

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	-2.5%	-0.3%	17.5%	21.7%
S&P 500	USD	-2.0%	0.3%	24.4%	24.2%
Nasdaq	USD	-2.3%	3.0%	26.6%	53.8%
Russell 2000	USD	-4.5%	-3.6%	10.6%	15.1%
Stoxx 600-Europe	EUR	-2.8%	0.2%	4.9%	12.7%
Nikkei 225	JPY	-1.9%	0.9%	15.4%	28.3%
MSCI Asia Pac ex-Japan	USD	-3.4%	-2.6%	6.9%	4.5%
ASEAN	USD	-4.5%	-4.1%	5.7%	-3.1%
Shanghai Shenzhen CSI 300 Index	CNY	-0.1%	-1.4%	14.5%	-11.4%
Hang Seng Index	HKD	-1.3%	-0.1%	15.6%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	-0.6%	0.0%	13.3%	-3.7%
FBMKLCI	MYR	-1.1%	-0.4%	9.4%	-2.8%
Fixed Income					
Bberg Barclays Global Agg Index	USD	-0.9%	-0.3%	-1.4%	5.7%
JPM Asia Credit Index-Core	USD	-0.9%	-0.3%	5.9%	9.9%
Asia Dollar Index	USD	-0.5%	-1.0%	-3.8%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	-0.1%	0.2%	4.1%	6.4%

Top Performing Principal Funds

	1-mth as of (30 November 2024)	YTD as of (30 November 2024)
Equities		
Principal US High Conviction Equity USD	12.48	24.13
Principal Global Technology USD	5.68	24.91
Principal Islamic Small Cap Opportunities	4.32	34.37
Balanced		
Principal Global Multi Asset Income MYR	3.08	5.09
Principal Lifetime Balanced (70:30)	0.64	18.02
Principal Lifetime Balanced Income (60:40)	0.62	16.21
Fixed Income		
Principal Conservative Bond	0.36	3.90
Principal Islamic Lifetime Sukuk	0.33	4.03
Principal Lifetime Bond	0.32	3.85

Source: Bloomberg, market data is as of 20th December 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, the performance of the global financial markets was largely negative. Among developed markets, Europe experienced the largest decline, followed by Japan and the United States.
2. Across Asia, markets performance was largely in the red. India experienced the largest decline, followed by Thailand and Indonesia. In Malaysia, the FBMKLCI closed slightly negative, with weakness observed in Industrials, Consumer, and Energy sectors.
3. In the bond market, the US 10-year Treasury yield edged up closer to 4.5 range as investors digested the US Fed's rate decisions and the key inflation data. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the U.S., the Fed announced another 25bps cut to the federal funds rate in December 2024, marking the third consecutive reduction this year and bringing borrowing costs to the 4.25%-4.5% range, in line with expectations. The dot plot now just projects two rate cuts in 2025, totalling 50 basis points, compared to the 100 bps of reductions projected in the previous quarter. The Fed also revised its GDP growth forecasts upward for 2024 (2.5% vs to 2% in the September projection) and 2025 (2.1% vs 2%), while remaining steady at 2% for 2026. Retail sales increased 0.7% mom in November 2024, following an upwardly revised 0.5% rise in October and above forecasts. The data continued to point to a robust consumer spending during the holiday shopping season.²
2. In Europe, the annual inflation rate increased to 2.2% in November 2024 from 2% in October. This year-end increase was largely expected due to base effects, as last year's sharp declines in energy prices are no longer factored into annual rates. The HCOB Flash Eurozone Composite PMI increased to 49.5 in December 2024 from 48.3 in November, beating forecasts of 48.2, preliminary estimates showed. While the reading indicated a second consecutive monthly decline in private sector activity, the contraction eased.³
3. In China, industrial production expanded by 5.4% yoy in November 2024, mildly exceeding market estimates and the growth rate in October of 5.3%, mainly supported by faster rises in manufacturing (6.0% vs 5.4% in October). Retail sales rose by 3% year-on-year in November 2024, slowing from a 4.8% growth in the previous month and below market expectations of a 4.6% gain. This marked the weakest growth in retail activity since August.⁴
4. In Malaysia, export grew by 4.1% yoy to MYR 126.6 billion in November 2024, easily exceeding market forecasts of 1.3% and accelerating from a 1.6% rise in the prior month. Trade surplus widened to MYR 15.3 billion in November 2024 from a marginally revised MYR 12.1 billion in the same month of 2023, surpassing market estimates.⁵

Investment Strategy ⁶

In the year ahead, leading into 2025, we analyse the next phase of the market, including political changes in the US, potential higher inflation, the changing narrative around interest rates, and the implication on trade tariff on Asia market. 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) Chinese domestic consumption; 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: The recent correction in MGS/MGII has made government bonds more attractive, but caution is advised due to potential short-term volatility after the U.S. elections. We continue to prefer new corporate bond issuances, which offer better yield and valuations.
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:

- ¹ Bloomberg, 20th December 2024
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 20th December 2024
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 20th December 2024
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 20th December 2024
- ⁵ Department of Statistic Malaysia, S&P Global, 20th December 2024
- ⁶ Principal view, 20th December 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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