

**Market
Commentary
March 2023**

Global Outlook



The global capital markets retreated in February 2023. The stock markets in the H-Share index (a commonly used benchmark for the performance of the Chinese companies listed in Hong Kong), Singapore, S&P500 declined by 11.4%, 3.1% and 2.6% respectively. However, Europe, Taiwan and Japan stock markets rose by 1.7%, 1.6% and 0.4% respectively. Bond indices dropped owing to renewed concerns of higher rates for a longer period. The bond slide was between 1.5% to 3.3%.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 increased its Fed Fund rate by 0.25% to 4.75% on 1 February 2023. This increase was smaller than previous months, to which the capital markets reacted positively.² The Fed has continued to reduce its balance sheet at USD95 billion since September 2022.²

We have a slight preference for Asian equities over bonds due to Asian equities 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 prefer local and regional to global developed market fixed income.³

We prefer equity markets in developed economies to their fixed income.

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

Region: Developed economies

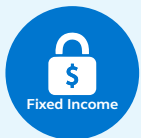


1. Our view – neutral.
2. Developed Markets economic growth continues to weaken as reflected by weaker manufacturing PMI (Purchasing Managers' Index). United States (U.S.) job openings however remained resilient.⁵
3. The Fed raised interest rate to 4.75%-5.00% with a smaller 25 bps hike. The terminal rate is forecasted at the 5.25%-5.50% range.⁶



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 resilient.⁵
3. We are now overweight on the U.S. including holdings in commodities. European Union (E.U.) remains overweight as their economy did better than expected. We remain neutral on Japan.

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.⁷
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.⁷



1. Our view – positive.
2. We added exposure to inexpensive valuation and China's accelerated reopening and stimulus policy.⁴
3. We continue to focus on quality companies with earnings visibility, robust balance sheet, market share gainers and with pricing power.

Region: China

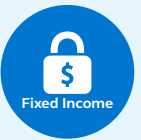


1. Our view – neutral.
2. Net supply of bond in January 2023 increased by RMB25 billion compared to a redemption of RMB527 billion the month before. State-Owned Enterprises (SOEs) and the private sector posted net increase of RMB13 billion and RMB28 billion respectively.⁸
3. The default rate in January 2023 increased to 0.3% from 0.28% in December 2022. The property sector default rose to 5.4% from 4.8% over the same period.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 for February 2023 increased to 52.6 from 50.1 previously, while the Services PMI strengthened to 56.3 from 54.4. The uptrend data highlights the impact of the economic reopening.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 – cautiously positive.
2. We continue to focus on companies with strong cash flows while also selectively pursuing promising technology opportunities.
3. When it comes to the reopening of China's economy, we prefer to invest in stocks related to tourism and selected commodities.

Our Strategy



On equity, we are positive on Asia underpinned by China's economic recovery, and earnings growth in Asia which is expected to be stronger than developed markets.⁹

As uncertainties continue to prevail, our recommendation is to focus on income assets to mitigate against potential market volatility. These assets generate a steady income stream, providing investors with a stable source of cash flow during market downturns. Moreover, income assets have historically performed well during periods of market uncertainty, making them a reliable option for investors looking to minimise risks.

The projected medium-term improvement in the country's fiscal position is expected to increase the appeal of the domestic bond market.


For diversification and long-term growth trend, investors can consider funds that focusses on ESG related investments for long term exposure.

For our investment strategy for the first half of 2023, we recommend that investors::


- Focus on income with exposure to growth to ride out volatilities arising from financial market turbulence, inflationary issues and recessionary concerns. The growth element for the portfolio will emanate from tapping into Asia and China's economic recovery as they gradually reopen.
- 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

