

Global Outlook

Global markets remained on the uptrend in March 2024, with the Asian bourses outperforming the developed markets. Taiwan, Korea, and Europe rose by 7%, 3.9%, and 3.7% respectively. Malaysia and Indonesia on the other hand declined by 1% and 0.4% respectively. Bonds, rose with performance ranging from 0.6% to 1.4%.¹

The US Federal Reserve (Fed) maintained the Fed Fund rate at 5.50% at the Federal Open Market Committee (FOMC) meeting held in March 2024. The FOMC minutes indicated that they still plan interest rate cuts in the second half of 2024. The European Central Bank (ECB) appeared to have larger room to cut interest rates given the recession and better-behaved inflation data.²

We are positive on Asian equities given attractive investment themes and corporates having the potential to post better earnings growth in 2024 than developed markets. Within bonds we remain neutral on global developed market fixed income.³

Global Outlook of the two capital markets: Fixed Income & Equity

Region: Developed economies

Fixed income

- Our view – neutral.
- The United States (US) in 4Q2023 reported a healthy 3.3% year-on-year GDP growth, although this is a moderation from the 4.9% seen in 3Q2023. The resilient payroll data bolstered the case for a soft landing in 2024. The European Union (EU) economy, meanwhile, appears to be bottoming out.⁴
- Considering a shift from shorter-maturity United States Treasury (UST) holdings to longer-duration, higher-yielding bonds. We favour new issuances from emerging credits offering attractive spreads. This aligns with our current risk-on, carry-positive outlook on the market.⁵

Equity

- Our view – positive.
- The US in 4Q2023 reported a healthy 3.3% year-on-year GDP growth, although this is a moderation from the 4.9% seen in 3Q2023. The resilient payroll data bolstered the case for a soft landing in 2024. The European Union economy, meanwhile, appears to be bottoming out.⁴
- We are reducing our overweight position in US equities to decrease the underweight position in EU equities. We maintain our overweight position in Japan. This shift towards EU is driven by their attractive valuations, stabilising Purchasing Managers' Indexes (PMIs), and a growing investor preference for diversification beyond US and technology sectors.⁵

Region: Regional (Asia-Pacific ex-Japan)

Fixed income

- Our view – neutral.
- Pockets of opportunities in local Asian currencies and Chinese credits as yields remain relatively attractive.⁶
- We expect investment grade Asian bonds to provide a gross yield of 4.50% to 5.50% in 2024.⁶

Equity

- Our view – positive.
- This is underpinned by cheap valuation and China's potential pivot to more friendly policies.⁷
- We continue to focus on companies with healthy earnings, particularly in the semiconductor sector, anticipating benefits from lower interest rates, rising capital expenditures (capex), and strong growth potential in India.³

Region: China

Fixed income

- Our view – neutral.
- The net supply of bond in February 2024 decreased to RMB 275 billion from RMB 371 billion in January 2024. The decline in overall bond issuance was driven by weakness in non-financial sectors, despite an increase in financial issuances.⁸
- The default rate was flat at 0.16% in February 2024. Over the same period, the property sector default rate edged up to 4.3% from 3.8%.⁸

Equity

- Our view – positive.
- China's pro-growth policy actions helped sustain economic activity, with Q42023 GDP growth of 5.2%, up from 4.9% in Q32023.⁷
- The manufacturing Purchasing Managers' Index (PMI) for March 2024 edged higher to 50.7 from 49.1 previously. The Services PMI rose further to 53 from 51.4 over the same period.⁹

Region: Domestic (Malaysia)

Fixed income

- Our view – positive.
- Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% during the March 2024 Monetary Policy Committee (MPC) Meeting.¹⁰
- Portfolio duration is still maintained at medium. We propose to take a tactical position on government bonds by buying on weakness and on the longer end of the curve.
- We still prefer credits over government bonds.

Equity

- Our view – positive.
- The National Energy Transition Roadmap (NETR) and the Industrial MasterPlan 2030 could revitalise domestic investment and buoy consumption.
- We continue to favour Construction, Property and Utilities as beneficiaries from the NETR. We also favour selected Oil & Gas, Technology and Financial names.

Our Strategy

We are reducing our overweight position in US equities to decrease the underweight position in EU equities. We maintain our overweight position in Japan. This shift towards EU is driven by their attractive valuations, stabilising Purchasing Managers' Indexes (PMIs), and a growing investor preference for diversification beyond US and technology sectors.

Japan's weighting is maintained at Overweight despite experiencing some economic slowdown, there are increasing signs that inflation and wage increases may be sustainable in 2024. The latter is expected to lift household real income and support a virtuous cycle between wage and price increases. The Bank of Japan (BOJ) exited its Negative Interest Rate Policy and Yield Curve Control. The shift is anticipated to be gradual to prevent market disruption.¹¹

On equity, we are positive on Asia as earnings growth is expected to be stronger than developed markets. In addition, Chinese policymakers' dovish policies further supports our conviction on Asia.⁷

The commitment of the Malaysia government to lower the budget deficit to 5% and 3.2% by 2023 and 2025¹² respectively and the projected improvement in fiscal position over the medium term would significantly benefit and enhance the attractiveness of the domestic bond market.

Our investment strategy for the first half of 2024, we encourage investors to:

- Focus on income to potentially help weather short-term volatility such as geopolitical tensions, inflationary issues, and concerns about an economic slowdown. The growth element for the portfolio will emanate from tapping into Asia and China's economic recovery from the reopening.
- Position for interest pivot by the Developed Markets' central banks and potentially declining USD index. Our preferred growth-oriented asset classes include Asia, ASEAN, China, Technology, Biotechnology as well as quality Small & Mid Cap (US and Malaysia) names.

Our Fund Options

1. Universal Funds

Risk Scale	Funds Options	Level
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 	
Mildly Aggressive	<ul style="list-style-type: none"> • Principal DALI Global Equity Fund MYR • Principal ASEAN Dynamic Fund • Principal Asia Pacific Dynamic Mixed Asset Fund 	
Moderate	<ul style="list-style-type: none"> • Principal Lifetime Balanced Income Fund • Principal Islamic Lifetime Balanced Growth 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 	
Conservative	<ul style="list-style-type: none"> • Principal Islamic Money Market Fund 	

2. Islamic Funds

Risk Scale	Funds Options	Level
Aggressive	<ul style="list-style-type: none"> Principal Islamic Asia Pacific Dynamic Equity Fund Principal Islamic Small Cap Opportunities 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 and Growth Fund 	
Moderate	<ul style="list-style-type: none"> Principal Islamic Lifetime Balanced Growth Fund 	
Mildly conservative	<ul style="list-style-type: none"> Principal Islamic Lifetime Sukuk Fund Principal Islamic Global Sukuk Fund 	
Conservative	<ul style="list-style-type: none"> Principal Islamic Money Market Fund 	

3. EPFMIS Universal Funds

Risk Scale	Funds Options	Level
Aggressive	<ul style="list-style-type: none"> Principal Asia Titans Fund Principal Islamic Asia Pacific Dynamic Equity Fund 	↑
Mildly Aggressive	<ul style="list-style-type: none"> Principal Titans Income Plus Fund Principal Dali Asia Pacific Equity Growth Fund Principal Malaysia Titans Plus Fund 	
Moderate	<ul style="list-style-type: none"> Principal Islamic Lifetime Balanced Fund 	
Mildly conservative	<ul style="list-style-type: none"> Principal Lifetime Enhanced Bond Fund Principal Lifetime Bond Fund 	
Conservative	<ul style="list-style-type: none"> Principal Islamic Money Market Fund 	

4. EPFMIS Islamic Funds

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

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Sources:

- 1 Bloomberg, 31 March 2024
- 2 Federal Reserve Board, 31 March 2024
- 3 Principal, 31 March 2024
- 4 European Central Bank, 31 March 2024
- 5 Federal Open Market Committee (FOMC), 31 March 2024
- 6 JP Morgan Research, 31 March 2024
- 7 Bloomberg, 31 March 2024
- 8 BofA Securities, 31 March 2024
- 9 National Bureau of Statistics of China, 31 March 2024
- 10 Bank Negara Malaysia, 31 March 2024
- 11 Bank of Japan (BoJ), 31 March 2024
- 12 Department of Statistics Malaysia, 31 March 2024