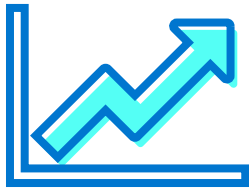


Market  
Commentary  
September 2022

# Global Outlook



Global markets performance In August 2022 were mixed with positive returns in Asia Pacific markets while United States (U.S.) and Europe retraced after strong gains the month before. Thailand, India and Indonesia rose 4%, 3.4% and 3.3% respectively, while Europe and U.S. declined 5.3% and 4.2%. Bond indices also declined between -0.3% to 3.9%.<sup>1</sup>

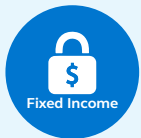
On the monetary policy front, the U.S. Federal Reserve (Fed) and European Central Bank (ECB) reiterated its resolve to bring inflation under control. The Fed's balance sheet shrinkage started in June 2022 at a run-off rate of USD47.5 billion before rising to USD95 billion in September.<sup>2</sup>

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

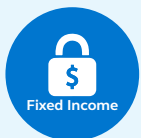
1. Our view – neutral
2. Developed Markets economic fundamentals has shown signs of weakening. There is downside risk to growth & earnings following the strong statements to control inflation by the Fed and ECB.<sup>3</sup>
3. The Fed reinforced guidance on interest rate trend and signalled balance sheet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



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 remain neutral on the United States (U.S.), European Union (E.U.) & Japan on concerns over economic growth, inflation, higher interest rates and the geopolitical tensions.

### 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.<sup>4</sup>



Equity

1. Our view – positive.
2. We added exposure to cheap valuation and China's 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

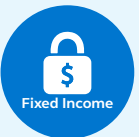


1. Our view – neutral.
2. Net supply of bond in the first half of 2022 rose by 29% Year-over-Year (YoY) to RM2.2 trillion. The jump in supply is driven by triple-A (AAA) issuers sector while the State-Owned Enterprises (SOEs) recorded an increase of RM1.6 trillion.<sup>5</sup>
3. The default rate in June 2022 increased to 0.50% from 0.49% driven by property names. The private sector default rate edged up to 3.9% from 3.8% the month before. SOE default rate was unchanged at 0.12%.<sup>5</sup>



1. Our view – positive.
2. China has provided better visibility of its policy to support growth. In addition, more supportive policy measures are expected after the 16 October 2022 congress meeting & election of new Politburo members.
3. The manufacturing PMI (Purchasing Managers' Index) for August 2022 increased to 49.4 from 49.0 while the Non-manufacturing PMI decreased to 52.6 from 53.8.<sup>6</sup>

## Region: Domestic (Malaysia)



1. Our view – neutral.
2. Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) by 25 basis points (bps) to 2.25% in July 2022. S&P Global Ratings revised Malaysia's outlook to stable from negative previously.<sup>7</sup>
3. Portfolio duration is revised to 1.10x +/- 0.20 from 1.05x +/- 0.20 previously. 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 adopt a balanced approach between value and growth while having sufficient diversification.
3. We still prefer consumer discretionary but turned cautious on commodities. We are also relooking at financials and technology after the recent sell-off.

## Our Strategy



We maintained our Neutral recommendation for developed markets. This is owing to concerns over geopolitical tensions, inflation, and economic growth on the back of rising interest rates. 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 turned slightly positive on Asian equities. This is due to Asian equities being under-owned, cheap, and having realistic earnings estimates. 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 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

	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 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> </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).

### Disclaimer

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### Sources:

<sup>1</sup>Bloomberg, 31 August 2022

<sup>2</sup>Federal Reserve Board, 30 June 2022

<sup>3</sup>Principal Global Investors, 31 August 2022

<sup>4</sup>JP Morgan, 31 August 2022

<sup>5</sup>BofA Securities, 16 July 2022

<sup>6</sup>Bloomberg, 30 August 2022

<sup>7</sup>Bank Negara Malaysia, 6 July 2022