

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.

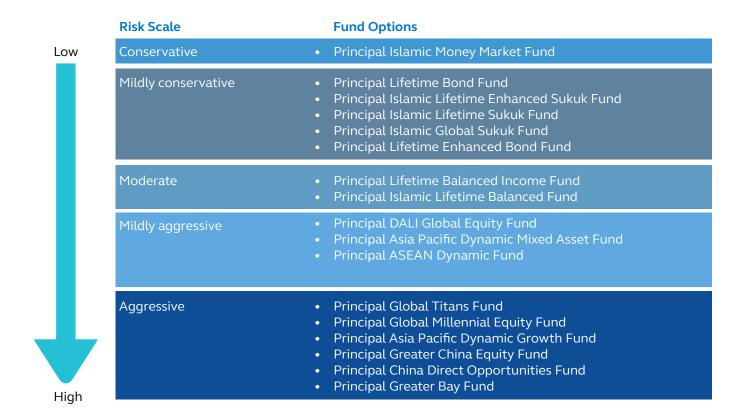
For diversification and long-term growth trend, investors can consider funds that focusses on ESG related investments for long term exposure.

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

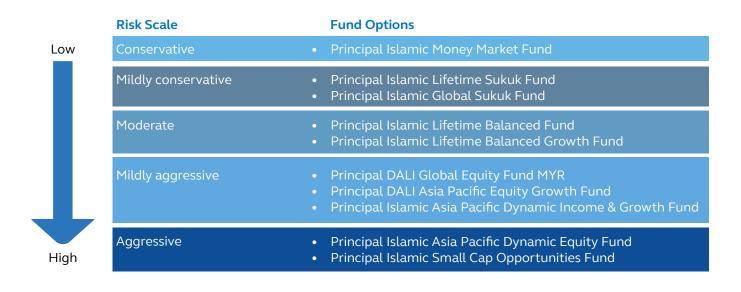
- Focus on income with exposure to growth to ride out volatilities arising from financial market turbulence, inflationary issues and recessionary concerns. The growth element for the portfolio will emanate from tapping into Asia and China's economic recovery as they gradually reopen.
- Position for sustainability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

Our Fund Options

1. Universal Funds



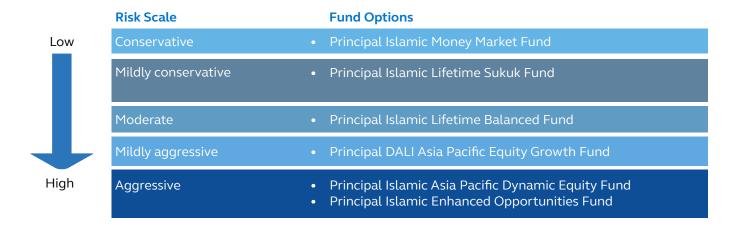
2. Islamic Funds



3. EPFMIS Universal Funds

	Risk Scale	Fund Options
Low	Conservative	Principal Islamic Money Market Fund
	Mildly conservative	Principal Islamic Lifetime Sukuk Fund
	Moderate	Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	Principal Asia Pacific Dynamic Income FundPrincipal Titans Income Plus Fund
High	Aggressive	 Principal Asia Titans Fund Principal Greater China Equity Fund Principal Small Cap Opportunities Fund

4. EPFMIS Islamic Funds



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. The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment. We recommend that investors read and understand the contents of the funds' prospectus and product highlights sheet available on the Principal website, which have been duly registered with the Securities Commission Malaysia (SC). Registration of these documents does not amount to nor indicate that the SC has recommended or endorsed the product or service. There are risks, fees and charges involved in investing in the funds. 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. Past performance is not an indication of future performance. This article has not been reviewed by the SC.

Sources:

¹Bloomberg, 28 February 2023

²Federal Reserve Board, 28 February 2023

³Principal, 28 February 2023

⁴Bloomberg, 28 February 2023

⁵U.S. Bureau of Labor Statistics, 28 February 2023

⁶Federal Open Market Committee (FOMC), 28 February 2023

⁷JP Morgan Research, 28 February 2023

⁸BofA Securities, 28 February 2023

⁹Bloomberg, 28 February 2023

¹⁰National Bureau of Statistics of China, 28 February 2023