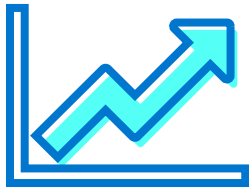




**Market
Commentary
January 2022**

In alliance with  **CIMB**

Global Outlook



Global markets closed 2021 with the equity market outperforming fixed income. Developed markets outperformed the Asia-Pacific bourses with the United States (U.S.) and Europe bourses up by 26.9% and 22.2% respectively, while Taiwan was up by 23.7% and India by 22%. The bond indices performed lower by -0.2%.

The Federal Open Market Committee (FOMC) meeting in December 2021 has indicated the possibility of raising rates more than once and balance sheet shrinkage in 2022 on top of the already announced accelerated tapering exercise. The policy changes are like those adopted in 2013-2015 after the 2008 Global Financial Crisis with differences in terms of duration and speed as each recovery and crisis is unique.

We continue to prefer Asian equities on a long-term basis on the broadening of recovery in economic growth and corporate earnings including financials, materials, and healthcare. Near term, developed markets appear to have the upper hand over emerging ones due to economic growth and corporate earnings differential

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

Region: Developed economies



Fixed Income

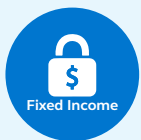
1. Our view – negative.
2. Projected growth for Developed Markets remains strong and above trend. Inflation in the short term has spiked owing to supply chain disruptions and higher oil prices.
3. The U.S. Federal Reserve (Fed) indicated the possibility of raising its interest rate and balance sheet shrinkage in 2022. The proposed policy changes are like those executed between 2013-2015 following the 2008 Global Financial Crisis.



Equity

1. Our view – positive.
2. Projected growth for Developed Markets remains strong and above trend. Inflation in the short term has spiked owing to supply chain disruptions and higher oil prices.
3. Remain Overweight on U.S., E.U. & Japan. Healthy household balance sheet, record job openings to support wage and consumption growth would see above trend growth for developed economies in 2022.

Region: Regional (Asia-Pacific ex-Japan)



Fixed Income

1. Our view – neutral.
2. Pockets of opportunity in local Asian currencies and Chinese credits as yields remain relatively attractive.
3. We forecast Asian bonds to provide a return of 3.25% to 3.75% in 2022.



Equity

1. Our view – positive.
2. Asian economies are accelerating their vaccination rate to preserve the pace of economic growth.
3. Portfolios are positioned for broader recovery and long-term growth drivers such as financials, e-commerce, internet of things, cloud computing and electric vehicles.

Region: China

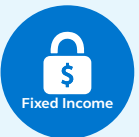


1. Our view – neutral.
2. Net supply of bond in Sept 2021 declined to RMB124 billion from RMB528 billion owing to new rules on wealth management products. The decline was experienced by both the State-Owned Enterprises (SOEs) and the private sector.
3. The default rate in Sept 2021 remained at 1.41%. Private sector default rate rose to 6.8% from 6.1% while SOEs dropped to 0.76% from 8.8% the month before.



1. Our view – neutral.
2. Chinese policymakers announced that their focus for 2022 is on economic stability. The latest announcement and data signalled the beginning of a controlled easing cycle to support economic growth and stability.
3. The manufacturing PMIs (Purchasing Managers' Index) for Dec 2021 rebounded to 50.3 from 50.1 while the Non-manufacturing PMI rose to 52.7 from 52.3 in Nov 2021.

Region: Domestic (Malaysia)



1. Our view – neutral.
2. We are expecting at least one Overnight Policy Rate (OPR) hike in 2022 with the yield curve having bear flattened.
3. Portfolio duration is maintained at 1.05x. Private credits are preferred over government bonds. Names with stronger fundamentals and liquidity are preferred.



1. Our view – neutral.
2. We adopt a balanced approach with diversification into reopening plays and secular growth stories.
3. The sectors we prefer include financials, consumer discretionary, basic materials and selective technology names.

Our Strategy



We continue to prefer equities over fixed income. Equities have performed over 2018-2021 and at this stage would recommend investors to temper their risk appetite at least for the first half of 2022. This is also to take into consideration that there could be kneejerk reactions from a series of expected policy changes from global central banks and coupled with risks from high valuations for Developed Markets' large cap stocks.

We view that the regulatory risk in China has peaked, with potentially more easing measures to come. 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.


Tactically we would like to recommend investor to maintain their exposure to funds that are focussed on developed markets. This is to participate in the momentum from earlier hard re-opening of their economies by developed economies vis-à-vis emerging economies.

Note that income is integral for a well-diversified portfolio. In short, investors are advised to:


- Be risk aware to ride out volatilities arising from policy normalisation, inflationary issues and COVID-19 variants.
- 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"> 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 Asia Pacific Dynamic Income Fund Principal Asia Pacific Dynamic Mixed Asset Fund Principal DALI Global Equity Fund Principal Global Real Estate 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 Enhanced Sukuk Fund 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 Asia Pacific Dynamic Income Fund Principal Titans Income Plus Fund
	Aggressive	<ul style="list-style-type: none"> Principal Global Titans Fund Principal Greater China Equity Fund Principal Asian Equity Fund Principal Small Cap Opportunities 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 Enhanced Sukuk Fund 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 Small Cap 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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