15th March 2024

Weekly Market Recap

Principal® In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	-0.5%	2.3%	6.2%	21.7%
S&P 500	USD	-0.2%	1.8%	7.3%	24.2%
Nasdaq	USD	-1.2%	-0.2%	5.9%	53.8%
Stoxx 600-Europe	EUR	0.3%	3.5%	5.6%	12.7%
MSCI Asia Pac ex-Japan	USD	-0.7%	3.5%	1.0%	4.5%
ASEAN	USD	0.4%	2.5%	1.4%	0.7%
Shanghai Shenzhen CSI 300 Index	CNY	0.7%	6.1%	3.9%	-11.4%
Hang Seng Index	HKD	2.3%	5.3%	-1.6%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	0.3%	6.6%	2.6%	-3.7%
FBMKLCI	MYR	2.1%	2.9%	8.0%	-2.8%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-1.3%	0.5%	-2.4%	5.7%
JPM Asia Credit Index-Core	USD	-0.5%	0.9%	1.0%	9.9%
Asia Dollar Index	USD	-0.4%	0.2%	-1.6%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.0%	0.3%	1.0%	6.4%

Top Performing Principal Funds (1 month return as of 29 February 2024)	1-mth as of (29 Feb 2024)	YTD as of (29 Feb 2024)
Equities		
Principal China Direct Opportunities Fund - Class MYR	10.3%	-1.0%
Principal Biotechnology Discovery Fund - Class USD	8.4%	13.6%
Principal Global Millennial Equity Fund - Class MYR-Hedged	8.1%	11.0%
Balanced		
Principal Asia Pacific Dynamic Mixed Asset Fund - Class MYR	3.0%	4.0%
Principal Lifetime Balanced Fund	2.3%	4.0%
Principal Dynamic Enhanced Malaysia Income Fund	2.3%	3.7%
Fixed Income		
Principal Islamic Lifetime Sukuk Fund	0.5%	1.1%
Principal Lifetime Bond Fund	0.5%	1.0%
Principal Sustainable Dynamic Bond Fund - Class MYR	0.7%	1.4%

Source: Bloomberg, market data is as of 15 March 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.
* The performance figures are based on the fund's respective currency class.
*Past performance is not an indication of future performance.

Market Review[1]

1. The global financial markets concluded the week with mixed returns. In developed markets, Europe witnessed significant gains, while Japan and the United States saw declines.

2. Across Asia, overall market performance was mixed, with China onshore and offshore leading gains, while India and the Philippines experienced the largest decline. In Malaysia, the FBMKLCI had a marginal gain despite the cautious sentiment in the regional market.

3. Turning to the bond market, the10-year U.S. Treasury note experienced a negative return, with yields rising above the 4.3% range. This comes as investors assessed the future path of interest rates following the recent uptick in inflation data. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, the annual inflation rate unexpectedly edged up to 3.2% in February, higher than March's 3.1%. The increase was largely attributed to higher energy and shelter prices. Meanwhile, the core inflation, which excludes volatile items such as food and energy, eased to 3.8%, down slightly from 3.9% in January. Producer price index, a measure of wholesale inflation, showed an advanced of 0.6%, higher than the previous month's 0.3%. However, the core PPI decline to 0.3%, lower than the prior month's 0.5%. [2]

2. In Europe, the industrial production experienced a significant contraction of 3.2% in January, marking a notable reversal from the 1.6% growth in the previous month, primarily due to a sharp drop in capital goods output. [3]

3. In China, bank loans extended at the slowest pace in February, reaching CNY 1.45 trillion, down from a record CNY 4.92 trillion reported in January and missing market forecasts of CNY 1.50 trillion. The stock of aggregate financing, a broad measure of credit, expanded just 9%, also near a record low. The M1 money supply measure, which includes cash in circulation and corporate demand deposit, weakened to 1.2%, the lowest level since January 2022. The borrowing demand remain sluggish despite the central bank's efforts to bolster the economy's recovery and combat deflationary pressures. [4]

4. In Malaysia, industrial production rose by 4.3% year-on-year in January, up from a downwardly revised 0.03% fall in the previous month, driven by higher production in food, beverages, & tobacco. Retail sales decelerated to 2.6% year-on-year in January, lower than the 5% in the previous month. As for trade, Malaysia's trade surplus narrowed to MYR 10.1 billion in January from MYR 18.1 billion in the same month of the previous year, driven by a rise in import. [5]

Investment Strategy[6]

We advocate a balanced allocation 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 that the central bank's hiking cycle may have reached its peak. 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 concerns of economic slowdown.

Sources:
[1] Bloomberg, 15 March 2024
[2] Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 15 March 2024
[3] S&P Global, ECB, Factset, Bank of England (BoE), 15 March 2024
[4] Bloomberg, National Bureau of Statistic China, CEWC, 15 March 2024
[5] Department of Statistic Malaysia, S&P Global, 15 March 2024
[6] Principal view, 15 March 2024

*PMI refers to Purchasing Manufacturing Index
*HCOB refers to Hamburg Commercial Bank
*NBS PMI refers to official data released by National Bureau of Statis in China
*Caixin PMI refers to data published by Caixin Media and ISH Markit. It provides alternative gauge focusing on smaller and medium-sized enterprises.
*ECB refers to European Central Bank
*PBOC refers to People's Bank of China
*PCE refers to Personal Consumption Expenditure