

## Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
<b>Equities</b>					
MSCI World	USD	1.1%	1.7%	16.0%	21.7%
S&P 500	USD	1.3%	1.9%	19.6%	24.2%
Nasdaq	USD	1.4%	0.4%	17.7%	53.8%
Russell 2000	USD	2.0%	4.0%	9.9%	15.1%
Stoxx 600-Europe	EUR	-0.4%	0.3%	7.4%	12.7%
Nikkei 225	JPY	3.1%	-0.8%	12.6%	28.3%
MSCI Asia Pac ex-Japan	USD	2.7%	1.7%	10.7%	4.5%
ASEAN	USD	2.7%	7.4%	15.0%	-3.1%
Shanghai Shenzhen CSI 300 Index	CNY	1.3%	-4.1%	-6.6%	-11.4%
Hang Seng Index	HKD	5.0%	4.9%	7.7%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	1.2%	-4.6%	-7.9%	-3.7%
FBMKLCI	MYR	1.2%	3.0%	16.1%	-2.8%
<b>Fixed Income</b>					
Bberg Barclays Global Agg Index	USD	-0.2%	1.3%	3.3%	5.7%
JPM Asia Credit Index-Core	USD	0.3%	1.6%	7.4%	9.9%
Asia Dollar Index	USD	0.4%	0.9%	0.2%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.1%	0.4%	3.6%	6.4%
<b>Top Performing Principal Funds</b>					
			1-mth as of (31 August 2024)	YTD as of (31 August 2024)	
<b>Equities</b>					
Principal ASEAN Dynamic USD			3.36	16.62	
Principal Asia Pacific Renewables MYR			3.18	12.95	
Principal Global Millennial Equity Class USD			2.38	10.76	
<b>Balanced</b>					
Principal Islamic Global Selection Moderate USD			5.16	3.39	
Principal Islamic Global Selection Mdt Csv USD			5.11	3.49	
Principal China Multi Asset Income USD			1.48	5.83	
<b>Fixed Income</b>					
Principal Islamic Global Sukuk USD			2.41	-0.09	
Principal Asia Dynamic Bond MYR			2.08	1.03	
Principal Global Income USD			1.22	4.94	

Source: Bloomberg, market data is as of 20 September 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 <sup>1</sup>

1. This week, global financial markets experienced mixed returns. Among developed markets, Japan saw the most significant gains, followed by the United States and Europe.
2. Across Asia, performance positive overall. China offshore and Thailand led the region in gains, while Indonesia faced declines. In Malaysia, the FBMKLCI closed marginally positive supported by the recovery of sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield edged closer to the 3.7% range as markets adjusted to the Federal Reserve's outsized rate cut earlier in the week. (It's worth noting that bond prices move in the opposite direction of bond yields.)

## Macro Factors

1. In the United States, the Federal Reserve reduced the target range for the fed funds rate by 50 basis points to 4.75%-5% in September, marking the first decrease in borrowing costs since March 2020. The central bank also unveiled new economic forecasts. Policymakers are projecting a total of 100 basis points of easing by year-end, indicating the possibility of two additional 25 basis points cuts this year. For 2025, an additional percentage point of cuts is anticipated, followed by a final 50 basis points reduction in 2026. Additionally, PCE inflation forecasts have been revised downwards for 2024 to 2.3% (compared to 2.6% in the June projection) and for 2025 to 2.1% (compared to 2.3%). Core inflation is also expected to be lower at 2.6% for 2024 (compared to 2.8%) and 2.2% for 2025 (compared to 2.3%).<sup>2</sup>
2. In Europe, the annual inflation rate dipped to 2.2% in August, the lowest level since July 2021, down from 2.6% the previous month, aligning with the preliminary estimate. The most significant deceleration in prices was observed in non-energy industrial goods and energy sectors. Concurrently, the core inflation rate slightly decreased to 2.8% from 2.9% in July, also in line with the initial estimate. The trade surplus increased to EUR 21.2 billion in July, surpassing market expectations. Exports surged by 10.2% year-on-year, while imports grew at a slower pace of 4%.<sup>3</sup>
3. In China, the PBOC kept key lending rates unchanged at the September fixing, aligning with market estimates. The one-year loan prime rate (LPR), the benchmark for most corporate and household loans, was maintained at 3.35%. Meanwhile, the five-year rate, a reference for property mortgages, was held at 3.85%. Foreign direct investment (FDI) into China dropped by 31.5% year-on-year to CNY 580.19 billion (USD 81.80 billion) during January-August 2024, which is steeper than the 29.6% decline seen in the first seven months of the year.<sup>4</sup>
4. In Malaysia, the trade surplus plunged to MYR 5.7 billion in August from MYR 17.1 billion in the same month of the previous year, falling short of market estimates. The decline was primarily attributed to a surge in imports. Exports grew by 12.1% year-on-year to MYR 129.2 billion in August, exceeding market expectations of 11.7%. This growth rate eased from July's eight-month high of a 12.3% increase, mainly due to declines in mining exports.<sup>5</sup>

## Investment Strategy <sup>6</sup>

Historically, equity markets have performed well in periods when the Fed was cutting rates while the US economy was not in recession. We expect this time to be no exception. Our base case remains for an economic soft landing in the US. As markets continue to react to incoming data and headlines, we maintain the view that investors should remain invested and use any near term selloff to build a diversified portfolio focusing 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 the rate-cutting cycle has begun. 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:

- <sup>1</sup> Bloomberg, 20 September 2024
- <sup>2</sup> Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 20 September 2024
- <sup>3</sup> S&P Global, ECB, Factset, Bank of England (BoE), 20 September 2024
- <sup>4</sup> Bloomberg, National Bureau of Statistic China, CEWC, 20 September 2024
- <sup>5</sup> Department of Statistic Malaysia, S&P Global, 20 September 2024
- <sup>6</sup> Principal view, 20 September 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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