12th January 2024

Weekly Market Recap

Principal®
In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	1.5%	3.3%	0.0%	21.8%
S&P 500	USD	1.8%	3.0%	0.3%	24.2%
Nasdaq	USD	3.2%	2.9%	0.0%	53.8%
Stoxx 600-Europe	EUR	0.1%	0.9%	-0.5%	12.7%
MSCI Asia Pac ex-Japan	USD	-0.8%	1.9%	-3.2%	4.6%
ASEAN	USD	-0.1%	4.9%	-0.9%	0.7%
Shanghai Shenzhen CSI 300 Index	CNY	-1.3%	-4.2%	-4.3%	-11.4%
Hang Seng Index	HKD	-1.8%	-0.8%	-4.7%	-13.8%
Shanghai Stock Exchange Composite Index	CNY	-1.6%	-4.0%	-3.1%	-3.7%
FBMKLCI	MYR	0.0%	2.8%	2.2%	-2.7%
Fixed Income					
Bberg Barclays Global Agg Index	USD	0.4%	2.4%	-1.0%	5.7%
JPM Asia Credit Index-Core	USD	0.8%	2.0%	-0.2%	9.9%
Asia Dollar Index	USD	-0.3%	0.4%	-1.0%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.5%	0.7%	0.2%	6.4%

Top Performing Principal Funds (1 month return as of 31 December 2023)	1-mth	YTD
Equities		
Principal Biotechnology Discovery Fund - Class USD	19.3%	16.7%
Principal US High Conviction Equity Fund - Class USD	8.6%	9.8%
Principal Next-G Connectivity Fund - Class USD	6.2%	37.3%
Fixed Income		
Principal Islamic Lifetime Sukuk Fund	0.9%	6.7%
Principal Lifetime Bond Fund	0.9%	6.9%
Principal Conservative Bond Fund - Class A	0.7%	5.9%

Source: Bloomberg, market data is as of 12 January 2024.
*As we emphasise a long-term focus, the top performing funds were selected based on their monthly performance.
*The numbers may show as negative if there is no positive return for the period under review.
* The fund performance was referenced from the daily performance report, data was extracted from Lipper.
*Past performance is not an indication of future performance.

Market Review[1]

1. The global financial markets concluded the week with mixed performance. In developed markets, Japan experienced the largest gains, followed by the US and Europe.

2. In Asia, market performance was also mixed. Korea and China's onshore experienced the largest decline, while India and Taiwan recorded positive gains.

3. In Malaysia, the FBMKLCI performance was muted, fuelled by profit taking activities.

4. Turning to the bond market, the10-year U.S. Treasury note had a marginally positive return, with yields stabilising around the 4% range, as investors assessed the recent inflation data in the US. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, the annual inflation rate edged up to 3.4% in December from a five-month low of 3.1% in November, driven by higher shelter cost. Annual core inflation, which excludes volatile items such as food and energy, eased to 3.9%, lower than the previous month's figure. Producer prices unexpectedly declined 0.1% month-over-month in December, the same as in November. Additionally, the trade gap narrowed to $63.2 billion in November from $64.5 billion in October, reflecting a decrease in trade deficit and an increase in services surplus. [2]

2. In Europe, retail sales dropped by 0.3% in November compared to the 0.4% increase in October. The seasonally adjusted jobless rate came in at 6.4% in November, aligning with June's historic low and slightly surpassing the market forecast. The recent speech by the ECB Vice President suggests the committee will maintain a date dependent approach, affirming the current tightening conditions' potential to bring inflation back to their target. [3]

3. In China, annual consumer prices fell by 0.3% in December, marking the third straight month of decline. Producer prices also declined by 2.7% in December, highlighting the persistence of deflationary forces in the economy. Trade surplus edged higher to USD 75.34 billion in December, supported by higher export activities. New yuan loan increased by CNY 1.17 trillion in December, up from November's figures but falling short of market expectations of CNY 1.40 trillion, as the central bank continues its commitment to economic support. [4]

Investment Strategy[5]

We advocate a balanced allocations in both equity and fixed income, with a preference for income-focused funds. Our strategy emphasises quality, growth, and income in stocks and credits. We are exercising caution with USD assets and believe that Asian equities and fixed income present more value in the short term.

1. We find bonds appealing as we perceive a higher likelihood that central bank hiking cycle will end soon. We also see potential for capital gains in the event of weaker economic growth. Therefore, we maintain our preference for investment grade bonds with longer durations as our preferred investment choice. For Malaysia, the projected improvement to the budget deficit, provided in the Budget 2024, improved the outlook for domestic bonds.

2. On equities, we prefer quality and dividend-paying stocks for their defensive characteristics, which can provide resilience in the face of uncertain macroeconomic and geopolitical conditions. Our positive outlook is focused on Asia and includes strategic positions in various areas: a) the bottoming tech hardware cycle, b) long-term growth potential driven by low penetration rates (such as India), c) recovery plays and structural themes in ASEAN, d) selective sectors benefiting from China's reopening, and e) Malaysia's growing optimism due to political stability and potential gains from the New Energy Transition Roadmap, the New Industrial Master Plan 2030 and projected improvement to the budget deficit detailed in the Budget 2024.

3. We also favour income-focused approach to ride out volatilities arising from geopolitical tensions, inflationary issues, and recessionary concerns.

Sources:
[1] Bloomberg,12 January 2024
[2] Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board,12 January 2024
[3] S&P Global, ECB, Factset, Bank of England (BoE), 12 January 2024
[4] Bloomberg, National Bureau of Statistic China, CEWC, 12 January 2024
[5] Principal view, 12 January 2024

*PMI stands for Purchasing Manufacturing Index
*ECB stands for European Central Bank
*PBOC stands for People's Bank of China