



Market  
Commentary  
September 2023

# Global Outlook



Global markets retreated in August 2023, with Asian markets declining by a larger margin compared to developed markets. The H-shares, Shanghai Composite & Singapore decreased by 8.2%, 5.2% and 4.2% respectively. India, Thailand & Indonesia decreased by 2.5%, 0.6%, and 0.3% respectively. Bond indices dropped between 0.9-1.4%.<sup>1</sup>

The US Federal Reserve (Fed) raised the Fed Fund rate by 0.25% to 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.<sup>2</sup>

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 policy stance has become more dovish with actions to address the property sector, ease financial conditions, and boost private sector confidence. This includes mortgage rate cuts and reductions in downpayment ratios. Within bonds we remain neutral on global developed market fixed income due to the increasing likelihood of further interest rate hikes by the Fed.<sup>3</sup>

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

### Region: Developed economies

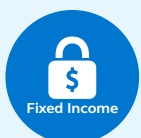


1. Our view – neutral.
2. The United States (US) experienced a stronger than expected 2.4% growth in its GDP in the second quarter of 2023. This strengthened the view for a soft landing for the US economy. This has also pushed back the timing of a possible Fed rate cut to June 2024 from Nov 2023 previously. The European Union economy continued to be soft.<sup>4</sup>
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.<sup>5</sup>



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3. We maintain an overweight stance on Japan, rising on consumption recovery and potential exit deflation. US and Europe are both mildly 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.<sup>6</sup>
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.<sup>6</sup>



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

## Region: China

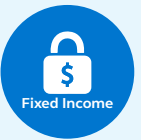


1. Our view – neutral.
2. The net supply of bond in July 2023 increased to RMB350 billion driven by financial issuances. State-Owned Enterprises (SOEs) saw a decline while the private sector saw an increase.<sup>8</sup>
3. The default rate in July 2023 rose marginally to 0.19% from 0.18% in June 2023. The property sector default increased to 4% from 3.5% over the same period.<sup>8</sup>



1. Our view – positive.
2. China's latest policy actions aim to address the property sector, ease financial conditions, and boost private sector confidence.<sup>7</sup>
3. The manufacturing PMI for August 2023 rose marginally to 49.7 from 49.3 previously, while the Services PMI declined slightly to 51 from 51.3 over the same period.<sup>9</sup>

## Region: Domestic (Malaysia)



1. Our view – positive.
2. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% in July 2023.<sup>10</sup>
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. We continue to focus on companies with firm fundamentals, strong cash flows and defensive.
3. Market sentiment has improved on the back of a weaker USD and reversal of foreign outflows. On balanced, we favour Construction and Utilities. We also favour selected Technology 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. Furthermore, Japan offers diversification as its economic cycle appears desynchronized from other developed markets. We are marginally underweight on US and Europe due to growing concerns of high valuations and growing recessionary pressures in the second half of 2023.

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 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"> <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 Growth 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>
	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 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 Lifetime Enhanced Bond Fund</li> <li>Principal Lifetime Bond 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 Titans Income Plus Fund</li> <li>Principal Dali Asia Pacific Equity Growth Fund</li> <li>Principal Titans Growth &amp; Income Fund</li> </ul>
	Aggressive	<ul style="list-style-type: none"> <li>Principal Asia Titans Fund</li> <li>Principal Greater China Equity 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 Lifetime Enhanced Bond Fund</li> <li>Principal Lifetime Bond 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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### Sources:

<sup>1</sup> Bloomberg, 31 August 2023

<sup>2</sup> Federal Reserve Board, 31 August 2023

<sup>3</sup> Principal, 31 August 2023

<sup>4</sup> U.S. Bureau of Labor Statistics, 31 August 2023

<sup>5</sup> Federal Open Market Committee (FOMC), 31 August 2023

<sup>6</sup> JP Morgan Research, 31 August 2023

<sup>7</sup> Bloomberg, 31 August 2023

<sup>8</sup> BofA Securities, 31 August 2023

<sup>9</sup> National Bureau of Statistics of China, 31 August 2023

<sup>10</sup> Bank Negara Malaysia, 31 August 2023