

Market
Commentary
February 2023

Global Outlook



The global capital markets rallied in January 2023 with the Asia-Pacific (APAC) equity markets doing particularly well. The stock markets in the H-Share index (a commonly used benchmark for the performance of the Chinese companies listed in Hong Kong), Korea, Taiwan, and Europe's STOXX 600 index all went up by 10.7%, 8.4%, 8.0% & 6.7% respectively.¹

On the monetary policy front, the Fed and European Central Bank (ECB) reiterated its resolve to bring inflation under control. However, the stock markets in India, Malaysia, and Indonesia went down by 2.1%, 2.0%, and 0.4% respectively. The prices of bonds went up in January 2023 because the U.S. Federal Reserve (Fed) didn't increase its interest rate by too much. The indicators that show how much the bond prices went up (or down) rose from 3.2% to 3.3%.¹

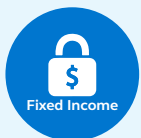
On the monetary policy front, the Fed and European Central Bank (ECB) reiterated its resolve to bring inflation under control. The Fed increased its Fed Fund rate by 0.25% to 4.75% on 1 February 2023. This increase was smaller than previous months, to which the capital markets reacted positively.² Since June 2022, the Fed has been reducing its balance sheet at a rate of USD47.5 billion per month, and this rate increased to USD95 billion in September 2022.²

We have a slight preference for Asian equities over bonds due to Asian equities being under-owned, inexpensive, and having realistic earnings estimates.³ In addition, China's reopening and pivot to friendlier policies is another key driver.⁴ 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



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.⁵
3. The Fed raised interest rate to 4.75%-5.00% with a smaller 25 bps hike. The terminal rate is forecasted at the 5.25%-5.50% range.⁶



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.⁵
3. We are now overweight on the U.S. including holdings in commodities. European Union (E.U.) remains overweight as their economy did better than expected. We remain neutral on Japan.

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.⁷
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.⁷



Equity

1. Our view – positive.
2. We added exposure to inexpensive valuation and China's accelerated reopening and stimulus policy.⁴
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 December 2022 increased by RMB541 billion from a drop of RMB203 billion the month before.⁸
3. The default rate in December 2022 eased to 0.28% from 0.29% in November 2022.⁸



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.⁹
3. The manufacturing PMI for January 2023 increased to 50.1 from 47.0 previously, while the Services PMI increased to 54.4 from 41.6. The stronger data highlighted the impact of the economic reopening.¹⁰

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 – positive.
2. We continue to focus on companies with firm fundamentals, strong cash flows and defensive.
3. When it comes to the reopening of China's economy, we prefer to invest in stocks related to tourism and selected commodities.

Our Strategy



We are overweight on U.S., adding exposure to metals and mining sectors which will benefit from China's reopening.⁹ We remain overweight on Europe as their economy did better than expected. Gas and oil prices falling from record high levels and a fuller storage means it's less likely for Europe to run out of energy supply in this winter.¹¹ In addition, manufacturing activities are likely to be supported by fiscal policies. We remain neutral on Japan.


We remain positive on Asian equities because of China's economic recovery and the earnings growth in Asia which is anticipated to be stronger than developed markets.

For our initial investment strategy for 2023, we recommend that investors::


- Focus on income with exposure to growth to ride out volatilities arising from geopolitical tensions, inflationary issues, and recessionary concerns.
- 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
 <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 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

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 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 January 2022

²Federal Reserve Board, 31 January 2022

³Principal, 31 January 2023

⁴Bloomberg, 31 January 2023

⁵U.S. Bureau of Labor Statistics, 31 January 2023

⁶Federal Open Market Committee (FOMC), 31 January 2023

⁷JP Morgan, 31 January 2023

⁸BofA Securities, 31 January 2023

⁹Bloomberg, 16 December 2022

¹⁰National Bureau of Statistics of China, 31 January 2023

¹¹PGI, Bloomberg, 31 January 2023