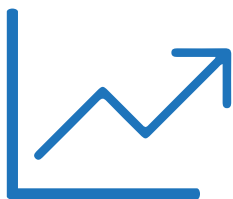




In alliance with  CIMB

Market Commentary August 2021

Global Outlook



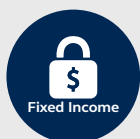
Global equity markets continued to have mixed performances in July with the developed markets maintaining their uptrend while the Asia-Pacific markets generally lower. The S&P 500 and STOXX Europe 600 rose 2.3% and 2.0% respectively while the best performing Asian markets were Indonesia (1.4%), and Singapore (1.2%). The performances of the bond indices were positive ranging from +0.2% to +1.3%.

The United States (U.S.) 10-year bond continued to trend lower in July between 1.10 - 1.20% from 1.30 - 1.50% the month before on the back of short-covering activities by investors. Market is now expecting the U.S. 10-year bond yields to end 2021 at a level lower than 1.50 - 1.80%, which was previously projected.

We continue to prefer Asian equities on a long-term basis on the broadening of recovery in corporate earnings including financials, industrials, and energy.

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

Region: Developed economies

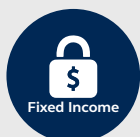


1. Our view – neutral.
2. PMIs (Purchasing Managers' Index) in the U.S. and European Union (E.U.) continued to remain above 60, which indicates the positive outcome of greater vaccine roll-out, re-opening of economies and large stimulus packages.
3. The U.S. 10-year Treasury yield moved lower to 1.10 - 1.20% underpinned by technical factors. Market now expects U.S. 10-year bond yields to end 2021 between 1.50 - 1.80%.



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. Remain Overweight on U.S., E.U. & Japan. Strong PMIs and better execution of vaccination roll out would benefit consumers and corporate profitability.

Region: Regional (Asia-Pacific ex-Japan)



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.

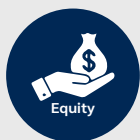


1. Our view – positive.
2. Asian economies especially China & North Asia continued to post healthy data which would translate into actual growth.
3. Portfolios are positioned for cyclical recovery and long-term growth drivers such as financials, e-commerce, internet of things, cloud computing and electric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

Region: China

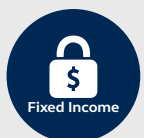


1. Our view – neutral.
2. Net supply of bond bounced in June 2021 to RMB493 billion from a drop of RMB170 billion the month before. The recovery is underpinned by State-Owned Enterprises (SOEs) while the private sector has yet to recover.
3. The default rate in June 2021 dropped marginally to 1.39% from 1.4% the month before. Private sector default rate dropped to 6.1% from 6.2% while SOEs remained at 0.77%.



1. Our view – neutral.
2. Policymakers announced measures to align the education and food delivery industries. In July, the manufacturing PMI drop to 50.4 from 50.9 and the Non-manufacturing PMI dropped to 53.3 from 53.5 the month before.
3. The Chinese Communist Party (CCP) Politburo meeting in end July, highlighted the that current growth is unbalanced and yet to solidify. This is likely a signal of the end of the current policy tightening cycle.

Region: Domestic (Malaysia)



1. Our view – neutral.
2. Fitch Ratings has reaffirmed its BBB+ rating for Malaysia, with stable outlook. Interest rates are expected to remain accommodative for a longer period owing to the spike in COVID-19 cases.
3. Portfolio duration is maintained at 1.05x. Private credits are preferred over government bonds. Names with stronger fundamentals and liquidity are preferred.



1. Our view – neutral.
2. Interest rates are expected to remain accommodative for a longer period owing to the spike in COVID-19 cases.
3. We remain neutral owing to prolonged movement control order and lack of catalyst. Adopting a balanced approach to the market, we focus on reopening plays such as financial, consumer discretionary and selected transport. Growth names would come from technology.

Our Strategy



We continue to prefer equities over fixed income.

Tactically we would like to recommend an increase in exposure to funds that are focussed on developed markets. This is to participate in the earlier hard re-opening of their economies by developed economies (vis-à-vis emerging economies) as they were able to vaccinate at a faster pace and contain the spread of COVID-19.


In the near term, the market is cautious over China as there are concerns of more potential regulatory changes. We view these new policies to bring about sustainable benefits for the economy; hence there are real opportunities to position for the eventual 'recovery', albeit the short-term volatilities. We hold a positive view on China's new economic direction and the benefits to earnings. In addition, China's capital markets are large and deep and would reward skilful stock selection.

Note that income is integral for a well-diversified portfolio. In short, investors are advised to focus on:


- Diversified across the themes of renewal, revitalise and recovery.
- Growth, quality and income while tactically complementing with cyclicals and value.
- Maintaining long-term focus as the next economic upcycle is about to unfold.

Our Fund Options


1. Universal Funds

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


2. Islamic Funds

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

3. EPFMIS Universal Funds

	Risk Scale	Fund Options
	Conservative	<ul style="list-style-type: none">Principal Islamic Money Market Fund
	Mildly conservative	<ul style="list-style-type: none">Principal Islamic Lifetime Enhanced Sukuk FundPrincipal Islamic Lifetime Sukuk Fund
	Moderate	<ul style="list-style-type: none">Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none">Principal Asia Pacific Dynamic Income FundPrincipal Titans Income Plus Fund
	Aggressive	<ul style="list-style-type: none">Principal Global Titans FundPrincipal Greater China Equity Fund

4. EPFMIS Islamic Funds

	Risk Scale	Fund Options
	Conservative	<ul style="list-style-type: none">Principal Islamic Money Market Fund
	Mildly conservative	<ul style="list-style-type: none">Principal Islamic Lifetime Enhanced Sukuk Fund
	Moderate	<ul style="list-style-type: none">Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none">Principal DALI Asia Pacific Equity Growth Fund
	Aggressive	<ul style="list-style-type: none">Principal Islamic Asia Pacific Dynamic Equity FundPrincipal 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.

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