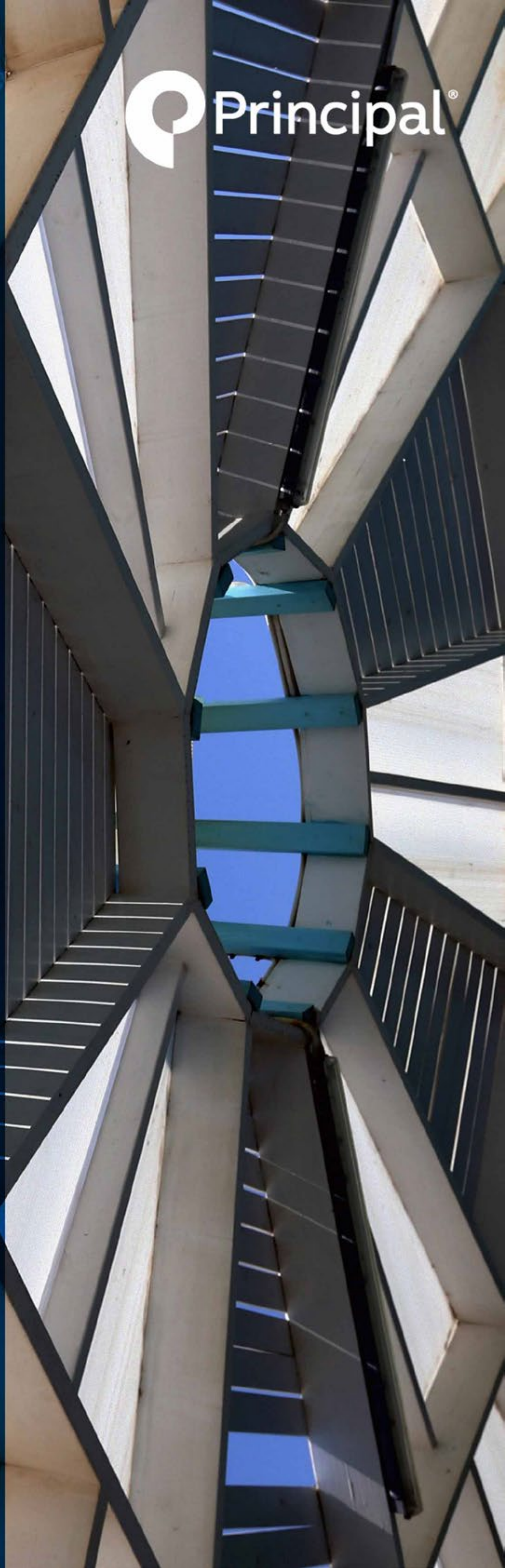
Market Commentary October 2022



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Global Outlook

The performance of Global markets declined across board In September 2022 – dragged by the U.S. Federal Reserve's (Fed) strong commitment to contain inflation and concerns over a recession in the developed economies. South Korea, Taiwan, S&P500 and Japan declined by 12.8%, 11.1%, 9.3% and 7.7% respectively. Bond indices also dropped ranging between -4.8% to 5.1%. [1]

On the monetary policy front, the U.S. Federal Reserve (Fed) and European Central Bank (ECB) reiterated its resolve to bring inflation under control. The Fed's balance sheet shrinkage started in June 2022 at a run-off rate of USD47.5 billion before rising to USD95 billion in September.[2]

We have a slight preference for Asian equities over bonds due to Asian equities being under-owned, cheap, and having realistic earnings estimates. Within bonds we prefer local and regional to global developed market fixed income.

We remain neutral on equity markets for developed economies.

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

Region: Developed economies

Fixed Income

1. Our view – neutral
2. Developed Markets economic fundamentals has shown signs of weakening. There is downside risk to growth & earnings following the strong statements to control inflation by the Fed and ECB.[3]
3. The Fed reinforced guidance on interest rate trend and signalled balance sheet shrinkage started in June 2022.[2]

Equity

1. Our view – neutral.
2. Developed Markets economic fundamentals have shown signs of weakening. There is downside risk to growth & earnings following the strong statements to control inflation by the Fed and ECB.
3. We are overweight on the United States (U.S.) & Japan owing to more resilient corporate earnings and underweight on the European Union (E.U.).

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.
3. We forecast Asian bonds to provide a return of 4.00% to 5.00% in 2022.[4]

Equity

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

Region: China

Fixed Income

1. Our view – neutral.
2. Net supply of bond in August 2022 rose to RMB395 billion from RMB17 billion the month before. Triple-A (AAA) issuers from the financial sector dominated the private sector saw redemption of RM13 billion. [5]
3. The default rate in August 2022 decreased to 0.40% from 0.43% with zero developer default. The onshore property default rate dropped to 6.8% from 7.5% the month before. [5]

Equity

1. Our view – positive.
2. China has provided better visibility of its policy to support growth. [6] In addition, more supportive policy measures are expected after the Chinese Communist Party (CCP) congress meeting & election of new Politburo members.
3. The manufacturing PMI (Purchasing Managers' Index) for September 2022 increased to 50.1 from 49.4 previously, while the Non-manufacturing PMI decreased to 50.6 from 52.6. [6]

Region: Domestic (Malaysia)

Fixed Income

1. Our view – neutral.
2. Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) by 25 basis points (bps) to 2.50% in September 2022. S&P Global Ratings revised Malaysia's outlook to stable from negative previously. [7]
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.

Equity

1. Our view – neutral.
2. We continue to adopt a balanced approach between value and growth while having sufficient diversification.
3. We still prefer consumer discretionary and remain cautious on commodities. We are overweight on selective banks, consumers and reopening plays.

Our Strategy

We remain overweight on U.S. expecting the high-quality growth stocks to continue to outperform if inflation eases towards year-end. If this happens, the valuation of growth stocks may be supported. Our underlying funds have focused on investing in quality companies with growth and earnings visibility, at reasonable valuation. We reduced Europe to underweight and moved Japan to slight overweight because we see corporate earnings more resilient in Japan, inflation is relatively muted and monetary policy is still accommodative compared to Europe. We have more than 50% of the Japan holdings hedged into USD to protect against the risk of further deprecation of the Japanese Yen. Moving forward, Fed's monetary tightening path and whether economy would have a soft or hard landing, as well as the recent US-China conflict may continue to weigh on equity markets.

We remain slightly positive on Asian equities. We will continue to focus on quality companies which have good earnings visibility, robust balance sheet, long term winners, market share gainers and those with pricing power to overcome cost pressures.

As the world increasingly focusses on the importance of energy, environmental, food, and technological security, we recommend investors to consider ESG related investments for long term exposure.

In short, investors are advised to:

- Be aware of risks to ride out volatilities arising from geopolitical tensions, policy normalisation, inflationary issues, and recessionary concerns.
- 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

Low → High

Risk Scale	Fund Options
Conservative	• Principal Islamic Money Market Fund
Mildly conservative	• 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	• Principal Lifetime Balanced Income Fund • Principal Islamic Lifetime Balanced Fund
Mildly aggressive	• Principal DALI Global Equity Fund • Principal Asia Pacific Dynamic Mixed Asset Fund • Principal ASEAN Dynamic Fund
Aggressive	• 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

Low → High

Risk Scale	Fund Options
Conservative	• Principal Islamic Money Market Fund
Mildly conservative	• Principal Islamic Lifetime Sukuk Fund • Principal Islamic Global Sukuk Fund
Moderate	• Principal Islamic Lifetime Balanced Fund • Principal Islamic Lifetime Balanced Growth Fund
Mildly aggressive	• Principal DALI Global Equity Fund MYR • Principal DALI Asia Pacific Equity Growth Fund • Principal Islamic Asia Pacific Dynamic Income & Growth Fund
Aggressive	• Principal Islamic Asia Pacific Dynamic Equity Fund • Principal Islamic Small Cap Opportunities Fund

3. EPFMIS Universal Funds

Risk Scale	Fund Options
Conservative	• Principal Islamic Money Market Fund
Mildly conservative	• Principal Islamic Lifetime Enhanced Sukuk Fund • Principal Islamic Lifetime Sukuk Fund
Moderate	• Principal Islamic Lifetime Balanced Fund
Mildly aggressive	• Principal Asia Pacific Dynamic Income Fund • Principal Titans Income Plus Fund
Aggressive	• Principal Asian Equity Fund • Principal Greater China Equity Fund

Low

High

4. EPFMIS Islamic Funds

Risk Scale	Fund Options
Conservative	• Principal Islamic Money Market Fund
Mildly conservative	• Principal Islamic Lifetime Enhanced Sukuk Fund • Principal Islamic Lifetime Sukuk Fund
Moderate	• Principal Islamic Lifetime Balanced Fund
Mildly aggressive	• Principal DALI Asia Pacific Equity Growth Fund
Aggressive	• Principal Islamic Asia Pacific Dynamic Equity Fund • Principal Islamic Enhanced Opportunities Fund

Low

High

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

Sources:

[1]Bloomberg, 1 October 2022

[2]Federal Reserve Board, 4 May 2022

[3]Principal Global Investors, 30 September 2022

[4]JP Morgan, 15 October 2022

[5]BofA Securities, 30 September 2022

[6]Bloomberg, 30 September 2022

[7]Bank Negara Malaysia, 8 September 2022

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