22 September 2023

Weekly Market Recap

Market Data

Asset Class	Curr	1-wk	1-mth	YTD	2022
Equities					
MSCI World	USD	-2.7%	-1.0%	10.6%	-19.5%
S&P 500	USD	-2.9%	-1.5%	12.5%	-19.4%
Nasdaq	USD	-3.3%	-1.4%	34.4%	-33.0%
Stoxx 600-Europe	EUR	-1.9%	0.3%	6.7%	-12.9%
MSCI Asia Pac ex-Japan	USD	-2.3%	0.2%	-1.7%	-19.7%
ASEAN	USD	-1.5%	-1.6%	-2.4%	2.4%
Shanghai Shenzhen CSI 300 Index	CNY	0.8%	-0.5%	-3.4%	-21.6%
Hang Seng Index	HKD	-0.7%	1.5%	-8.7%	-15.5%
Shanghai Stock Exchange Composite Index	CNY	0.5%	0.4%	1.4%	-15.1%
FBMKLCI	MYR	-0.60%	-0.09%	-3.03%	-4.60%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-0.5%	-0.8%	-1.3%	-16.2%
JPM Asia Credit Index-Core	USD	-0.6%	0.1%	3.0%	-13.0%
Asia Dollar Index	USD	-0.3%	-0.3%	-4.2%	-6.9%
Malaysia Corporate Bond Index	MYR	-0.49%	-0.29%	4.33%	1.51%

Top Performing Principal Funds
(1 month return as of 31 August 2023)

Equities					
Principal Malaysia Enhanced Opportunities Fund		2.9%	4.5%	4.1%	-4.2%
Principal Malaysia Opportunities Fund		-2.0%	4.5%	3.7%	-3.9%
Principal Small Cap Opportunities Fund		2.0%	4.0%	6.6%	-13.3%
Fixed Income					
Principal Asia Dynamic Bond Fund - Class MYR		0.1%	1.1%	2.1%	-4.7%
Principal Islamic Lifetime Sukuk Fund		0.1%	0.4%	4.8%	1.1%
Principal Lifetime Bond Fund		0.1%	0.4%	4.8%	1.3%

Source: Bloomberg, market data is as of 22 September 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 mixed note. In the developed markets, Japan experienced the largest decline, followed by Europe and the United States (US).

2. Across Asia, the majority of markets delivered mixed returns throughout the week. China onshore recorded the highest gain, while South Korea and Taiwan experienced the largest decline.

3. The FBMKLCI in Malaysia recorded a slight negative return for the week, driven by ongoing cautious sentiment within the regional economy.

4. In the bond market, the price of the benchmark 10-year U.S. Treasury note closed slightly lower, influenced by the flood of new government bond issuance and the continued strength of the US economy. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, the Federal Open Market Committee (FOMC) recently held its monetary policy unchanged at a target range of 5.25% to 5.50%. The committee also indicated that interest rates would remain higher for an extended period, with the possibility of one more rate hike in 2023.[2]

2. In Europe, the Bank of England (BoE) announced on Friday that it has held interest rates unchanged at 5.25% as economic momentum slows. The latest Manufacturing PMI came in at 43.4 in August, driven by declining orders in the private sectors. On the other hand, the services sector edged higher to 48.4 but still marked the second consecutive contraction.[3]

3. In China, recent data suggests indications of economic stability, and the government has made a commitment to expedite measures that will bolster the country's recovery and sustain growth in 2024. In terms of monetary policy, Chinese banks have maintained their one- and five-year loan prime rates unchanged. This decision follows the prior week's announcement by the People's Bank of China (PBOC) to keep its medium-term lending facility rate steady. Additionally, the PBOC has reduced the reserve requirement ratio (the amount of cash banks must hold as reserves) for the second time this year.[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, particularly in the technology sector, and believe that Asian equities and fixed income present more value in the short term.

1. On Fixed Income, we find bonds appealing as we perceive a higher likelihood that central bank hiking cycles will end soon, despite recent guidance from the US Federal Reserve (Fed). 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.

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 and the New Industrial Master Plan 2030.

3. We also favour income-focused approach to ride out volatilities arising from geopolitical tensions, inflationary issues, and recessionary concerns.

Sources:
[1] Bloomberg, 22 September 2023
[2] Bloomberg, Bureau of Labor Statistics (BLS), S&P Global, US Federal Board, 22 September 2023
[3] S&P Global, ECB, Factset, Bank of England (BoE), 22 September 2023
[4] Bloomberg, National Bureau of Statistic China, 22 September 2023
[5] Principal view, 22 September 2023