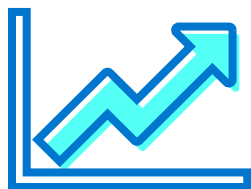


**Market
Commentary
April 2023**

Global Outlook^{1,2,3}



The developed markets performed generally steadier than Asia which was mixed in March 2023. The S&P 500 and Japan stock markets rose by 3.5% and 2.2% respectively. In the North Asian markets, the H-Share index (a commonly used benchmark for the performance of the Chinese companies listed in Hong Kong) and Korea Stock Exchange (KRX) recorded positive returns of 5.9% and 2.7% respectively, while ASEAN markets dropped across board. Bond indices rebounded with gains between 1.0 – 3.2%.

On the monetary policy front, the US Federal Reserve (Fed) and European Central Bank (ECB) reiterated its resolve to bring inflation under control. The Fed increased its Fed Fund rate by 0.25% to 5.00% in March 2023. This increase was smaller than previous months, to which the capital markets reacted positively. The Fed's balance sheet shrinkage continued at USD95 billion.

We have a slight preference for Asian equities over bonds due to Asian equities being under-owned, inexpensive, and having realistic earnings estimates. In addition, China's reopening and pivot to friendlier policies is another key driver. Within bonds we prefer local and regional to global developed market fixed income.

We prefer equity markets in developed economies to their fixed income.

General outlook of the two capital markets: Fixed Income & Equity

Region: Developed economies^{4,5}



Fixed Income

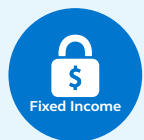
1. Our view – neutral.
2. Developed Markets economic growth continues to weaken as reflected by weaker manufacturing PMI (Purchasing Managers' Index). United States (U.S.) job openings however remained resilient.
3. The Fed raised interest rate to 4.75%-5.00% March 2023. The terminal rate is forecasted at the 5.25%-5.50% range.



Equity

1. Our view – positive.
2. Developed Markets economic growth continues to weaken as reflected by weaker manufacturing PMI (Purchasing Managers' Index). U.S. job openings however remained resilient.
3. We remain overweight on the U.S. including holdings in commodities. We are marginally overweight on Europe as their economy did better than expected. We remain neutral on Japan.

Region: Regional (Asia-Pacific ex-Japan)^{6,7}



Fixed Income

1. Our view – neutral.
2. Pockets of opportunities in local Asian currencies and Chinese credits as yields remain relatively attractive.
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.



Equity

1. Our view – positive.
2. We added exposure to inexpensive valuation and China's accelerated reopening and stimulus policy.
3. We continue to focus on quality companies with earnings visibility, robust balance sheet, market share gainers and with pricing power.

Region: China^{7,8,9}

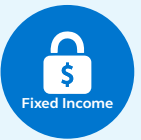


1. Our view – neutral.
2. Net supply of bond in February 2023 increased by RMB388 billion from RMB36 billion the month before. State-Owned Enterprises (SOEs) saw an increase of RMB329 billion while the private sector recorded a net redemption of RMB3 billion.
3. The default rate in February 2023 eased to 0.24% from 0.3% in January 2023. The property sector default declined to 4.44% from 5.4% over the same period.



1. Our view – positive.
2. China's new leaders post the Chinese Communist Party (CCP) congress meeting & Central Economic Work Conference (CEWC) reiterated their stance to strengthen the economy coupled with accelerated reopening and greater support for the property sector.
3. The manufacturing PMI for March 2023 decreased to 51.9 from 52.6 previously, while the Services PMI strengthened to 58.2 from 56.3. The continued uptrend data highlights the impact of the economic reopening.

Region: Domestic (Malaysia)



1. Our view – neutral.
2. Local markets are observing closely the upcoming re-tabling of Budget 2023. Our view is that the main catalyst for the bond market would be the updated projected deficit figure.
3. Portfolio duration is maintained at medium. The move is to take advantage of potential yield falling in anticipation of stronger market support.
4. We still prefer credits over government bonds.



1. Our view – cautiously positive.
2. We continue to focus on companies with strong cash flows with firm fundamentals, strong cash flows and defensive.
3. On balanced, our stock preferences lean towards consumer discretionary, industrials, and utilities, with a selective focus on technology names.

Our Strategy¹⁰



On equity, we are positive on Asia underpinned by China's economic recovery, and earnings growth in Asia which is expected to be stronger than developed markets.

As uncertainties continue to prevail, our recommendation is to focus on income assets to mitigate against potential market volatility. These assets generate a steady income stream, providing investors with a stable source of cash flow during market downturns. Moreover, income assets have historically performed well during periods of market uncertainty, making them a reliable option for investors looking to minimise risks.

The projected medium-term improvement in the country's fiscal position is expected to increase the appeal of the domestic bond market.


For diversification and long-term growth trend, investors can consider funds that focusses on ESG related investments for long term exposure.

For our investment strategy for the first half of 2023, we recommend that investors::


- Focus on income with exposure to growth to ride out volatilities arising from financial market turbulence, inflationary issues and recessionary concerns. The growth element for the portfolio will emanate from tapping into Asia and China's economic recovery as they gradually reopen.
- Position for sustainability themes including renewables, alternative energy, and food sustainability.

Our Fund Options

1. Universal Funds

	Risk Scale	Fund Options
 <p>Low</p> <p>High</p>	Conservative	<ul style="list-style-type: none"> Principal Islamic Money Market Fund
	Mildly conservative	<ul style="list-style-type: none"> Principal Lifetime Bond Fund Principal Islamic Lifetime Enhanced Sukuk Fund Principal Islamic Lifetime Sukuk Fund Principal Islamic Global Sukuk Fund Principal Lifetime Enhanced Bond Fund
	Moderate	<ul style="list-style-type: none"> Principal Lifetime Balanced Income Fund Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal DALI Global Equity Fund Principal Asia Pacific Dynamic Mixed Asset Fund Principal ASEAN Dynamic Fund
	Aggressive	<ul style="list-style-type: none"> Principal Global Titans Fund Principal Global Millennial Equity Fund Principal Asia Pacific Dynamic Growth Fund Principal Greater China Equity Fund Principal China Direct Opportunities Fund Principal Greater Bay Fund

2. Islamic Funds

	Risk Scale	Fund Options
 <p>Low</p> <p>High</p>	Conservative	<ul style="list-style-type: none"> Principal Islamic Money Market Fund
	Mildly conservative	<ul style="list-style-type: none"> Principal Islamic Lifetime Sukuk Fund Principal Islamic Global Sukuk Fund
	Moderate	<ul style="list-style-type: none"> Principal Islamic Lifetime Balanced Fund Principal Islamic Lifetime Balanced Growth Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal DALI Global Equity Fund MYR Principal DALI Asia Pacific Equity Growth Fund Principal Islamic Asia Pacific Dynamic Income & Growth Fund
	Aggressive	<ul style="list-style-type: none"> Principal Islamic Asia Pacific Dynamic Equity Fund Principal Islamic Small Cap Opportunities Fund

3. EPFMIS Universal Funds

	Risk Scale	Fund Options
	Conservative	<ul style="list-style-type: none"> Principal Islamic Money Market Fund
	Mildly conservative	<ul style="list-style-type: none"> Principal Islamic Lifetime Enhanced Sukuk Fund Principal Islamic Lifetime Sukuk Fund
	Moderate	<ul style="list-style-type: none"> Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal Asia Pacific Dynamic Income Fund Principal Titans Income Plus Fund
	Aggressive	<ul style="list-style-type: none"> Principal Asia Titans Fund Principal Greater China Equity Fund Principal Small Cap Opportunities Fund

4. EPFMIS Islamic Funds

	Risk Scale	Fund Options
	Conservative	<ul style="list-style-type: none"> Principal Islamic Money Market Fund
	Mildly conservative	<ul style="list-style-type: none"> Principal Islamic Lifetime Enhanced Sukuk Fund Principal Islamic Lifetime Sukuk Fund
	Moderate	<ul style="list-style-type: none"> Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal DALI Asia Pacific Equity Growth Fund
	Aggressive	<ul style="list-style-type: none"> Principal Islamic Asia Pacific Dynamic Equity Fund Principal Islamic Enhanced Opportunities Fund

You may obtain a copy of the Prospectus/Information Memorandum/Disclosure Document and its Product Highlight Sheet (if any) for the above-mentioned funds at our offices, distributors or our website at www.principal.com.my.

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Sources:

¹Bloomberg, 31 March 2023

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⁴U.S. Bureau of Labor Statistics, 31 March 2023

⁵Federal Open Market Committee (FOMC), 31 March 2023

⁶UBS, JP Morgan Research, 31 March 2023

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¹⁰Principal, 31 March 2023