

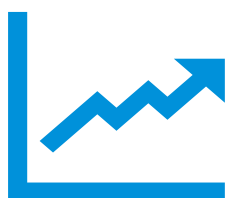


In alliance with  CIMB

Market Commentary

April 2021

Global Outlook



Equity markets of developed countries outperformed in March. The STOXX Europe 600 and S&P 500 rose 6.1% and 4.2% respectively while the MSCI AC Asia Pacific ex Japan declined 2.3%. Nevertheless, the FTSE Straits Times Index (STI), Stock Exchange of Thailand (SET) and Taiwan Stock Exchange (TWSE) rose 7.0%, 6.0% and 3.0% respectively while China H-shares and the Shanghai Composite dropped by 2.4% and 1.9%. The bond indices retreated by 0.3% to 1.9%.

U.S. 10-year bond yields in March tracked higher from 1.70% to 1.77%.

Note that U.S. 10-year bond yield was at 1.80-2.00% in 2H2019 before the pandemic. This to some extent replicates the rise in China's interbank rates back to 2.50%-3.00%, the range from 2H2018 to December 2019.

We continue to prefer Asian equities on a long-month basis on the broadening of recovery in corporate earnings including financials, industrials, and energy. Added more ASEAN names on anticipation of a broader recovery which would be enhanced by the greater availability of Coronavirus Disease 2019 (COVID-19) vaccines by mid-2021.

General outlook of the two capital markets: Fixed Income & Equity

Region: Developed economies



Fixed Income

1. Our view – neutral.
2. The U.S. passed the USD1.9 trillion COVID bill while vaccination rate is increasing and falling daily cases.
3. The U.S. 10-year yield rose to above 1.5% on expectations of more supply and improving economic prospects arising from improving rate of vaccination.



Equity

1. Our view – positive.
2. The U.S. proposed a USD2.3 trillion infrastructure plan to rebuild its infrastructure and to improve competitiveness against China.
3. Developed Markets improvement in the manufacturing PMI (Purchasing Managers' Index) continued. Maintained the overweight for U.S. and Japan but moved the European Union (EU) to marginal underweight from slight overweight previously on concerns of the potential of third wave of COVID-19.

Region: Regional (Asia-Pacific ex-Japan)



Fixed Income

1. Our view – neutral.
2. Pockets of opportunity in local Asian currencies and Chinese credits as yields remain relatively attractive.
3. We forecast Asian bonds to provide a return of 3.25% to 3.75% in 2021.



Equity

1. Our view – positive.
2. Asian economies especially China & North Asia continued to post healthy data which would translate into actual growth.
3. Portfolios are positioned for cyclical recovery and long-term growth drivers such as financials, e-commerce, internet of things, cloud computing and electric vehicles.

Region: China



Fixed Income

1. Our view – neutral.
2. In February, net supply of China onshore credit dropped to RMB104 billion from RMB548 billion in January. This is owing to the Chinese New Year festive season and tighter liquidity situation. Supply is expected to normalise in the near term.
3. The default rate in February declined to 1.2% from 1.4% the month before. Private sector default rate rose marginally to 5.2% from 5.1% while state own enterprises declined to 0.6% from 0.9%.



Equity

1. Our view – positive.
2. In March, the manufacturing PMI rebounded to 51.9 from 50.6 the month before. The non-manufacturing PMI recovered to 56.3 from 51.4 in February.
3. The recent National People's Congress (NPC) meeting highlighted the following focus:
 - a) quality growth
 - b) innovation & industrial upgrading
 - c) rural revitalisation & new urbanisation
 - d) achieving common prosperity

Region: Domestic (Malaysia)



Fixed Income

1. Our view – neutral.
2. Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 1.75% during its meeting in March. Expectations are for the OPR rates to remain unchanged in the near term.
3. Portfolio duration reduced to 1.05 from 1.15. Private credits are preferred over government bonds which could be volatile in the short-term. Likely to take profit on corporate bonds and switch to new issuance in which supply is expected to increase



Equity

1. Our view – neutral.
2. With the vaccine roll-out, the economy is expected to normalise and allow recovery and growth to unfold. We remain constructive on the market maintain asset allocation of 94-98% with focus on cyclicals, consumer discretionary, and selective technology names.


Our Strategy




- We continue to prefer equities over fixed income. In Asia, corporate earnings growth is broadening to cyclicals like energy, industrials, and materials. Our fixed income performance expectation remains moderate and unchanged given global interest rate cuts are at the tail-end.
- Note that income is integral for a well-diversified portfolio. In short, investors are advised to:
 - Focus on and diversified across the themes of renewal, revitalise and recovery.
 - Focus on growth, quality and income while tactically complemented by cyclicals and value.
 - Maintain long-term focus as the next economic upcycle is about to unfold.

Our Fund Options

1. Universal Funds

	Risk Scale	Fund Options
<div>Low</div>  <div>High</div>	Conservative	<ul style="list-style-type: none"> Principal Islamic Money Market Fund
	Mildly conservative	<ul style="list-style-type: none"> Principal Lifetime Bond Fund Principal Islamic Lifetime Enhanced Sukuk Fund Principal Islamic Lifetime Sukuk Fund Principal Islamic Global Sukuk Fund Principal Lifetime Enhanced Bond Fund
	Moderate	<ul style="list-style-type: none"> Principal Lifetime Balanced Income Fund Principal Islamic Lifetime Balanced Fund Principal Global Multi Asset Income Fund
	Mildly Aggressive	<ul style="list-style-type: none"> Principal Asia Pacific Dynamic Income Fund Principal Asia Pacific Dynamic Mixed Asset Fund Principal DALI Global Equity Fund (Islamic Global Equity Fund)
	Aggressive	<ul style="list-style-type: none"> Principal Global Titans Fund Principal Global Millennial Equity Fund Principal Asia Pacific Dynamic Growth Fund Principal Greater China Equity Fund Principal China Direct Opportunities Fund Principal Greater Bay Fund

2. Islamic Funds

	Risk Scale	Fund Options
<div>Low</div>  <div>High</div>	Conservative	<ul style="list-style-type: none"> Principal Islamic Money Market Fund
	Mildly conservative	<ul style="list-style-type: none"> Principal Islamic Lifetime Sukuk Fund Principal Islamic Global Sukuk Fund
	Moderate	<ul style="list-style-type: none"> Principal Islamic Money Market Fund Principal Islamic Lifetime Balanced Fund Principal Islamic Lifetime Balanced Growth Fund
	Mildly Aggressive	<ul style="list-style-type: none"> Principal DALI Global Equity Fund (Islamic Global Equity Fund) Principal DALI Asia Pacific Equity Growth Fund
	Aggressive	<ul style="list-style-type: none"> Principal Islamic Asia Pacific Dynamic Equity Fund Principal Islamic Small Cap Opportunities Fund

You may obtain a copy of the Prospectus/Information memorandum/Disclosure Document and its Product Highlight Sheet (if any) for the above-mentioned funds at our offices, distributors or our website at www.principal.com.my

Disclaimer:

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of Principal Asset Management Berhad only and are subject to change without notice. This document should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell Principal Asset Management Berhad's investment products. Persons wishing to rely upon this information should perform their own independent evaluation of risks and benefits or consult directly with the source of information or obtain professional advice.