

Market Data

Source: Bloomberg, market data is as of 25th 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 ¹

1. This week, the global financial markets exhibited positive performance. Among developed markets, Japan experienced the largest gains, followed by the United States and Europe.
2. Across Asia, market performance was largely positive. Hong Kong posted the largest gains, followed by Taiwan and Thailand. In Malaysia, the FBMKLCI closed slightly positive, supported by the recovering sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield remained unchanged in the 4.6 range as investors accessed the latest developments from Trump's administration and looked ahead. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the U.S., the market was supported by relief over Trump administration unexpectedly softer trade measure after his first day in office. The administration threatened to impose a 10% tariff on goods imported from China, set to begin on February 1, just one day after threatening Mexico and Canada with tariffs of approximately 25%. However, none of these threats have been turned into policy yet. The S&P Global Flash US Composite PMI eased to 52.4 in January 2025, down from December's 55.4. Growth in the manufacturing sector (PMI at 50.1 vs 49.4 in December) resumed after six months of contraction, while the service sector (PMI at 52.8 vs 56.8) maintained slower but sustained expansion. ²
2. In Europe, the HCOB Eurozone Composite PMI rose to 50.2 in January of 2025 from 49.6 in the previous month, to mark the first expansion in the Eurozone's private sector activity since August 2024, according to a flash estimate. The services sector remained in expansion which help to offset a sharp contraction in manufacturing. ³
3. In China, the PBOC kept its key lending rates unchanged for the third consecutive month in January fixing, aligning with market expectations. The one-year loan prime rate (LPR), a benchmark for most corporate and household loans, was maintained at 3.1%, while the five-year LPR, which serves as a reference for property mortgages, was retained at 3.6%. Both rates are at record lows following rate reductions last year in October and July. The renewed pressure on the yuan limits the central bank's ability to ease further monetary policy, and growing caution about potential US policy shifts under the incoming Trump administration. ⁴
4. In Malaysia, the annual inflation rate stood at 1.7% in December 2024, slightly below market consensus and November's print of 1.8%. Trade surplus widened to MYR 19.2 billion in December 2024 from a marginally revised MYR 11.8 billion in the same month of 2023, surpassing market estimates as exports grew more than imports. ⁵

Investment Strategy ⁶

Volatility has emerged since the start of 2025, but the unexpectedly softer trade measures from Trump administration have provided some relief to the market. The ongoing easing stance by the US Fed, despite being slower than before, has also 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:

- ¹ Bloomberg, 25th January 2025
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 25th January 2025
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 25th January 2025
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 25th January 2025
- ⁵ Department of Statistic Malaysia, S&P Global, 25th January 2025
- ⁶ Principal view, 25th 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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