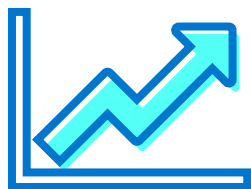




Market Commentary February - March 2022

In alliance with  CIMB

Global Outlook



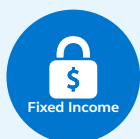
Global capital markets in February 2022 generally retreated on the back of the Russian invasion of Ukraine. During the month, the ASEAN region managed to record positive gains of 2.8%, underpinned by Malaysia at 6.3% and Indonesia at 3.9%. China's Shanghai Composite Index also posted a gain of 3%. The European and United States (U.S.) bourses, and Japan's Nikkei 225 fell 3.4%, 3.1% and 1.8% respectively. Meanwhile, bond indices performed lower by -0.2% for the month.

On the monetary policy front, it is likely that the central banks will refocus on the risks to growth, on top of the risks to inflation. The latest U.S. Federal Reserve (Fed) guidance reinforced market expectations that rates will begin to rise in March. Our base case is for 6 rate hikes from 2022 to 2023.

From a risk management perspective, we are neutral on Asian equities on a 3-month horizon. Our focus will be on quality companies with earnings visibility, robust balance sheet, long term winners, market share gainers and those with pricing power. We are neutral on developed markets.

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

Region: Developed economies



1. Our view – least preferred
2. Developed Markets economic fundamentals remained strong with improving employment. There is downside risk to growth and earnings, should geopolitical uncertainties persist.
3. The Fed signalled a new interest rate cycle and balance sheet shrinkage in 2022. Our base case is for 6 rate hikes from 2022 to 2023.



1. Our view – neutral.
2. We are neutral on U.S., European Union (E.U.) & Japan in the short term on the back of rising rates. We also reduced exposure to expensive growth stocks.

Region: Regional (Asia-Pacific ex-Japan)



1. Our view – neutral.
2. Pockets of opportunity in local Asian currencies and Chinese credits as yields remain relatively attractive.
3. We forecast Asian bonds to provide a return of 1.50% to 2.50% in 2022.



1. Our view – neutral.
2. Asian economies are further accelerating their vaccination rates with booster shots to preserve the pace of economic re-opening and growth.
3. We are diversifying and reducing risks where appropriate. Portfolios are focussed on quality companies with earnings visibility, robust balance sheet, market share gainers and those with pricing power.

Region: China



1. Our view – neutral.
2. Net supply of bonds in January 2022 jumped to RMB711 billion from RMB231 billion the month before. The increase in supply is driven by State-Owned Enterprises (SOEs) and a more active private sector refinancing issuance.
3. The default rate in January 2022 improved to 0.95% from 1.00% previously. The private sector default rate rose to 8.3% from 8.2% the month before.



1. Our view – neutral.
2. Chinese policymakers announced that their focus for 2022 is on economic stability. The announcement and data signalled the beginning of a controlled easing cycle to support economic growth and stability.
3. The Caixin China manufacturing PMIs (Purchasing Managers' Index) for February 2022 rose to 50.2 from 49.1 while the Non-manufacturing PMI rose to 51.6 from 51.1 previously.

Region: Domestic (Malaysia)



1. Our view – neutral.
2. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 1.75% in March 2022. It stressed that the monetary stance will be dependent on new data.
3. Portfolio duration is to stay at 1.05x +/- 0.20. The environment provides an opening to trade government bonds for alpha. To participate in primary credit issuances for better yield pick-up.



1. Our view – neutral.
2. We continue to adopt a balanced approach, with larger tilt to value, and maintain sufficient diversification.
3. We prefer financials, consumer discretionary, and commodities. Trimmed tech exposure while actively assessing gloves.

Our Strategy



Within Asia, we now have a balanced preference for equities and bonds. Uncertainty has already led to compressing equity price-to-earnings (P/E) multiples, rising volatility, and marked down earnings expectations. Within bonds, we prefer local and regional to global developed market fixed income. We are mindful of the various risk scenarios that are developing and are focused on ensuring that our portfolio construction has a sensible risk profile.


We are neutral on Asian equities over a 3-month horizon amidst the heightened volatility and risks. We view that regulatory risk in China has peaked, with more easing measures to come. Markets are likely to be focused on quality firms with unique growth drivers, pricing power and reasonable valuations. China and ASEAN offer such ideas that can do well regardless of broad market performance.

Note that income is integral for a well-diversified portfolio. In short, investors are advised to:


- Be risk aware to ride out volatilities arising from geopolitical tensions, policy normalisation, inflationary issues, and COVID-19 variants.
- Focus on quality growth offered by the developed markets and seek value opportunities within the Asia-Pacific region.
- Position for sustainability themes including renewables, alternative energy, and food sustainability.

Our Fund Options


1. Universal Funds

<div>Low</div>  <div>High</div>	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 Lifetime Bond FundPrincipal Islamic Lifetime Enhanced Sukuk FundPrincipal Islamic Lifetime Sukuk FundPrincipal Islamic Global Sukuk FundPrincipal Lifetime Enhanced Bond Fund
	Moderate	<ul style="list-style-type: none">Principal Lifetime Balanced Income FundPrincipal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none">Principal DALI Global Equity FundPrincipal Asia Pacific Dynamic Mixed Asset FundPrincipal Asia Pacific Dynamic Income FundPrincipal ASEAN Dynamic FundPrincipal Global Real Estate Fund
	Aggressive	<ul style="list-style-type: none">Principal Global Titans FundPrincipal Global Millennial Equity FundPrincipal Asia Pacific Dynamic Growth FundPrincipal Greater China Equity FundPrincipal China Direct Opportunities FundPrincipal Greater Bay Fund

2. Islamic Funds


<div>Low</div>  <div>High</div>	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 Sukuk FundPrincipal Islamic Global Sukuk Fund
	Moderate	<ul style="list-style-type: none">Principal Islamic Lifetime Balanced FundPrincipal Islamic Lifetime Balanced Growth Fund
	Mildly aggressive	<ul style="list-style-type: none">Principal DALI Global Equity Fund MYRPrincipal DALI Asia Pacific Equity Growth FundPrincipal Islamic Asia Pacific Dynamic Income & Growth Fund
	Aggressive	<ul style="list-style-type: none">Principal Islamic Asia Pacific Dynamic Equity FundPrincipal 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 FundPrincipal 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 FundPrincipal Titans Income Plus Fund
Aggressive	<ul style="list-style-type: none">Principal Global Titans FundPrincipal Greater China Equity FundPrincipal Asian Equity FundPrincipal 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 FundPrincipal 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 FundPrincipal Islamic Small Cap 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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