

Market Data

Asset Class	Currency	1-wk	1-mth	YTD	2024
Equities					
MSCI World	USD	-0.1%	2.6%	3.3%	17.0%
S&P 500	USD	-0.2%	2.0%	2.4%	23.3%
Nasdaq	USD	0.1%	1.5%	2.2%	24.9%
Russell 2000	USD	-0.3%	1.3%	2.1%	10.0%
Stoxx 600-Europe	EUR	0.6%	5.4%	6.9%	6.0%
Nikkei 225	JPY	-2.0%	-3.3%	-2.9%	19.1%
MSCI Asia Pac ex-Japan	USD	1.1%	1.9%	2.4%	7.6%
ASEAN	USD	0.1%	-0.1%	-0.4%	7.7%
Shanghai Shenzhen CSI 300 Index	CNY	2.0%	2.6%	-1.0%	14.7%
Hang Seng Index	HKD	4.2%	8.5%	5.4%	17.5%
Shanghai Stock Exchange Composite Index	CNY	1.6%	2.4%	-1.3%	12.7%
FBMKLCI	MYR	2.2%	-2.3%	-3.1%	12.8%
Fixed Income					
Berg Barclays Global Agg Index	USD	0.5%	1.5%	1.0%	-1.7%
JPM Asia Credit Index-Core	USD	0.6%	1.5%	1.2%	6.0%
Asia Dollar Index	USD	-0.4%	0.2%	0.2%	-4.1%
Bloomberg Malaysia Treasury -10 Years	MYR	0.1%	0.3%	0.5%	4.3%
Top Performing Principal Funds					
			1-mth as of (31 January 2025)	YTD as of (31 January 2025)	
Equities					
Principal Next-G Connectivity			3.11	3.11	
Principal Global Titans			3.07	3.07	
Principal Biotechnology Discovery USD			2.79	2.79	
Balanced					
Principal Heritage Balanced SGD			0.98	0.98	
Principal Heritage Balanced MYR Hedged			0.96	0.96	
Principal Islamic Global Selection Moderate USD			0.87	0.87	
Fixed Income					
Principal Sustainable Dynamic Bond MYR			0.42	0.42	
Principal Conservative Bond			0.35	0.35	
Principal Lifetime Bond			0.35	0.35	

Source: Bloomberg, market data is as of 7 February 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. Both onshore and offshore markets in China posted the largest gains, while Thailand experienced the largest decline. In Malaysia, the FBMKLCI closed slightly positive, driven by the recovery of sentiment in the regional market.
3. In the bond market, the US 10-year Treasury yield moved higher to the 4.5% range as investors accessed that future inflation could worsen, with the January jobs report showing higher-than-expected wage growth that might pressure prices. (It's worth noting that bond prices move in the opposite direction of bond yields.)

Macro Factors

1. In the U.S., the ISM Manufacturing PMI rose to 50.9 in January 2025, up from a downwardly revised 49.2 in December 2024, beating forecasts of 49.8. The ISM Services PMI declined to 52.8 in January 2025, down from a downwardly revised 54 in December 2024, and well below forecasts of 54.3. ²
2. In Europe, the annual inflation rate edged up to 2.5% in January 2025 from 2.4% in December, slightly above market expectations of 2.4%, according to a preliminary estimate. This was the highest inflation rate since July 2024. Retail trade declined by 0.2% month-over-month in December 2024, following a flat reading in November and missing market expectations of a 0.1% drop. The HCOB Eurozone Services PMI stood at 51.3 in January 2025, little changed from the preliminary estimate of 51.4 and marginally down from December's 51.6. The latest reading signalled a modest expansion in services output. ³
3. In China, sentiment turned positive, driven by strong gains in technology stocks and growing optimism over AI startup DeepSeek's potential. The company's advanced, low-cost AI model disrupted the global industry last month, sparking renewed enthusiasm for domestic AI and robotics firms. Sentiment was further supported by easing concerns over a potential trade war between China and the U.S., as both countries adopted a more cautious stance on tariffs. However, the official NBS Manufacturing PMI unexpectedly fell to 49.1 in January 2025, missing 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, industrial production grew by 4.6% year-on-year in December 2024, up from 3.6% in the previous month, marking the strongest expansion in industrial activity since July. The S&P Global Malaysia Manufacturing PMI stood at 48.7 in January 2025, little changed from 48.6 in December, indicating the eighth consecutive month of decline in factory activity. 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, 7 February 2025

² Bloomberg, Bureau of Labor Statistics (BLS), ISM, S&P Global, US Federal Board, 7 February 2025

³ S&P Global, ECB, Factset, Bank of England (BoE), 7 February 2025

⁴ Bloomberg, National Bureau of Statistic China, CEWC, 7 February 2025

⁵ Department of Statistic Malaysia, S&P Global, 7 February 2025

⁶ Principal view, 7 February 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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