22nd December 2023

Weekly Market Recap

Principal® In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2022
Equities					
MSCI World	USD	0.8%	4.9%	21.1%	-19.5%
S&P 500	USD	0.8%	4.3%	23.8%	-19.4%
Nasdaq	USD	0.9%	4.8%	53.4%	-33.0%
Stoxx 600-Europe	EUR	0.2%	4.5%	12.4%	-12.9%
MSCI Asia Pac ex-Japan	USD	-0.7%	1.4%	1.4%	-19.7%
ASEAN	USD	1.2%	2.4%	-1.4%	2.4%
Shanghai Shenzhen CSI 300 Index	CNY	-0.1%	-5.8%	-13.8%	-21.6%
Hang Seng Index	HKD	-2.7%	-7.9%	-17.4%	-15.5%
Shanghai Stock Exchange Composite Index	CNY	-0.9%	-4.2%	-5.6%	-15.1%
FBMKLCI	MYR	-0.6%	-0.1%	-2.7%	-4.6%
Fixed Income					
Bberg Barclays Global Agg Index	USD	0.5%	4.7%	5.2%	-16.2%
JPM Asia Credit Index-Core	USD	0.4%	4.2%	9.8%	-13.0%
Asia Dollar Index	USD	0.0%	0.6%	-2.1%	-6.9%

Top Performing Principal Funds (1 month return as of 30 November 2023)			
Equities			
Principal Islamic Global Technology Fund - Class USD	12.4%	47.7%	0.2%
Principal Next-G Connectivity Fund - Class USD	16.0%	29.3%	-43.3%
Principal Global Technology Fund - Class USD	15.4%	43.1%	-43.7%
Fixed Income			
Principal Islamic Institutional Sukuk Fund	1.5%	5.8%	1.2%
Principal Lifetime Bond Fund	1.5%	6.0%	1.3%
Principal Islamic Lifetime Sukuk Fund	1.4%	5.7%	1.1%

Source: Bloomberg, market data is as of 22 December 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 concluded the week with a mixed performance. In developed markets, the United States (US) experienced the largest gains, while Europe and Japan dipped into the red.

2. In Asia, market performance showed mixed results. Thailand and Korea had strong performance, while China's offshore markets experienced the largest drop.

3. In Malaysia, the FBMKLCI in Malaysia ended the week on a negative note, fuelled by selling activity and quiet trading sessions ahead of the Christmas and New Year holidays.

4. Turning to the bond market, the10-year U.S. Treasury note experienced a modest positive return, with yields stabilising around the 3.85% range, as investors assessed the potential path for an interest rate cut to begin in 2024. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, the economy expanded an annualised 4.9% in the third quarter of 2023, slightly below 5.2% in the second estimate, but matching the 4.9% initially reported in the advance estimate. The annual personal consumption expenditure inflation rate in the US cooled to 2.6% in November, lower than the previous number. New-home construction unexpectedly surged in November to a six-month high by 14.8% month-over-month, benefiting from a fall in mortgage rates and low inventory. [2]

2. In Europe, the annual inflation rate decreased to 2.4% in November from 2.9% in October, mainly driven by lower fuel prices. Meanwhile, the annual core inflation, which excludes food and energy, was confirmed at 3.6%. ECB* policymakers continue to maintain a cautious stance on the possibility of an early rate cut, with several officials emphasising the need for inflation to stabilised before considering any adjustment. [3]

3. In China, foreign direct investment declined by 10% year-on-year to CNY 1.04 trillion in the first eleven months of 2023, indicating a lack of confidence from foreign investors. The PBOC* kept lending rates unchanged at the December fixing, as the central bank continued its attempt to revive a sputtering economy, with the 1- and 3-year loan prime rates were holding steady at 3.45% and 4.2%, respectively. Additionally, the Chinese regulators recently introduced a draft of new rules aimed at limiting spending and rewards in online video games, causing a selloff in the gaming sectors. [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 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, 22 December 2023
[2] Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 22 December 2023
[3] S&P Global, ECB, Factset, Bank of England (BoE), 22 December 2023
[4] Bloomberg, National Bureau of Statistic China, CEWC 22 December 2023
[5] Principal view, 22 December 2023

*PMI stands for Purchasing Manufacturing Index
*ECB stands for European Central Bank