15th December 2023

Weekly Market Recap

Principal® In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2022
Equities					
MSCI World	USD	2.6%	5.1%	20.1%	-19.5%
S&P 500	USD	2.5%	4.8%	22.9%	-19.4%
Nasdaq	USD	3.3%	5.1%	52.0%	-33.0%
Stoxx 600-Europe	EUR	0.9%	4.9%	12.2%	-12.9%
MSCI Asia Pac ex-Japan	USD	3.0%	2.1%	2.0%	-19.7%
ASEAN	USD	1.7%	1.0%	-2.6%	2.4%
Shanghai Shenzhen CSI 300 Index	CNY	-1.7%	-7.4%	-13.7%	-21.6%
Hang Seng Index	HKD	2.8%	-7.1%	-15.1%	-15.5%
Shanghai Stock Exchange Composite Index	CNY	-0.9%	-4.2%	-4.7%	-15.1%
FBMKLCI	MYR	1.4%	-0.3%	-2.2%	-4.6%
Fixed Income					
Bberg Barclays Global Agg Index	USD	2.4%	5.0%	4.7%	-16.2%
JPM Asia Credit Index-Core	USD	1.7%	4.7%	9.3%	-13.0%
Asia Dollar Index	USD	0.6%	1.3%	-2.0%	-6.9%

Top Performing Principal Funds
(1 month return as of 30 November 2023)

Equities			
Principal Islamic Global Technology Fund - Class USD	12.4%	47.7%	0.2%
Principal Next-G Connectivity Fund - Class USD	16.0%	29.3%	-43.3%
Principal Global Technology Fund - Class USD	15.4%	43.1%	-43.7%
Fixed Income			
Principal Islamic Institutional Sukuk Fund	1.5%	5.8%	1.2%
Principal Lifetime Bond Fund	1.5%	6.0%	1.3%
Principal Islamic Lifetime Sukuk Fund	1.4%	5.7%	1.1%

Source: Bloomberg, market data is as of 15 December 2023.
*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.
*Past performance is not an indication of future performance.

Market Review[1]

1. The global financial markets closed the week with mostly positive performance. Developed markets like the United States (US) and Japan saw the largest gains.

2. In Asia, market performance was mixed. India and China's onshore had strong performance, while China's offshore markets declined the most.

3. In Malaysia, the FBMKLCI in Malaysia ended the week on a positive note, fuelled by the optimism in the regional market.

4. Turning to the bond market, the price of the 10-year U.S. Treasury note gained positively, with yields touching the low of the 3.95% range. This was driven by the recent shift in market expectation after the recent US Federal Reserve (Fed) meeting, which affirmed that rate hikes are likely over, and rate cuts could begin in 2024. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, the annual inflation rate slowed to 3.1% in November, marking the lowest reading in 5 months. Core inflation, which excludes volatile items such as food and energy, remained unchanged from the previous month. On monetary policy, the Fed kept the interest rate unchanged in at 5.25% to 5.50% in the December meeting and hinted a possible shift towards a dovish stance in 2024. [2]

2. In Europe, the monthly industrial production data showed a decline of 0.7% in October, reaching the lowest level since 2020. The ECB* maintained interest rates for the second consecutive times in the December meeting and signalled an early conclusion to its last remaining bond purchase scheme to combat high inflation. [3]

3. In China, both retail sales and industrial production showed growth in November, expanding by 10.1% and 6.6% respectively, surpassing the figures from the previous month. Additionally, China's banks extended CNY 1.09 trillion in new yuan loans in November, showing an increase from previous month, as the central bank seeks to bolster confidence and demand. The recently concluded Central Economic Work Conference highlights the key priorities for 2024, which include prioritizing economy recovery, stability, addressing challenges, and promoting high-quality development. [4]

Investment Strategy[5]

Our current stance is neutral on 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, 15 December 2023
[2] Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 15 December 2023
[3] S&P Global, ECB, Factset, Bank of England (BoE), 15 December 2023
[4] Bloomberg, National Bureau of Statistic China, CEWC 15 December 2023
[5] Principal view, 15 December 2023

*PMI stands for Purchasing Manufacturing Index
*ECB stands for European Central Bank