

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2024
Equities					
MSCI World	USD	-0.5%	-2.5%	0.8%	17.0%
S&P 500	USD	-0.5%	-1.8%	1.0%	23.3%
Nasdaq	USD	-0.7%	0.5%	1.5%	24.9%
Russell 2000	USD	1.1%	-6.1%	1.7%	10.0%
Stoxx 600-Europe	EUR	0.2%	-1.5%	0.1%	6.0%
Nikkei 225	JPY	-1.0%	1.7%	0.0%	19.1%
MSCI Asia Pac ex-Japan	USD	-0.9%	-3.0%	-0.1%	7.6%
ASEAN	USD	-0.5%	-3.1%	-0.4%	7.7%
Shanghai Shenzhen CSI 300 Index	CNY	-5.2%	-4.4%	-4.1%	14.7%
Hang Seng Index	HKD	-1.4%	0.2%	-1.2%	17.5%
Shanghai Stock Exchange Composite Index	CNY	-5.6%	-4.9%	-4.2%	12.7%
FBMKLCI	MYR	0.1%	1.4%	-0.8%	12.8%
Fixed Income					
Berg Barclays Global Agg Index	USD	-0.3%	-2.4%	-0.4%	-1.7%
JPM Asia Credit Index-Core	USD	0.3%	-1.1%	0.0%	6.0%
Asia Dollar Index	USD	-0.4%	-1.1%	-0.3%	-4.1%
Bloomberg Malaysia Treasury -10 Years	MYR	0.2%	0.3%	0.1%	4.3%

Top Performing Principal Funds	1-mth as of (31 December 2024)	YTD as of (31 December 2024)
Equities		
Principal DALI Equity Growth	7.04	30.44
Principal Islamic Small Cap Opportunities	6.21	42.71
Principal Malaysia Titans Plus	5.50	27.41
Balanced		
Principal Lifetime Balanced	4.10	22.86
Principal Lifetime Balanced Income	3.73	20.54
Principal Islamic Lifetime Balanced Growth	3.68	20.72
Fixed Income		
Principal Islamic Lifetime Enhanced Sukuk	2.60	10.07
Principal Lifetime Enhanced Bond	0.41	5.10
Principal Money Market Income	0.31	3.69

Source: Bloomberg, market data is as of 3rd January 2025.

*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 ¹

1. This week, the performance of the global financial markets was mixed. Among developed markets, Europe experienced a decline, while Japan and the United States saw marginal gains.
2. Across Asia, markets performance was largely mixed. India experienced the largest gains, while both onshore and offshore markets in China faced the largest decline. In Malaysia, the FBMKLCI closed marginally positive, with gains observed in Energy, Technology Services, and Industrial Services sectors.
3. In the bond market, the US 10-year Treasury yield edged up closer to 4.6 range as investors considered the economic outlook for the new year amid a quiet trading week. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the U.S., the initial jobless claims declined by 9,000 from the previous week to 211,000 in the last week of 2024, contrasting sharply with the expected increase to 222,000. ²
2. In Europe, focus shifts to the monetary policy outlooks of the European Central Bank and Federal Reserve, along with potential tariff changes under the incoming administration of US President-elect Donald Trump. The HCOB Eurozone Manufacturing PMI was at 45.1 in December of 2024, edging lower from 45.2 in the previous month missing the initial market expectation. It was the sharpest decline in manufacturing activity in three months to extend the ongoing two-year contractionary streak. ³
3. In China, the PBOC indicates that it would likely reduce interest rates from the current 1.5% "at an appropriate time" this year. The central bank also noted a shift in focus toward "the role of interest rate adjustments" rather than "quantitative objectives" for loan growth, aligning its approach more closely with that of the US Federal Reserve and the European Central Bank. The NBS Manufacturing PMI unexpectedly fell to 50.1 in December 2024 from November's seven-month high. This marked the third straight month of expansion in factory activity. The NBS Non-Manufacturing PMI rose to 52.2 in December 2024 from 50.0 in the previous month, pointing to the highest figure since March and exceeding market forecasts. ⁴
4. In Malaysia, the S&P Global Malaysia Manufacturing PMI fell to 48.6 in December 2024 from 49.2 in November, marking the lowest reading since March and the seventh consecutive month of contraction in the manufacturing sector. This decline was driven by subdued demand and the steepest fall in output in a year. Producer prices shrank 0.4% year-on-year in November 2024, following a 2.4% fall in the previous month. This marked the third straight month of producer deflation but the softest pace in the sequence. ⁵

Investment Strategy ⁶

As we enter 2025, we analyse the next phase of the market, including political changes in the US, potential higher inflation, the changing narrative around interest rates, and the implication on trade tariff on Asia market. As specific policy plans emerge, investors should brace for market fluctuations and consider using significant changes to enhance their long-term portfolios. We slightly prefer equities over fixed income. Key themes for 2025 include: i) the impact of policy shifts on China's recovery; ii) the U.S. economic outlook regarding a soft landing; and iii) the influence of geopolitical risks on asset prices.

1. **Equities:** We favour quality, dividend-paying stocks for their defensive nature amid macroeconomic uncertainties. Our focus is on Asia, targeting: a) idiosyncratic ideas where company earnings are primarily influenced by domestic economic factors; b) Chinese domestic consumption; c) technology (beneficiaries of AI and internet platforms); d) industrial names with exposure to grid capex; e) strong consumer and banking franchises in Southeast Asia; and f) selective Indian companies that are reasonably valued with growth potential. Additionally, we note Malaysia's positive outlook due to political stability and initiatives like the New Energy Transition Roadmap.
2. **Fixed Income:** The recent correction in MGS/MGII has made government bonds more attractive, but caution is advised due to potential short-term volatility after the U.S. elections. We continue to prefer new corporate bond issuances, which offer better yield and valuations.
3. **Diversification:** We recommend a diversified approach to navigate volatility from geopolitical tensions, central bank rate cuts, and market adjustments following the U.S. election.

Sources:

- ¹ Bloomberg, 3rd January 2025
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 3rd January 2025
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 3rd January 2025
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 3rd January 2025
- ⁵ Department of Statistic Malaysia, S&P Global, 3rd January 2025
- ⁶ Principal view, 3rd January 2025

*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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