

Market
Commentary
January 2023

Global Outlook



The performance of equity markets in Developed Markets declined In December 2022, while Asia Pacific markets showed mixed performance. The S&P500, Nikkei and Europe declined by 5.9%, 6.7% & 3.4% respectively. In Asia Pacific markets, Chinese H-shares listed in Hong Kong, Thailand and Malaysia increased by 5.2%, 2.0% and 0.4% respectively while South Korea and Taiwan markets each dropped by 9.6% and 5.0%. Bond indices rebounded owing to lower quantum of rate increase by the U.S. Federal Reserve (Fed). The indicators increased ranging between 0.5% to 1.1%.¹

On the monetary policy front, the Fed and European Central Bank (ECB) reiterated its resolve to bring inflation under control. The Fed's balance sheet shrinkage started in June 2022 at a run-off rate of USD47.5 billion before rising to USD95 billion in September.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

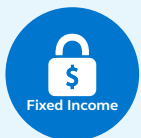
1. Our view – neutral.
2. Developed Markets economic growth continues to weaken as reflected by weaker manufacturing PMI (Purchasing Managers' Index). United States (U.S.) job openings however remained high.⁵
3. The Fed raised interest rate to 4.00%-4.50% with a smaller 50 bps hike. The terminal rate is forecasted at the 5.10% 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 high.⁵
3. We are now underweight on the U.S. as earnings downgrades increased. European Union (E.U.) is revised to overweight economic data surprises to the upside. 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.
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 cheap valuation and China's accelerated reopening and stimulus policy.
3. We continue to focus on quality companies with earnings visibility, robust balance sheet, market share gainers and with pricing power.

Region: China

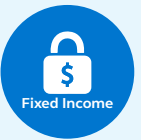


1. Our view – neutral.
2. Net supply of bond in September 2022 decreased by RMB11 billion from an increase of RMB387 billion the month before. The drop emanated from both the State-Owned Enterprises (SOEs) and private sectors.⁸
3. The default rate in September 2022 decreased to 0.35% from 0.40% the month previously.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 (Purchasing Managers' Index) for December 2022 decreased to 47 from 49.2 previously, while the Services PMI decreased to 41.6 from 48.7. The weaker data highlighted the impact of the rolling lockdown.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. We still prefer consumer discretionary and remain cautious on commodities. We are overweight on selective banks, consumers and reopening plays (companies that benefits from economic reopenings amid the coronavirus pandemic).

Our Strategy



We are now underweight on U.S. as we start to see earning downgrades. We are adding exposure to metals and mining sectors which will benefit from China's reopening.⁹ We revised Europe to overweight as economic data surprises to the upside. 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. We will also continue to focus on quality companies which have good earnings visibility, robust balance sheet, long term winners, market share gainers and those with pricing power to overcome cost pressures.

In short, investors are advised to:


- 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 December 2022

²Federal Reserve Board, 4 May 2022

³Business Today, 13 October 2022

⁴Bloomberg, 26 December 2022

⁵U.S. Bureau of Labor Statistics, 6 January 2023

⁶Federal Open Market Committee (FOMC), 14 December 2022

⁷JP Morgan, 31 December 2022

⁸BofA Securities, 30 September 2022

⁹Bloomberg, 16 December 2022

¹⁰National Bureau of Statistics of China, 31 December 2022

¹¹Bloomberg, 25 October 2022