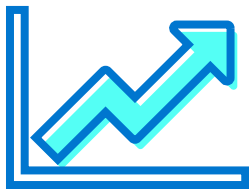




Market  
Commentary  
January 2024

# Global Outlook



Global markets rallied in December 2023, with India, Singapore, and ASEAN posting increases of 7.8%, 5.4% and 5.4% respectively. H-Share & Shanghai Composite were the only losers at -1.5% and -1.8% respectively. Bond indicators also rallied at 3.1-4.2%. Japan, Taiwan & S&P500 were the best performers in 2023 with gains of 28.2%, 26.8% & 24.2% respectively. Bond indices rose between 5.7-9.9%.<sup>1</sup>

The US Federal Reserve (Fed) maintained the Fed Fund rate at 5.50%. H-Share & Shanghai Composite were the only losers at -1.5% and -1.8% respectively. Bond indicators also rallied at 3.1-4.2%. Japan, Taiwan & S&P500 were the best performers in 2023 with gains of 28.2%, 26.8% & 24.2% respectively. Bond indices rose between 5.7-9.9%.<sup>2</sup>

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.<sup>1</sup> Within bonds we remain neutral on global developed market fixed income.

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

### Region: Developed economies

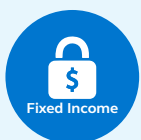


1. Our view – neutral.
2. The United States (US) reported a reported a strong year-on-year 4.9% growth in its GDP in the third quarter of 2023. This coupled with slowing payroll growth strengthened the view for a soft landing for the US economy. The European Union economy continued to be soft.<sup>4</sup>
3. The expected US soft landing and growing expectations of peaking interest rates has prompted us to adjust the duration band to 1.00x +0.10/-0.10 from +0.10/-0.15 previously.<sup>5</sup>



1. Our view – neutral.
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3. We maintain an overweight stance on Japan, while moving US and Europe to Neutral from Underweight previously.

### Region: Regional (Asia-Pacific ex-Japan)



1. Our view – neutral.
2. Pockets of opportunities in local Asian currencies and Chinese credits as yields remain relatively attractive.<sup>6</sup>
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.<sup>6</sup>



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

## Region: China

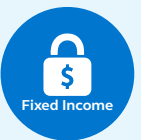


1. Our view – neutral.
2. The net supply of bond in November 2023 increased by RMB45 billion driven by higher financial issuances. State-Owned Enterprises (SOEs), local-government financing vehicles (LGFVs) saw weak supply while the private sector recorded growth.<sup>8</sup>
3. The default rate in November 2023 rose to 0.24% from 0.21% in October 2023. A default by one SOE contributed to the increase in the period.<sup>8</sup>



1. Our view – positive.
2. China's pro-growth policy actions saw some signs of better economic activities, namely better than expected retail sales in August 2023 at 4.6% year-on-year (y-o-y) and a recovery in both PMI indices in September 2023.<sup>7</sup>
3. The manufacturing PMI for December 2023 dropped to 49 from 49.4 in November 2023, while the Services PMI edged higher to 50.4 from 50.2 over the same period.<sup>9</sup>

## Region: Domestic (Malaysia)



1. Our view – positive.
2. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% in November 2023.<sup>10</sup>
3. Portfolio duration has been adjusted slightly but still maintained at medium. This is to switch out of government bonds and buying selective corporate bonds in the primary market.
4. We still prefer credits over government bonds.



1. Our view – positive.
2. The newly launched National Energy Transition Roadmap (NETR) and the Industrial MasterPlan 2030 could revitalise domestic investment and buoy consumption.
3. We favour Construction, Property and Utilities as beneficiaries from the NETR. We also favour selected Technology and Financial names.

## Our Strategy



We upgraded our stance on US and Europe to Neutral from Underweight, on the back of a US soft landing and stabilisation of the EU economy.<sup>1</sup> We maintain an overweight stance on Japan, on the back of greater tourist influx, recovery in consumption and potential exit from deflation.<sup>11</sup> Furthermore, Japan offers diversification as its market cycle appears desynchronized from other developed markets.

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.<sup>7</sup>


The commitment of the Malaysia government to lower the budget deficit to 5% and 3.2% by 2023 and 2025<sup>12</sup> 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 second half of 2023, we encourage investors to:


- Focus on quality growth & income, and diversification to potentially help weather short-term volatility such as geopolitical tensions, inflationary issues, and weaker economic conditions. 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"> <li>Principal Islamic Money Market Fund</li> </ul>
	Mildly conservative	<ul style="list-style-type: none"> <li>Principal Lifetime Bond Fund</li> <li>Principal Islamic Lifetime Enhanced Sukuk Fund</li> <li>Principal Islamic Lifetime Sukuk Fund</li> <li>Principal Islamic Global Sukuk Fund</li> <li>Principal Lifetime Enhanced Bond Fund</li> </ul>
	Moderate	<ul style="list-style-type: none"> <li>Principal Lifetime Balanced Income Fund</li> <li>Principal Islamic Lifetime Balanced Growth Fund</li> </ul>
	Mildly aggressive	<ul style="list-style-type: none"> <li>Principal DALI Global Equity Fund MYR</li> <li>Principal ASEAN Dynamic Fund</li> <li>Principal Asia Pacific Dynamic Mixed Asset Fund</li> </ul>
	Aggressive	<ul style="list-style-type: none"> <li>Principal Global Titans Fund</li> <li>Principal Global Millennial Equity Fund</li> <li>Principal Asia Pacific Dynamic Growth Fund</li> <li>Principal Greater China Equity Fund</li> <li>Principal China Direct Opportunities Fund</li> <li>Principal Greater Bay Fund</li> </ul>


## 2. Islamic Funds

	Risk Scale	Fund Options
 <p>Low</p> <p>High</p>	Conservative	<ul style="list-style-type: none"> <li>Principal Islamic Money Market Fund</li> </ul>
	Mildly conservative	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Sukuk Fund</li> <li>Principal Islamic Global Sukuk Fund</li> </ul>
	Moderate	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Balanced Growth Fund</li> </ul>
	Mildly aggressive	<ul style="list-style-type: none"> <li>Principal DALI Global Equity Fund MYR</li> <li>Principal DALI Asia Pacific Equity Growth Fund</li> <li>Principal Islamic Asia Pacific Dynamic Income &amp; Growth Fund</li> </ul>
	Aggressive	<ul style="list-style-type: none"> <li>Principal Islamic Asia Pacific Dynamic Equity Fund</li> <li>Principal Islamic Small Cap Opportunities Fund</li> </ul>

### 3. EPFMIS Universal Funds

	Risk Scale	Fund Options
 <p>Low</p> <p>High</p>	Conservative	<ul style="list-style-type: none"> <li>Principal Islamic Money Market Fund</li> </ul>
	Mildly conservative	<ul style="list-style-type: none"> <li>Principal Lifetime Enhanced Bond Fund</li> <li>Principal Lifetime Bond Fund</li> </ul>
	Moderate	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Balanced Fund</li> </ul>
	Mildly aggressive	<ul style="list-style-type: none"> <li>Principal Titans Income Plus Fund</li> <li>Principal Dali Asia Pacific Equity Growth Fund</li> <li>Principal Titans Growth &amp; Income Fund</li> </ul>
	Aggressive	<ul style="list-style-type: none"> <li>Principal Asia Titans Fund</li> <li>Principal Greater China Equity Fund</li> <li>Principal Islamic Asia Pacific Dynamic Equity Fund</li> </ul>

### 4. EPFMIS Islamic Funds

	Risk Scale	Fund Options
 <p>Low</p> <p>High</p>	Conservative	<ul style="list-style-type: none"> <li>Principal Islamic Money Market Fund</li> </ul>
	Mildly conservative	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Sukuk Fund</li> </ul>
	Moderate	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Balanced Fund</li> </ul>
	Mildly aggressive	<ul style="list-style-type: none"> <li>Principal DALI Asia Pacific Equity Growth Fund</li> </ul>
	Aggressive	<ul style="list-style-type: none"> <li>Principal Islamic Asia Pacific Dynamic Equity Fund</li> <li>Principal Islamic Enhanced Opportunities Fund</li> </ul>

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](http://www.principal.com.my).

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### Sources:

<sup>1</sup> Bloomberg, 31 January 2024

<sup>2</sup> Federal Reserve Board, 31 January 2024

<sup>3</sup> Principal, 31 January 2024

<sup>4</sup> European Central Bank, 31 January 2024

<sup>5</sup> Federal Open Market Committee (FOMC), 31 January 2024

<sup>6</sup> JP Morgan Research, 31 January 2024

<sup>7</sup> Bloomberg, 31 January 2024

<sup>8</sup> BofA Securities, 31 January 2024

<sup>9</sup> National Bureau of Statistics of China, 31 January 2024

<sup>10</sup> Bank Negara Malaysia, 31 January 2024

<sup>11</sup> Bank of Japan (BoJ), 31 January 2024

<sup>12</sup> DOSM, BNM, 31 January 2024