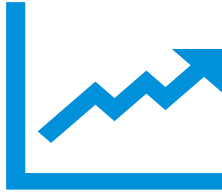




In alliance with  CIMB

Market Commentary July 2021

Global Outlook



Global equity markets had mixed performance in June with developed markets maintaining their uptrend while Asia-Pacific markets were mixed to lower. The S&P 500 and STOXX Europe 600 rose 2.1% and 1.3% respectively while the best performing Asian markets were Taiwan (4.0%), and Korean (2.9%). The performances of the bond indices were mixed ranging from +0.6% to -0.8%.

United States (U.S.) 10-year bond trended lower in June between 1.30 - 1.50% from 1.58 - 1.65% the month before on the back of short-covering activities by investors.

Market is now expecting U.S. 10-year bond yields to end 2021 at a level lower than 1.80 - 2.00% 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. Added more ASEAN names on anticipation of a broader recovery which would be enhanced by the greater availability of the Coronavirus Disease 2019 (COVID-19) vaccines.

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 moved lower to 1.30 - 1.50% underpinned by short covering by investors. Market now expects U.S. 10-year bond yields to end 2021 at a level lower than previous projection of 1.80 - 2.00%.



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 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)



Fixed Income

1. Our view – neutral.
2. Pockets of opportunities 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. Introduction of tighter controls on corporate bond issuance, especially for local government financing vehicles (LGFVs) coupled with seasonality saw a 60% month on month drop in gross supply and negative net supply in May.
3. The default rate in May 2021 was unchanged at 1.4%. Private sector default rate was higher at 6.2% while state own enterprises dropped to 0.76%.



Equity

1. Our view – positive.
2. In June, we saw a surge in COVID-19 cases in southern China. This caused a drop in manufacturing PMI to 50.9 from 51.0 while the Non-manufacturing PMI dropped to 53.5 from 55.2 the month before.

Region: Domestic (Malaysia)



Fixed Income

1. Our view – neutral.
2. In July, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 1.75%. 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. In July this year, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 1.75%. 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 remain cautious owing to prolonged movement control and lack of catalyst. Lowered portfolio betas while remain constructive on financials and cyclicals while turning positive on 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 focused 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.
- 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
	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 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		

3. EPFMIS Universal Funds

	Risk Scale	Fund Options
Low  High	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 Principal 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 Fund Principal Titans Income Plus Fund
	Aggressive	<ul style="list-style-type: none"> Principal Global Titans Fund Principal Greater China Equity Fund Principal Small Cap Opportunities Fund

4. EPFMIS Islamic Funds

	Risk Scale	Fund Options
Low  High	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 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.

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