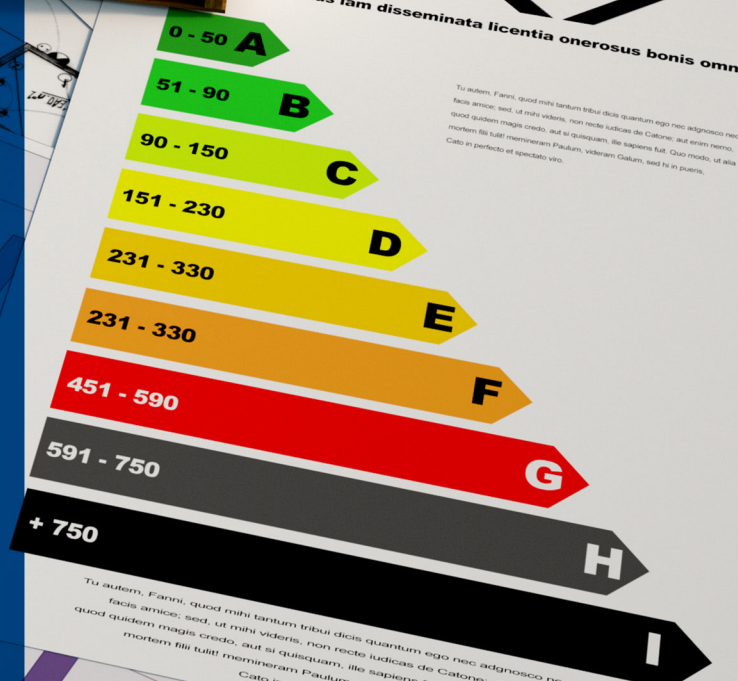
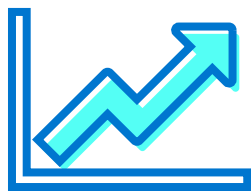


# Market Commentary November - December 2021



# Global Outlook



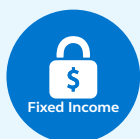
Global markets rebounded in October 2021 with developed markets again outperforming the Asia-Pacific bourses. Among the markets that outperformed in October were The United States (U.S.) by 6.9%, and Europe bourses by 4.6%, followed by Indonesia and Singapore at 4.8% and 3.6% respectively. The bond indices performed lower by -0.2% to -0.3%.

The Federal Open Market Committee (FOMC) meeting confirmed that quantitative easing (QE) tapering will start end November 2021 and end by mid-2022. It was stressed that there is no direct link between tapering and the timing of interest rate hikes, with the latter assessed on substantially more stringent criteria. Market is expecting the U.S. 10-year bond yields to end 2021 at 1.50-1.80%.

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

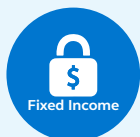
1. Our view – neutral.
2. PMIs (Purchasing Managers' Index) in the U.S. and European Union (E.U.) continued to remain above 60, which indicates the positive outcome of greater vaccine roll-out, re-opening of economies and large stimulus packages.
3. The Fed indicated that QE tapering could start towards 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.

### 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 are accelerating their vaccination rate to preserve the pace of economic 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 in Sept 2021 declined to RMB124 billion from RMB528 billion owing to new rules on wealth management products. The decline was experienced by both the State-Owned Enterprises (SOEs) and the private sector.
3. The default rate in Sept 2021 remained at 1.41%. Private sector default rate rose to 6.8% from 6.1% while SOEs dropped to 0.76% from 8.8% the month before.



1. Our view – neutral.
2. The 2021 third quarter gross domestic product (GDP) came in 4.9% compared to market estimates of 6%. The 2021 fourth quarter GDP is projected at 4-4.5%. The manufacturing PMI for Oct 2021 dropped further to 49.2 while the Non-manufacturing PMI slipped to 52.4 from 53.2 in Sept 2021.
3. The latest data signalled the end of the current policy tightening cycle and implementation of targeted easing.

## Region: Domestic (Malaysia)



1. Our view – neutral.
2. We are expecting at least one Overnight Policy Rate (OPR) hike in 2022 with the yield curve having bear flattened.
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. Corporate earnings (excluding glove companies) remained on the recovery path with 2022 growth projected at 20%.
3. We remain positive on Malaysia despite the one-off impact from the Prosperity Tax. The sectors we prefer include financial, consumer discretionary, basic materials and selective technology names.

## 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.


The market remained cautious over China after the concerns around the highly indebted property companies. We, nevertheless, believe that regulatory risk has peaked post policies to restrain large companies, re-directing investments and to promote common prosperity.

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"><li>Principal Islamic Money Market Fund</li></ul>
	Mildly conservative	<ul style="list-style-type: none"><li>Principal Lifetime Bond Fund</li><li>Principal Islamic Lifetime Enhanced Sukuk Fund</li><li>Principal Islamic Lifetime Sukuk Fund</li><li>Principal Islamic Global Sukuk</li><li>Principal Lifetime Enhanced Bond Fund</li></ul>
	Moderate	<ul style="list-style-type: none"><li>Principal Lifetime Balanced Income Fund</li><li>Principal Islamic Lifetime Balanced Fund</li></ul>
	Mildly aggressive	<ul style="list-style-type: none"><li>Principal Asia Pacific Dynamic Income Fund</li><li>Principal Asia Pacific Dynamic Mixed Asset Fund</li><li>Principal DALI Global Equity Fund</li><li>Principal Global Real Estate Fund</li></ul>
	Aggressive	<ul style="list-style-type: none"><li>Principal Global Titans Fund</li><li>Principal Global Millennial Equity Fund</li><li>Principal Asia Pacific Dynamic Growth Fund</li><li>Principal Greater China Equity Fund</li><li>Principal China Direct Opportunities Fund</li><li>Principal Greater Bay Fund</li></ul>


## 2. Islamic Funds

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

### 3. EPFMIS Universal Funds

 <div>Low</div> <div>High</div>	Risk Scale	Fund Options
	Conservative	<ul style="list-style-type: none"><li>Principal Islamic Money Market Fund</li></ul>
	Mildly conservative	<ul style="list-style-type: none"><li>Principal Islamic Lifetime Enhanced Sukuk Fund</li><li>Principal Islamic Lifetime Sukuk Fund</li></ul>
	Moderate	<ul style="list-style-type: none"><li>Principal Islamic Lifetime Balanced Fund</li></ul>
	Mildly aggressive	<ul style="list-style-type: none"><li>Principal Asia Pacific Dynamic Income Fund</li><li>Principal Titans Income Plus Fund</li></ul>
	Aggressive	<ul style="list-style-type: none"><li>Principal Global Titans Fund</li></ul>
	High	<ul style="list-style-type: none"><li>Principal Greater China Equity Fund</li><li>Principal Asian Equity Fund</li><li>Principal Small Cap Opportunities Fund</li></ul>

### 4. EPFMIS Islamic Funds

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

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](http://www.principal.com.my).

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