Market Commentary: February2023

Principal®

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Global Outlook

The global capital markets rallied in January 2023 with the Asia-Pacific (APAC) equity markets doing particularly well. The stock markets in the H-Share index (a commonly used benchmark for the performance of the Chinese companies listed in Hong Kong), Korea, Taiwan, and Europe's STOXX 600 index all went up by 10.7%, 8.4%, 8.0% & 6.7%. respectively.[1]

However, the stock markets in India, Malaysia, and Indonesia went down by 2.1%, 2.0%, and 0.4% respectively. The prices of bonds went up in January 2023 because the U.S. Federal Reserve (Fed) didn't increase its interest rate by too much. The indicators that show how much the bond prices went up (or down) rose from 3.2% to 3.3%.[1]

On the monetary policy front, the Fed and European Central Bank (ECB) reiterated its resolve to bring inflation under control. The Fed increased its Fed Fund rate by 0.25% to 4.75% on 1 February 2023. This increase was smaller than previous months, to which the capital markets reacted positively.[2] Since June 2022, the Fed has been reducing its balance sheet at a rate of USD47.5 billion per month, and this rate increased to USD95 billion in September 2022. [2]

We have a slight preference for Asian equities over bonds due to Asian equities being under-owned, inexpensive, and having realistic earnings estimates.[3] In addition, China's reopening and pivot to friendlier policies is another key driver.[4] Within bonds we prefer local and regional to global developed market fixed income.

We prefer equity markets in developed economies to their fixed income.

General outlook of the two capital markets: Fixed Income & Equity

Region: Developed economies

Fixed Income

1. Our view – neutral.
2. Developed Markets economic growth continues to weaken as reflected by weaker manufacturing PMI (Purchasing Managers' Index). United States (U.S.) job openings however remained resilient.[5]
3. The Fed raised interest rate to 4.75%-5.00% with a smaller 25 bps hike. The terminal rate is forecasted at the 5.25%-5.50% range.[6]

Equity

1. Our view – positive.
2. Developed Markets economic growth continues to weaken as reflected by weaker manufacturing PMI (Purchasing Managers' Index). U.S. job openings however remained resilient[5]
3. We are now overweight on the U.S. including holdings in commodities. European Union (E.U.) remains overweight as their economy did better than expected. We remain neutral on Japan.

Region: Regional (Asia-Pacific ex-Japan)

Fixed Income

1. Our view – neutral.
2. Pockets of opportunities in local Asian currencies and Chinese credits as yields remain relatively attractive.[7]
3. We expect investment grade Asian bonds to provide a gross yield of 5.00% to 5.75% in 2023.[7]

Equity

1. Our view – positive.
2. We added exposure to cheap valuation and China's accelerated reopening and stimulus policy.[4]
3. We continue to focus on quality companies with earnings visibility, robust balance sheet, market share gainers and with pricing power.

Region: China

Fixed Income

1. Our view – neutral.
2. Net supply of bond in December 2022 increased by RMB541 billion from a drop of RMB203 billion the month before.[8]
3. The default rate in December 2022 eased to 0.28% from 0.29% in November 2022.[8]

Equity

1. Our view – positive.
2. China's new leaders post the Chinese Communist Party (CCP) congress meeting & Central Economic Work Conference (CEWC) reiterated their stance to strengthen the economy coupled with accelerated reopening and greater support for the property sector.[9]
3. The manufacturing PMI for January 2023 increased to 50.1 from 47.0 previously, while the Services PMI increased to 54.4 from 41.6. The stronger data highlighted the impact of the economic reopening.[10]

Region: Domestic (Malaysia)

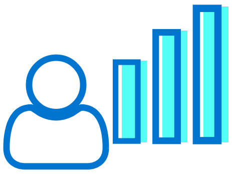
Fixed Income

1. Our view – neutral.
2. Local markets are observing closely the upcoming re-tabling of Budget 2023. Our view is that the main catalyst for the bond market would be the updated projected deficit figure.
3. Portfolio duration is maintained at medium. The move is to take advantage of potential yield falling in anticipation of stronger market support.
4. We still prefer credits over government bonds.

Equity

1. Our view – positive.
2. We continue to focus on companies with firm fundamentals, strong cash flows and defensive.
3. When it comes to the reopening of China's economy, we prefer to invest in stocks related to tourism and selected commodities.

Our Strategy



We are overweight on U.S., adding exposure to metals and mining sectors which will benefit from China's reopening.[9] We remain overweight on Europe as their economy did better than expected. Gas and oil prices falling from record high levels and a fuller storage means it's less likely for Europe to run out of energy supply in this winter.[11] In addition, manufacturing activities are likely to be supported by fiscal policies. We remain neutral on Japan.

We remain positive on Asian equities because of China's economic recovery and the earnings growth in Asia which is anticipated to be stronger than developed markets.

For our initial investment strategy for 2023, we recommend that investors:

- Focus on income with exposure to growth to ride out volatilities arising from geopolitical tensions, inflationary issues, and recessionary concerns.
- Position for sustainability themes including renewables, alternative energy, and food sustainability.

Our Fund Options

Principal PRS Plus and Principal Islamic PRS Plus are investment schemes designed to help you build and grow your savings for retirement. The schemes comprise of a range of conventional and Islamic retirement funds, which you may choose to invest based on your retirement needs, risk appetite and age profile.

Conventional - Principal PRS Plus

The scheme consists of the following funds:

Funds	Fund Category
Core Funds	
Principal RetireEasy 2060	Core - Mixed asset (TDF)
Principal RetireEasy 2050	Core - Mixed asset (TDF)
Principal RetireEasy 2040	Core - Mixed asset (TDF)
Principal RetireEasy 2030	Core - Mixed asset (TDF)
Principal RetireEasy Income	Core - Mixed asset

Funds	Fund Category
Non-Core Funds	
Principal PRS Plus Conservative	Fixed income
Principal PRS Plus Moderate	Balanced
Principal PRS Plus Growth	Mixed asset
Principal PRS Plus Equity	Equity
Principal PRS Plus Asia Pacific Ex Japan Equity	Feeder Fund - Equity

Islamic - Principal Islamic PRS Plus

The scheme consists of the following funds:

Funds	Fund Category
Core Funds	
Principal Islamic RetireEasy 2060	Core - Mixed asset (Islamic TDF)
Principal Islamic RetireEasy 2050	Core - Mixed asset (Islamic TDF)
Principal Islamic RetireEasy 2040	Core - Mixed asset (Islamic TDF)
Principal Islamic RetireEasy 2030	Core - Mixed asset (Islamic TDF)
Principal Islamic RetireEasy Income	Core - Mixed Asset (Shariah-compliant)

Funds	Fund Category
Non-Core Funds	
Principal Islamic PRS Plus Conservative	Sukuk
Principal Islamic PRS Plus Moderate	Balanced (Shariah-compliant)
Principal Islamic PRS Plus Growth	Mixed asset (Shariah-compliant)
Principal Islamic PRS Plus Equity	Feeder Fund - Equity (Shariah-compliant)
Principal Islamic PRS Plus Asia Pacific Ex Japan Equity	Feeder Fund - Equity (Shariah-compliant)

You may obtain a copy of the Prospectus/Information Memorandum/Disclosure Document and its Product Highlight Sheet (if any) for the above-mentioned funds at our offices, distributors, or our website at **www.principal.com.my**

Sources:

[1]Bloomberg, 31 January 2022
[2]Federal Reserve Board, 31 January 2022
[3]Principal, 31 January 2023
[4]Bloomberg, 31 January 2023
[5]U.S. Bureau of Labor Statistics, 31 January 2023
[6]Federal Open Market Committee (FOMC), 31 January 2023
[7]JP Morgan, 31 January 2023
[8]BofA Securities, 31 January 2023
[9]Bloomberg, 16 December 2022
[10]National Bureau of Statistics of China, 31 January 2023
[11]PGI, Bloomberg, 31 January 2023