

## Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2024
<b>Equities</b>					
MSCI World	USD	2.7%	-0.9%	1.9%	17.0%
S&P 500	USD	2.9%	-0.9%	1.9%	23.3%
Nasdaq	USD	2.8%	-2.6%	2.0%	24.9%
Russell 2000	USD	3.9%	-2.5%	2.0%	10.0%
Stoxx 600-Europe	EUR	2.4%	1.9%	3.2%	6.0%
Nikkei 225	JPY	-1.9%	-2.2%	-3.6%	19.1%
MSCI Asia Pac ex-Japan	USD	1.0%	-2.5%	-0.7%	7.6%
ASEAN	USD	0.1%	-2.2%	-1.2%	7.7%
Shanghai Shenzhen CSI 300 Index	CNY	2.1%	-2.7%	-3.0%	14.7%
Hang Seng Index	HKD	2.8%	-0.2%	-2.0%	17.5%
Shanghai Stock Exchange Composite Index	CNY	2.3%	-3.3%	-3.1%	12.7%
FBMKLCI	MYR	-2.3%	-2.1%	-4.7%	12.8%
<b>Fixed Income</b>					
Berg Barclays Global Agg Index	USD	0.9%	-1.6%	-0.4%	-1.7%
JPM Asia Credit Index-Core	USD	0.4%	-0.3%	0.2%	6.0%
Asia Dollar Index	USD	0.1%	-1.0%	-0.3%	-4.1%
Bloomberg Malaysia Treasury -10 Years	MYR	0.0%	0.3%	0.2%	4.3%
<b>Top Performing Principal Funds</b>					
		1-mth as of		YTD as of	
		(31 December 2024)		(31 December 2024)	
<b>Equities</b>					
Principal DALI Equity Growth		7.04		30.44	
Principal Islamic Small Cap Opportunities		6.21		42.71	
Principal Malaysia Titans Plus		5.50		27.41	
<b>Balanced</b>					
Principal Lifetime Balanced		4.10		22.86	
Principal Lifetime Balanced Income		3.73		20.54	
Principal Islamic Lifetime Balanced Growth		3.68		20.72	
<b>Fixed Income</b>					
Principal Islamic Lifetime Enhanced Sukuk		2.60		10.07	
Principal Lifetime Enhanced Bond		0.41		5.10	
Principal Money Market Income		0.31		3.69	

Source: Bloomberg, market data is as of 17th January 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 <sup>1</sup>

1. This week, the global financial markets exhibited a mixed performance. Among developed markets, the United States experienced the largest gains, while Japan experienced declines.
2. Across Asia, markets performance was also mixed. Both onshore and offshore markets in China posted the largest gains, while Thailand experienced the steepest decline. In Malaysia, the FBMKLCI closed slightly negative, weighed down by the cautious sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield edged lower to the 4.6 range as investors accessed the latest inflation outlook. (It's worth noting that bond prices move in the opposite direction of bond yields.)

## Macro Factors

1. In the U.S., the annual inflation rate rose for a 3rd consecutive month to 2.9% in December 2024 from 2.7% in November, in line with market expectations. This year-end rise is partly driven by low base effects from last year, particularly for energy. Core inflation, on the other hand, eased to 3.2% in December 2024, down from 3.3% in the previous three months and slightly below market forecast. Retail sales increased 0.4% month-over-month in December 2024, decelerating from an upwardly revised 0.8% rise in November and below forecast. Despite the slowdown, the figures continue to point to a robust consumer spending.<sup>2</sup>
2. In Europe, the European Central Bank (ECB) emphasized a cautious and gradual approach to cutting interest rates but signalled that more easing is likely, according to minutes from its December 11-12 meeting.<sup>3</sup>
3. In China, the economy expanded by 5.4% yoy in Q4 2024, topping market estimates of 5.0% and accelerating from a 4.6% rise in Q3. It was the strongest annual growth rate in 1 and the half years, boosted by a series of stimulus measures introduced since last September. Trade surplus soared to USD 104.84 billion in December 2024, up from USD 75.31 billion in the same period a year earlier, surpassing expectations and driven by higher export growth. Retail sales rose by 3.7% year-on-year in December 2024, accelerating from November's 3-month low of 3.0% and exceeding market consensus of 3.5%.<sup>4</sup>
4. In Malaysia, retail sales rose 5.8% year-on-year in November 2024, easing from a four-month high of 7.1% in October. Sales slowed across most sub-indexes, particularly in non-specialized stores, food, beverages, and tobacco, and automotive fuel.<sup>5</sup>

## Investment Strategy <sup>6</sup>

Volatility has emerged since the start of 2025, but the latest inflation data in the US has provided some relief to the market. While we expect the Fed to remain cautious in the near term, the recent softer inflation data has reinforced a constructive outlook for equities and fixed income in 2025. 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.

Sources:

- <sup>1</sup> Bloomberg, 17th January 2025
- <sup>2</sup> Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 17th January 2025
- <sup>3</sup> S&P Global, ECB, Factset, Bank of England (BoE), 17th January 2025
- <sup>4</sup> Bloomberg, National Bureau of Statistic China, CEWC, 17th January 2025
- <sup>5</sup> Department of Statistic Malaysia, S&P Global, 17th January 2025
- <sup>6</sup> Principal view, 17th January 2025

\*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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