5th July 2024

Weekly Market Recap

Principal® In alliance with CIMB

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	1.9%	2.7%	13.0%	21.7%
S&P 500	USD	1.9%	3.9%	16.7%	24.2%
Nasdaq	USD	3.6%	7.1%	21.2%	53.8%
Stoxx 600-Europe	EUR	1.0%	-1.5%	8.0%	12.7%
Nikkei 225	JPY	3.4%	6.4%	22.1%	28.3%
MSCI Asia Pac ex-Japan	USD	1.9%	3.9%	9.4%	4.5%
ASEAN	USD	2.8%	2.4%	0.1%	0.7%
Shanghai Shenzhen CSI 300 Index	CNY	-0.9%	-4.1%	0.7%	-11.4%
Hang Seng Index	HKD	0.8%	-2.8%	5.7%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	-0.6%	-3.0%	0.1%	-3.7%
FBMKLCI	MYR	1.3%	0.3%	10.8%	-2.8%
Fixed Income					
Bberg Barclays Global Agg Index	USD	0.7%	-0.2%	-2.5%	5.7%
JPM Asia Credit Index-Core	USD	0.1%	0.5%	3.1%	9.9%
Asia Dollar Index	USD	0.0%	-0.2%	-3.2%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.1%	0.4%	2.0%	6.4%

Top Performing Principal Funds (1 month return as of 30 June 2024)	1-mth as of (30 June 2024)	YTD as of (30 June 2024)
Equities		
Principal Islamic Global Technology USD	8.72	19.64
Principal Next-G Connectivity USD	7.61	28.37
Principal Islamic Asia Pacific Dynamic Equity	7.31	10.69
Balanced		
Principal Asia Pacific Dynamic Mixed Asset MYR	4.12	9.95
Principal Islamic Lifetime Balanced	3.83	11.31
Principal World Selection Moderate USD	1.59	5.61
Fixed Income		
Principal Islamic Lifetime Enhanced Sukuk	0.57	4.03
Principal Islamic Lifetime Sukuk	0.38	2.50
Principal Lifetime Bond	0.38	2.39

Source: Bloomberg, market data is as of 5 July 2024.
*As we emphasise a long-term focus, the top performing funds were selected based on their 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 experienced mix performances. In developed markets, Japan led the gains, followed by United States and Europe.
2. Across Asia, performance varied. The bourses in Taiwan and Indonesia saw increases, while the on-shore markets in China experienced declines. In Malaysia, the FBMKLCI achieved positive gains attributed to the positive sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield fell to the 4.2% range as markets continued to digest the economic data following the release of weaker job data. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the US, Federal Reserve officials at their June meeting indicated that inflation is moving in the right direction but not quickly enough for them to lower interest rates. The ISM Services PMI tumbled to 48.8 in June, the sharpest contraction since April 2020 and lower than the previous month's 53.8. Unemployment rose to 4.1% in June, the highest since November 2021, up from 4% in the previous month. [2]
2. In Europe, the inflation rate decreased to 2.50 percent in June from 2.60 percent in May. Meanwhile, core inflation remained unchanged at 2.90 percent. The unemployment rate also remained steady at 6.40 percent in May. Additionally, the HCOB Services PMI fell to 52.8 in June from the previous month's 53.2, indicating a slower pace of expansion in the currency bloc's services activity. This decline marked the fifth consecutive month of growth, albeit with reduced demand from foreign clients. [3]
3. In China, the Caixin manufacturing PMI accelerated up to 51.8 in June from 51.7 in May, beating market forecasts and marking the highest figure since May 2021. It was the eighth straight month of increase in factory activity, supported by growth in output and new orders. [4]
4. In Malaysia, the S&P Global Manufacturing PMI fell to 49.9 in June from 50.2 in May, marking the first growth in factory activity since August 2022. New orders showed a consecutive increase for the second month, although at a slower pace. Moreover, foreign sales experienced a third consecutive month of growth, driven by higher orders from Asia Pacific destinations. At the same time, production was slightly scaled back by firms after a previous increase in May, while staffing levels remained unchanged. [5]

Investment Strategy [6]

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 believe China/HK has bottomed as policy towards the residential property market has turned to one of clear support. While the quantum and scope is arguably insufficient, the change in direction is more important at this stage. We now have a slight preference for equities over fixed income. The equities outlook in the second half will be supported by a moderation in the trend of earnings downgrades in Asia.

1. We find bonds appealing with the potential for capital gains as we perceive that the global rate-cutting cycle remain on track, despite the shift in timing and magnitude. 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, provided in the Budget 2024, 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 benefiting from China's reopening, 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 and income-focused approach to ride out volatilities arising from geopolitical tensions, inflationary issues, and concerns of economic slowdown.

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

*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