14th February 2025

Weekly Market Recap

Principal®
In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2024
Equities					
MSCI World	USD	1.8%	5.9%	5.1%	17.0%
S&P 500	USD	1.5%	4.7%	4.0%	23.3%
Nasdaq	USD	2.9%	6.5%	5.2%	24.9%
Russell 2000	USD	0.0%	2.7%	2.2%	10.0%
Stoxx 600-Europe	EUR	1.8%	8.7%	8.9%	6.0%
Nikkei 225	JPY	0.9%	1.7%	-2.0%	19.1%
MSCI Asia Pac ex-Japan	USD	1.7%	6.4%	4.1%	7.6%
ASEAN	USD	0.8%	3.1%	0.4%	7.7%
Shanghai Shenzhen CSI 300 Index	CNY	1.1%	3.0%	0.1%	14.7%
Hang Seng Index	HKD	6.9%	17.3%	12.8%	17.5%
Shanghai Stock Exchange Composite Index	CNY	1.2%	3.1%	-0.1%	12.7%
FBMKLCI	MYR	0.0%	1.0%	-3.1%	12.8%
Fixed Income					
Bberg Barclays Global Agg Index	USD	0.5%	2.9%	1.5%	-1.7%
JPM Asia Credit Index-Core	USD	0.0%	1.8%	1.2%	6.0%
Asia Dollar Index	USD	0.6%	1.1%	0.8%	-4.1%
Bloomberg Malaysia Treasury -10 Years	MYR	0.1%	0.4%	0.5%	4.3%

Top Performing Principal Funds	1-mth as of (31 January 2025)	YTD as of (31 January 2025)
Equities		
Principal Next-G Connectivity	3.11	3.11
Principal Global Titans	3.07	3.07
Principal Biotechnology Discovery USD	2.79	2.79
Balanced		
Principal Heritage Balanced SGD	0.98	0.98
Principal Heritage Balanced MYR Hedged	0.96	0.96
Principal Islamic Global Selection Moderate USD	0.87	0.87
Fixed Income		
Principal Sustainable Dynamic Bond MYR	0.42	0.42
Principal Conservative Bond	0.35	0.35
Principal Lifetime Bond	0.35	0.35

Source: Bloomberg, market data is as of 14 February 2025.
*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, the global financial markets exhibited mixed performance. Among developed markets, Europe experienced the largest gains, followed by the United States and Japan.

2. Across Asia, market performance was mixed. South Korea, as well as both onshore and offshore markets in China posted the largest gains, while India experienced the largest decline. In Malaysia, the FBMKLCI closed slightly positive, driven by the recovery of sentiment in the regional market.

3. In the bond market, the US 10-year Treasury yield hovered in the 4.5% range as investors assessed the state of the economy after a slew of reports this week. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the U.S., the Federal Reserve kept the fed funds rate steady in the 4.25%-4.5% range during its January 2025 meeting, in line with expectations. The central bank paused its rate-cutting cycle after three consecutive reductions in 2024 that totalled a full percentage point. Chair Powell stated that the Fed is not in a hurry to lower interest rates and paused cuts to assess further progress on inflation. The annual inflation rate in the U.S. edged up to 3% in January 2025, compared to 2.9% in December 2024, and above market forecasts of 2.9%, indicating stalled progress in curbing inflation. [2]

2. In Europe, the Eurozone economy grew by 0.1% in Q4 2024, slightly better than the initial flat reading but still the weakest performance of the year, according to Eurostat's second estimate. The bloc's largest economies contracted, with Germany's GDP shrinking by 0.2% and France's by 0.1%, while Italy stagnated for a second quarter. Employment in the Euro area rose by 0.1% to 171.17 million, slowing from a 0.2% increase in the previous period. Eurozone industrial production fell by 1.1% month-over-month in December, reversing the upwardly revised 0.4% growth in November and compared to expectations of a 0.6% decline.[3]

3. In China, the current account surplus reached a record $180.7 billion in Q4 2024, up from $56.2 billion in the same period last year and $148 billion in Q3, according to a preliminary estimate. In January 2025, Chinese banks extended a record CNY 5,130 billion in new yuan loans, surpassing December's CNY 990 billion and significantly exceeding forecasts of CNY 800 billion. [4]

4. In Malaysia, the economy grew by 5.1% in 2024, surpassing the government's 4%–5% target and up from a revised 3.6% in 2023. Foreign direct investment (FDI) inflows rose to MYR 18.38 billion in Q4 2024, up from MYR 14.52 billion in Q3, marking the highest annual amount. Most FDI targeted the services sector, particularly information & communication and financial activities. The current account surplus surged to MYR 11.42 billion in Q4 2024, recovering from a record low of MYR 0.91 billion a year earlier. Retail sales increased by 5.4% year-on-year in December 2024, down from a 5.8% rise the previous month. [5]

Investment Strategy [6]

The market continues to react to concerns of tariff threats and asset volatility. Still, recent data highlight ongoing economic growth, bolstered by continued Federal Reserve rate cuts and a positive US macro backdrop. As specific policy plans emerge, investors should brace for market fluctuations and consider using significant changes to enhance their long-term portfolios. We slightly prefer equities over fixed income. Key themes for 2025 include: i) the impact of policy shifts on China's recovery; ii) the U.S. economic outlook regarding a soft landing; and iii) the influence of geopolitical risks on asset prices.

1. Equities: We favour quality, dividend-paying stocks for their defensive nature amid macroeconomic uncertainties. Our focus is on Asia, targeting: a) idiosyncratic ideas where company earnings are primarily influenced by domestic economic factors; b) selective Chinese domestic consumption which appeared deeply discounted; c) technology (beneficiaries of AI and internet platforms); d) industrial names with exposure to grid capex; e) strong consumer and banking franchises in Southeast Asia; and f) selective Indian companies that are reasonably valued with growth potential. Additionally, we note Malaysia's positive outlook due to political stability and initiatives like the New Energy Transition Roadmap.

2. Fixed Income: We adopt active approach in anticipation of market volatility by targeting various maturities along the yield curve that could add value. Maintain preference on credit with disciplined profit taking activities once valuation turns expensive and replaced with new primary issuances or tactical position in government bonds. We maintain our overweight duration bias relative to the benchmark as the current market conditions still remains favorable.

3. Diversification: We recommend a diversified approach to navigate volatility from geopolitical tensions, central bank rate cuts, and market adjustments following the U.S. election.

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Sources:

[1] Bloomberg, 14 February 2025
[2] Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 14 February 2025
[3] S&P Global, ECB, Factset, Bank of England (BoE), 14 February 2025
[4] Bloomberg, National Bureau of Statistic China, CEWC, 14 February 2025
[5] Department of Statistic Malaysia, S&P Global, 14 February 2025
[6] Principal view, 14 February 2025

*PMI refers to Purchasing Manufacturing Index
*HCOB refers to Hamburg Commercial Bank
*NBS PMI refers to official data released by National Bureau of Statis 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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