17 February 2023

Weekly Market Recap

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Market Data

Asset Class	Curr	1-wk	1-mth	YTD	2022
Equities					
MSCI World	USD	-0.1%	1.6%	6.8%	-19.5%
S&P 500	USD	-0.3%	2.2%	6.2%	-19.4%
Nasdaq	USD	0.4%	6.9%	13.0%	-33.0%
Stoxx 600-Europe	EUR	1.4%	1.7%	9.3%	-12.9%
MSCI Asia Pac ex-Japan	USD	-2.2%	-2.7%	4.8%	-19.7%
ASEAN	USD	-1.8%	-1.4%	1.3%	2.4%
Shanghai Shenzhen CSI 300 Index	CNY	-1.7%	-2.5%	4.2%	-21.6%
Hang Seng Index	HKD	-2.2%	-4.0%	4.7%	-15.5%
Shanghai Stock Exchange Composite Index	CNY	-1.1%	0.0%	4.4%	-15.1%
FBMKLCI	MYR	0.2%	-1.5%	-1.2%	-4.6%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-1.0%	-2.4%	0.8%	-16.2%
JPM Asia Credit Index-Core	USD	-1.2%	-0.8%	1.9%	-13.0%
Asia Dollar Index	USD	-0.9%	-1.7%	0.1%	-6.4%
Malaysia Corporate Bond Index	MYR	-0.09%	1.10%	1.99%	1.51%

Top Performing Principal Funds	Curr	1-wk	1-mth	YTD	2022
Equities					
Principal Global Global Technology USD	USD	2.2%	8.2%	15.7%	-46.1%
Principal Next-G Connectivity USD	USD	0.4%	3.1%	11.8%	-43.3%
Fixed Income					
Principal Asian Dynamic Bond MYR	MYR	0.6%	-0.1%	-0.6%	-4.7%

Source: Bloomberg, market data is as of 17 February 2023
*Top performing funds were based on weekly performance.
*Past performance is not an indication of future performance.

Market Review[1]

1. The stock market started the year on a solid footing, but uncertainties around persistent inflation and tight labour market reintroduced new waves of concerns last week. In Developed Markets, the United States (U.S.) and Japan markets ended lower while the Europe markets rose for the week.
2. In Asia, the stock markets had mixed performance, with China's markets dropping for the third week in a row, both in mainland China and outside of it.
3. The FTSE Bursa Malaysia KLCI (FBM KLCI) posted modest gain over the week, with sentiment reflecting global forecast for the Asian markets to remain mixed to lower on the renewed concerns over the outlook of interest rates.
4. Over the week, the value of global bonds went down, with the yield on the benchmark 10-year U.S. Treasury note rising as investors digest the recent resilient labour and inflation data. The developments may suggest the resumption of aggressive interest rate policy (Note: Bond prices and yields generally move in opposite directions).

Macro Factors

1. In the U.S., the jump in retail sales, together with January's solid jobs report and a rebound in homebuilder sentiment, paints the picture of a resilient economy with positive momentum that may stall inflation progress.[2]
2. In Europe, annualised inflation fell for a third consecutive month in January to 10.1% mainly due to easing services and fuel costs. Core inflation (excluding energy, food, alcohol, and tobacco) eased to a much lower-than-forecast rate of 5.8%. The slowdown in inflation ignites hopes that the Bank of England might opt for a smaller interest rate hike in March or skip one altogether.[3]
3. In China, the financial markets were mire by the recent controversy around the spy balloon which added tensions with the U.S. In other news, Bloomberg reported that prices for new homes in China remained roughly steady in January, breaking a 16-month slide, as demand received a boost from the government lifting of its zero-COVID regime.[1]

Investment Strategy[4]

Overall, the path ahead may still be volatile in the form of central bank tightening, persistent inflation, and economic slowdown. However, we believe markets over time will be stabilised and positioned for a more sustainable recovery. Our broad strategy continues to favour selective approaches, and focus on the themes of Quality Growth, Income and Sustainability.

1. On equities, we prefer quality factors as the macro and geopolitical backdrop remain uncertain. We are positive on Asia as sector earnings are poised to be rerated supported by China's rapid reopening.
2. On Fixed Income, our preference remains on investment grade and that of longer duration. As we foresee volatility to stay elevated, we are keeping a bias for higher quality credit. We like bonds with an investment grade rating, ideally in the AA or A, and which could operate in a business that is somewhat immune to the economic cycle.
3. For medium to long-term exposure, we prefer assets that offer structural opportunities. The shift towards energy, environmental, food, and technological security are likely to be among the key long-term growth drivers in the years to come.

Sources:
[1] Bloomberg, 17 February 2023
[2] US Department of Commerce, 17 February 2023
[3] European Central Bank (ECB), 17 February 2023
[4] Principal view, 17 February 2023

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