MAY 2018

DÉJÀ VU

RISE OF POPULISM

Italy has become the latest financial market victim to fears that its populist ruling coalition will be an obstacle for deeper eurozone cooperation and worse still set the stage for another crisis. Yet this wave of populism is not a new phenomenon. Every now and then we see it manifest dramatically across the globe. The 2011 Arab Spring, Britain's infamous "Brexit" vote and the election of US President Trump with an "America First" manifesto are clear past examples as is Malaysia's recent election outcome.

Markets tend to have knee-jerk reactions and sell-off in such instances, only to bounce back when the dust settles. So we are not surprised by the Italian market's overreaction last week given that Italian assets have been the poster child for the European renaissance over the last eighteen months. If we follow the emerging pattern of the right-leaning politicians watering down their initial policy announcements (the coalition in Italy already seems to have dropped references to leaving the eurozone and demanding European Central Bank to cancel debt) many opportunities are in sight. We are on the lookout.

RISE OF US DOLLAR

After hitting lows in February 2018 following the inflation induced global sell-offs, the US dollar has rallied against most of the major currencies. Tightening dollar liquidity and the rising risk premium around Middle East has once again underpinned the dollar's safe haven status. Years of cheap and plentiful US dollar liquidity are over. Moreover, with the US rates on the rise, further strengthening is a possibility.

"History doesn't repeat itself but it often rhymes"

Mark Twain

As such, concerns are mounting on markets (Asia is on the radar) that have a high level of US dollar debt that must be serviced. For sure, countries and companies that have over extended themselves in US dollar debt will be exposed. Equally, Asian exporters which have been sidelined due to the effect of lower US dollar revenues may find the stronger dollar acting as a catalyst to unlock the value.

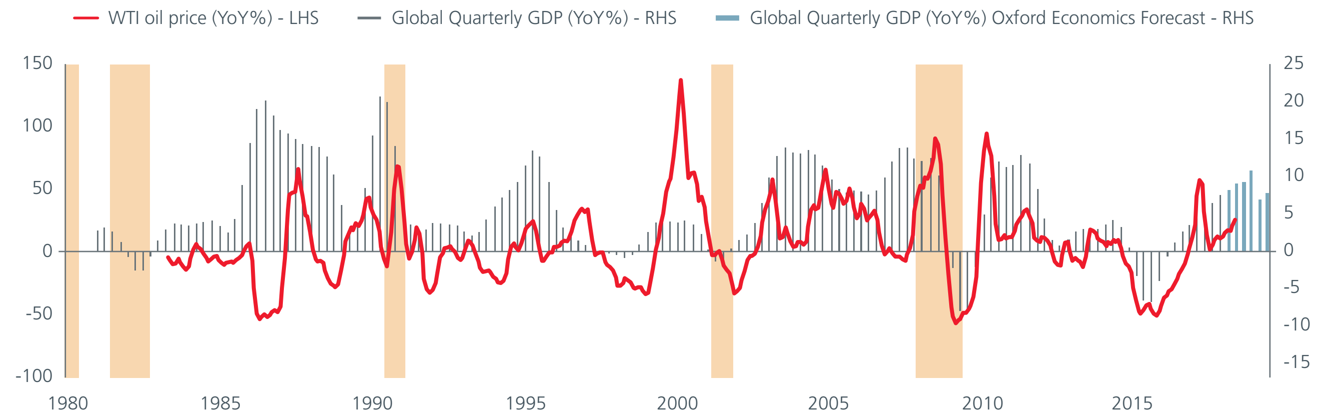
One important fact to note is that Asia's US dollar debt seems reasonable – a 2016 report estimated it at 28% of total debt[1]. Debt servicing thus seems to be less of an issue than the market is pricing. Investors have a consistent track record of not being able to delineate between the emerging markets – and this attitude exposes value, especially in Asia. Again, we are on the lookout.

RISE OF OIL PRICES

Last but not least is the rising oil price. Brent oil hit USD80 a barrel last week for the first time since end of 2014. Oil remains a key cost to consumer and industry and so the rate of change of oil price is very important for the economic outlook. Although oil strategists have pointed out that the US is less reliant on imported oil, there is still a bottleneck in pumping oil out of the Permian Basin in US, which is unlikely to be resolved until the second half of 2019. Higher oil prices are a threat to economic growth. As of now, the signal is not flashing red. But should it cross USD95 per barrel, it will warrant a closer monitoring for client portfolios.

Colin Graham
Chief Investment Officer – Multi Asset Solutions
Eastspring Investments

Fig.1: WTI oil price and global GDP (shaded area represents US recession)



Source: [1]Bank of America-Merrill Lynch, as at January 2016. Fig.1. Thomson Reuters Datastream, as at 23 May 2018.

Disclaimer

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

Singapore and Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

Indonesia by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

Malaysia by Eastspring Investments Berhad (531241-U).

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

United Kingdom (for professional clients only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 125 Old Broad Street, London EC2N 1AR.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

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

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

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

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments (excluding JV companies) companies are ultimately wholly-owned/indirect subsidiaries/associate of Prudential plc of the United Kingdom. Eastspring Investments companies (including JV's) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.