Principal®

In alliance with CIMB

24 February 2023

Weekly Market Recap

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Market Data

Asset Class	Curr	1-wk	1-mth	YTD	2022
Equities					
MSCI World	USD	-2.6%	-1.8%	4.0%	-19.5%
S&P 500	USD	-2.7%	-1.2%	3.4%	-19.4%
Nasdaq	USD	-3.1%	1.0%	9.4%	-33.0%
Stoxx 600-Europe	EUR	-1.4%	1.0%	7.7%	-12.9%
MSCI Asia Pac ex-Japan	USD	-2.6%	-6.5%	2.0%	-19.7%
ASEAN	USD	-2.1%	-4.2%	-0.8%	2.4%
Shanghai Shenzhen CSI 300 Index	CNY	0.7%	-2.9%	4.9%	-21.6%
Hang Seng Index	HKD	-3.4%	-9.2%	1.2%	-15.5%
Shanghai Stock Exchange Composite Index	CNY	1.3%	0.1%	5.8%	-15.1%
FBMKLCI	MYR	-1.4%	-2.9%	-2.6%	-4.6%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-1.2%	-3.8%	-0.4%	-16.2%
JPM Asia Credit Index-Core	USD	-0.1%	-1.6%	1.8%	-13.0%
Asia Dollar Index	USD	-1.0%	-2.7%	-0.9%	-6.4%
Malaysia Corporate Bond Index	MYR	0.1%	0.0%	2.0%	1.5%

Top Performing Principal Funds					
Equities					
Principal China Direct Opportunities MYR	MYR	1.6%	4.4%	10.6%	-20.8%
Principal Commodity USD	USD	-0.2%	-5.1%	-5.5%	n.a.
Fixed Income					
Principal Lifetime Enhanced Bond	MYR	0.1%	0.3%	0.4%	-4.1%

Source: Bloomberg, market data is as of 24 February 2023
*Top performing funds were based on weekly performance.
*Past performance is not an indication of future performance.

Market Review[1]

1. The financial markets posted negative returns over the week driven by uncertainties around inflation and renewed expectation that interest rate would trend higher. In Developed Markets, the United States (U.S.), Europe, and Japan markets ended lower for the week.

2. In Asia, the equity market's returns were mixed for the week, with Chinese stocks rebounding after three weeks of losses as hopes for stepped-up regulatory support offset concerns about elevated U.S. tensions.

3. The FTSE Bursa Malaysia KLCI (FBM KLCI) closed lower for the week as the government unveiled an expansionary Budget worth RM386.1 billion and pledged support to steer the economy on Friday.

4. Over the week, the value of global bonds went down, with the yield on the benchmark 10-year U.S. Treasury note rising nearing 4.00% for the first time since mid-November as investors digest the recent resilient labour and inflation data. The developments appear to 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 Commerce Department reported the core personal consumption expenditures (less food and energy) price index jumped 0.6% in January, above the expectations of an increase of 0.4% and it was the biggest rise since August. This sparked concerns that inflation might have reversed course which may lead to more interest rate hikes.[2]
2. In Europe, inflation eased in January to an annual rate of 8.6% from 9.2% the previous month. The lower inflation ignites expectations that the Bank of England might opt for a smaller interest rate hike in March or skip one altogether.[3]
3. In China, the People's Bank of China (PBOC) left its benchmark one-year and five-year loan prime rates unchanged for the sixth consecutive month as the recovery in economic growth appeared to dampen the need to further loosen monetary policy. In other news, China's securities regulator published new rules to revive offshore initial product offerings following a regulatory freeze that began in July 2021.[4]

Investment Strategy[5]

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, 24 February 2023
[2] US Department of Commerce, 24 February 2023
[3] European Central Bank (ECB), 24 February 2023
[4] PBOC, 24 February 2023
[5] Principal view, 24 February 2023