



Market Commentary May 2023

In alliance with  **CIMB**

Global Outlook



The developed markets performed generally steadier than Asia which was mixed in April 2023. The Stoxx 600 Europe, Japan and the S&P 500 rose 2.9%, 1.9% and 1.5% respectively. India & Indonesia rose 3.6% and 1.6% while Thailand and Hong Kong declined 5% and 3.8% respectively. Bond indices continue to rebound with gains of 0.4-1.3%.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 raised its Fed Fund rate by 0.25% to 5.25% in May 2023. The Fed's balance sheet shrinkage continued at USD95 billion.²

We are positive on Asian equities due to it 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 are positive on local and global developed market fixed income.³

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

Region: Developed economies



Fixed Income

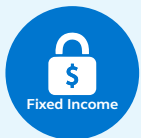
1. Our view – positive.
2. Economic growth continues to weaken across all developed markets with the first quarter gross domestic product (GDP) growth of the United States (US) at 1.1% being significantly lower than consensus forecast of 1.9%. US job openings, however, remained resilient.⁴
3. The Fed in May 2023 raised the interest rate to 5.25% from 5.00%. The terminal rate is forecasted at the 5.25-5.50% range.⁵



Equity

1. Our view – neutral.
2. Economic growth continues to weaken across all developed markets with the first quarter gross domestic product (GDP) growth of the United States (US) at 1.1% being significantly lower than consensus forecast of 1.9%. US job openings, however, remained resilient.⁴
3. We have revised Europe's weighting to neutral from overweight. We remain neutral on Japan and marginally underweight on US.

Region: Regional (Asia-Pacific ex-Japan)



Fixed Income

1. Our view – neutral.
2. Pockets of opportunities in local Asian currencies and Chinese credits as yields remain relatively attractive.⁶
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.⁶



Equity

1. Our view – positive.
2. We added exposure to inexpensive valuation and China's accelerated reopening and stimulus policy.⁷
3. We continue to focus on quality companies with earnings visibility, robust balance sheet, market share gainers and with pricing power.

Region: China

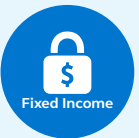


1. Our view – neutral.
2. Net supply of bond in February 2023 increased by RMB388 billion from RMB36 billion the month before. State-Owned Enterprises (SOEs) saw an increase of RMB329 billion while the private sector recorded a net redemption of RMB329 billion.⁸
3. The default rate in February 2023 eased to 0.24% from 0.3% in January 2023. The property sector default declined to 4.44% from 5.4% over the same period.⁸



1. Our view – positive.
2. In the recent National People's Congress (NPC) meeting, Chinese policymakers reiterated their stance to strengthen the economy and support for the property sector.⁷
3. The manufacturing PMI for April 2023 decreased to 49.2 from 51.9 previously, while the Services PMI declined to 56.4 from 58.2.⁹

Region: Domestic (Malaysia)



1. Our view – positive.
2. Bank Negara Malaysia (BNM) increased the Overnight Policy Rate (OPR) by 0.25% to 3.00% in May 2023.¹⁰ The increase surprised the market as it came earlier than expected.
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 – neutral.
2. We continue to focus on companies with firm fundamentals, strong cash flows and defensive.
3. On balanced, our stock preferences lean towards consumer discretionary, utilities, and tourism related names.

Our Strategy



We have revised Europe's weighting to neutral from overweight. We remain neutral on Japan and marginally underweight on US.

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.⁷


The commitment of the Malaysia government to lower the budget deficit to 5% and 3.2% by 2023 and 2025 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 2023:


- We currently see attractive opportunities in high-quality fixed income given decent yields and the potential for capital gains, should a weaker than expected economic growth materialise. Among bonds, we recommend gaining exposure to high quality bonds such as high grade and investment grade bonds.
- On equities, we favour quality and dividend-paying stocks for their defensive qualities that can help withstand the uncertain macroeconomic and geopolitical conditions. We are positive on Asia as sector earnings are poised to be rerated supported by China's rapid reopening.
- We also adopt income-focused approach to ride out volatilities arising from geopolitical tensions, inflationary issues, and recessionary concerns.

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

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 Sukuk Fund
	Moderate	<ul style="list-style-type: none"> Principal Islamic Lifetime Balanced Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal Titans Income Plus Fund
	Aggressive	<ul style="list-style-type: none"> Principal Asia Titans 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 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.

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Sources:

¹ Bloomberg, 30 April 2023

² Federal Reserve Board, 31 May 2023

³ Principal, 30 April 2023

⁴ U.S. Bureau of Labor Statistics, 30 April 2023

⁵ Federal Open Market Committee (FOMC), 30 April 2023

⁶ JP Morgan Research, 30 April 2023

⁷ Bloomberg, 30 April 2023

⁸ BofA Securities, 30 April 2023

⁹ National Bureau of Statistics of China, 30 April 2023

¹⁰ Bank Negara Malaysia, 3 May 2023