20 October 2023

Weekly Market Recap

Principal® In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2022
Equities					
MSCI World	USD	-2.5%	-4.9%	7.2%	-19.5%
S&P 500	USD	-2.4%	-4.0%	10.0%	-19.4%
Nasdaq	USD	-2.9%	-2.7%	33.1%	-33.0%
Stoxx 600-Europe	EUR	-3.4%	-5.8%	2.1%	-12.9%
MSCI Asia Pac ex-Japan	USD	-2.8%	-4.4%	-5.3%	-19.7%
ASEAN	USD	-3.0%	-4.6%	-6.6%	2.4%
Shanghai Shenzhen CSI 300 Index	CNY	-4.2%	-5.3%	-9.3%	-21.6%
Hang Seng Index	HKD	-3.6%	-4.0%	-13.2%	-15.5%
Shanghai Stock Exchange Composite Index	CNY	-3.4%	-4.0%	-3.4%	-15.1%
FBMKLCI	MYR	-0.2%	-0.7%	-3.6%	-4.6%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-1.0%	-2.7%	-3.5%	-16.2%
JPM Asia Credit Index-Core	USD	-1.1%	-2.2%	1.3%	-13.0%
Asia Dollar Index	USD	-0.2%	-0.8%	-4.7%	-6.9%

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

Equities				
Principal Islamic Enhanced Opportunities Fund	-0.8%	0.9%	4.8%	-15.8%
Principal DALI Equity Growth fund	-0.8%	0.3%	0.6%	-9.5%
Principal Small Cap Opportunities Fund	-0.8%	0.6%	7.3%	-13.3%
Fixed Income				
Principal Islamic Money Market Fund - Class AI	-0.1%	0.1%	0.8%	0.1%
Principal Money Market Income Fund - Class AI	0.0%	0.3%	0.6%	0.9%
Principal Islamic Lifetime Enhanced Sukuk Fund	0.2%	0.4%	1.7%	-6.4%

Source: Bloomberg, market data is as of 20 October 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 on a weak note, with the majority of the markets in the red. Among the developed markets, Japan experienced the largest decline, followed by Europe and the United States (US).

2. Across Asia, the markets delivered negative returns throughout the week. China's onshore and offshore market experienced the largest decline, followed by Korea and Taiwan.

3. In Malaysia, the FBMKLCI in Malaysia ended the week on a negative note driven by ongoing cautious sentiment within the regional economy.

4. In the bond market, the price of the 10-year U.S. Treasury note closed negatively, with yield nearly touched 5% during intraday trading at the end of the week. This was driven by heavy primary issuance alongside concerns that rates will remain higher for longer. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, Federal Reserve (Fed) Chairman Jerome Powell's comments indicated a cautious approach to policy decision based on incoming data, the evolving outlook, and the balance of risks. Weekly jobless claims fell below 200,000 for the first time since January. September industrial production increased by 0.3% while housing sector exceeded expectation but building permits, a more forward-looking gauge, fell 4.4% in the month, the sharpest decline in 10 months.[2]

2. In Europe, the committees from the Europe Central Bank expressed concerns about inflation risk due to rising oil prices from the conflict in the Middle East. Meanwhile, inflation in the United Kingdom (UK) held steady at an annual rate of 6.7% in September driven by higher gasoline prices. Services inflation accelerated to 6.9%.[3]

3. In China, Country Garden, formerly China's largest property developer, announced its inability to meet all offshore debt payments after it received a 30-day grace period in August. Meanwhile, China's economy expanded 4.9% in the third quarter over a year earlier, surpassing expectation. Other data showed that parts of China's economy may be stabilising. Retail sales rose 5.5% in September from a year earlier, Industrial production growth remained unchanged from August, and urban unemployment slightly decreased. [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 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, 20 October 2023
[2] Bloomberg, Bureau of Labor Statistics (BLS), S&P Global, US Federal Board, 20 October 2023
[3] S&P Global, ECB, Factset, Bank of England (BoE), 20 October 2023
[4] Bloomberg, National Bureau of Statistic China, 20 October 2023
[5] Principal view, 20 October 2023