



**Market  
Commentary  
May 2022**

In alliance with  **CIMB**

# Global Outlook



Global equity markets retreated in April 2022 dragged by the ongoing geopolitical tensions and the quantum of the interest rate hikes by the U.S. Federal Reserve (Fed). The S&P500, Shanghai Composite, and Taiwan Stock Exchange dropped by 8.8%, 6.3% and 6.2% respectively. India, Indonesia, and Malaysia recorded positive returns of 2.6%, 2.2% and 0.8% respectively. Bonds indices performed lower by -3.2% to -5.5% during the month.

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 statement by the Fed reinforced earlier guidance on interest rate trend and that balance sheet shrinkage will start in June 2022 at a run-off rate of USD95 billion per month.

We remained neutral on Asian equities with focus on quality companies with earnings visibility, robust balance sheet, long term winners, market share gainers and with pricing power.

We also remained neutral on equity markets for developed economies.

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

### Region: Developed economies

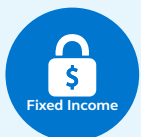


1. Our view – least preferred
2. Developed Markets economic fundamentals remained sound with improving employment. There is downside risk to growth & earnings should geopolitical uncertainties persist.
3. The Fed reinforced guidance on interest rate trend and signaled balance sheet shrinkage to start in June 2022.



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. 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 a return of 1.50% to 2.50% in 2022.



1. Our view – neutral.
2. Asian economies have started to implement booster shots to preserve the pace of economic re-opening and growth.
3. We are diversifying and reducing risks where appropriate. Portfolios are focussed on quality companies with earnings visibility, robust balance sheet, market share gainers and with pricing power.

## Region: China

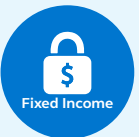


1. Our view – neutral.
2. Net supply of bond in February 2022 dropped to RM632 billion from RMB711 billion the month before. The decline in supply is driven by State-Owned Enterprises (SOEs) and while the private sector saw a small increase of RMB11 billion in February 2022.
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1. Our view – neutral.
2. Chinese policymakers announced a USD2.6 trillion infrastructure plan to support economic growth over the medium term. We expect more policy easing to be introduced.
3. The manufacturing PMI (Purchasing Managers' Index) for March 2022 dropped to 49.5 from 50.2 while the Non-manufacturing PMI declined to 48.4 from 51.6 previously. The declines reflected the impact of the lockdowns implemented.

## 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 versus our expectation of at least 1x-2x hikes of 25bps each time in 2022.
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



Within Asia, we maintained a balanced preference for equities and bonds. Uncertainty has already led to equity price-to-earnings multiples compressing, rising volatility, and earnings expectations revised lower. 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 remain neutral on Asian equities and view that regulatory risk in China has peaked. Meanwhile, Chinese policymakers have announced a USD2.6 trillion infrastructure plan. We expect more policy easings to follow. 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"> <li>Principal Islamic Money Market 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>
	Moderate	<ul style="list-style-type: none"> <li>Principal Lifetime Balanced Income Fund</li> <li>Principal Islamic Lifetime Balanced Fund</li> </ul>
	Mildly aggressive	<ul style="list-style-type: none"> <li>Principal DALI Global Equity Fund</li> <li>Principal Asia Pacific Dynamic Mixed Asset Fund</li> <li>Principal Asia Pacific Dynamic Income Fund</li> <li>Principal ASEAN Dynamic Fund</li> </ul>
	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>


## 2. Islamic Funds

	Risk Scale	Fund Options
 <p>Low</p> <p>High</p>	Conservative	<ul style="list-style-type: none"> <li>Principal Islamic Money Market 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>
	Moderate	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Balanced Fund</li> <li>Principal Islamic Lifetime Balanced Growth 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 &amp; Growth Fund</li> </ul>
	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>

### 3. EPFMIS Universal Funds

	Risk Scale	Fund Options
 <p>Low</p> <p>High</p>	Conservative	<ul style="list-style-type: none"> <li>Principal Islamic Money Market Fund</li> </ul>
	Mildly conservative	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Enhanced Sukuk Fund</li> <li>Principal Islamic Lifetime Sukuk Fund</li> </ul>
	Moderate	<ul style="list-style-type: none"> <li>Principal Islamic Lifetime Balanced Fund</li> </ul>
	Mildly aggressive	<ul style="list-style-type: none"> <li>Principal Asia Pacific Dynamic Income Fund</li> <li>Principal Titans Income Plus Fund</li> </ul>
	Aggressive	<ul style="list-style-type: none"> <li>Principal Asian Equity Fund</li> <li>Principal Greater China Equity Fund</li> <li>Principal Small Cap Opportunities Fund</li> </ul>

### 4. EPFMIS Islamic Funds

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

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](http://www.principal.com.my).

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