

Global Outlook¹

In January 2026, global equities (measured in local currency) maintained solid momentum, rising 2.2%. Performance was again led by South Korea (+24%) and Taiwan (+10.7%) for the month, driven by sustained AI optimism and record-highs in semiconductor-related stocks. Malaysia also performed strongly, gaining 8.2%. Indonesia and India lagged during the month, with the Indonesian JCI declining 3.7% due to concerns over transparency and a potential index downgrade. The global bond market, as represented by the Bloomberg Global Aggregate Index, gained 0.9% in January.

We maintain a strong preference for equities on a 12-month horizon as global leadership rotates from the U.S. toward Asia and emerging markets. This shift is driven by a weaker U.S. dollar and soaring precious metals, alongside Asia's superior fundamentals—including resilient earnings growth, attractive valuations, and improved corporate governance. With upward EPS revisions and positive fund flows, regional equities offer a compelling advantage over bonds, while undervalued currencies and potential policy easing in China provide additional tactical upside.

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

Region: Developed economies

Fixed Income

- Our view: **Positive.**
- In January, global central banks adopted a cautious "wait-and-see" stance. The Federal Reserve held rates at 3.5%–3.75% to assess the impact of recent rate cuts on a resilient economy. ECB maintained its 2.0% deposit rate despite inflation dipping to 1.7%, citing trade uncertainties.
- **The** Bank of Japan held steady at 0.75% following its December hike but maintained a hawkish bias, signalling further increases remain likely as wage growth supports inflation above its 2% target.²

Equities

- Our view: **Positive.**
- During the month, the United States led with a robust 4.3% GDP growth and a 53.0 Composite PMI despite steady 2.7% inflation, while Japan hit a three-year PMI high of 53.1 as inflation held at 2.5% amid a manufacturing revival.
- In contrast, the Eurozone saw a more tepid recovery with 0.3% GDP growth and a 51.3 PMI, though it successfully cooled inflation to 1.7% — below the ECB's target for the first time in over a year.

Region: Regional (Asia-Pacific ex-Japan)

Fixed Income

- Our view: **Positive**.
- In January, Asian bond markets delivered a positive overall performance, led by local currency gains in India and South Korea as a softening U.S. dollar and stable regional inflation improved investor sentiment. Volatility emerged late in the month as government bond yields in South Korea and Indonesia spiked by over 20 basis points following domestic fiscal adjustments.³
- We expect investment-grade Asian bonds to provide a gross yield of 4.00% to 4.50% in 2026. This will likely allow Asian central banks more flexibility to ease monetary policies.³

Equities

- Our view: **Positive**.
- In January, Asian equities were primarily propelled by an AI-driven semiconductor "Supercycle", which pushed South Korean and Taiwanese markets to record highs on massive demand for high-end chips. This tech momentum was bolstered by the rollout of "Sanaenomics" in Japan, which drove the Nikkei to a fresh peak. Rotation of global capital into China and Hong Kong as Beijing's \$70 billion chip incentive package and stabilizing U.S. interest rate expectations fuelled a broad "risk-on" sentiment across the region.¹

Region: China

Fixed Income

- Our view: **Neutral**.
- Total new bank loans in 2025 reached a seven-year low of 16.27 trillion yuan, down from 18.09 trillion yuan in 2024, highlighting weak corporate and household appetite for credit.
- At the end of December 2025, outstanding yuan loans stood at 271.91 trillion yuan, representing a record-low year-on-year growth of 6.4%.
- The NPL ratio for Chinese commercial banks remained steady at 1.5%.⁴

Equities

- Our view: **Neutral**.
- During the month, China's markets experienced a "liquidity bull run", fuelled by a massive \$70 billion chip incentive package and high-profile AI IPOs. This equity rally occurred despite cooling macro data, as the Manufacturing PMI dipped into contraction at 49.3 and construction activity hit record lows, prompting the PBOC to implement a 25-basis-point rate cut and a 1 trillion yuan relending facility to stabilize domestic growth and technological self-reliance.⁴

Region: Domestic (Malaysia)

Fixed Income

- Our view: **Positive**.
- In January, the Malaysian bond market expanded to reach a record RM2.271 trillion in total outstanding value, even as new issuances dipped by 33.4%.
- The market continued to be anchored by Bank Negara Malaysia maintaining the policy rate at 2.75%, which helped push the 10-year MGS yield to a three-year low of 3.46% mid-month.

Equities

- Our view: **Positive**.
- During the month, Malaysia's equity markets demonstrated strong cyclical recovery, bolstered by a 1.5-year high in GDP growth of 5.7% and a 20-month peak in the Manufacturing PMI at 50.2. This performance was anchored by BNM maintaining the policy rate at 2.75% amid stable 1.6% inflation, while the Ringgit strengthened toward 3.93 against the USD.⁵

Investment Implication:³

- While the recent market drop, particularly in the technology sector, may feel jarring, it is a normal and healthy phase of the market cycle. The latest set of tech results has been resilient. Fourth-quarter earnings growth for Nasdaq companies is on track to reach 20%, six percentage points higher than initial projections. Forward-looking expectations have also strengthened, with consensus forecasts now pointing to earnings growth of 26% for 2026, about eight percentage points higher than estimates made just a few months ago.

While investors have repriced valuations for software companies, most firms in the segment delivered earnings that exceeded expectations by about 6-7%, with consensus for 2026 and 2027 trending higher.

- Periods of price consolidation often follow rapid rallies as investors digest new data on corporate spending and interest rate paths. We believe it is essential to hold a long-term view rather than reacting to short-term volatility. In this environment, our strategy focuses on quality growth companies with domestic earnings, supplemented by quality bonds for portfolio stability during uncertainty.
- **Global Equity:** We maintained a neutral allocation to developed markets, remain underweight cash, and allocate selectively to off-benchmark exposures including gold, copper, energy, Korea, Taiwan, and emerging market ETFs. The broadening of market leadership beyond the US is expected to gain further momentum. Renewed policy uncertainty and elevated valuations are prompting greater investor caution toward US equities, despite still-supportive fundamentals and earnings growth. Meantime, resilient global economic growth and ongoing geopolitical tensions are reinforcing a cyclical upturn, which should continue to support commodity-linked exposures.
- **Asia ex Japan Equity:** Asian equities should perform well in 2026, supported by easy monetary conditions, earnings growth, and further improvements in governance and shareholder return policies. The portfolio is positioned in quality growth companies with high free cash flow and improving capital management, including selected consumer discretionary, staples, gaming, and property. We prefer technology, financials, and industrials with exposure to global trade, defense, nuclear, and power equipment.
- **Malaysian Equity:** We are positive on 2026 with improving sentiment amid Ringgit strength. Our focus remains on high dividend yield large cap names and quality stocks with large domestic earnings exposure, including Construction, Utilities, and Consumer. We are also positioned in selective Technology names with AI value chain exposure. Concerns over a tariff-induced global slowdown may have eased, but we are constantly vigilant to changes in Trump's trade policies, which could weigh on market confidence and pressure Malaysia's growth and earnings outlook. Key risks include a further escalation of global trade tensions affecting business and investment conditions.
- **Malaysia Fixed Income:** Greater clarity emerged after the OPR remained unchanged at 2.75% in January, with the central bank's statement maintaining a neutral policy stance, signalling an extended rate pause. At this juncture, we foresee no change to the OPR in the near to medium term, underscored by contained inflation and a stronger ringgit. We continue to favour corporate bonds, where we see better carry relative to government securities. We prefer stronger credit names with attractive valuations, with primary issuances being a key focus on the back of better yield pickup compared to the secondary market. In the government bond space, we expect movements to be largely driven by external factors on the back of ongoing geopolitical tensions. We will tactically position ourselves should there be further sell-offs and watch closely for any trading opportunities in this space. Broadly, we will maintain a neutral to modestly overweight duration stance as we balance carry accumulation with active trading opportunities, while factoring in valuation constraints and supply considerations.

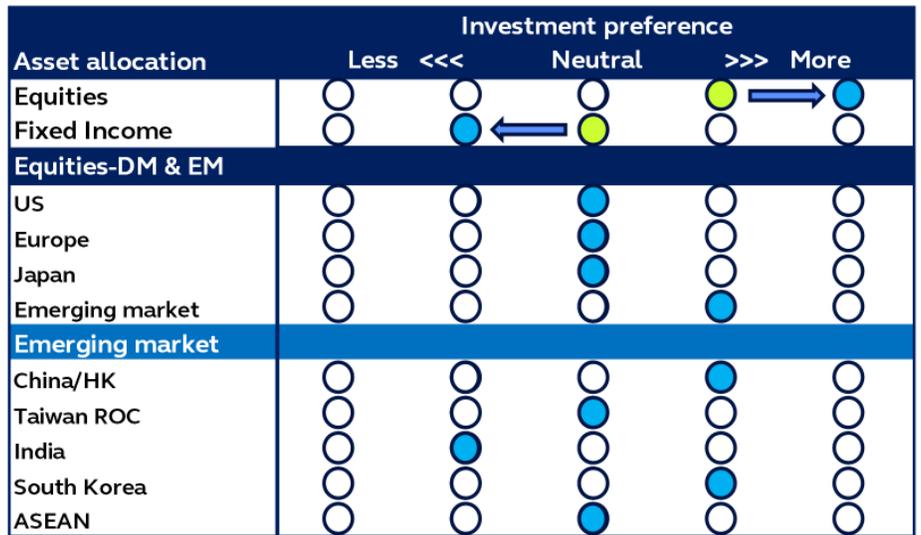
Macro & Strategy – Pivot to Asia

Key Points

- Moving beyond US concentration and exceptionalism:
 - the US\$ has weakened (recently to 4-yr lows);
 - commodity prices, especially precious metals like gold & silver have surged;
 - we have seen a shift in AI euphoria towards more differentiation between companies and growing concern about its disruption to existing business models.
- Attention has also shifted to other markets like Asia where fundamentals have been improving, e.g., higher earnings growth (+21% CAGR over 2026-27), attractive valuations (14x 2026 PE), an improvement in governance and focus on shareholder returns.
- US\$ weakness may promote more policy easing, both by damping imported inflation and reducing financial stability concerns. We anticipate modest easing in China, Indonesia, Thailand and Philippines.
 - Except for the Rupee, Rupiah and Peso, the rest have either appreciated or are viewed as undervalued, e.g., Won, Taiwan Dollar and Yuan
- Within Asia, we have a strong preference for equities to bonds on a 12-month view. Asia's EPS is seeing upward revisions and fund flows have been positive.

³ For Institutional, Professional, Qualified, Wholesale and/or Sophisticated Investor Use Only in Permitted Jurisdictions as defined by local laws and regulations. May not be used with the public.

Asset Allocation Dashboard



Source: Principal Asset Management as of 31 Jan 26

Note: ● → ● Indicates a change in preference from the previous period (light green) to the current period (blue)

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Footnotes:

- 1 Bloomberg, 31 January 2026
- 2 Federal Reserve Board, BOJ, European Central Bank, 31 January 2026
- 3 JP Morgan Research, Bloomberg, 31 January 2026
- 4 National Bureau of Statistics of China, 31 January 2026
- 5 BNM, Bloomberg, 31 January 2026
- 6 Principal, 31 January 2026

Past performance does not guarantee future results. Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on bid-to-bid prices. Earnings are assumed to be reinvested.

Glossary of Terms

UW: *Underweight*

OW: *Overweight*

MoM: *Month-over-Month*

YoY: *Year-over-Year*

FOMC: *Federal Open Market Committee*

ECB: *European Central Bank*

UST: *United States Treasury*

PMI: *Purchasing Managers Index*

SoE: *State-Owned Enterprise*

SEZ: *Special Economic Zone*

BNM: *Bank Negara Malaysia*

MPC: *Monetary Policy Committee*

Disclaimer

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