8 September 2023

Weekly Market Recap

Principal® In alliance with CIMB

Market Data

Asset Class	Curr	1-wk	1-mth	YTD	2022
Equities					
MSCI World	USD	-1.4%	-0.8%	13.3%	-19.5%
S&P 500	USD	-1.3%	-0.1%	16.1%	-19.4%
Nasdaq	USD	-1.4%	1.7%	39.7%	-33.0%
Stoxx 600-Europe	EUR	-0.8%	-1.0%	7.0%	-12.9%
MSCI Asia Pac ex-Japan	USD	-1.2%	-2.6%	-0.6%	-19.7%
ASEAN	USD	-2.1%	-3.1%	-1.7%	2.4%
Shanghai Shenzhen CSI 300 Index	CNY	-1.4%	-3.7%	-3.4%	-21.6%
Hang Seng Index	HKD	-1.0%	-4.6%	-8.0%	-15.5%
Shanghai Stock Exchange Composite Index	CNY	-0.5%	-2.3%	0.9%	-15.1%
FBMKLCI	MYR	-0.58%	-0.15%	-2.71%	-4.60%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-0.8%	-1.1%	-0.5%	-16.2%
JPM Asia Credit Index-Core	USD	-0.3%	-0.8%	3.8%	-13.0%
Asia Dollar Index	USD	-0.9%	-1.1%	-4.3%	-6.9%
Malaysia Corporate Bond Index	MYR	0.03%	0.39%	4.95%	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 8 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 on a negative note for the week. In the developed markets, United State (US) experienced the largest decline, followed by Europe and Japan.

2. Across Asia, the majority of markets experienced negative returns during the week. Notably, China's onshore and offshore market recorded the largest drop.

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

4. In the bond market, the price of the benchmark 10-year U.S. Treasury note closed lower due to the influence of positive economic signals, resulting in heightened expectations for increased interest rates. (Bond prices move in the opposite direction of bond yields)

Macro Factors

1. In the US, August's Institute for Supply Management's report showed an unexpected jump in service sector activity. New orders grew faster, and export orders remained strong, although concerns about a Chinese economic slowdown emerged. Meanwhile, the weekly jobless claims report came in lower than expected, showing that labor demand remains strong despite the increase in the unemployment rate seen in August. [2]

2. In Europe, the latest report on gross domestic product (GDP) indicates a 0.1% economic growth in Q2, lower than the initial estimate of a 0.3% expansion due to a decline in exports. Retail sales volumes in the eurozone also dropped by 0.2% in July, primarily due to weaker automotive fuel purchases. Furthermore, there was a year-over-year decline of 1.0% in retail sales. [3]

3. In China, the private Caixin/S&P Global survey of services activity dropped to 51.8 in August, falling below the forecasted level and declining from July's 54.1. However, the gauge still stayed above the threshold of 50, signaling expansion for the eighth consecutive month. On the trade front, China's exports fell 8.8% in August year-over-year, improving from July's 14.5% drop, while imports shrank by 7.3%. Both readings exceeded expectations.[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 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 Plan.

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

Sources:
[1] Bloomberg, 8 September 2023
[2] Bloomberg, Bureau of Labor Statistics (BLS), S&P Global, US Federal Board, 8 September 2023
[3] S&P Global, ECB, Factset, Bank of England (BoE), 8 September 2023
[4] Bloomberg, National Bureau of Statistic China, 8 September 2023
[5] Principal view, 8 September 2023