31 January 2025

Weekly Market Recap

Principal®
In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2024
Equities					
MSCI World	USD	-0.5%	3.4%	3.4%	17.0%
S&P 500	USD	-1.0%	2.7%	2.7%	23.3%
Nasdaq	USD	-1.4%	2.2%	2.2%	24.9%
Russell 2000	USD	-0.9%	2.5%	2.5%	10.0%
Stoxx 600-Europe	EUR	1.8%	6.3%	6.3%	6.0%
Nikkei 225	JPY	-1.0%	-0.9%	-0.9%	19.1%
MSCI Asia Pac ex-Japan	USD	0.1%	1.3%	1.3%	7.6%
ASEAN	USD	-1.0%	-0.5%	-0.5%	7.7%
Shanghai Shenzhen CSI 300 Index	CNY	-0.4%	-2.9%	-2.9%	14.7%
Hang Seng Index	HKD	0.8%	1.2%	1.2%	17.5%
Shanghai Stock Exchange Composite Index	CNY	-0.1%	-2.8%	-2.8%	12.7%
FBMKLCI	MYR	-1.0%	-5.2%	-5.2%	12.8%
Fixed Income					
Bberg Barclays Global Agg Index	USD	0.1%	0.6%	0.6%	-1.7%
JPM Asia Credit Index-Core	USD	0.4%	0.6%	0.6%	6.0%
Asia Dollar Index	USD	-0.4%	0.6%	0.6%	-4.1%
Bloomberg Malaysia Treasury -10 Years	MYR	0.1%	0.4%	0.4%	4.3%

Top Performing Principal Funds	1-mth as of (31 December 2024)	YTD as of (31 December 2024)
Equities		
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
Balanced		
Principal Lifetime Balanced	4.10	22.86
Principal Lifetime Balanced Income	3.73	20.54
Principal Islamic Lifetime Balanced Growth	3.68	20.72
Fixed Income		
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 31 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 mixed performance. Among developed markets, Europe experience positive gains, while the United States and Japan experienced decline.

2. Across Asia, market performance was mixed. India posted the largest gains, while Thailand experienced the largest decline. In Malaysia, the FBMKLCI closed slightly negative, driven by the cautious sentiment in the regional market.

3. In the bond market, the US 10-year Treasury yield edged closer to the 4.5% range as investors accessed the tariff announcement from White House against Mexico, Canada and China. Investors also closely monitoring the latest inflation reading. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the U.S., the Federal Reserve kept the fed funds rate unchanged in the 4.25%-4.5% range during its January 2025 meeting, in line with expectations. The Fed indicates that they are not in a hurry to lower interest rates and will continue to maintain a data-dependent approach to monitor further progress on inflation. The headline annual PCE inflation edged up to 2.6% in December 2024 from 2.4% in November. Core PCE rose by 0.2% from the previous month in December of 2024, picking up slightly from the six-month low of 0.1% in the earlier month. The US economy expanded at an annualized 2.3% in Q4 2024, down from 3.1% in Q3 and forecasts of 2.6%, according to the advance estimate. [2]

2. In Europe, the economy unexpectedly stalled in Q4 2024, marking its weakest performance of the year, following a 0.4% growth in Q3 and an anticipated 0.1% expansion, according to preliminary estimates. The ECB lowered its key interest rates by 25 basis points in January 2025, as expected, reducing the deposit facility rate to 2.75%, the main refinancing rate to 2.90%, and the marginal lending rate to 3.15%. This move reflects the ECB's updated inflation outlook, with price pressures easing in line with projections. The unemployment rate ticked up to 6.3% in December 2024, compared to a revised record low of 6.2% in November. [3]

3. In China, the official NBS Manufacturing PMI unexpectedly fell to 49.1 in January 2025, missing both estimates and December's reading of 50.1. This marked the first contraction in the manufacturing sector since September and the steepest decline in five months, amid sluggish factory activity ahead of the Lunar New Year festival. [4]

4. In Malaysia, the producer prices index climbed 0.5% year-on-year in December 2024, rebounding from a 0.4% decline in the previous month. [5]

Investment Strategy [6]

The market continues to react to concerns of tariff threats and asset volatility. Still, recent data highlight ongoing economic growth, bolstered by continued Federal Reserve rate cuts and a positive US macro backdrop. 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, 31 January 2025
[2] Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 31 January 2025
[3] S&P Global, ECB, Factset, Bank of England (BoE), 31 January 2025
[4] Bloomberg, National Bureau of Statistic China, CEWC, 31 January 2025
[5] Department of Statistic Malaysia, S&P Global, 31 January 2025
[6] Principal view, 31 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 Statis 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