

Market Commentary September 2021

Global Outlook



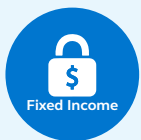
Global markets stabilised in August 2021 with the equity markets recovering while the bond market had a mixed performance. The Asia-Pacific markets outperformed the developed markets whereby India, Thailand and Malaysia rallied 9.4%, 7.7% and 7.1% respectively whilst the Nikkei 225 and S&P 500 rose 3.0% and 2.9% respectively. The bond indices delivered mixed performances ranging from -0.4% to +0.8%.

The U.S. Federal Reserve (Fed) Chairman indicated that quantitative easing (QE) tapering could start towards the end of 2021. Market is now expecting the U.S. 10-year bond yields to end 2021 at 1.50-1.80% after the latest news flow.

We continue to prefer Asian equities on a long-term basis on the broadening of recovery in corporate earnings including financials, materials, and healthcare. Near term, developed markets appear to have the upper hand over emerging ones due to growth differential, success in battling the pandemic and regulations.

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 Fed indicated that QE tapering could start towards the end of 2021. It was stressed that there is no direct link between tapering and timing of interest rates with the latter assessed on more stringent test.



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. 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)



Fixed Income

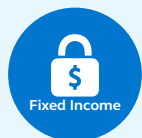
1. Our view – neutral.
2. Pockets of opportunity in local Asian currencies and Chinese credits as yields remain relatively attractive.
3. We forecast Asian bonds to provide a return of 3.25% to 3.75% in 2021.



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

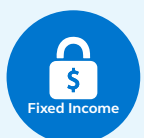


1. Our view – neutral.
2. Net supply of bond bounced in June 2021 to RMB493 billion from a drop of RMB170 billion the month before. The recovery is underpinned by State-Owned Enterprises (SOEs) while the private sector has yet to recover.
3. The default rate in June 2021 dropped marginally to 1.39% from 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. In August 2021, the manufacturing PMI dropped to 50.1 from 50.4 the previous month and the Non-manufacturing PMI dropped to 49.6 from 53.3 the month before. This was due to the resurgence of the COVID-19 cases during that period.
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. BNM maintained the overnight policy rate in the September MPC meeting. Sentiment in the local bond market improved following the appointment of the new cabinet and ample liquidity.
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 – positive.
2. Interest rates are expected to remain accommodative for a longer period owing to the spike in COVID-19 cases.
3. We turn positive on Malaysia owing to the easing of the movement control order which has paved the way for various sectors to be reopened. The sectors we prefer include financial, consumer discretionary, basic materials and selective transport and 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 owing to concerns of regulatory changes. However, the recent volatilities saw a divergence in performance between large cap stocks and small and mid-cap stocks in China; with the former potentially seen as targets of regulatory changes while the latter is anticipated to benefit from continued measures to promote SMEs. We have 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:


- Diversifying 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 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 FundPrincipal 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

<div>Low</div> <div>↓</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 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 Asian Equity Fund Principal Small Cap Opportunity Fund

4. EPFMIS Islamic Funds

	Risk Scale	Fund Options
	Conservative	• Principal Islamic Money Market Fund
	Mildly conservative	• Principal Islamic Lifetime Enhanced Sukuk Fund • Principal Islamic Lifetime Sukuk Fund
	Moderate	• Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	• Principal DALI Asia Pacific Equity Growth Fund
	Aggressive	• 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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