markets generated negative total returns during the quarter.

U.S. government yields were higher across the curve during the quarter. The 2-year increased by +14 bps to 4.76%, the 10-year increased by +20 bps to 4.40%, and the 30-year increased by +22 bps to 4.56%. Intermediate yields across the remaining G4 countries were also higher during the quarter, with the U.K. 10-year increasing by +24 bps to 4.17%, the German 10-year increasing by 20 bps to 2.50%, and the Japanese 10-year moving higher by +33 bps to 1.05%.

Credit market performance was positive during the quarter. Spreads for fixed rate asset classes moved wider while floating rate spreads continued to compress. U.S. IG corporate spreads moved wider by +4 bps to 94 bps. Within non-investment grade, U.S. high yield spreads widened by +6 bps to 321 bps, while senior floating rate loans spreads were tighter by -3 bps to 460 bps during the quarter.

Investors grappled with a steady flow of news and some notable political events throughout the quarter. U.S. economic data in April revealed challenges, with GDP growth sliding to a two-year low at a 1.6% annualized rate, primarily due to a wider trade deficit. In May, global trade dynamics came into focus, as the Biden administration imposed tariffs on various Chinese goods, and M&A activity surged with BHP's significant bid to acquire Anglo American. In the U.S., the presidential election season intensified with President Biden and former President Trump debating in June, raising concerns within the Democratic Party about Biden's fitness to run. Trump's conviction on 34 felony counts in May added complexity to the campaign. In Europe, the U.K. and France prepared for early July elections; as a result, French markets experienced increased volatility after President Macron called for snap elections due to his party's poor performance in elections and political challenges. Geopolitical tensions remained high, particularly in the Middle East. The U.S. Senate passed a $95 billion emergency aid package for Ukraine, Israel, and Taiwan in April. Regulatory changes came to the forefront in Argentina, where President Javier Milei pushed reforms through Congress in June. Despite some volatility, fixed income markets generally rebounded, influenced by political and economic developments.

The May employment report showed an acceleration, with non-farm payrolls increasing by +272,000 (vs. +180,000 consensus) and average hourly earnings up +0.4% MoM (vs. +0.3% consensus). The unemployment rate increased slightly to 4.0% (vs. 3.9% consensus). May inflation was stable, with headline inflation slightly below expectations, as headline CPI came in at +3.3% YoY (vs. 3.4% consensus). Similarly, Core CPI, which excludes food and energy prices, was below expectations at +3.4% YoY (vs. 3.5% consensus). Consumer spending was below expectations as seasonally adjusted U.S. retail sales came in at +0.1% MoM (vs. +0.3% consensus).

The Federal Open Market Committee (FOMC) convened on June 11 – 12, 2024. FOMC minutes noted that financial conditions had eased slightly, primarily due to higher equity prices, while nominal Treasury yields declined and inflation compensation fell somewhat. The Committee decided to maintain the target range for the federal funds rate at 5.25 – 5.50%, emphasizing the need for more data to confirm sustained progress toward the inflation goal of 2%. The process of reducing the Federal Reserve's securities holdings will continue. Committee participants discussed various risks, including downside risks to economic activity and the potential persistence of inflation above the target, stressing the importance of a data-dependent approach to future policy decisions. Internationally, the European Central Bank (ECB) and the Bank of Canada (BOC) initiated rate- cutting cycles, with expectations that other advanced-economy central banks would follow suit soon.

Within the eurozone, inflation came in slightly above expectations. May eurozone headline CPI printed at +2.6% YoY (vs. 2.5% consensus) while core CPI came in line with expectations at +2.9% YoY (vs. 2.9% consensus). Outside of the eurozone, May headline inflation figures in the U.K. came in line with expectations, with headline CPI at +2.0% YoY (vs. 2.0% consensus) and core CPI at +3.5% YoY (vs. +3.5% consensus). In Japan, headline CPI came in slightly below expectations at +2.8% (vs. +2.9% consensus). Core CPI in Japan was also below expectations at +2.1% (vs. +2.2% consensus). Consumer spending was greater than anticipated in Japan with retail sales increasing +3.0% MoM (vs. +2.0% consensus).

In China, signs of waning domestic demand and slowing economic growth continued. For the second consecutive month manufacturing PMIs were below 50.0, remaining unchanged at 49.5, driven by a decline in new orders. Non-manufacturing and services PMIs were also lower; non-manufacturing PMI came in at 50.5 (vs. 51.0 consensus) while services declined to 50.2 (vs. 50.5 prior). Production declines underscore the softness in domestic Chinese demand, as external demand has remained relatively consistent. Elsewhere in Asia, we saw economic expansion driven by growth in the technology sector. South Korean PMI rose to 52.0 (vs. 51.6 prior) while Taiwan PMI rose to 53.2 (vs. 50.9 prior).

Market Outlook and Investment Strategy

Midway through 2024, it's pretty clear what the story of the year has been so far: stickier inflation and higher rates for longer than many investors wanted or expected.

We continue to believe that the destination for rates is more important than the journey. The adjustment to the new rate environment has been largely orderly and generated plenty of investment opportunity, even though the journey has been bumpier than anticipated.

It has been notable that, even with this year's inflation disappointments, there have been fewer central-bank headlines and lower market volatility than when rates were on the way up. Moreover, this has been the case even though the central banks that have cut rates—including the European Central Bank and those of Canada, Switzerland and Sweden—have also cast doubt on when the next cuts will come.

That is more important than many recognize: When rates are going up, the destination is troublingly uncertain; on the way down, for all the ebb and flow, we know the end point is somewhere between zero and where we are now.

This has informed one of our key themes for the year: favoring the short and intermediate points on yield curves. Because policy-rate expectations are the main determinant of yields here, at peak rates the downside is effectively capped, income is unusually high, and upside is highly likely—even if the journey to get there takes longer and is more volatile than expected.

Further out on the curve, income is the same or even lower. At the same time, a range of other factors, from debt-sustainability concerns to uncertainty about growth trends or the term premium, make upside and downside risk more symmetrical.

In credit, while it is fair to say that spreads have been tight and risk fully valued for the corporate market, higher rates for longer have caused stresses for some overstretched issuers and sectors, giving active managers opportunity to generate alpha. Meanwhile, other segments of the credit landscape, such as mortgages and structured products, may offer more opportunity.

Source: Neuberger Berman

## Nomura Japan High Conviction Fund

Investment and Market Review

In the first half of 2024, shifting expectations surrounding US monetary policy had a significant impact on financial market volatility. Economic indicators such as employment data and the consumer price index, which are used to determine rate cuts, were closely watched. Market participants tended to react with elation or concern depending on the outcome of these economic indicators. While investors are still focused on the Federal Reserve's (Fed's) monetary policy stance, the second half will see greater focus on the November US presidential and congressional elections, as these could bring significant changes in the economic and market outlook for 2025. In this autumn, financial market volatility could increase depending on the interest rate path taken by the Fed as well as election outcomes.

Market Outlook and Investment Strategy

Currently, there are no visible signs that the US economy will enter a recession in the near future. In Europe, the Eurozone economy has been showing signs of recovery in 2024 after experiencing slight

negative growth in the second half of 2023.

Although the effects of past rate hikes may have been smaller than expected, the US growth is expected to fall below the economy's potential growth rate through the autumn, contributing to expectations of slowing inflation rates. However, there is still skepticism about whether inflation rates will steadily decline towards the central bank's target in the coming months, such that rate cuts must be given careful consideration. Taking into account consistency with past communications, downside risks to the economic outlook, and concerns for the adverse effects of rate hikes on low-income groups, we currently forecast that the Fed could decide to cut rates in December.

However, given the view that the economy and price pressures at the moment do not warrant a significant rate cut, our expectations for the pace of monetary easing are more gradual than what is currently priced into the market. As such, we do not anticipate a significant boost to economic growth from interest rate reductions, and we forecast the US economy to grow at a pace close to its potential growth rate in 2025.

On the other hand, for Japan, we expect growth to continue slightly surpassing the potential growth rate, even with a minor interest rate hike, as the effects of the spring wage increase spread to actual wages and due to the impact of flat-amount tax reduction.

Source: Nomura

## PGIM Global Total Return Bond Fund

Investment and Market Review

With little net change in yields, returns on high-quality fixed income paused in the first half of 2024.

However, higher yielding sectors, such as high yield corporates and hard currency emerging markets debt continued to post positive returns, albeit at a slower pace than in 2023.

Even with the probability of rate cuts, long-term yields are likely to remain centered around current levels, as a fair amount of rate cuts have already been priced in as evidenced by the significant inversion of government yield curves. In addition, a loose fiscal policy—and its resulting heavy government bond issuance—may impede any substantial, sustained decline in long rates.

On net, this will likely result in a slow normalization (i.e., dis-inversion) of the yield curve with the outcome being little change in the range for long rates, despite any drop in short rates.

Market Outlook and Investment Strategy

Political, economic, and geopolitical risks continue to obscure the short-term outlook. In general, an environment of trend growth and near-target inflation is a good one for credit spreads. Given our base case, we expect low single-digit excess returns from a combination of slight spread compression and carry. Given that tight spreads after a strong H1 set a high bar for aggressive risk taking, we continue to favor carry, idiosyncratic stories, and relative value rather than directional views. Longer term, the fixed income outlook appears strong, on an absolute and relative basis, with ample opportunities to add value through sector rotation and issue selection in volatile markets.

Source: PGIM

## Pictet Asian Local Currency Debt Fund

Investment and Market Review

The index returned -0.32% in USD terms over the quarter, with the FX component being the primary drag on returns. The start of the quarter saw headwinds for the asset class given the continued strong data from the US but the narrative turned more positive mid-quarter as data points started (and continued to) show signs of a slowdown, with the market now pricing in the first Fed cut in September and a more positive backdrop for EM assets. The market experienced a rally in both rates and spreads, bringing a much-needed boost to total returns, but towards the end of the quarter, rates and FX saw some volatility following election outcomes in EM. Although external pressures have been similar across the board, policy responses have been differentiated in the Asia region. In Malaysia, we have seen the implementation of policy measures that have slowed capital outflows and helped stabilise the currency. In Indonesia, despite a rate hike in April, the currency continues to weaken, indicating potential further rate hikes. In contrast, Korea has been driven more by domestic growth and inflation dynamics rather than external factors.

Market Outlook and Investment Strategy

The first half of the year saw EM markets continue to be driven by the US and global cyclical environment, with the interaction of growth and inflation cycles weighing heavily on EM policies. With steady global growth and sticky inflation persisting, markets are waiting for clarity on the path of US rates. The extension (or the start) of rate cutting in EM going forward will continue to be highly dependent on actions taken by major developed market central banks. However, we think that EM Asia central banks will likely remain relatively conservative in terms of monetary easing. As we move into the second half of the year, idiosyncratic drivers will likely play a more prominent role in Asia. Meanwhile, the heavy election cycle has become more prominent in our outlook, having already experienced some surprises in both emerging and developed markets. This is set amongst the already growing uncertainty surrounding the US elections. However, the overall growth picture in EM looks relatively robust. Countries that experienced slow growth last year may have bottomed out, especially in Asia.

Emerging market investments continue to react sensitively to US data prints, which have been increasingly soft in recent months. This is supportive of our conviction to remain constructive on local

EM duration. We remain tactical in currencies whilst still being cognisant of local vulnerabilities. Our key convictions are overweight duration in India, Thailand and Philippines and we look for opportunities to add back in Korea. We are maintaining small underweight positions in Indonesia and China but are constructive on duration overall. In FX, we are overweight Philippine Peso, Indian Rupee and Indonesian Rupiah. We continue to use the Taiwan Dollar and CNH to fund some of the EM currency overweights.

Source: Pictet

## Pictet Global Emerging Debt Fund

Investment and Market Review

The index returned 0.30% over the quarter, with both investment-grade and high-yield names delivering muted returns over the period. The start of the quarter saw headwinds for the asset class given the continued strong data from the US but the narrative turned more positive mid-quarter as data points started (and continued to) show signs of a slowdown, with the market now pricing in the first Fed cut in September and a more positive backdrop for EM assets. The market experienced a rally in both rates and spreads, bringing a much-needed boost to total returns. The quarter also brought the IMF Spring meetings in Washington, with our general takeaway being that EM is caught between a situation of positive fundamental developments in many cases, set against a backdrop of elevated/higher for longer US rates. This situation presents a temporary headwind, but robust global growth signals offer some optimism. We also saw a number of restructurings approaching their final stages, with Ghana, Zambia and Sri Lanka as primary examples. The number of surprise elections in recent weeks has put a spotlight on the extent to which political changes can influence markets, with volatility experienced in India, South Africa, Mexico and more recently France, where there has been some spillover into CEE names.

Market Outlook and Investment Strategy

The first half of the year saw EM markets continue to be driven by the US and global cyclical environment, with the interaction of growth and inflation cycles weighing heavily on EM policies. With steady global growth and sticky inflation persisting, markets are waiting for clarity on the path of US rates. The extension (or the start) of rate cutting in EM going forward will continue to be highly dependent on actions taken by major developed market central banks. Meanwhile, the heavy election cycle has become more prominent in our outlook, having already experienced some surprises in both emerging and developed markets. This is set amongst the already growing uncertainty surrounding the US elections. However, the overall growth picture in EM looks relatively robust. Countries that experienced slow growth last year may have bottomed out, especially in Asia. EM fundamentals, especially for high-yield sovereigns, remain well supported by resilient growth, elevated prices for key commodities and, in several cases, positive developments in terms of policy trajectory.

EM assets continue to be sensitive to US data prints, which have continued to be softer through the quarter. Credit markets have remained resilient and performed well. This is supportive of our conviction to remain constructive in EM hard currency debt and the portfolio is now fully invested, with a focus on overweight positioning in the higher-yielding space and a neutral positive in investment grade. Key underweight duration positions are in Mexico, Uruguay and China. Both Mexico and Uruguay have been trading tight from a valuation perspective; this is particularly true of Mexico, given the context of higher fiscal deficits and volatility risks from the election. However, we recently added to positioning in safer investment-grade credits, such as Paraguay and Trinidad and Tobago. The main high-yielding overweights remain in Egypt, Ukraine, Sri Lanka and Argentina whilst we are more cautious on Costa Rica and Turkey. We expect to see continued differentiation in high-yield sovereign names and are looking for positive idiosyncratic developments in this portion of the portfolio.

Source: Pictet

## Pictet Premium Brands Fund

Investment and Market Review

In Q2, equities finished on a positive note despite still-elevated interest rates as well as a tense geopolitical situation, helped by optimism on the US economy and on AI-driven corporations. Premium Brands companies published their Q1 earnings, revealing solid numbers overall but with contrasted situations and a few companies revising down their full-year outlook. The luxury segment fared well, with the most exclusive brands including Hermes and Ferrari generating double-digit sales growth and exceeding consensus expectations. Premium hotels continued to benefit from a rise in travel trends, as evidenced by Hilton, which had an excellent quarter and raised its outlook for the full year. On the other hand, a few companies disappointed, showcasing polarised consumption patterns across segments. This was notably evidenced by Nike and lululemon in sports as well as Estée Lauder and Ulta in Cosmetics, all revising down their full-year guidance and highlighting sluggish sales in China or a need to accelerate innovation in order to regain market share as consumers become increasingly selective.

**Market Outlook and Investment Strategy**

Even though consumer sentiment, high interest rates and political uncertainties remain headwinds in many countries, inflation has started to abate in the US and in Europe, fuelling some hopes for more accommodative central banks in the latter part of 2024. This is set to improve consumer confidence from a low current level, potentially driving optimism and the return of a consumer up-cycle. Supportive travel trends globally and the progressive return of Asian tourists could also be additional positive drivers. On the other hand, geopolitical tensions and ongoing wars still pose risks to global stability and could fuel market nervousness. Premium Brands tend to resist well across consumer cycles as they display unique know-how, strong brand reputation, recurring cashflows and solid balance sheets. They also benefit from secular growth drivers in the long term, leading to strong sales and profitability metrics. They tend to gain market share following times of crisis and uncertainty.

The strategy invests in companies with strong brands that fulfil consumers' aspirations. We favour recognised brands with high-quality products, superior services and relevant digital engagement. We evaluate the ability of companies to generate sustainable growth with high profitability and strong cash-flow generation. Valuation levels must be attractive relative to growth prospects.

Source: Pictet

## Pictet Security Fund

Investment and Market Review

Equities outperformed bonds in June as a soft landing for the US economy was seen as the most likely outcome following the release of benign inflation figures that kept alive the prospect of US interest rate cuts this year. US equities were among the outperformers in the developed market in a rally led by big tech. Tech stocks rose more than 9% on the month, bringing this year's gains to over 26%. Elsewhere, Japanese stocks gained more than 1% as a combination of corporate governance improvements, accommodative monetary policy and a weak Yen attracted capital inflows. In contrast, eurozone, UK and Swiss stocks lost ground as concerns about weak growth and political uncertainty weighed on investor sentiment. Regarding the security universe, IT Security Products was positive over the quarter whilst Physical Security Products and Security Services were negative.

Market Outlook and Investment Strategy

Given the persistent uncertainties surrounding the current state of the world, we believe that securing the critical infrastructures of countries, protecting citizens' integrity and ensuring the ability of businesses to meet their objectives are top priorities. Given the Russia-Ukraine conflict, key structural themes will redefine Europe, among them Cybersecurity, Reshoring and Security of Supply Chains. Cyber is the new war frontier. The conflict has further highlighted the increasing importance of cybersecurity in conflicts given that the Russian invasion was accompanied by coordinated cyberattacks. Going forward, malware, phishing and attacks on infrastructure are likely to happen at a higher rate. The emergence of generative AI is opening new opportunities in the semiconductor design/manufacturing space and increasing the need for more space in refurbished data centres (power and thermal management). We therefore remain confident about the fund's ability to outpace the global equity market on earnings and cash-flow growth over the next few years. The fund is an attractive investment opportunity to capture long-term new opportunities benefitting from strong fundamentals and good diversification properties.

Not so long ago, the markets were convinced that the US would head into recession sometime this year, dragging the rest of the world down with it. Now the most likely outcome is neither recession nor even a soft landing. Instead, the highest probability scenario is that the economy will continue to sail along steadily with only a modest short-lived deceleration. We think the US economy will slow from around a 3 per cent rate of growth to closer to 1 per cent before recovering back towards potential by the end of the year. Inflation should ease to 3.5 per cent by the end of the year, forcing the Fed to keep rates high for longer. We also expect continued strong performance from tech – across both IT and communication services sectors. In our view, secular growth trends justify current valuations despite the recent deterioration in Big Tech earnings dynamics (which are still being revised upwards, but not as rapidly as before). There are, of course, risks to this benign view. US elections later this year could cause considerable turbulence. What's more, some economists are even starting to worry about the US needing further rate hikes to mitigate fiscal largesse, while others think that an accidental hard landing is still possible.

Source: Pictet

## PIMCO GIS Income Fund

Investment and Market Review

Risk assets continued their positive momentum into June, with the Magnificent Seven for example, delivering another blockbuster performance. In the U.S., labor markets added 206k jobs in June, slightly below a downwardly revised 218k in May, pointing to a strong, albeit cooling labor market. On the inflation-front, headline CPI rose by 3.3% YoY in May, below the consensus forecast of 3.5% and the April reading of 3.6% YoY. In the Euro area, the inflation rate came in at 2.6% YoY in May, up from 2.4% in April and exceeding the forecast of 2.5%. In the U.K., the annual core inflation rate slowed for a fourth consecutive month to 3.5% in May, its lowest print since October 2021 and matching market forecasts.

Government bond yields generally fell across developed markets, with U.S. Treasury yields declining in response to softer-than-expected economic data. Elsewhere, U.K. 10-year gilts moved lower supported by a favorable inflation reading. In the front-end, U.S. 2-year Treasury, U.K. 2-year gilts, and German 2-year Bund yields rallied 12bps, 16bps, and 25bps, respectively. Further out the curve, U.S. 10-year Treasury, U.K. 10-year gilt, and German 10-yr Bund yields rallied 10bps, 15bps, and 17bps, respectively.

June saw a continuation of the equity rally, with the S&P 500 posting seven new closings highs, as soft economic data abated fears of an overheating U.S. economy and bolstered hopes for a soft landing. Japanese equities also delivered positive returns, with the Nikkei 225 up 2.9%, while European equities posted negative returns, as the Stoxx 50 finished June down -1.7%. In credit, U.S. and Euro investment grade spreads widened by 8bps and 13bps, whilst U.S. and Euro high yield spreads widened by 1bp and 36bps, respectively.Market Outlook and Investment Strategy

Given the persistent uncertainties surrounding the current state of the world, we believe that securing the critical infrastructures of countries, protecting citizens' integrity and ensuring the ability of businesses to meet their objectives are top priorities. Given the Russia-Ukraine conflict, key structural themes will redefine Europe, among them Cybersecurity, Reshoring and Security of Supply Chains. Cyber is the new war frontier. The conflict has further highlighted the increasing importance of cybersecurity in conflicts given that the Russian invasion was accompanied by coordinated cyberattacks. Going forward, malware, phishing and attacks on infrastructure are likely to happen at a higher rate. The emergence of generative AI is opening new opportunities in the semiconductor design/manufacturing space and increasing the need for more space in refurbished data centres (power and thermal management). We therefore remain confident about the fund's ability to outpace the global equity market on earnings and cash-flow growth over the next few years. The fund is an attractive investment opportunity to capture long-term new opportunities benefitting from strong fundamentals and good diversification properties.

Not so long ago, the markets were convinced that the US would head into recession sometime this year, dragging the rest of the world down with it. Now the most likely outcome is neither recession nor even a soft landing. Instead, the highest probability scenario is that the economy will continue to sail along steadily with only a modest short-lived deceleration. We think the US economy will slow from around a 3 per cent rate of growth to closer to 1 per cent before recovering back towards potential by the end of the year. Inflation should ease to 3.5 per cent by the end of the year, forcing the Fed to keep rates high for longer. We also expect continued strong performance from tech – across both IT and communication services sectors. In our view, secular growth trends justify current valuations despite the recent deterioration in Big Tech earnings dynamics (which are still being revised upwards, but not as rapidly as before). There are, of course, risks to this benign view. US elections later this year could cause considerable turbulence. What’s more, some economists are even starting to worry about the US needing further rate hikes to mitigate fiscal largesse, while others think that an accidental hard landing is still possible.

Source: Pictet

## PineBridge Asia ex-Japan Small Cap Equity Fund

<u>Investment and Market Review</u>

The MSCI All Country Asia Pacific ex Japan Small Cap Daily Total Return Net Index reported strong gains in the second quarter. India, Malaysia and Taiwan led this performance, while on the other hand, Indonesia was the key detractor.

India also posed to be the top performer in the Index, driven by favorable general election results which saw the incumbent government returning back to leadership ensuring continued political stability. Foreign inflows into the market remained robust. Additionally, India’s banking sector continued to be in good health.

China saw share price gains in the quarter as the domestic economy saw signs of growth backed by a higher-than-expected GDP growth print and the government shifting policy focus to tackle property inventory issues. However, persisting challenges in the real estate sector and subdued local government investments continue to pose a challenge to the pace of the recovery momentum. Additionally, geopolitical trade tensions might further lead to external demand uncertainty which might impact the sentiment towards investments in China.

Malaysia outperformed driven by significant inflows of foreign funds, premised on health macro conditions, solid corporate earnings outlook, and increasing foreign direct investments in areas such as datacenter infrastructure.

Taiwan continued to gain investor interest on the back of AI demand and re-stocking demand of general servers and consumer electronics.

On the other hand, Indonesia was the largest detractor. A weakening currency and the impact of an April rate hike continued to hurt sentiment. Additionally, Indonesia's foreign exchange reserves saw a significant drop around the end of April which added to investor concerns regarding the stability of further economic growth.

Market Outlook and Investment Strategy

The Asia ex Japan equity market saw solid share price gains in the second quarter. Investors' confidence returned on the back of stability of global macroeconomic conditions and the political environment in select markets and some structural themes like artificial intelligence buoying equity market momentum.

China has yet to see a broad economic recovery, with strength in production in equipment and high-end sectors, while domestic consumption demand and property remained moderate. We have seen the government shifting policy emphasis to tackling the inventory challenge in the property sector, while further policy implementation and execution remain to be watched. However, the team remains focused on structural growth opportunities against such an uncertain economic and geopolitical backdrop. In addition, the valuations in China remain attractive compared to its Asian peers.

Going ahead, underlying geopolitical stress, anticipation around the interest rate outlook by the Federal Reserve and event specific hiccups in the individual sector/markets may lead to volatility. We keep our focus on finding market leading names with strong business models backed by structural narrative available at reasonable valuations.

Source: PineBridge

## Principal Preferred Securities Fund

Investment and Market Review

Core CPI for the month of April was cooler at 3.6%. This was after inflation stuck at 3.8% for the prior two months. This lower trending number allowed the market to resume its rally with interest rates moving lower this month.

The Core PCE deflator, which is the Federal Reserve's (Fed) preferred gauge of inflation, came at 2.8%, the same as the prior reading.

The labor market showed some signs of cooling off with a nonfarm payroll number of +175,000, which was lower than the survey of 240,000 and lower than the prior month which was revised higher to 315,000.

Both manufacturing and services ISM surveys moved into contractionary territory with readings of 49.2 and 49.4, respectively, for April. ISM survey data is constructive for a Fed rate cut.

Market Outlook and Investment Strategy

Spreads are at three-year tights. Z-values, using a five-year lookback period, are at levels seen back in Q3 2021 and early 2018. We experienced a correction in spreads during these prior events with the sell-off in Q4 2018 and the sell-off in 2022. The best-case scenario is that spreads widen into a falling interest rate environment as the Fed initiates rate cuts. This scenario will result in capital prices being steady with return being generated by income. A stagflationary scenario would be the worst case; where the Fed either keeps rates restrictive or even hikes them due to persistent inflation, which results in credit stresses and a consequent drop in GDP growth. This would result in a normalization of spreads wider along with a poor total return. Recent economic data continues to point towards the “soft landing” scenario which should result in the first scenario above.

One of the risks to the “soft-landing” wider spread scenario presented above is continual U.S. deficit spending which is putting upward pressure on inflation and consequently rates. Capital security issuance has become standardized with fixed-to-fixed reset coupon structures. This reduces duration risk in our asset class given the ability for the portfolio to earn higher coupon income in rising rate environments. Discounted fixed-to-fixed reset bonds can move up in price as coupons get reset higher. Call characteristics in the AT1 CoCo space are attractive. Most of our strategies have over half the CoCo sleeve callable over the next couple of years. The bonds that are callable over the next two years are characterized by high reset spreads that make calls more likely. Credit conditions in banks and insurance companies continue to be healthy.

Recent new issuance in the AT1 CoCo sector possess coupons in the 7%+ area with robust reset spreads. These bonds should perform well going forward. Deeply discounted bonds look attractive given that they have fixed-to-fixed reset coupons and as such have good positive convexity.

Nominal yields are at decade long highs despite the recent spread tightening. This bodes well for the asset class as investors are reaching for yield in anticipation of Fed rate cuts.

Source: Principal

## Robeco SDG Credit Income Fund

Investment and Market Review

The second quarter of 2024 paints a mixed picture when looking at the performance of various asset classes as investors weighed ambiguous economic data, fresh political risks and ongoing geopolitical tensions.The US S&P 500 closed the quarter at a fresh all-time high, although this was distorted by the high concentration to mega-cap technology names. European stocks lost ground, shaken by the unexpected calling of snap elections in France. Government bond yields rose around 20 bps in both the US and Europe, despite the ECB delivering their first cut to interest rates in June, as expectations were further moderated regarding the timing and magnitude of policy adjustments.

Economic data in the US offered a murky view with upside inflation surprises early in April, followed by more favorable progress later in the quarter. Given some progress on inflation and evidence of a weaker consumer, the market now expects two cuts from the Federal Reserve by year end – although this may be complicated by the timing of the elections. Having joined several other major central banks (notably Switzerland, Canada and Sweden) in cutting rates in Q2, the ECB was clear that the path forward would be data dependent as concerns linger around sticky services inflation.

Within emerging markets Asia remains relatively stable. In Latin America there is more volatility which is driven by political events or changes in commodity prices. In Mexico the election results led to some fears, but market reaction to credits has so far been muted.

Primary markets were active during the second quarter. In developed markets there was issuance in both the corporate and financial sectors. Issuance was well absorbed by the market. In emerging markets primary activity was much calmer and in the Asian market new deals saw huge demand from investors.

At the index level, investment grade credit spreads widened by 4 bps for USD corporates and by 6 bps for the EUR market. The weakness occurred entirely in June. In corporate high yield, markets were only a few bps wider and total returns were less impacted by the rise in government bond yields. In emerging markets spreads were unchanged over the quarter.

Market Outlook and Investment Strategy

With continuing economic strength and inflation gradually coming down our base case is that credit markets will trade sideways in the coming period. This relatively benign scenario has been recognized by markets and many areas of the market are trading at historically tight levels. Markets are sensitive to tail risks as the turmoil after the French election announcement illustrate. At the moment not a lot can be gained from taking risk via directional calls on the market. However there are still areas of the where value can be found. In the coming quarter issuer selection will remain key.

Investment grade markets may look expensive on an index level, but value can still be found. European spreads and the banking sector in particular continue to offer value in an environment where the economy will continue to grow. Additionally, hybrid bonds in the utility sector look attractive.

In corporate high yield we expect the higher for longer yield environment to result in more stress for highly leveraged companies. We remain reluctant on taking exposure in Bs and CCCs.

Most likely the Fed will deliver its first rate cut this year. The pace of rate cuts expected by the market look fair at the moment. We therefore do not anticipate a very large move in Treasury yields. Only in case of faster-than-expected deterioration of the economy can we expect a larger drop in Treasury yields.

All-in yield looks attractive and given the continued strength of the economy a large spike wider in spreads seems unlikely. In case of a more substantial weakening of the economy we expect Treasury yield exposure to protect total returns.

Source: Robeco

## Robeco Global Consumer Trends Fund

Investment and Market Review

Global stock markets continued their good run and in the US the S&P 500 Index notched 7 new all-time highs in June, bringing the total for the year to 31. The new highs occurred despite (or maybe thanks to) increasing fears that America's economy is slowing down. Consumer spending trends among lower income workers are under pressure, job growth data came in below expectations and the manufacturing sector contracted. The silver lining here is that traders anticipate that the Federal Reserve may cut rates sooner rather than later. As a result, 10-year treasury yields dropped to close to 4.2%. For the first time in many years the European Central Bank (ECB) seems ahead of its US counterpart as the ECB cut interest rates for the first time since 2019, a quarter-point reduction to 3.75%.

Another index that has been reaching multiple new highs this year is India's stock market, the BSE Sensex, which became the world's fourth largest earlier this year, surpassing Hong Kong. The index swung wildly last month after prime minister Narendra Modi's BJP party lost its majority in a surprise election result. A coalition including rural parties is now the most likely outcome, and stock prices quickly recovered to end the month at another record high.

The favorable equity market backdrop led the MSCI All Country World Index (in EUR) to a 3.5% gain (2.2% in USD) The index has gained 14.7% (11.3% in USD) in the first half of 2024. Robeco Global Consumer Trends slightly outpaced the market in June and returned 3.7% (2.4% in USD) for a year-to-date gain of 14.2% (10.8% in USD).

Market Outlook and Investment Strategy

From a macro-perspective we have reached the end of interest rate hikes by Central Banks, and the European Central has already started cutting rates. Investors also expect one or two rate cuts in the United States in 2024, even though they are being pushed out towards the end of the year. Given the uncertain macro and geopolitical environment, a quality growth investment style seems well suited for the current investment climate. Our balanced approach should provide downside protection, while also offering the structural growth to participate in the upside.

We remain convinced in our belief that long term investors should focus on high quality businesses with valuable intangible assets, low capital intensity, high margins, and superior returns on capital. Companies with these traits have historically delivered above average returns while offering downside protection in volatile markets. Firms that exhibit these characteristics are poised to deliver healthy revenue and earnings growth in the future and we therefore expect them to continue to generate attractive long-term returns. Valuations have normalized, although we believe premium valuations for these businesses are justified given the quality of their business models, the high levels of earnings growth and the sustainability of their franchises. We continue to have a positive long-term outlook for our investments.

Source: Robeco

## Schroder Asian Income Fund

Investment and Market Review

Asia ex-Japan equities achieved modest gains in the first quarter but saw a strong rebound in second quarter of 2024. Taiwan, India, and Singapore were the best-performing markets in the MSCI AC Asia Pacific ex-Japan Index over the 6-month period. Shares in China also achieved strong gains in the second quarter. Low valuations for many Chinese stocks encouraged Asia-focused investors to cautiously return to the market following concerns about India's high valuations and Japan's continued currency weakness. Against this backdrop, the MSCI Asia Pacific ex-Japan Index rose 11.5% in SGD terms over first half (1H) of 2024.

Within fixed income, government bond yields rose at the start of the year due to stubbornly resilient inflation in the US and Europe which dampened hopes for near-term interest rate cuts; however, yields started to drift lower over the course of the second quarter due to softer inflation and signs of weakening US jobs and wages. The US 10-year Treasury yield started 2024 at 3.88% and peaked in late April at 4.70% before trending lower to 4.40% by end June. In Asia, corporate bond markets delivered positive returns due to rates as well as tightening of spreads. China bonds in particular benefitted from a compression in spreads after the Chinese authorities announced policies to stabilize the property market. Over the 6-month period, the J.P. Morgan Asia Credit Index (JACI) (SGD Hedged) returned +1.9% in SGD terms.

Market Outlook and Investment Strategy

All in all, our base case remains for a soft landing in the next 6 to 12 months, which would benefit Asian equity and bond investors as eventual rate cuts help attract capital flow back from US Dollar assets to Asian capital markets. For now, we have positioned for decent growth momentum via equities, and continue to maintain high selectivity and robust diversification in our portfolios.

Source: Schroder

## Schroder ISF QEP Global Quality Fund

Investment and Market Review

The QEP Global Quality strategy underperformed its reference index over the first half of the year, due to the challenging backdrop of exceptionally narrow markets, especially over the second quarter. Market breadth for the MSCI AC World index (i.e. the proportion of index stocks outperforming) hit lows not observed since we started recording breadth back in the late 1990s. Due to the diversified and benchmark agnostic nature of the strategy, our structural underweight to the largest 5 stocks in the index (Microsoft, Apple, Nvidia, Alphabet, Amazon) accounted for the majority of the underperformance. Elsewhere, in financials our preferred higher quality payment providers failed to participate.

Partially offsetting these headwinds, our avoidance of lower quality stocks in the consumer discretionary sector across autos and online retail was a boost to relative performance. Stock selection within health care was also strong as exposure to higher quality names in biotech aided returns. Additionally, our longstanding avoidance of Real Estate on poor quality characteristics provided a tailwind, especially in the first quarter.

Market Outlook and Investment Strategy

Looking ahead, the market risks would seem modestly skewed towards disappointment and potential rotation. However, our key observation is that the wide dispersion of valuations across the market at present, caused by the extremely narrow breadth of recent years, continues to set the stage for bottom-up rather than top-down calls. It seems less likely that beta will drive returns, meaning that alpha generation will be even more important. Said another way, our view is that this uncertainty also nurtures a more conducive environment for active management.

Source: Schroder

## Schroder Global Emerging Market Opportunities Fund

Investment and Market Review

Emerging market (EM) equities gained in dollar terms over H1 2024 but underperformed developed market peers. EM returns were buoyed by the ongoing strength in global trade and continued enthusiasm for artificial intelligence (AI). However, the prospect of higher for longer US interest rates was a headwind for rate sensitive EM, and China again proved a drag overall, particularly at the start of the period. In the second quarter, Chinese equities recovered some ground helped by optimism about the authorities' support for the housing sector and President Xi's reform rhetoric..

Market Outlook and Investment Strategy

While market-implied expectations for Federal Reserve (Fed) rate cuts this year may well be overdone, there is greater confidence that policy easing will commence in September. Fed rate cuts, against a backdrop of the significant fiscal and current account deficits, should lead to US dollar weakness in the longer-term. Meanwhile, EM inflation ex Turkey has remained sub 4% in recent months, and real policy rates are positive in most economies. However, uncertainty in the external environment outlook has driven some caution among EM central banks. Indonesia hiked rates in June to protect its currency. Various Latin American and emerging European central banks had been cutting rates but several, notably Brazil, have paused their easing cycles. The potential for near-term policy easing may remain constrained, but this should change once we move into a Fed cutting cycle.

Source: Schroder

## Schroder Multi-Asset Revolution 30 Fund

### Investment and Market Review

Global equities gained in the first half of 2024, with the advance led by developed markets. US shares registered a robust advance, supported by a corporate earnings rebound and optimism for an economic soft landing. Eurozone shares were higher overall although some gains were given up in the second quarter amid uncertainty caused by the announcement of parliamentary elections in France. Japanese shares were the top performers in local currency terms with stock market indices reaching new all-time highs; the Topix returned +20.5% in JPY terms but registered +8.1% in SGD terms as the Yen weakened.

Asia ex-Japan equities achieved modest gains in the first quarter but saw a strong rebound in the second quarter. Taiwan, India, and Singapore were the best-performing markets in the MSCI AC Asia Pacific ex-Japan Index over the 6-month period. Shares in China also achieved strong gains in the second quarter. Low valuations for many Chinese stocks encouraged Asia-focused investors to cautiously return to the market following concerns about India’s high valuations and Japan’s continued currency weakness. Overall, the MSCI AC World Index gained 14.4% in SGD terms over 1H2024.

### Market Outlook and Investment Strategy

Looking ahead, economic data continued to confirm our expectations of a soft landing, with activity remaining positive and inflation moving in the right direction for now. In particular, our expectation of the Federal Reserve starting to cut rates in the third quarter has been supported by recent inflation prints. This leads us to maintain our preference for equities, particularly as corporate earnings are also coming through. With interest rates starting to fall, emerging markets are looking interesting. Many emerging economies have brought inflation under control, are running more prudent fiscal policy and benefit from the manufacturing recovery that is currently under way.

The biggest risk ahead of us is the US election. Protectionism is likely to remain a feature of US policy whoever wins. Immigration policy could be important in the context of wage growth, particularly because labour markets are still buoyant. The possibility of a Republican clean sweep does raise concerns about more expansionary fiscal policy which could point to higher yields at the longer end of the yield curve as investors worry about the sustainability of the fiscal deficit. We remain underweight duration and continue to favour Investment Grade bonds as carry remains supportive and liquidity is abundant.

Gold should benefit from falling real rates whilst also offering protection against more persistent inflation or fiscal deficit concerns. Overall, a benign environment for growth is supportive of equities, and inverted yield curves mean that, in bonds, it still pays to wait for better levels or more tangible signs of recession risk.

Source: Schroder

## Schroder Multi-Asset Revolution 50 Fund

Investment and Market Review

Global equities gained in the first half of 2024, with the advance led by developed markets. US shares registered a robust advance, supported by a corporate earnings rebound and optimism for an economic soft landing. Eurozone shares were higher overall although some gains were given up in the second quarter amid uncertainty caused by the announcement of parliamentary elections in France. Japanese shares were the top performers in local currency terms with stock market indices reaching new all-time highs; the Topix returned +20.5% in JPY terms but registered +8.1% in SGD terms as the Yen weakened.

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Gold should benefit from falling real rates whilst also offering protection against more persistent inflation or fiscal deficit concerns. Overall, a benign environment for growth is supportive of equities, and inverted yield curves mean that, in bonds, it still pays to wait for better levels or more tangible signs of recession risk.

Source: Schroder

## Schroder Multi-Asset Revolution 70 Fund

Investment and Market Review

Global equities gained in the first half of 2024, with the advance led by developed markets. US shares registered a robust advance, supported by a corporate earnings rebound and optimism for an economic soft landing. Eurozone shares were higher overall although some gains were given up in the second quarter amid uncertainty caused by the announcement of parliamentary elections in France. Japanese shares were the top performers in local currency terms with stock market indices reaching new all-time highs; the Topix returned +20.5% in JPY terms but registered +8.1% in SGD terms as the Yen weakened.

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Market Outlook and Investment Strategy

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Gold should benefit from falling real rates whilst also offering protection against more persistent inflation or fiscal deficit concerns. Overall, a benign environment for growth is supportive of equities, and inverted yield curves mean that, in bonds, it still pays to wait for better levels or more tangible signs of recession risk.Source: Schroder

## Schroder Singapore Fixed Income Fund

Investment and Market Review

2023 started with declining expectations for global growth and elevated fears of an onset of a recession amid the higher-for-longer rate environment. The global economy turned out to be in a better shape. This was despite the Middle East tension, bond sell-offs, regional banking crisis and central banks' relentless policy rate hikes. Across the major regions, labor market stayed tight, inflation continued to trend lower and consumer spending remained strong. The year soon ended with a Santa rally amidst growing excitement that central banks will cut interest rates sooner in 2024 than previously expected. The end of "high-for-longer" rates fears boosted returns across major asset classes towards the end of the year. Equity markets as represented by the S&P 500 returned +8.0% in H2 2023. Fixed income markets ended the period filled with optimism, given market expectations of early central bank cuts.

Throughout 2023, the US economy has proved remarkably resilient, particularly from US consumers that have overcome headwinds of falling real incomes, higher interest rates and tighter credit conditions. Streams of data surprises were enough to lift risk markets and point the market towards the possibility of a soft landing scenario. Q4 GDP advance estimates surpassed expectations and continued to show an upward trajectory, increasing 3.3% year over year (y/y). Resilient private domestic final demand was the key driver. Consumer spending reaccelerated at the close of 2023 while December new home sales rose to 664k amid declining mortgage rates. The Fed's preferred inflation measure, core PCE, continued to moderate lower to 3.2% y/y in November while the labour market remains tight and growth resilient, paving the path for a soft landing for the US economy. During the last Federal Open Market Committee meeting, Fed chair Jerome Powell indicated that the central bank was aware of the risk of keeping rates at restrictive levels for too long. Minutes from the latest policy meeting showed policymakers expect rates to end next year at 4.50%-4.75%, down from the current 5.25%-5.50% range.

Despite the weak global backdrop, Asia's growth also demonstrated resilience due to the export tailwind and domestic offset. The labor market remains healthy, with ongoing job gains and steady real income growth. CPI inflation also continues to moderate across most Asian economies, albeit divergence in moderation given the labor market tightness, the stage of business cycle, the size of fiscal subsidies and exposure to external supply shocks. That said, Asian central banks were still weary of upside risks to inflation and kept policy rates unchanged in the H2 2023. Shadowing the Fed, Asian central banks would likely stay on hold till the Fed makes its first move to pivot.

Advance estimates for Q4 GDP in Singapore indicated growth of 2.8% y/y, driven by a turnaround in the manufacturing sector that expanded by 3.2% y/y in Q4 vs a 4.7% contraction in the prior quarter – the result of output expansion. Services sector momentum on the other hand, appears to be slowing. While non-oil domestic exports (NODX) registered their first positive print in 14 months in November at 1.0% y/y, it was soon reversed when NODX ended the year at -1.5% y/y in December – reflecting the rather bumpy exports recovery path particularly with the projected slowdowns in Singapore's major export destinations. Electronics exports also remained sluggish through the period ending the year at -11.7% y/y as a reflection of rather dreary global electronics demand. Core inflation rose 3.3% y/y in December, partly due to volatile travel costs. With inflation volatility well-anticipated by the MAS, their stance is likely to stay as an extended hold.

Singapore bonds posted positive returns of 2.7% for H2 2023, led by the outperformance of the spreads sector (as measured by the iBoxx ALBI Non-Government Total Return Index) which returned 4.3% vs the government bonds sector (as measured by the iBoxx ALBI Singapore Government Total Return index) which returned 2.1%.

The Schroder Singapore Fixed Income Fund outperformed its benchmark over the 6-month period. The A share class returned 3.3% (net returns) and the I share class returned 3.5% (net returns), while the benchmark returned 2.7%.

Both spreads and rates drove returns in H2 2023. Security selection in the government related segment and Financials sector in the SGD credit space aided performance. The rally in the Asian USD credit space in Q4 also ensured the Fund's allocation to the Schroder Asian Investment Grade Credit Fund contributed meaningfully to returns.

The Fund's overall underweight Singapore duration stance hurt returns though slightly cushioned with the long US duration positioning with the use of US Treasury futures. In contrast, curve positioning particularly the overweight in the belly (7-15Y) of the SGS curve was a positive for returns.

Market Outlook and Investment Strategy

Most New Year resolutions tend to revolve around motivation for change and that should certainly apply to markets as well. Especially with overly optimistic markets getting ahead of itself with regards to pricing for Fed rate cuts for the year though some semblance of a reality check appears to be at play. Expectations for a first cut in March would likely need to be taken back a notch particularly with the resilience of the US economy and the still-tight labour market leaving room for the Fed to stay on hold while awaiting the lagged effects of their monetary policy to play out in financial markets. The consensus view remains for the US economy to achieve a soft landing.

Though still heavily reliant on its external environment, growth in Singapore would still stay on course. This is particularly so with the encouraging rebound in the manufacturing and construction sectors in the second half of 2023 that outpaced the slowing momentum in domestic services and tourism.

The MAS is likely to stay on an extended hold with expectations for upside in inflation risks on the back of the oncoming 1% GST hike as well as utilities price hike. The labour market though still tight, has been easing per expectations, driven by supply normalization as well as some demand softness last year. The MAS, would thus be comfortable with keeping with their current FX policy settings.

The SGD credit space has had a good run in 2023, though a lot is riding on the Fed's policy stance – both magnitude and pace for this segment of the market in 2024. Net interest margins (NIM) for banks have hit multi-year peaks and would still be a beneficiary for the current elevated rates backdrop. That said, with rate cuts an increasingly unpreventable scenario, the NIM expansion story would be coming to an end soon, replaced with credit cost concerns instead as the lagged effects of monetary policy finally start to catch up. Higher borrowing costs would certainly raise refinancing concerns for the property sector as well. While underlying fundamentals remain positive, prospects of slower global growth as well as potential uptick in vacancies (especially in the retail space given the relatively higher rental cost in Singapore vs its regional peers as well as the sluggish return of Chinese tourists) would be challenges for the property sector. We thus continue to prefer property names with a higher proportion of their debt in fixed rates as well as keep our exposures diversified in the Financial sector.

Source: Schroder

## Schroder Singapore Trust

Investment and Market Review

It has been a roller coaster ride in terms of markets expectations for where forward interest rates should be. Despite the Fed holding rates stable at 5.5% in the December 2023 Federal Open Market Committee (FOMC) meeting, the revised guidance was for a higher possibility of rate cuts going into 2024, which indicates that we are likely approaching the end of this higher interest rate environment.

For reference, whilst the Fed dot plot projection points towards interest rates to decline from the current 5.50% to c. 4.75% by December 2024 (i.e. c. 75bps of rate cuts over 2024), the interest rate markets have moved sharply ahead, and is now pricing in a year-end rate of 3.75% for 2024 (c. 175bps over 2024).

Chances are that actual rate declines will likely fall somewhere in between these two projections. Nevertheless, this still points towards a lower interest rate scenario as we progress through the year. Having said that, we are still coming off record-high interest rate levels. Hence, the refinancing of most debt expiring this year for corporates will continue to be at higher levels as compared to their initial rates.

Market Outlook and Investment Strategy

Higher interest rates have continued to impact bank loans in Singapore, with overall bank loans declining by 3% YTD (as of November 2023). While this was partly due to the higher cost of debt, the gradual economic slowdown post the initial re-opening euphoria was a contributing factor as well. Bank earnings have benefitted over the past two years from the expansion of net interest margins (NIMs) as rates were rising. Conversely, with rates likely to decline, expectations are for some downward pressure for NIMs, which in turn would apply some downward pressure on earnings (albeit with a slight lag to account for loan-repricing). The silver lining here is that loan repayments remain largely on track, with no major spike in credit costs (i.e. defaults/non-payments). We expect that banks with more diversified business segments and more scope for capital management to perform better in this environment.

For REITs, the aforementioned pivot in interest rate expectations has driven an initially rally across the sector, as expectations are now for gradually declining costs of debt as well as a tailwind for asset values, which should benefit their distributable income and net asset value respectively. That said, there remains continued pressure on near-term distribution as debt renewals will still be at higher rates as compared to expiring debt, though that should taper off as we move into 2025 if the Fed does deliver on the projected rate cuts. We will continue to monitor this space and pick up good quality companies at the margin as we approach the tail-end of this rate hike cycle.

One wildcard here is whether there could be another inflationary surge coming from the rise in shipping costs due to recent events in the Red Sea. The attacks on commercial ships traversing there have caused multiple shipping firms to re-route their initial course to avoid the area, and led to longer sailing times and costs as a result. If the current projection of inflation gradually tapering over the next two years is thrown awry as a result of higher logistics cost, that could shift expectations of rate cuts further down the line in order to keep a lid on inflationary pressures.

As we transit from a peak interest rate environment into a potential rate cut cycle, this is likely to lead to more market volatility as markets toggles between the hope of lower rates benefitting the bottom line versus the risk of a further economic slowdown as post-Covid recovery spending eases back to more normal levels. We continue to believe that well-managed companies with prudent debt levels will outperform in the longer term and will look to pick up stocks that provide a good balance of asset quality and valuations when opportunities present themselves.

Source: Schroder

## Templeton Shariah Global Equity Fund

Investment and Market Review

Global equities collectively advanced in the fourth quarter to close out a generally strong 2023. In October, equities declined for the third consecutive month due to investor concerns about surging sovereign bond yields, worsening geopolitical uncertainty due to the Israel-Hamas war and the prospect of higher-for-longer interest rates. However, renewed optimism that major central banks, including the US Federal Reserve, might begin cutting policy rates sooner than previously expected drove bond yields lower and equities significantly higher in the final two months of the year. Moderating inflation, encouraging economic data, and softening but solid employment figures in several regions, particularly in the United States, reinvigorated expectations for an economic soft landing, further supporting risk appetite. Global manufacturing activity remained in

contraction during the quarter, while global services activity expanded in December at the fastest rate in five months. As measured by MSCI indices in US-dollar terms, developed market equities modestly outperformed a global index, while emerging market and frontier market equities lagged it. In terms of investment style, global growth stocks significantly outperformed global value stocks, which nonetheless posted strong gains for the quarter.

Market Outlook and Investment Strategy

As the new year begins, hopes of impending Fed rate cuts—with as many as six cuts currently priced in by the market, which is double the Fed's latest projection—and a US soft landing abound. If these macro drivers come through and translate to broad-based earnings growth, US equities may have further upside in 2024 despite their relatively high valuations; a lively Wall Street may in turn bode well for the global markets. However, we are cognisant of the likelihood that global economic growth will slow further in 2024, as projected by the United Nations recently. With geopolitical disruptions and mixed consumer sentiment also at play, we will not be surprised if corporate earnings and profit margin growth in 2024 proves weaker than widely expected. Importantly, even if central banks cut their policy rates, financing costs will not return to the low levels

of yesteryears. This may be particularly challenging for companies with weaker fundamentals.

With that in mind, we wrapped up 2023 with a broadly constructive view on our portfolio positioning. While the fund's full-year performance lagged its benchmark, we note that this was due mainly to our underweight allocations to Microsoft and Tesla. These benchmark-related factors are not a reflection of our stock selection and research expertise, in our view; indeed, our overall stock selection was a performance contributor in 2023.

Going forward, we will stay the course, maintaining a flexible stance as we navigate a potentially complex market landscape, ready to act on opportunities to add value and quality to the portfolio without sacrificing its risk/reward profile.

Our relatively cautious approach in the fourth quarter has left us with a cash holding of 5.1% of total net assets at the end of 2023. We are keen to deploy that on new or existing ideas that, in our analysis, are attractively valued relative to their long-term fundamentals and earnings power.

With our consistent focus on bottom-up fundamental research and valuation discipline, we believe we can identify such opportunities across the spectrum. For instance, despite the macroeconomic uncertainties, we are not averse to investing further in cyclicals, such as industrials, consumer discretionary and materials sectors, as long as they meet our stock selection and research criteria. Meanwhile, we have in the fourth quarter trimmed or exited several positions and rotated some of the capital to positions that, in our assessment, have better risk/reward profiles. This will remain another priority for us in 2024, as we stay committed to positioning the fund for greater resilience and long-term returns.

Source: Franklin Templeton

## United SGD Fund

<u>Investment and Market Review</u>

The US economy showed strong resilience with its better-than-expected fourth-quarter 2023 Gross Domestic Product (GDP) growth, rebound in Purchasing Managers' Index (PMI) for January 2024, and robust labour market alongside easing inflation readings, which boosted hopes for a soft landing. The Federal Reserve (Fed) decided to hold interest rates unchanged at 5.25-5.50 per cent in the January Federal Open Market Committee (FOMC) meeting but pushed back the prospects of a March (2024) rate cut. The US Treasury (UST) curve steepened with the 2- year UST yield declining 4 basis points (bps) to

4.21 per cent while the 10-year UST yield increased by 3 bps to 3.91 per cent in January 2024. Oil prices rallied (West Texas Intermediate (WTI) oil price +5.9 per cent, Brent oil price +6.1 per cent) amid rising geopolitical tension in the Middle East/Red Sea. However, other commodities did not fare well (iron ore price of -6.4 per cent, copper price of +0.4 per cent) as China's growth concerns persisted. The Chinese government announced more supportive policies in January 2024, including a 50bps cut to the Reserve Requirement Ratio (RRR) following the release of a mixed set of economic data.

Market Outlook and Investment Strategy

JP Morgan Asia Credit Index (JACI) Investment Grade credit spreads widened slightly to 150bps (+2bps) as new issues supply kicked in on a fresh year of 2024. A total of US$19.6 billion of Asia ex-Japan G3 currency bonds (bonds issued denominated in US Dollars, Japanese Yen, or Euros) were priced in January 2024 versus US$1.63 billion of bonds priced in December 2023. However, this was 33 per cent year-on-year (y/y) lower when compared to US$29.2 billion in January 2023. The financials sector and Korea continue to lead new supply at 43 per cent and 48 per cent of total issuances.

Source: UOB AM

## United Singapore Bond Fund

Investment and Market Review

The macro releases over January 2024 were a dent in the hopes of a recovery in the manufacturing sector after the sector showed signs of a rebound over the previous few months. The non-oil domestic exports (NODX) in December 2023 was -1.5 per cent year-on-year (y/y), below November's reading of +1.0 per cent y/y and consensus expectations of +3.0 per cent y/y. The weakness was broad-based and driven by both electronics exports and non-electronic exports. Industrial production in December 2023 was similarly weak at -2.5 per cent y/y and below November's +0.0 percent y/y and consensus of +1.0 per cent y/y. In the latest Monetary Authority of Singapore (MAS) statement released in January 2024, MAS shared that their official growth outlook for 2024 was 1.0 to 3.0 percent with growth supported by a turnaround in the electronics cycle. Inflation ticked up slightly in December 2023. Headline Consumer Price Index (CPI) was +3.7 per cent y/y, rising from November's +3.6 per cent y/y on higher core CPI and slightly higher private transport costs. Core CPI was +3.3 per cent y/y in December 2023 (November 2023: +3.2 per cent y/y; consensus +3.0 percent y/y) driven by the recreation and culture component on the back of year-end holiday demand. MAS continued to guide for a core inflation range of 2.5-3.5 per cent in 2024 (on an ex-Goods and Services Tax basis).

The SGD credit-related new issue market was active in January 2024, with SGD 2.72 billion issued (December 2023: SGD 0.2 billion). Given strong risk-taking sentiment, these deals managed to hold up in secondary trading despite arguably tight valuations. Oversea-Chinese Banking Corporation (OCBC) Bank issued SGD 450 million of Additional Tier-1 (AT1) Perpetual (Perp) Non-callable (NC) 5.75 years at 4.05 per cent coupon (versus MAS Government Bond yield at 4 per cent) which traded up to $101 in the secondary market. City Development Limited issued an SGD 285 million 5-year bond with 3.712 per cent coupon at $100, with an implied spread of 86 basis points (bps) over Singapore government securities (SGS). In contrast, the previous SGD 470 million, 4.139 percent Coupon matures in the 2028 issue was marked at 110 bps over SGS for a shorter tenor. Else, there was also issuance from Standard Chartered PLC (SGD 335 million 6NC5 senior unsecured TLAC bonds at 4.20 per cent yield) and SGD 500 million Perpetual coming from Singapore Telemedia's data centre subsidiary STTGDC Private Limited.

Market Outlook and Investment Strategy

After a strong rally in November and December 2023, bond market performance was more muted in January 2024. Yields rose slightly, with the 10-year US Treasury (UST) yield up from 3.88 percent to 3.91 per cent. This was likely due to growth data releases in the manufacturing sector, consumer confidence and labour market. As such, rate cut expectations for the US Federal Reserve (Fed) in 2024 fell to 5.7 cuts as of end-January 2024 from 6.5 rate cuts priced at the end of 2023. Risk premiums continued to decline across markets, with global investment grade corporate credit spreads tightening by 4 bps to 1.11 per cent in January 2024. SGS curve underperformed in contrast, with yields from the 3-year part of the curve increased by about 15-20 bps (versus flat to small bear steepening pressure in UST). This likely reflected tight valuations and relative illiquidity as attention was on the 2-year SGD 3 billion June 2026 SGS issue re-opening. The re-tap did well, however, with the cut-off yield at 3.04 per cent versus 3.06 per cent previously. We continue to hold a positive view on global growth in 2024 due to supportive macro-fundamentals including healthy labour markets, an improving global manufacturing and trade cycle and continued strength in consumer spending. This macro backdrop supports a view that the 10-year UST yield is likely to trade closer to our expected range of 4.0-4.5 per cent (previously 4.25-5.0 per cent) in the first half of 2024. While SGS broke its correlation with USTs in January 2024, the correlation closed up in early February 2024. With yields much lower now, the expectation is for SGS yields to lag UST in future rallies into 2024. Meanwhile, there will be a 20-year re-opening of the March 2046 issue end of February 2024 to watch out for.

Source: UOB AM