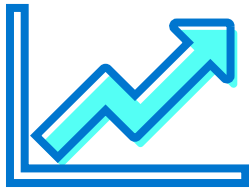




Market Commentary November 2023

In alliance with  CIMB

Global Outlook



Global markets retreated in October 2023, with Korea, Thailand, and H-Shares posting the largest decline of 7.6%, 6.1% and 4.7% respectively. India was the sole market with a positive gain at 1.5%. Bond indices dropped between 0.7-1.2%.¹

The US Federal Reserve (Fed) maintained the Fed Fund rate at 5.50%. The Fed and the European Central Bank (ECB) maintained their uncompromising stance on combating inflation. The Fed's balance sheet shrinkage continued at USD95 billion.²

We are positive on Asian equities given attractive investment themes and corporates have the potential to post better earnings growth than developed markets. China's continued pro-policy stance saw some signs of better economic activities, namely stronger than expected GDP growth of 4.9% in 3Q2023 and continued improvement in retail sales in September at 5.5% year-on-year (y-o-y). Within bonds we remain neutral on global developed market fixed income due to the increasing likelihood of keeping interest rate higher for longer by the Fed.³

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

Region: Developed economies



1. Our view – neutral.
2. The United States (US) experienced a stronger than expected 2.4% growth in its GDP in the second quarter of 2023. This strengthened the view for a soft landing for the US economy. This has also pushed back the timing of a possible Fed rate cut to June 2024 from Nov 2023 previously. The European Union economy continued to be soft.⁴
3. The resilient US data increased the likelihood of further rate hike by the Fed. We maintained the duration band at 1.00x +10/-0.15.⁵



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3. We maintain an overweight stance on Japan, rising on consumption recovery and potential exit deflation.¹ US and Europe are both Underweight.

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.⁶
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.⁶



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

Region: China

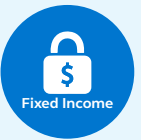


1. Our view – neutral.
2. The net supply of bond in September 2023 decreased by RMB34 billion due to lower financial issuances. State-Owned Enterprises (SOEs), local-government financing vehicles (LGFVs) and the private sector saw net redemption.⁸
3. The default rate in August 2023 dropped marginally to 0.19% from 0.20% previously. The property sector default decreased to 4.63% from 4.65% over the same period.⁸



1. Our view – positive.
2. China's pro-growth policy actions saw some signs of better economic activities, namely stronger than expected GDP growth of 4.9% in 3Q2023 and continued improvement in retail sales in September at 5.5% year-on-year (y-o-y).⁷
3. The manufacturing PMI for October 2023 dropped to 49.5 from 50.2 previously, while the Services PMI edged lower to 50.6 from 51.7 over the same period.⁹

Region: Domestic (Malaysia)



1. Our view – positive.
2. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% in November 2023.¹⁰
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 – positive.
2. The newly launched National Energy Transition Roadmap (NETR) and the Industrial MasterPlan 2030 could revitalise domestic investment and buoy consumption.
3. We favour Construction, Property and Utilities as beneficiaries from the NETR. We also favour selected Technology and Financial names.

Our Strategy



We maintain an overweight stance on Japan, on the back of greater tourist influx, recovery in consumption and potential exit from deflation.¹¹ Furthermore, Japan offers diversification as its market cycle appears desynchronized from other developed markets. We remain underweight on US and Europe due to concerns of high valuations and growing recessionary pressures in the second half of 2023.¹

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.⁷


The commitment of the Malaysia government to lower the budget deficit to 5% and 3.2% by 2023 and 2025¹² 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 second half of 2023, we encourage investors to:


- Be income focused to ride out volatilities arising from geopolitical tensions, inflationary issues, and recessionary concerns. The growth element for the portfolio will emanate from tapping into Asia and China's economic recovery from the reopening.
- 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 Growth Fund
	Mildly aggressive	<ul style="list-style-type: none"> Principal DALI Global Equity Fund MYR Principal ASEAN Dynamic Fund Principal Asia Pacific Dynamic Mixed Asset 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 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 Lifetime Enhanced Bond Fund Principal Lifetime Bond 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 Principal Dali Asia Pacific Equity Growth Fund Principal Titans Growth & Income Fund
	Aggressive	<ul style="list-style-type: none"> Principal Asia Titans Fund Principal Greater China Equity Fund Principal Islamic Asia Pacific Dynamic 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, 31 October 2023

² Federal Reserve Board, 31 October 2023

³ Principal, 31 October 2023

⁴ European Central Bank, 31 October 2023

⁵ Federal Open Market Committee (FOMC), 31 October 2023

⁶ JP Morgan Research, 31 October 2023

⁷ Bloomberg, 31 October 2023

⁸ BofA Securities, 31 October 2023

⁹ National Bureau of Statistics of China, 31 October 2023

¹⁰ Bank Negara Malaysia, 31 October 2023

¹¹ Bank of Japan (BoJ), 31 October 2023

¹² DOSM, BNM, 31 October 2023