

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	3.3%	3.9%	14.8%	21.7%
S&P 500	USD	4.0%	3.6%	18.0%	24.2%
Nasdaq	USD	5.9%	2.7%	16.0%	53.8%
Russell 2000	USD	4.4%	4.3%	7.7%	15.1%
Stoxx 600-Europe	EUR	1.8%	2.9%	7.8%	12.7%
Nikkei 225	JPY	0.5%	1.0%	9.2%	28.3%
MSCI Asia Pac ex-Japan	USD	0.9%	2.4%	7.8%	4.5%
ASEAN	USD	1.5%	10.0%	11.9%	-3.1%
Shanghai Shenzhen CSI 300 Index	CNY	-2.2%	-5.5%	-7.8%	-11.4%
Hang Seng Index	HKD	-0.1%	1.9%	2.6%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	-2.2%	-6.2%	-9.0%	-3.7%
FBMKLCI	MYR	1.0%	3.9%	14.8%	-2.8%
Fixed Income					
Berg Barclays Global Agg Index	USD	0.4%	2.4%	3.5%	5.7%
JPM Asia Credit Index-Core	USD	0.4%	1.8%	7.0%	9.9%
Asia Dollar Index	USD	0.1%	1.5%	-0.2%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.2%	0.3%	3.5%	6.4%
Top Performing Principal Funds					
			1-mth as of (31 August 2024)	YTD as of (31 August 2024)	
Equities					
Principal ASEAN Dynamic USD			3.36	16.62	
Principal Asia Pacific Renewables MYR			3.18	12.95	
Principal Global Millennial Equity Class USD			2.38	10.76	
Balanced					
Principal Islamic Global Selection Moderate USD			5.16	3.39	
Principal Islamic Global Selection Mdt Csv USD			5.11	3.49	
Principal China Multi Asset Income USD			1.48	5.83	
Fixed Income					
Principal Islamic Global Sukuk USD			2.41	-0.09	
Principal Asia Dynamic Bond MYR			2.08	1.03	
Principal Global Income USD			1.22	4.94	

Source: Bloomberg, market data is as of 13 September 2024.

*As we emphasise a long-term focus, the top performing funds were selected based on monthly performance.

*The numbers may show as negative if there is no positive return for the period under review.

* The fund performance was referenced from the daily performance report, data was extracted from Lipper.

* The performance figures are based on the fund's respective currency class.

*Past performance is not an indication of future performance.

Market Review ¹

1. This week, global financial markets experienced mixed returns. Among developed markets, the US saw the most significant gains, followed by Japan and Europe.
2. Across Asia, performance was mixed. India led the region in gains, while both onshore and offshore markets of China faced the largest declines. In Malaysia, the FBMKLCI closed marginally negative amidst cautious sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield approached the 3.6% mark as markets as market weighed the latest inflation data and considered the outlook for interest rates. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the United States, the annual inflation rate slowed for a fifth consecutive month to 2.5% in August, the lowest since February 2021, down from 2.9% in July and below forecasts of 2.6%. Meanwhile, core inflation steadied at an over three-year low of 3.2%, but the monthly core inflation rate edged up to 0.3% from 0.2%, attributed to higher shelter costs.²
2. In Europe, the ECB cut the deposit facility rate by 25 bps to 3.5% to ease monetary policy restrictions, reflecting an updated inflation outlook and better transmission of policy. Also, the interest rates on the main refinancing operations and the marginal lending facility were lowered to 3.65% and 3.90% respectively starting from September 18th. The ECB remains committed to bringing inflation back to its 2% target, adjusting rates based on data and economic conditions without committing to a specific rate path.³
3. In China, the trade surplus widened in August as exports grew more than expected, while imports missed forecasts. Exports increased by 8.7% yoy in August, the most since March 2023, reaching a 23-month peak of USD 308.65 billion, exceeding forecasts and accelerating from a 7.0% rise in July. It marked the fifth straight month of growth, supported by foreign sales despite growing trade tensions with the West. The annual inflation rate edged up to 0.6% in August from 0.5% in July, falling short of market forecasts. Nevertheless, it was the highest point since February, marking the 7th straight month of consumer inflation, amid supply issues due to extreme heat and heavy rains.⁴
4. In Malaysia, industrial production advanced by 5.3% year-on-year in July, up from a 5.0% increase in the previous month and exceeding market forecasts of a 4.5% growth. Retail sales grew by 6.4% year-on-year in July, slowing from a 7.9% rise in the previous month. This marked the slowest expansion in retail activity since April. Meanwhile, the unemployment rate ticked lower to 3.3% in July from 3.4% in the same month of the previous year, remaining steady for the ninth consecutive month.⁵

Investment Strategy ⁶

Volatility resurfaced recently due to soft data releases. Our base case remains for an economic soft landing in the US, with the Federal Reserve starting to ease policy at its September meeting. As markets continue to react to incoming data and headlines, we maintain the view that investors should remain invested and use the selloff to build a diversified portfolio focusing on quality. We have a slight preference for equities over fixed income. Fixed income has outperformed equities since mid-June. Asian equities look favourable with earnings growth of ~10% in 2025 and a PE of 13x.

1. We find bonds appealing with the potential for capital gains as we perceive that the global rate-cutting cycle remain on track. Therefore, we maintain our preference for investment grade bonds with longer durations as our preferred investment choice. For Malaysia, the projected improvement to the budget deficit, as provided in the Budget 2024, has improved the outlook for domestic bonds.
2. On equities, we prefer quality and dividend-paying stocks for their defensive characteristics, which can provide resilience in the face of uncertain macroeconomic and geopolitical conditions. Our positive outlook is focused on Asia and includes strategic positions in various areas: a) the bottoming tech hardware cycle, b) long-term growth potential driven by low penetration rates (such as India), c) recovery plays and structural themes in ASEAN, d) selective sectors with high dividends in China, and e) Malaysia's growing optimism due to political stability and potential gains from the New Energy Transition Roadmap, the New Industrial Master Plan 2030 and projected improvement to the budget deficit detailed in the Budget 2024.
3. We also favour diversification approach to ride out volatilities arising from geopolitical tensions, inflationary issues, and concerns of economic slowdown.

Sources:

- ¹ Bloomberg, 13 September 2024
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 13 September 2024
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 13 September 2024
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 13 September 2024
- ⁵ Department of Statistic Malaysia, S&P Global, 13 September 2024
- ⁶ Principal view, 13 September 2024

*PMI refers to Purchasing Manufacturing Index

*HCOB refers to Hamburg Commercial Bank

*NBS PMI refers to official data released by National Bureau of Statistic in China

*Caixin PMI refers to data published by Caixin Media and ISH Markit. It provides alternative gauge focusing on smaller and medium-sized enterprises.

*ECB refers to European Central Bank

*PBOC refers to People's Bank of China

*PCE refers to Personal Consumption Expenditure

FOMC: Federal Open Market Committee

*y-o-y refers to year on year

*m-o-m refers to month on month

*UST refers to United States Treasury

*BNM refers to Bank Negara Malaysia

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