

Market Data

Source: Bloomberg, market data is as of 9th August 2024.

*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, global financial markets closed modestly lower after recovering from the biggest sell-off in nearly two years. In developed markets, Japan experienced the largest decline, followed by the United States, while Europe ended with marginal gains..
2. Across Asia, the overall performance was weak. Negative performances were led by Taiwan and South Korea, while China offshore posted marginal gains. In Malaysia, the FBMKLCI closed lower, attributed to the weak sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield edged closer to the 3.9% range following the release of weekly jobless claims data that fell below expectations. This release alleviated concerns stemming from last week's July payroll report, which suggest a potential weakening in labour market. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the United States, the number of people claiming unemployment benefits dropped by 17,000 to 230,000 in the period ending on August 3rd, below the market expectations of 240,000. This provided some relief regarding a potential US recession and the health of the labor market. The S&P Global Composite PMI was revised down to 54.3 in July from the initial estimate of 55, a slight decrease from June's 54.8. Nevertheless, the reading still indicated a robust monthly expansion in private sector activity, primarily driven by the service sector, with manufacturing output seeing only a marginal increase. ²
2. In Europe, retail sales declined by 0.3% month-over-month in June, exceeding market expectations following a 0.1% increase in May. The final HCOB Composite PMI for July was slightly revised upwards to 50.2 from the initial 50.1, attributed to increased activity in the services sector while factory output remained in contraction. Producer prices rose by 0.5% month-over-month in June, surpassing expectations and outperforming the 0.2% decrease in May. ³
3. In China, the Caixin General Services PMI climbed to 52.1 in July from June's 8-month low of 51.2, surpassing market forecasts of 51.4. This marked the 19th consecutive month of growth in services activity, driven by a rapid increase in new orders, a sustained growth in export sales, and robust employment. The trade surplus widened to USD 84.65 billion in July from USD 80.22 billion in the same period the previous year, falling short of market expectations of USD 99 billion due to softer exports while imports accelerated. The annual inflation rate rose to 0.5% in July from 0.2% in the previous month, surpassing market forecasts of 0.3%. ⁴
4. In Malaysia, industry production expanded by 5.0% year-on-year in June, accelerating from a 2.4% rise in the previous month and surpassing market forecasts of a 4.7% gain. It marked the sixth straight month of expansion in industrial activity, as output continued to grow for electricity and manufacturing. The unemployment rate ticked lower to 3.3% in June from 3.4% in the same month of the previous year, holding steady for the eighth consecutive month. ⁵

Investment Strategy ⁶

Volatility is likely to persist until the US Fed cuts in September. Meanwhile, outstanding issues like geopolitical tensions, US elections and the unwinding of the Yen carry trade (given divergent monetary policies of the US and Japan) remain. As markets continue to react to incoming data and headlines, we maintain the view that investors should ensure their portfolios are well diversified and focus on quality. We have a slight preference for equities over fixed income. Fixed income has outperformed equities since mid-June. Asian equities look favourable with earnings growth of ~10% in 2025 and a PE of 13x.

1. We find bonds appealing with the potential for capital gains as we perceive that the global rate-cutting cycle remain on track. 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, as provided in the Budget 2024, has 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 diversification approach to ride out volatilities arising from geopolitical tensions, inflationary issues, and concerns of economic slowdown.

Sources:

- ¹ Bloomberg, 9th August 2024
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 9th August 2024
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 9th August 2024
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 9th August 2024
- ⁵ Department of Statistic Malaysia, S&P Global, 9th August 2024
- ⁶ Principal view, 9th August 2024

*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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