

## Global Outlook

**Global markets rallied in February 2024, with the Asian bourses outperforming.** H-Share, the Shanghai Composite and the Nikkei 225 rose 9.3%, 8.1% and 7.9% respectively followed by Taiwan, Korea & the S&P500 at 6% 5.8% and 5.2% respectively. Singapore was the sole Asian market to drop, at 0.4%. Bonds, meanwhile, was mixed with performance ranging from 0.2% to -1.2%.<sup>1</sup>

**The US Federal Reserve (Fed) maintained the Fed Fund rate at 5.50%** at the Federal Open Market Committee (FOMC) meeting held in February 2024. The Fed Chairman meanwhile told the House Financial Services Committee & the Senate Banking Committee that interest rate cuts “can and will begin” in 2024. The European Central Bank (ECB) maintained their commitment on combating inflation, the Fed has preliminary discussions on potential interest rate cuts.<sup>2</sup>

**We are positive on Asian equities given** attractive investment themes and corporates having the potential to post better earnings growth in 2024 than developed markets.<sup>1</sup> Within bonds we remain neutral on global developed market fixed income.

---

## Global Outlook of the two capital markets: Fixed Income & Equity

---

### Region: Developed economies

#### Fixed income

- Our view – neutral.
- The United States (US) in 4Q2023 reported a healthy 3.3% year-on-year GDP growth, although this is a moderation from the 4.9% seen in 3Q2023. The resilient payroll data bolstered the case for a soft landing in 2024. The European Union economy, meanwhile, appears to be bottoming out.<sup>4</sup>
- The expected US soft landing and growing expectations of peaking interest rates has prompted us to adjust the duration band to 1.00x +0.10/-0.10 from +0.10/-0.15 previously.<sup>5</sup>

#### Equity

- Our view – positive.
- The US in 4Q2023 reported a healthy 3.3% year-on-year GDP growth, although this is a moderation from the 4.9% seen in 3Q2023. The resilient payroll data bolstered the case for a soft landing in 2024. The European Union economy, meanwhile, appears to be bottoming out.<sup>4</sup>
- We maintained US and Japan at Overweight while Europe remain Underweight.

## Region: Regional (Asia-Pacific ex-Japan)

### Fixed income

- Our view – neutral.
- Pockets of opportunities in local Asian currencies and Chinese credits as yields remain relatively attractive.<sup>6</sup>
- We expect investment grade Asian bonds to provide a gross yield of 4.50% to 5.50% in 2024.<sup>6</sup>

### Equity

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

## Region: China

### Fixed income

- Our view – neutral.
- The net supply of bond in January 2024 increased to RMB 351 billion from a net redemption of RMB 185 billion in December 2023, primarily driven by non-State-Owned Enterprise (SOE) issuers.<sup>8</sup>
- The default rate eased to 0.14% in January 2024 from 0.18% in Dec 2023. The property sector contributed majority of the decline in the figures.<sup>8</sup>

### Equity

- Our view – positive.
- China's pro-growth policy actions helped sustain economic activity, with Q42023 GDP growth of 5.2%, up from 4.9% in Q32023.<sup>7</sup>
- The manufacturing Purchasing Managers' Index (PMI) for February 2024 edged lower to 49.1 from 49.2 previously. The Services PMI rose further to 51.4 from 50.7 over the same period.<sup>9</sup>

## Region: Domestic (Malaysia)

### Fixed income

- Our view – positive.
- Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% during the March 2024 Monetary Policy Committee (MPC) Meeting.<sup>10</sup>
- Portfolio duration is still maintained at medium. We propose to take a tactical position on government bonds by buying on weakness and on the longer end of the curve.
- We still prefer credits over government bonds.

### Equity

- Our view – positive.
- The National Energy Transition Roadmap (NETR) and the Industrial MasterPlan 2030 could revitalise domestic investment and buoy consumption.
- We continue to favour Construction, Property and Utilities as beneficiaries from the NETR. We also favour selected Oil & Gas, Technology and Financial names.

# Our Strategy

We maintained an Overweight stance on the US, driven by the higher exposure to semiconductor related tech names. Strong earnings and secular tailwinds of increasing AI adoption may continue to support mega tech names and their valuations could remain high if interest rates don't surge sharply. EU is maintained at Underweight. Japan's weighting is maintained at Overweight despite experiencing some economic slowdown, there are increasing signs that inflation and wage increases may be sustainable in 2024. The latter is expected to lift household real income and support a virtuous cycle between wage and price increases. This may lead to the Bank of Japan (BOJ) exiting its Negative Interest Rate Policy, although the shift is anticipated to be gradual to prevent market disruption.<sup>11</sup>

On equity, we are positive on Asia as earnings growth is expected to be stronger than developed markets. In addition, Chinese policymakers' dovish policies further supports our conviction on Asia.<sup>7</sup>

The commitment of the Malaysia government to lower the budget deficit to 5% and 3.2% by 2023 and 2025<sup>12</sup> 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 first half of 2024, we encourage investors to:

- Focus on income to potentially help weather short-term volatility such as geopolitical tensions, inflationary issues, and concerns about an economic slowdown. The growth element for the portfolio will emanate from tapping into Asia and China's economic recovery from the reopening.
- Position for interest pivot by the Developed Markets' central banks and potentially declining USD index. Our preferred growth-oriented asset classes include Asia, ASEAN, China, Technology, Biotechnology as well as quality Small & Mid Cap (US and Malaysia) names.

## Our Fund Options

### 1. Universal Funds

Risk Scale	Funds Options	Level
Aggressive	<ul style="list-style-type: none"> <li>• Principal Global Titans Fund</li> <li>• Principal Global Millennial Equity Fund</li> <li>• Principal Asia Pacific Dynamic Growth Fund</li> <li>• Principal Greater China Equity Fund</li> <li>• Principal China Direct Opportunities Fund</li> <li>• Principal Greater Bay Fund</li> </ul>	
Mildly Aggressive	<ul style="list-style-type: none"> <li>• Principal DALI Global Equity Fund MYR</li> <li>• Principal ASEAN Dynamic Fund</li> <li>• Principal Asia Pacific Dynamic Mixed Asset Fund</li> </ul>	
Moderate	<ul style="list-style-type: none"> <li>• Principal Lifetime Balanced Income Fund</li> <li>• Principal Islamic Lifetime Balanced Growth Fund</li> </ul>	
Mildly conservative	<ul style="list-style-type: none"> <li>• Principal Lifetime Bond Fund</li> <li>• Principal Islamic Lifetime Enhanced Sukuk Fund</li> <li>• Principal Islamic Lifetime Sukuk Fund</li> <li>• Principal Islamic Global Sukuk Fund</li> <li>• Principal Lifetime Enhanced Bond Fund</li> </ul>	
Conservative	<ul style="list-style-type: none"> <li>• Principal Islamic Money Market Fund</li> </ul>	

## 2. Islamic Funds

Risk Scale	Funds Options	Level
Aggressive	<ul style="list-style-type: none"> <li>Principal Islamic Asia Pacific Dynamic Equity Fund</li> <li>Principal Islamic Small Cap Opportunities Fund</li> </ul>	↑
Mildly Aggressive	<ul style="list-style-type: none"> <li>Principal DALI Global Equity Fund MYR</li> <li>Principal DALI Asia Pacific Equity Growth Fund</li> <li>Principal Islamic Asia Pacific Dynamic Income and Growth Fund</li> </ul>	
Moderate	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Balanced Growth Fund</li> </ul>	
Mildly conservative	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Sukuk Fund</li> <li>Principal Islamic Global Sukuk Fund</li> </ul>	
Conservative	<ul style="list-style-type: none"> <li>Principal Islamic Money Market Fund</li> </ul>	

## 3. EPFMIS Universal Funds

Risk Scale	Funds Options	Level
Aggressive	<ul style="list-style-type: none"> <li>Principal Asia Titans Fund</li> <li>Principal Islamic Asia Pacific Dynamic Equity Fund</li> </ul>	↑
Mildly Aggressive	<ul style="list-style-type: none"> <li>Principal Titans Income Plus Fund</li> <li>Principal Dali Asia Pacific Equity Growth Fund</li> <li>Principal Titans Growth &amp; Income Fund</li> </ul>	
Moderate	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Balanced Fund</li> </ul>	
Mildly conservative	<ul style="list-style-type: none"> <li>Principal Lifetime Enhanced Bond Fund</li> <li>Principal Lifetime Bond Fund</li> </ul>	
Conservative	<ul style="list-style-type: none"> <li>Principal Islamic Money Market Fund</li> </ul>	

## 4. EPFMIS Islamic Funds

Risk Scale	Funds Options	Level
Aggressive	<ul style="list-style-type: none"> <li>Principal Islamic Asia Pacific Dynamic Equity Fund</li> <li>Principal Islamic Enhanced Opportunities Fund</li> </ul>	↑
Mildly Aggressive	<ul style="list-style-type: none"> <li>Principal DALI Asia Pacific Equity Growth Fund</li> </ul>	
Moderate	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Balanced Fund</li> </ul>	
Mildly conservative	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Sukuk Fund</li> </ul>	
Conservative	<ul style="list-style-type: none"> <li>Principal Islamic Money Market Fund</li> </ul>	

## 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:

- 1 Bloomberg, 29 February 2024
- 2 Federal Reserve Board, 29 February 2024
- 3 Principal, 29 February 2024
- 4 European Central Bank, 29 February 2024
- 5 Federal Open Market Committee (FOMC), 29 February 2024
- 6 JP Morgan Research, 29 February 2024
- 7 Bloomberg, 29 February 2024
- 8 BofA Securities, 29 February 2024
- 9 National Bureau of Statistics of China, 29 February 2024
- 10 Bank Negara Malaysia, 29 February 2024
- 11 Bank of Japan (BoJ), 29 February 2024
- 12 DOSM, BNM, 29 February 2024