

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2023
Equities					
MSCI World	USD	-3.9%	4.2%	11.1%	21.7%
S&P 500	USD	-4.2%	3.3%	13.5%	24.2%
Nasdaq	USD	-5.9%	2.0%	9.6%	53.8%
Russell 2000	USD	-5.7%	1.4%	3.2%	15.1%
Stoxx 600-Europe	EUR	-3.5%	3.9%	5.9%	12.7%
Nikkei 225	JPY	-5.8%	5.0%	8.6%	28.3%
MSCI Asia Pac ex-Japan	USD	-2.2%	5.4%	6.9%	4.5%
ASEAN	USD	1.1%	13.2%	10.3%	-3.1%
Shanghai Shenzhen CSI 300 Index	CNY	-2.7%	-4.1%	-5.7%	-11.4%
Hang Seng Index	HKD	-2.7%	5.3%	2.7%	-13.7%
Shanghai Stock Exchange Composite Index	CNY	-2.7%	-4.4%	-6.9%	-3.7%
FBMKLCI	MYR	-1.4%	5.2%	13.7%	-2.8%
Fixed Income					
Berg Barclays Global Agg Index	USD	1.2%	2.2%	3.1%	5.7%
JPM Asia Credit Index-Core	USD	0.5%	1.5%	6.7%	9.9%
Asia Dollar Index	USD	0.1%	1.8%	-0.3%	-1.5%
Bloomberg Malaysia Treasury -10 Years	MYR	0.1%	0.2%	3.3%	6.4%
Top Performing Principal Funds					
			1-mth as of (31 August 2024)	YTD as of (31 August 2024)	
Equities					
Principal ASEAN Dynamic USD			3.36	16.62	
Principal Asia Pacific Renewables MYR			3.18	12.95	
Principal Global Millennial Equity Class USD			2.38	10.76	
Balanced					
Principal Islamic Global Selection Moderate USD			5.16	3.39	
Principal Islamic Global Selection Mdt Csv USD			5.11	3.49	
Principal China Multi Asset Income USD			1.48	5.83	
Fixed Income					
Principal Islamic Global Sukuk USD			2.41	-0.09	
Principal Asia Dynamic Bond MYR			2.08	1.03	
Principal Global Income USD			1.22	4.94	

Source: Bloomberg, market data is as of 6 September 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 largely experienced negative returns, primarily due to concerns about a slowing labor market in the United States and a tech selloff. Among developed markets, the US saw the most significant decline, followed by Japan and Europe.
2. Across Asia, performance was mixed. Thailand led the region in gains, while South Korea and Taiwan faced the largest declines. In Malaysia, the FBMKLCI closed marginally negative amidst regional market volatility.
3. In the bond market, the US 10-year Treasury yield approached the 3.7% mark as markets absorbed August's nonfarm payrolls report, which indicated a softening labor market. This development has fuelled worries about an economic slowdown. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the United States, the ISM Manufacturing PMI edged higher to 47.2 in August from the November 2023 low of 46.8 in the previous month. This figure missed market expectation, reflecting the 21st monthly contraction in US factory activity in the last 22 periods. On the other hand, the ISM Services PMI increased to 51.5 in August from 51.4 in the previous month, surpassing market expectations. Additionally, the August jobs report, which showed 142K new jobs compared to the expected 161K, also contributed to market jitters. ²
2. In Europe, producer prices increased by 0.8% month-over-month in July, marking the largest rise since December 2022, following an upwardly revised 0.6% increase in June and significantly surpassing market forecasts of 0.3%. The HCOB Composite PMI was slightly revised downward to 51 in August from a preliminary figure of 51.2, compared to 50.2 in July. This reading continued to indicate the strongest performance in private sector activity in three months, driven by a faster upturn in services, while manufacturing remained weak. ³
3. In China, the Caixin General Manufacturing PMI rose to 50.4 in August from 49.8 in July, above market forecasts as new orders returned to growth, driving faster production expansion amid better underlying demand conditions. ⁴
4. In Malaysia, the central bank maintained its key interest rate unchanged at 3% for the eight consecutive meeting in September, matching market expectations, amid increasing optimism over the country's growth, inflation, and currency outlook. Policymakers noted that the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The S&P Global Malaysia Manufacturing PMI stood at 49.7 in August, holding steady for the 2nd month although lingering at its lowest level in 3 months. ⁵

Investment Strategy ⁶

Volatility resurfaced recently due to soft data and renewed pressure on mega-tech tech stocks, prompting a risk-off stance. 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 remain invested and use the selloff to build a diversified portfolio focusing 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, 6 September 2024
- ² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 6 September 2024
- ³ S&P Global, ECB, Factset, Bank of England (BoE), 6 September 2024
- ⁴ Bloomberg, National Bureau of Statistic China, CEWC, 6 September 2024
- ⁵ Department of Statistic Malaysia, S&P Global, 6 September 2024
- ⁶ Principal view, 6 September 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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