

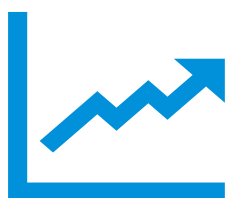


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Market Commentary

June 2021

Global Outlook



Global equity markets maintained its uptrend in May despite continued volatility arising from concerns of potentially higher inflation and policy changes. Equity markets with the highest return were in Asia, led by India (6.5%), and the Shanghai Composite (4.9%), followed by the STOXX Europe 600 (2.1%). The bond indices gained more grounds in May 2021, after the turnaround in April 2021, with growth of 0.7% to 1.1%.

U.S. 10-year bond remained range bound in May at between 1.58% to 1.65%.

The United States (U.S.) economy remained robust with PMI above 60 and with nearly 60% of its population receiving vaccination on a first dose basis. The developed economies have managed to roll out their vaccination programme more successfully than the emerging countries.

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. Remained Overweight on US, EU & Japan; with EU enjoying the largest relative Overweight. Strong PMIs and better execution of vaccination roll out would benefit consumers and corporate profitability.

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 May, net supply of China onshore credit reduced by RMB164 billion from an increase of RMB390 billion in April. The reduction was due to the golden week break in early May.
3. The default rate in May eased to 1.35% from 1.39% in April. Private sector default rate was lower at 5.77% from 5.79%. Meanwhile, state own enterprises dropped to 0.76% from 0.79% over the same period.



Equity

1. Our view – positive.
2. In May, the manufacturing PMI moderated to 51.0 from 51.1 the month before. The non-manufacturing PMI recovered to 55.2 from 54.9 in April.
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. A new economic stimulus package worth RM40 billion was announced to soften the impact of the implementation of third movement control order 3.0 (MCO 3.0).
3. Portfolio duration is maintained at 1.05x. Private credits are preferred over government bonds. Names with stronger fundamentals and liquidity are preferred.



Equity

1. Our view – neutral.
2. Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 1.75% during its meeting in May. A new economic stimulus package worth RM40 billion was announced to soften the impact of the implementation of third movement control order 3.0 (MCO 3.0).
3. We maintain asset allocation of 94-98% with focus on cyclicals, financials, commodities and selective technology and transport 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 Technology 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 MYR Principal DALI Asia Pacific Equity Growth Fund Principal Islamic Asia Pacific Dynamic Income and 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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