

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	4.0%	-1.6%	13.1%	21.7%
S&P 500	USD	4.0%	-2.0%	16.5%	24.2%
Nasdaq	USD	5.4%	-4.3%	16.0%	53.8%
Russell 2000	USD	3.0%	-5.4%	5.6%	15.1%
Stoxx 600-Europe	EUR	2.6%	-1.0%	7.0%	12.7%
Nikkei 225	JPY	8.7%	-7.9%	13.5%	28.3%
MSCI Asia Pac ex-Japan	USD	2.8%	-2.7%	7.6%	4.5%
ASEAN	USD	3.2%	3.2%	4.9%	0.7%
Shanghai Shenzhen CSI 300 Index	CNY	-0.1%	-5.1%	-2.1%	-11.4%
Hang Seng Index	HKD	2.1%	-2.8%	2.3%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	0.1%	-4.1%	-2.8%	-3.7%
FBMKLCI	MYR	1.7%	-0.2%	11.5%	-2.8%
Fixed Income					
Berg Barclays Global Agg Index	USD	0.4%	2.6%	1.1%	5.7%
JPM Asia Credit Index-Core	USD	0.6%	1.4%	5.5%	9.9%
Asia Dollar Index	USD	0.2%	1.6%	-1.5%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.0%	0.7%	3.1%	6.4%

Top Performing Principal Funds

	1-mth as of (31 July 2024)	YTD as of (31 July 2024)
Equities		
Principal US High Conviction Equity USD	6.81	8.17
Principal Biotechnology Discovery USD	6.04	15.19
Principal Islamic Enhanced Opportunities	5.83	35.30
Balanced		
Principal Lifetime Balanced	3.99	23.14
Principal Islamic Lifetime Balanced Growth	3.92	19.50
Principal Dynamic Enhanced Malaysia Income	3.44	20.51
Fixed Income		
Principal Lifetime Enhanced Bond	1.01	4.28
Principal Lifetime Bond	0.66	3.08
Principal Conservative Bond	0.61	2.88

Source: Bloomberg, market data is as of 16th August 2024.

*As we emphasise a long-term focus, the top performing funds were selected based on 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. This week, global financial markets extended their rally as solid economic data eased recession fears. In developed markets, Japan experienced the largest gains, followed by the United States and Europe.
2. Across Asia, the overall performance was positive. The largest gains were led by Taiwan and South Korea. Both onshore offshore China posted positive gains as well. In Malaysia, the FBMKLCI achieved positive gains, attributed to the positive sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield edged closer to the 3.8% range following this week's flood of key data, reflecting the state of the economy. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the United States, retail sales data came in much stronger than anticipated, with figures soaring 1% in July, offering evidence that consumer spending remains robust. The annual inflation rate slowed for a fourth consecutive month to 2.9% in July, the lowest since March 2021, compared to 3% in June and below forecasts of 3%. Additionally, initial jobless claims fell by 7,000 to 227,000 in the week ending August 10th, contrasting with market expectations of a slight increase to 235,000, allaying fears of a recession. ²
2. In Europe, the economy expanded by 0.3% in the second quarter of 2024, matching the growth rate of the previous period and aligning with the preliminary estimate. Industrial production decreased by 0.1% month-over-month in June, missing market expectations of a 0.5% rise, following an upwardly revised 0.9% fall in May. The number of employed persons increased by 0.2% from the previous quarter to 170.183 million in the three months leading up to June 2024, in line with market expectations and showing a slight slowdown from the 0.3% increase in the preceding quarter, according to preliminary data. ³
3. In China, data showed that retail sales rose more than anticipated in July, while industrial production missed forecasts. Fixed asset investments also fell short of expectations, the urban unemployment rate ticked higher and new home prices declined. The latest figures provided little clarity on China's economic trajectory, while investors remain hopeful about more stimulus measures. ⁴
4. In Malaysia, the latest revision indicates that GDP expanded by 5.9% year-on-year in Q2 of 2024, compared to the flash data showing a 5.8% growth and a 4.2% rise in Q1. Construction activities accelerated, rising by 20.2% from a year earlier in Q2 of 2024, surpassing the 14.2% growth in Q1 and pointing to the ninth consecutive period of growth. The current account surplus plummeted to MYR 3.0 billion in Q2 of 2024 from MYR 8.32 billion in the same period last year, as exports grew less than imports. ⁵

Investment Strategy ⁶

The recent rebound in markets underlines the views that investors should avoid overreacting to bouts of volatility. Our base case remains for an economic soft landing in the US, with the Federal Reserve starting to ease policy at its September meeting. As markets continue to react to incoming data and headlines, we maintain the view that investors should ensure their portfolios are well diversified and focus on quality. We have a slight preference for equities over fixed income. Fixed income has outperformed equities since mid-June. Asian equities look favourable with earnings growth of ~10% in 2025 and a PE of 13x.

1. We find bonds appealing with the potential for capital gains as we perceive that the global rate-cutting cycle remain on track. 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, as provided in the Budget 2024, has 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 with high dividends in China, 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 diversification approach to ride out volatilities arising from geopolitical tensions, inflationary issues, and concerns of economic slowdown.

Sources:

- ¹ Bloomberg, 16th August 2024
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 16th August 2024
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 16th August 2024
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 16th August 2024
- ⁵ Department of Statistic Malaysia, S&P Global, 16th August 2024
- ⁶ Principal view, 16th August 2024

*PMI refers to Purchasing Manufacturing Index

*HCOB refers to Hamburg Commercial Bank

*NBS PMI refers to official data released by National Bureau of Statistic 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

FOMC: Federal Open Market Committee

*y-o-y refers to year on year

*m-o-m refers to month on month

*UST refers to United States Treasury

*BNM refers to Bank Negara Malaysia

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