



**Market
Commentary
August 2023**

Global Outlook



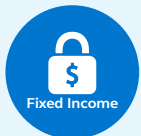
Global markets rebounded in June 2023, with Asian markets outperforming the developed markets. H-shares, ASEAN & Malaysia increased by 7.4%, 7.1% and 6% respectively. The S&P 500 and STOXX Europe 600 increased by 3% and 2.1% respectively. Bond indices nudged higher at 0.5-0.8%.¹

The US Federal Reserve (Fed) raised the Fed Fund rate by 0.25% to 5.50%. The Fed and the European Central Bank (ECB) maintained their uncompromising stance on combating inflation. The Fed's balance sheet shrinkage continued at USD95 billion.²

We are positive on Asian equities given attractive investment themes and corporates have the potential to post better earnings growth than developed markets. In addition, Chinese policymakers continued announcement of friendlier policies is a major factor in stabilising the markets and sentiment. Within bonds we remain neutral on global developed market fixed income due to the increasing likelihood of further interest rate hikes by the Fed.³

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

Region: Developed economies



Fixed Income

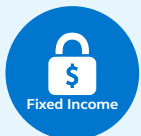
1. Our view – neutral.
2. The United States (US) experienced a stronger than expected 2.4% growth in its GDP in the second quarter of 2023. This strengthened the view for a soft landing for the US economy. This has also pushed back the timing of a possible Fed rate cut to June 2024 from Nov 2023 previously. The European Union economy continued to be soft.⁴
3. The resilient US data increased the likelihood of further rate hike by the Fed. We maintained the duration band at 1.00x +10/-0.15.⁵



Equity

1. Our view – neutral.
2. The United States (US) experienced a stronger than expected 2.4% growth in its GDP in the second quarter of 2023. This strengthened the view for a soft landing for the US economy. This has also pushed back the timing of a possible Fed rate cut to June 2024 from Nov 2023 previously. The European Union economy continued to be soft.⁴
3. We maintain an overweight stance on Japan, rising on consumption recovery and potential exit deflation. US and Europe are both mildly Underweight.

Region: Regional (Asia-Pacific ex-Japan)



Fixed Income

1. Our view – neutral.
2. Pockets of opportunities in local Asian currencies and Chinese credits as yields remain relatively attractive.⁶
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.⁶



Equity

1. Our view – positive.
2. This is underpinned by cheap valuation and China's potential pivot to more friendly policies.⁷
3. We continue to focus on quality companies with earnings visibility, robust balance sheet, market share gainers and with pricing power.

Region: China

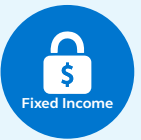


1. Our view – neutral.
2. Net supply of bond in June 2023 increased to RMB282 billion owing to greater supply by State-Owned Enterprises (SOEs), while the private sector saw net redemptions.⁸
3. The default rate in June 2023 dropped marginally to 0.18% from 0.20% in May 2023. The property sector default edged lower to 3.9% from 4.1% over the same period.⁸



1. Our view – positive.
2. In the recent National People's Congress (NPC) meeting, Chinese policymakers guided for looser policies on the property sector and sustained loans growth.⁷
3. The manufacturing PMI for July 2023 rose marginally to 49.3 from 49 previously, while the Services PMI declined slightly to 51.3 from 53.2 over the same period.⁹

Region: Domestic (Malaysia)



1. Our view – positive.
2. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% in July 2023.¹⁰
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 – neutral.
2. We continue to focus on companies with firm fundamentals, strong cash flows and defensive.
3. Market sentiment has improved on the back of a weaker USD and reversal of foreign outflows. On balanced, we favour Construction and Utilities. We also favour selected Technology names.

Our Strategy



We maintain an overweight stance on Japan, on the back of greater tourist influx, recovery in consumption and potential exit from deflation. We are marginally underweight on US and Europe due to growing concerns of high valuations and growing recessionary pressures in the second half of 2023.

On equity, we are positive on Asia as earnings growth is expected to be stronger than developed markets. In addition, the potential for Chinese policymakers to pivot towards more friendly policies supported our conviction on Asia.⁷


The commitment of the Malaysia government to lower the budget deficit to 5% and 3.2% by 2023 and 2025 respectively and the projected improvement in fiscal position over the medium term would significantly benefit and enhance the attractiveness of the domestic bond market.¹¹

Our investment strategy for the second half of 2023, we encourage investors to:


- Adopt an income focused to ride out volatilities arising from geopolitical tensions, inflationary issues, and recessionary concerns. The growth element for the portfolio will emanate from tapping into Asia and China's economic recovery from the reopening.
- 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 Growth Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal DALI Global Equity Fund Principal ASEAN Dynamic Fund Principal Asia Pacific Dynamic Mixed Asset 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 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
 <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 Enhanced Bond Fund Principal Lifetime Bond Fund
	Moderate	<ul style="list-style-type: none"> Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal Titans Income Plus Fund Principal Dali Asia Pacific Equity Growth Fund Principal Titans Growth & Income Fund
	Aggressive	<ul style="list-style-type: none"> Principal Asia Titans Fund Principal Greater China Equity Fund Principal Islamic Asia Pacific Dynamic Equity Fund

4. EPFMIS 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
	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:

- ¹ Bloomberg, 31 July 2023
- ² Federal Reserve Board, 31 July 2023
- ³ Principal, 31 July 2023
- ⁴ U.S. Bureau of Labor Statistics, 31 July 2023
- ⁵ Federal Open Market Committee (FOMC), 31 July 2023
- ⁶ JP Morgan Research, 31 July 2023
- ⁷ Bloomberg, 31 July 2023
- ⁸ BofA Securities, 31 July 2023
- ⁹ National Bureau of Statistics of China, 31 July 2023
- ¹⁰ Bank Negara Malaysia, 31 July 2023
- ¹¹ Ministry of Finance (MOF) Malaysia. 9 March 2023