

# Investment pointers for August – September 2020

## Global Outlook

- Markets rallied across board in July 2020 with Asia-Pacific bourses outperforming the developed market. The Shanghai Composite rose 10.9%, Taiwan 9.0%, MSCI Asia ex-Japan Index 7.5% and Malaysia 6.8% compared with 5.5% for the S&P500. The bond market remained positive with increases of 2.9%-3.2%.
- Latest PMI for US and EU went above 50 signalling positive expansion following China which is in its fifth month of growth. The better PMI captured the positive effects of the massive policy support and re-opening for business.
- Remain Positive on Asian equities on a 12-month basis as Asian economies owing to improving macro data, more policy room and still attractive valuations. Have added ASEAN names on anticipation of a broader recovery.

Region		Fixed Income		Equities
Developed economies	↔	<ol style="list-style-type: none"> <li>1. PMIs for US and EU went above 50 except for Japan. This is in line with expectations of a recovery for developed economies in 3Q 2020.</li> <li>2. The aggressive support measures are expected to remain for a longer than expected period.</li> </ol>	↑	<ol style="list-style-type: none"> <li>1. PMIs for US and EU went above 50 except for Japan. This is line with expectations of a recovery for developed economies in 3Q 2020. Policy support and re-opening provided the impetus for the recovery process to take place</li> <li>2. We remain slight Overweight on Europe, Neutral on Japan and moved US to Neutral from Underweight previously.</li> </ol>
Regional (Asia-Pacific ex-Japan)	↔	<ol style="list-style-type: none"> <li>1. Pockets of opportunity in local currency Asian and Chinese credits as yields remained relatively attractive.</li> <li>2. We forecast Asian bonds to provide a return of 3.5% to 4.5% in 2020.</li> <li>3. Asian central banks would continue to keep accommodative policies to spur growth.</li> </ol>	↑	<ol style="list-style-type: none"> <li>1. Asian economies especially North Asia continued to post better data which would facilitate further re-opening of the economies</li> <li>2. Positive on Asia Pacific equities on a 12-month basis as policy focus shift to restarting economic activities. Added ASEAN on anticipation of broader recovery.</li> </ol>
China	↔	<ol style="list-style-type: none"> <li>1. In June 2020, net supply of China onshore credit dropped marginally to RMB294 bn from RMB300 bn the month before</li> <li>2. The default rate in June 2020 improved to 1.49% from 1.52% previously. Private sector credit default was lower at 5.52% from 5.71% the month before while state own enterprises (SOEs) default remained unchanged at 0.63%.</li> </ol>	↑	<ol style="list-style-type: none"> <li>1. Chinese bourses remained buoyant supported by strong data, ample liquidity and policies for positive structural changes, e.g. hukou reform</li> <li>2. China's 2nd quarter GDP came in higher than expected at 3.2% and the projected full year 2020 GDP will likely be above 2%.</li> <li>3. Chinese equities are expected to benefit from the strong policy support, improving economic fundamentals and positive earnings revision.</li> </ol>
Domestic (Malaysia)	↔	<ol style="list-style-type: none"> <li>1. Some short-term government bonds are trading at OPR level of 1.75% increasing the odds of monetary easing in September</li> <li>2. Portfolio duration is at Neutral to longer. We remain exposed to government bonds and prefer credit with stronger and more resilient metrics</li> </ol>	↔	<ol style="list-style-type: none"> <li>1. Continue to hold lower cash position and focus on proxies for post pandemic recovery.</li> <li>2. Remained Neutral as the local bourse has had a good run with risk-reward currently about even.</li> <li>3. We are taking profits and rotating the portfolios after the recent rally.</li> </ol>

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## Investment Implication:

- Our preference for equities over fixed income is maintained. We are Positive on Asian equities favouring China and more developed Asian economies on a 12-month basis. Added ASEAN names in anticipation of a broader market recovery going forward.
- For conservative clients, we would recommend Malaysia focus bond funds and balanced funds that are income focussed.
- For clients with moderate risk tolerance, we would recommend Regional Asia-Pacific mixed asset funds.
- For clients with higher risk tolerance, we would recommend them to focus on growth-oriented funds that offer exposure to growth areas in China, Asia-Pacific, ASEAN and Malaysian aggressive funds.

# Investment pointers for August – September 2020

## 1. Proposed Fund Allocation – Universal

Recommended Fund Allocation as at August 2020:

Low		Risk Scale								High
1. Conservative AA		2. Mildly Conservative AA		3. Moderate AA		4. Mildly Aggressive AA		5. Aggressive AA		
Principal Islamic Money Market Fund	100%	Principal Lifetime Bond Fund	90%	Principal Lifetime Balanced Income Fund	70%	Principal Global Real Estate Fund	28%	Principal Global Technology Fund	55%	
		Principal Islamic Lifetime Enhanced Sukuk Fund	10%	Principal Islamic Lifetime Balanced Fund	20%	Principal DALI Global Equity MYR	21%	Principal Islamic Malaysia Opportunities Fund	18%	
				Principal Global Multi Asset Income Fund	10%	Principal Malaysia Titans Fund	20%	Principal Greater China Equity Fund	17%	
						Principal Asia Pacific Dynamic Mixed Asset Fund	20%	Principal China Direct Opportunities Fund	5%	
						Principal Asia Pacific Dynamic Income Fund	11%	Principal Greater Bay Fund	5%	
Annualized Expected Return	3%	Annualized Expected Return	5%	Annualized Expected Return	7%	Annualized Expected Return	9%	Annualized Expected Return	12%	

**Definition:**

\*AA: Asset Allocation

# Investment pointers for August – September 2020

## 2. Proposed Fund Allocation – Islamic

### Recommended Fund Allocation as at August 2020:

Low		Risk Scale				High			
1. Conservative	AA	2. Mildly Conservative	AA	3. Moderate	AA	4. Mildly Aggressive	AA	5. Aggressive	AA
Principal Islamic Money Market Fund	100%	Principal Islamic Lifetime Sukuk Fund	70%	Principal Islamic Lifetime Balanced Fund	70%	Principal DALI Asia Pacific Equity Growth Fund	41%	Principal Islamic Asia Pacific Dynamic Equity Fund	39%
		Principal Islamic Lifetime Enhanced Sukuk Fund	28%	Principal Islamic Lifetime Balanced Growth Fund	30%	Principal DALI Global Equity MYR	34%	Principal Islamic Enhanced Opportunities Fund	31%
		Principal Islamic Global Sukuk Fund	2%			Principal DALI Equity Fund	25%	Principal Islamic Small Cap Opportunities Fund	20%
								Principal Islamic Malaysia Opportunities Fund	10%
Annualized Expected Return	3%	Annualized Expected Return	5%	Annualized Expected Return	7%	Annualized Expected Return	8%	Annualized Expected Return	9%

#### Definition:

\*AA: Asset Allocation

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