




**Market
Commentary
June 2022**

In alliance with  **CIMB**

Global Outlook



In May 2022, global markets remained relatively volatile, with continued concerns over economic growth and inflation outlook. The Shanghai Composite, Chinese H-shares listed in Hong Kong and Nikkei 225 rose by 4.6%, 1.6% and 1.6% respectively while Singapore, India and Malaysia dropped 2.6%, 2.2% and 0.8% respectively. Bonds indices were mixed ranging from -0.5% to 0.3% for the month.¹

On the monetary policy front, it is likely that the central banks will refocus on the risks to growth, on top of the inflationary risks. The latest U.S. Federal Reserve (Fed) statement reinforced earlier guidance on interest rate trend and that balance shrinkage will start in June 2022 at an initial run-off rate of USD47.5 billion in June before rising to USD95 billion in September.²

We turned slightly positive on Asian equities underpinned by China's re-opening and visible policy stimulus measures. We continue to focus on quality companies with earnings visibility, robust balance sheet, long term winners, market share gainers and with pricing power.

We remain neutral on equity markets for developed economies.

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

Region: Developed economies

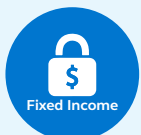


1. Our view – least preferred
2. Developed Markets economic fundamentals remained sound with improving employment. There is downside risk to growth & earnings should geopolitical uncertainties persist.
3. The Fed reinforced guidance on interest rate trend and signalled balance sheet shrinkage started in June 2022.²



1. Our view – neutral.
2. Developed Markets economic fundamentals remained sound with strong employment data. There is downside risk to growth & earnings should geopolitical uncertainties persist.³
3. We remain neutral on the European Union (E.U.) & Japan. We are Overweight on the United States (U.S.) after adding exposure to energy & commodities as a hedge for inflation.

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.
3. We forecast Asian bonds to provide an average yield of 4% to 5% in 2022.⁴



1. Our view – positive.
2. We added exposure to China underpinned its re-opening and visible policy stimulus measures.
3. We continue to focus on quality companies with earnings visibility, robust balance sheet, market share gainers and with pricing power.

Region: China

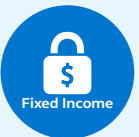


1. Our view – neutral.
2. Net supply of bond in April 2022 rose by 15% month-over-month (MoM) to RM318 billion. The jump in supply is driven by the private sector while the State-Owned Enterprises (SOEs) recorded a drop of RM24 billion.³
3. The default rate in April 2022 eased to 0.49% from 0.55% driven by State-Owned Enterprises (SOEs). The private sector default rate edged up to 3.9% from 3.8% the month before.³



1. Our view – positive.
2. China has provided better visibility of its policy to support growth. In addition, the lockdown is being cautiously lifted to enable economic activities to resume.
3. The manufacturing PMI (Purchasing Managers' Index) for May 2022 recovered to 49.6 from 47.4 while the Non-manufacturing PMI rose to 47.8 from 41.9 previously. The rebound reflected the impact from the cautious re-opening by China.⁵

Region: Domestic (Malaysia)



1. Our view – neutral.
2. Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) by 25 basis points (bps) to 2.0% in May 2022. They stressed that the monetary stance will be dependent on new data.⁶
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 consumer discretionary, and commodities but have turned neutral on financials after strong YTD performance. Trimmed expensive Tech.

Our Strategy



We maintained our Neutral recommendation for developed markets. This is owing to concerns over geopolitical tensions, inflation, and economic growth on the back of rising interest rates. 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 construct has a sensible risk profile.


We turned slightly positive on Asian equities. This is supported by China's move to loosen the lockdown and allow economic activities to resume. In addition, Chinese policymakers have announced highly visible stimulative measures to support growth. 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 aware of risks to ride out volatilities arising from geopolitical tensions, policy normalisation, inflationary issues and Covid19 variant.
- 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

	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 Asia Pacific Dynamic Income 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 Asian Equity 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.

Disclaimer

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of Principal Asset Management Berhad only and are subject to change without notice. This document should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell Principal Asset Management Berhad's investment products. Investing involves risk and cost. You should understand the risks involved, compare and consider the fees, charges and costs involved, make your own risk assessment and seek professional advice, where necessary.

Source

¹Bloomberg, 31 May 2022

²Federal Reserve Board, 4 May 2022

³JP Morgan, 31 May 2022

⁴JP Morgan, 28 June 2022

⁵S&P Global, 31 May 2022

⁶Bank Negara Malaysia, 11 May 2022