24 November 2023

Weekly Market Recap

Principal® In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2022
Equities					
MSCI World	USD	1.0%	7.6%	15.8%	-19.5%
S&P 500	USD	1.0%	7.3%	18.7%	-19.4%
Nasdaq	USD	0.9%	8.4%	46.1%	-33.0%
Stoxx 600-Europe	EUR	0.9%	5.7%	8.3%	-12.9%
MSCI Asia Pac ex-Japan	USD	0.6%	5.7%	-0.4%	-19.7%
ASEAN	USD	-0.9%	2.5%	-4.2%	2.4%
Shanghai Shenzhen CSI 300 Index	CNY	-0.8%	1.5%	-8.6%	-21.6%
Hang Seng Index	HKD	0.6%	3.3%	-11.2%	-15.5%
Shanghai Stock Exchange Composite Index	CNY	-0.4%	2.7%	-1.6%	-15.1%
FBMKLCI	MYR	-0.5%	1.3%	-2.8%	-4.6%
Fixed Income					
Bberg Barclays Global Agg Index	USD	0.2%	3.5%	0.4%	-16.2%
JPM Asia Credit Index-Core	USD	0.3%	3.5%	5.3%	-13.0%
Asia Dollar Index	USD	0.4%	2.0%	-2.6%	-6.9%

Top Performing Principal Funds

(1 month return as of 31 October 2023)

Equities					
Principal Global Multi Asset Income Fund - Class MYR			-0.6%	2.3%	-11.8%
Principal DALI Equity Growth Fund			-0.8%	-0.3%	-9.5%
Principal Commodity Fund - Class USD			-0.9%	-5.0%	
Fixed Income					
Principal Asia Dynamic Bond Fund - Class MYR			0.5%	2.9%	-4.7%
Principal Money Market Income Fund - Class AI			0.3%	0.2%	0.9%
Principal Islamic Deposit Fund - Class AI			0.3%	3.0%	2.2%

Source: Bloomberg, market data is as of 24 November 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. Global financial markets wrapped up the week on a positive note, with The United States (US) leading the gains among the developed markets, followed by Europe and Japan.

2. Across Asia, the performances were mixed across the markets, with Korea and the Philippine leading the way, while China offshore and Thailand declined the most.

3. In Malaysia, the FBMKLCI in Malaysia ended the week on a muted note, fuelled by cautious sentiment in the regional market.

4. Turning to bond market, the price of the 10-year U.S. Treasury note closed on a marginal negative note, with yields stabilising around the 4.40% range after hitting a two-month low. The shift was driven by the recent market expectation that the U.S. Federal Reserve's (Fed) rate-hiking campaign may have come to an end. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, the latest Fed minutes show no new signals on the interest rate decision. The initial jobless data dropped sharply, surpassing expectation, indicating the labour market slowdown hasn't fully materialised. October's home sales data weakened by 4.1% compared to the previous month possibly due to high mortgage rates. Additionally, the October S&P Global US Manufacturing and Servies PMI had mixed results, with manufacturing decelerating to 49.4 while services expanding to 50.8 (a reading below 50 indicates contraction). [2]

2. In Europe, the HCOB Eurozone Manufacturing and Services PMI exceeded expectation at 43.8 and 48.2, respectively, but still indicated contraction as both remained below 50. On the monetary policy front, the European Central Bank reiterated their stance to keep options open for another interest rate hikes to bring inflation down to their 2% targeted level. [3]

3. In China, the People's Bank of China (PBoC) maintained lending rates at the November fixing. The one-year loan prime rate (LPR), which is the medium-term lending facility used for corporate and household loans, was left unchanged at a record low of 3.45%; and the five-year rate, a reference for mortgages, was kept at 4.2% for the fifth straight month. The decision came after the central bank held medium-term interbank rates steady as economic activity in October was mixed, with headwinds from the property sector deepening despite a slew of stimulus measures from authorities. [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, 24 November 2023
[2] Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 24 November 2023
[3] S&P Global, ECB, Factset, Bank of England (BoE), 24 November 2023
[4] Bloomberg, National Bureau of Statistic China, 24 November 2023
[5] Principal view, 24 November 2023