

Market Commentary July 2023

Global Outlook



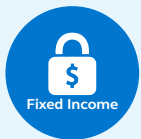
Global markets rebounded in June 2023, with developed markets outperforming the Asia-Pacific (APAC) region. Japan and the S&P 500 rose 7.5% and 6.5% respectively. In APAC, H-shares and India increased by 4.2% and 3.3% respectively, while Thailand declined by 2%. Bond indices were neutral to positive at 0.0-0.8%.¹

On the monetary policy front, the US Federal Reserve (Fed) and European Central Bank (ECB) reiterated its resolve to bring inflation under control. The Fed raised its Fed Fund rate by 0.25% to 5.25% in May 2023. The Fed's balance sheet shrinkage continued at USD95 billion.²

We are positive on Asian equities due to it being under-owned, inexpensive, and having realistic earnings estimates. In addition, China's reopening and pivot to friendlier policies is another key driver. Within bonds we are now neutral on global developed market fixed income due to the increasing likelihood of further interest rate hikes by the Fed.³

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

Region: Developed economies



Fixed Income

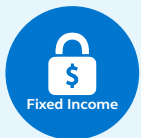
1. Our view – neutral.
2. The United States (US) and Europe economic growth is likely to weaken moving to the second half of 2023 as higher interest rates and tight lending conditions impact business and consumers. US job openings, however, remained resilient.⁴
3. The resilient US data increased the likelihood of further rate hike by the Fed. We have revised the duration band to 1.00x +10/-0.15 from 1.00x +20/-0.10.⁵



Equity

1. Our view – neutral.
2. The United States (US) and Europe economic growth is likely to weaken moving to the second half of 2023 as higher interest rates and tight lending conditions impact business and consumers. US job openings, however, remained resilient.⁴
3. We maintain an overweight stance on Japan, rising on consumption recovery and potential exit deflation. US and Europe are both mildly Underweight.

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.⁶
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.⁶



Equity

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

Region: China

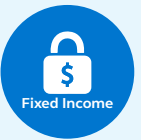


1. Our view – neutral.
2. Net supply of bond in May 2023 declined to RMB62 billion owing to net redemption at State-Owned Enterprises (SOEs), local government financing vehicles (LGFVs) and the private sector.⁸
3. The default rate in May 2023 rose to 0.20% from 0.19% in April 2023. The property sector default rose slightly to 4.1% from 4.0% over the same period.⁸



1. Our view – positive.
2. In the recent National People's Congress (NPC) meeting, Chinese policymakers reiterated their stance to strengthen the economy and support for the property sector.⁷
3. The manufacturing PMI for June 2023 rose marginally to 49 from 48.8 previously, while the Services PMI declined to 53.2 from 54.5 over the same period.⁹

Region: Domestic (Malaysia)



1. Our view – positive.
2. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% in July 2023.¹⁰
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 – neutral.
2. We continue to focus on companies with firm fundamentals, strong cash flows and defensive.
3. We have a barbell strategy for Malaysia but with limited upside. On balanced, we favour REITs and Utilities. We also favour selected Technology names.

Our Strategy



We maintain an overweight stance on Japan, on the back of greater tourist influx, recovery in consumption and potential exit from deflation. We are marginally underweight on US and Europe due to growing concerns of high valuations and growing recessionary pressures in the second half of 2023.

On equity, we are positive on Asia as earnings growth is expected to be stronger than developed markets. In addition, the potential for Chinese policymakers to pivot towards more friendly policies supported our conviction on Asia.⁷


The commitment of the Malaysia government to lower the budget deficit to 5% and 3.2% by 2023 and 2025 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:


- Adopt an income focused to ride out volatilities arising from geopolitical tensions, inflationary issues, and recessionary concerns. 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"> 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 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 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 Lifetime Enhanced Bond Fund Principal Lifetime Bond Fund
	Moderate	<ul style="list-style-type: none"> Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal Titans Income Plus Fund Principal Dali Asia Pacific Equity Growth Fund Principal Titans Growth & Income 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 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:

¹ Bloomberg, 30 June 2023

² Federal Reserve Board, 30 June 2023

³ Principal, 30 June 2023

⁴ U.S. Bureau of Labor Statistics, 30 June 2023

⁵ Federal Open Market Committee (FOMC), 30 June 2023

⁶ JP Morgan Research, 30 June 2023

⁷ Bloomberg, 30 June 2023

⁸ BofA Securities, 30 June 2023

⁹ National Bureau of Statistics of China, 30 June 2023

¹⁰ Bank Negara Malaysia, 6 July 2023