16th February 2024

Weekly Market Recap

Principal
In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	0.2%	4.4%	3.7%	21.7%
S&P 500	USD	-0.4%	5.1%	5.0%	24.2%
Nasdaq	USD	-1.5%	5.1%	5.1%	53.8%
Stoxx 600-Europe	EUR	1.4%	4.0%	2.7%	12.7%
MSCI Asia Pac ex-Japan	USD	2.0%	3.7%	-1.4%	4.5%
ASEAN	USD	2.3%	1.7%	-0.1%	0.7%
Shanghai Shenzhen CSI 300 Index	CNY	0.0%	1.8%	-2.0%	-11.4%
Hang Seng Index	HKD	3.8%	2.9%	-4.3%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	0.0%	-1.0%	-3.7%	-3.7%
FBMKLCI	MYR	1.4%	2.7%	5.3%	-2.8%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-0.3%	-1.2%	-3.1%	5.7%
JPM Asia Credit Index-Core	USD	-0.1%	0.2%	0.0%	9.9%
Asia Dollar Index	USD	0.0%	-0.2%	-1.8%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.0%	0.4%	0.7%	6.4%

Top Performing Principal Funds (1 month return as of 31 January 2024)	1-mth as of (31 Jan 2024)	YTD as of (31 Jan 2024)
Equities		
Principal Next-G Connectivity Fund - Class USD	7.6%	7.6%
Principal Malaysia Titans Plus Fund - Class MYR	7.0%	7.0%
Principal Malaysia Titans Fund	7.0%	7.0%
Fixed Income		
Principal Islamic Lifetime Sukuk Fund	0.6%	0.6%
Principal Lifetime Bond Fund	0.5%	0.5%
Principal Conservative Bond Fund - Class A	0.5%	0.5%

Source: Bloomberg, market data is as of 16 February 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 majority experiencing positive returns. In developed markets, Japan and Europe witnessed the largest gains, while the United States (US) experienced a negative return.

2. In Asia, market performance was positive overall, led by Taiwan and Korea. China onshore had a quiet week as the market was closed for the Lunar New Year.

3. In Malaysia, the FBMKLCI experienced a positive return driven by optimism in the regional market.

4. Turning to the bond market, the10-year U.S. Treasury note had a negative return, with yields rising above the 4.3% range, as investors assessed the recent producer price report in the US. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, the annual inflation rate fell back to 3.1% in January after a brief increase to 3.4% in December. Core inflation, which excludes volatile items such as food and energy prices, held steady at 3.9%, contrary to expectations of a slowdown to 3.7%. Retail sales shrank 0.8% month-over-month in January, attributed to post-holiday effects and cold weather. Additionally, the producer prices for final demand were up 0.3% month-over-month in January, while core producer prices rose by 0.5%, higher than the previous month's figures. The policymakers in the recent meeting reiterated their data-dependent approach and the goal of sustainable inflation towards the 2% target.[2]

2. In Europe, the economy expanded 0.1% year-on-year in the fourth quarter of 2023, matching the first estimate after a flat reading in the previous period. Meanwhile, during the recent meeting, the ECB* policymakers expressed reluctance to hastily implement rate cuts despite the decline in inflation.[3]

3. In China, the onshore financial markets are closed for the week due to the Lunar New Year holidays and will resume trading on 19 February 2024.[4]

Investment Strategy[5]

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 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, 16 February 2024
[2] Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 16 February 2024
[3] S&P Global, ECB, Factset, Bank of England (BoE), 16 February 2024
[4] Bloomberg, National Bureau of Statistic China, CEWC, 16 February 2024
[5] Principal view, 16 February 2024

*PMI refers to Purchasing Manufacturing Index
*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