

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	1.8%	2.0%	15.2%	21.7%
S&P 500	USD	1.5%	1.5%	18.2%	24.2%
Nasdaq	USD	1.1%	-0.1%	17.2%	53.8%
Russell 2000	USD	3.6%	-1.1%	9.4%	15.1%
Stoxx 600-Europe	EUR	1.3%	0.6%	8.3%	12.7%
Nikkei 225	JPY	0.8%	-3.2%	14.4%	28.3%
MSCI Asia Pac ex-Japan	USD	1.1%	1.1%	8.8%	4.5%
ASEAN	USD	3.3%	6.9%	7.6%	-3.1%
Shanghai Shenzhen CSI 300 Index	CNY	-0.7%	-4.0%	-2.8%	-11.4%
Hang Seng Index	HKD	1.1%	-0.2%	3.3%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	-1.1%	-3.2%	-3.8%	-3.7%
FBMKLCI	MYR	0.7%	0.4%	12.3%	-2.8%
Fixed Income					
Berg Barclays Global Agg Index	USD	1.3%	4.2%	2.4%	5.7%
JPM Asia Credit Index-Core	USD	0.4%	2.0%	5.9%	9.9%
Asia Dollar Index	USD	0.9%	2.7%	-0.7%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.1%	0.7%	3.2%	6.4%

Top Performing Principal Funds

	1-mth as of (31 July 2024)	YTD as of (31 July 2024)
Equities		
Principal US High Conviction Equity USD	6.81	8.17
Principal Biotechnology Discovery USD	6.04	15.19
Principal Islamic Enhanced Opportunities	5.83	35.30
Balanced		
Principal Lifetime Balanced	3.99	23.14
Principal Islamic Lifetime Balanced Growth	3.92	19.50
Principal Dynamic Enhanced Malaysia Income	3.44	20.51
Fixed Income		
Principal Lifetime Enhanced Bond	1.01	4.28
Principal Lifetime Bond	0.66	3.08
Principal Conservative Bond	0.61	2.88

Source: Bloomberg, market data is as of 23 August 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 extended their rally after the US Fed signalled that interest rate cuts are imminent, reinforcing expectations that the central bank will begin easing monetary policy in September. In developed markets, US experienced the largest gains, followed by the Europe and Japan.
2. Across Asia, the overall performance was positive. The largest gains were led by Thailand and Indonesia, while China onshore and Taiwan led the decline. In Malaysia, the FBMKLCI achieved modest gains amid the return of positive sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield edged closer to the 3.8% range as markets continued to assess the magnitude of Fed rate cuts this year. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the United States, the Bureau of Labor Statistics' recent revision showed that US job growth for the year ending in March 2024 was weaker than initially reported, with 818,000 fewer jobs added. This has raised concerns about a softer labour market. The revision coincided with signals of incoming rate cuts by FOMC members, as per the latest minutes release. Policymakers noted that a September cut is likely appropriate, thereby strengthening expectations that the Fed will deliver 100 basis points or more in rate cuts in their three remaining decisions this year. ²
2. In Europe, annual inflation rose to 2.6% in July from 2.5% in the previous month, aligning with the preliminary estimate and surpassing initial market expectations that it would slow to 2.4%. The core rate, excluding energy, food, alcohol, and tobacco, remained unchanged from the previous month at 2.9%, surpassing initial market expectations of 2.8%. Construction activities rose by 1% year-on-year in June 2024, following a downwardly revised 2.1% slump in the previous month. This marks the first increase in construction activity since January of this year. ³
3. In China, the PBOC left key lending rates unchanged at the August fixing, in line with market forecasts. The one-year loan prime rate (LPR), the benchmark for most corporate and household loans, was maintained at 3.45%. Meanwhile, the five-year rate, a reference for property mortgages, was retained at 3.85%. Both rates remain at record lows following unexpected rate reductions in July. Chinese authorities recently stated they would avoid any "drastic" measures for the economy, but the central bank will accelerate the implementation of existing financial policies, study new steps, and support proactive fiscal measures. ⁴
4. In Malaysia, the trade surplus plunged to MYR 6.4 billion in July from MYR 17.4 billion in the same month of the previous year, significantly lower than market estimates. This was attributed to softer exports, which grew by 12.1% compared to imports that rose by 24%. The annual inflation was at 2.0% in July, coming slightly less than market expectations of 2.1% while keeping unchanged for the third straight month. Figures stayed at their highest level since August 2023. ⁵

Investment Strategy ⁶

The recent rebound in markets underlines the views that investors should avoid overreacting to bouts of volatility. 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 ensure their portfolios are well diversified and focus 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, 23 August 2024
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 23 August 2024
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 23 August 2024
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 23 August 2024
- ⁵ Department of Statistic Malaysia, S&P Global, 23 August 2024
- ⁶ Principal view, 23 August 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 refers to 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

Disclaimer:

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness, or correctness. Expressions of opinion contained herein are those of Principal Asset Management Berhad only and are subject to change without notice. This document should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell Principal Asset Management Berhad's investment products. The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment. We recommend that investors read and understand the contents of the funds' prospectus and product highlights sheet available on the Principal website, which have been duly registered with the Securities Commission Malaysia (SC). Registration of these documents does not amount to nor indicate that the SC has recommended or endorsed the product or service. There are risks, fees and charges involved in investing in the funds. You should understand the risks involved, compare, and consider the fees, charges and costs involved, make your own risk assessment, and seek professional advice, where necessary. This article has not been reviewed by the SC.