

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	-1.5%	3.2%	-1.5%	21.8%
S&P 500	USD	-1.5%	2.8%	-1.5%	24.2%
Nasdaq	USD	-3.1%	2.7%	-3.1%	53.8%
Stoxx 600-Europe	EUR	-0.5%	1.9%	-0.5%	12.7%
MSCI Asia Pac ex-Japan	USD	-2.5%	3.7%	-2.5%	4.6%
ASEAN	USD	-0.9%	3.9%	-0.9%	0.7%
Shanghai Shenzhen CSI 300 Index	CNY	-3.0%	-1.9%	-3.0%	-11.4%
Hang Seng Index	HKD	-3.0%	1.3%	-3.0%	-13.8%
Shanghai Stock Exchange Composite Index	CNY	-1.5%	-1.5%	-1.5%	-3.7%
FBMKLCI	MYR	2.3%	2.6%	2.3%	-2.7%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-1.4%	2.0%	-1.4%	5.7%
JPM Asia Credit Index-Core	USD	-1.0%	1.9%	-1.0%	9.9%
Asia Dollar Index	USD	-0.7%	0.3%	-0.7%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	-0.3%	0.3%	-0.3%	6.4%

Top Performing Principal Funds

(1 month return as of 31 December 2023)

Equities					
Principal Islamic Global Technology Fund - Class USD			5.8%		
Principal Next-G Connectivity Fund - Class USD		6.2%	37.3%	37.3%	
Principal Global Technology Fund - Class USD		5.6%	51.1%	51.1%	
Fixed Income					
Principal Islamic Institutional Sukuk Fund		0.9%	6.8%	6.8%	
Principal Lifetime Bond Fund		0.9%	3.3%	3.3%	
Principal Islamic Lifetime Sukuk Fund		0.9%	3.6%	3.6%	

Source: Bloomberg, market data is as of 5 January 2024.

*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 Review¹

1. The global financial markets concluded the week with mostly negative performance. In developed markets, the United States (US) and Europe experienced the largest drop, followed by Japan.
2. In Asia, market performance was mostly negative, with both China's onshore and offshore leading the largest decline. On the other hand, the markets in the Philippines and Thailand chalked up positive gains.
3. In Malaysia, the FBMKLCI ended the week on a positive note, fuelled by strong trading activities, particularly in the blue chips and financial segments.
4. Turning to the bond market, the 10-year U.S. Treasury note experienced negative return, with yields jumping above the 4% range, as investors weighed the better-than-expected jobs report. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, the recent Federal Reserve minutes suggest the tightening cycle may have reached its peak, with rate cuts expected by the end of 2024. The ISM Manufacturing PMI* showed a slight improvement to 47.4 in December compared to previous month, although it still suggests a contraction. Services PMI* unexpectedly fell to 50.6 in December, the lowest reading in seven months. Additionally, claims for unemployment benefits decreased to 202,000 over the week, signaling a positive labour trend.²
2. In Europe, annual inflation rose to 2.9% in December, up from the 2.4% seen in previous month. Core inflation, excluding volatile items such as food and energy, cooled to 3.4%, lower than the previous month. The HCOB Manufacturing and Services PMI* both rose to 44.4 and 48.8, respectively in December, surpassing initial estimates but still indicating contraction.³
3. In China, the Caixin General Manufacturing and Services PMI* both inched up to 50.8 and 52.9, respectively in December, surpassing market forecasts. Despite the strong number, the figures contrasted with the official NBS data released on Sunday that showed manufacturing activity shrinking at a faster pace in December.⁴

Investment Strategy⁵

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.

5th January 2024

Weekly Market Recap

Sources:

¹ Bloomberg, 5 January 2024

² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 5 January 2024

³ S&P Global, ECB, Factset, Bank of England (BoE), 5 January 2024

⁴ Bloomberg, National Bureau of Statistic China, CEWC, 5 January 2024

⁵ Principal view, 5 January 2024

*PMI stands for Purchasing Manufacturing Index

*ECB stands for European Central Bank

*PBOC stands for People's Bank of China

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