

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	0.3%	1.6%	10.3%	21.7%
S&P 500	USD	1.6%	3.6%	13.9%	24.2%
Nasdaq	USD	3.5%	7.4%	16.9%	53.8%
Stoxx 600-Europe	EUR	-2.6%	-2.4%	7.2%	12.7%
MSCI Asia Pac ex-Japan	USD	0.1%	1.0%	6.7%	4.5%
ASEAN	USD	-2.8%	-3.4%	-4.5%	0.7%
Shanghai Shenzhen CSI 300 Index	CNY	-0.7%	-2.7%	3.7%	-11.4%
Hang Seng Index	HKD	-2.3%	-5.2%	6.3%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	-0.5%	-3.1%	2.5%	-3.7%
FBMKLCI	MYR	-0.5%	0.1%	10.5%	-2.8%
Fixed Income					
Bberg Barclays Global Agg Index	USD	0.5%	0.7%	-2.5%	5.7%
JPM Asia Credit Index-Core	USD	0.4%	1.7%	3.3%	9.9%
Asia Dollar Index	USD	-0.3%	-0.3%	-3.1%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.1%	0.6%	1.7%	6.4%
Top Performing Principal Funds					
(1 month return as of 31 May 2024)					
Equities					
Principal Islamic Small Cap Opportunities			6.61	19.29	
Principal Next-G Connectivity USD			6.39	22.24	
Principal Islamic Malaysia Opportunities			5.40	26.13	
Balanced					
Principal Lifetime Balanced			4.87	16.79	
Principal Dynamic Enhanced Malaysia Income			4.61	15.07	
Principal Lifetime Balanced Income			3.94	14.95	
Fixed Income					
Principal Islamic Global Sukuk USD			0.70	-0.98	
Principal Islamic Lifetime Sukuk			0.61	2.12	
Principal Lifetime Bond			0.59	2.00	

Source: Bloomberg, market data is as of 14th June 2024.

*As we emphasise a long-term focus, the top performing funds were selected based on their 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 mix performances. In developed markets, the United States and Japan led the gains, while Europe faced negative returns.
2. Across Asia, performance was varied. Taiwan and South Korea's bourses saw an increase, while China on-shore and off-shore markets experienced declines. In Malaysia, the FBMKLCI had muted gains attributed to the cautious sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield fell to around 4.2% after recent data revealed a decline in inflation. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the US, the annual inflation rate unexpectedly slowed to 3.3% in May, which was lower than April's 3.4%. This slowdown is attributed to lower prices in food, transportation, and shelter. Meanwhile, core inflation also slowed to 3.4% annually, marking the lowest rate since April 2021 and falling below the consensus of 3.5%. The Federal Reserve maintained the interest rate steady at 5.25%-5.50% for the 7th consecutive meeting in June, in line with forecasts. Policymakers reiterated that the interest rate is likely to remain higher until inflation shows sustainable movement towards 2%. Additionally, the dot plot revealed that policymakers anticipate only one rate cut this year and four reductions in 2025. ²
2. In Europe, industrial production declined by 0.1% month-over-month in April, reversing the 0.5% growth seen in the previous month and falling below the expected increase of 0.2%. This deceleration was primarily due to a decline in intermediate goods output, while the production of capital goods advanced at a slower pace. ³
3. In China, the annual inflation rate remained steady at 0.3% in May for the second consecutive month, falling short of market forecasts of 0.4%. This marks the fourth consecutive month of increases, indicating an ongoing recovery in domestic demand. Meanwhile, core consumer prices, which exclude food and energy costs, increased by 0.6% year-on-year, compared to a 0.7% rise in April. ⁴
4. In Malaysia, retail sales slowed to 5.5% year-on-year in April, down from a nearly one-year high of 7.1% in the previous month. On the other hand, industrial production grew by 6.1% year-on-year in April, accelerating from a 2.4% rise in the previous month. Furthermore, the unemployment rate decelerated to 3.3% in April from 3.5% in the same month of the previous year. ⁵

Investment Strategy ⁶

As markets continue to react to incoming data and headlines, we maintain the view that investors should ensure their portfolios are well diversified and focus on quality. We believe China/HK has bottomed as policy towards the residential property market has turned to one of clear support. While the quantum and scope is arguably insufficient, the change in direction is more important at this stage. We now have a slight preference for equities over fixed income. The equities outlook in the second half will be supported by a moderation in the trend of earnings downgrades in Asia.

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, provided in the Budget 2024, 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 benefiting from China's reopening, 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 income-focused approach to ride out volatilities arising from geopolitical tensions, inflationary issues, and concerns of economic slowdown.

Sources:

- ¹ Bloomberg, 14th June 2024
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 14th June 2024
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 14th June 2024
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 14th June 2024
- ⁵ Department of Statistic Malaysia, S&P Global, 14th June 2024
- ⁶ Principal view, 14th June 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

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