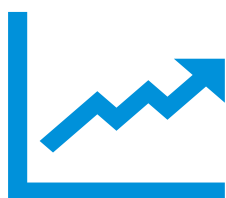




Market Commentary

May 2021

Global Outlook



Global equity markets continued its uptrend in April 2021 arising from a stronger United States (U.S.) economic growth and potentially higher Consumer Price Index (CPI). The best performing equity markets were the Taiwan Stock Exchange, S&P 500, South Korea Stock Market, and Malaysia which rose by 6.9%, 5.2%, 2.8% and 1.8% respectively. Meanwhile India, Japan and Thailand bourses fell by 1.5%, 1.3%, and 0.3% respectively. The bond indices performed better in April with a growth between 0.7% to 1.3%.

U.S. 10-year bond yields in April retreated between 1.55% to 1.65%.

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-term 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. PMIs (Purchasing Managers' Index) in the U.S. and European Union (E.U.) continued to remain above 60, which indicates the positive outcome of greater vaccine roll-out, re-opening of economies and large stimulus packages.
3. The U.S. 10-year Treasury yield retreated to 1.55-1.65%, however, it is expected to rise to between 1.80-2.00% range as the year progresses.



Equity

1. Our view – positive.
2. PMIs in the U.S. and E.U. continued to remain above 60, which indicates the positive outcome of greater vaccine roll-out, re-opening of economies and large stimulus packages.
3. E.U. was upgraded to marginally overweight from marginally underweight previously, on the back of the improved vaccine roll-out. U.S. and Japan remained at overweight.

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 March, net supply of China onshore credit increased to RMB423 billion from RMB102 billion in February. The recovery came mainly from state-owned enterprises (SOEs) and local government financing vehicles (LGFVs) while private credits shrunk by RMB46 billion.
3. The default rate in March rose to 1.34% from 1.22% the month before. Private sector default rate was stable at 5.1% while state own enterprises increased to 0.8% from 0.62% over the period.



Equity

1. Our view – positive.
2. In April, the manufacturing PMI moderated to 51.1 from 51.9 the month before. The non-manufacturing PMI dropped to 54.9 from 56.3 in March.
3. The Chinese Communist Party (CCP) Politburo meeting in end April highlighted the following focus:
 - a) 'time window' for reform
 - b) Stable policy & ample liquidity
 - c) Continue to curb home prices; and
 - d) Promote the new economy.

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 May. Expectations are for the OPR rates to remain unchanged in the near term.
3. Portfolio duration is maintained at 1.05x. 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 maintain asset allocation of 94-98% with focus on cyclicals, financials, commodities, and selective technology names.


Our Strategy




- We continue to prefer equities over fixed income.
- 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
 Low	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
High		

2. Islamic Funds

	Risk Scale	Fund Options
 Low	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 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
High		

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.

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