

**Global Outlook**

In January 2025, global equity markets were generally mixed, with DMs outperforming EMs. Europe, Korea & S&P 500 rose 6.3%, 4.9% and 2.7%, respectively. Losers were Thailand, Malaysia & Shanghai at 6.1%, 5.2% and 3%, respectively. Both bond indices rose by 0.6%.<sup>1</sup>

The Fed maintained the rate steady at 4.25%-4.5% during the January 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025. The ECB cut interest rate by 0.25% to 3.75% in January 2025 based on weak economic fundamentals and better-behaved inflation.<sup>2</sup>

We are a Buyer of Asian equities. Our preference includes technology (beneficiaries of AI investment and application of AI models), selective Chinese domestic consumption, industrial names with exposure to infrastructure and defense capex, strong consumer and banking franchises in Southeast Asia, and selective Indian companies that are reasonably valued for growth.<sup>3</sup>

Global Outlook of the two capital markets: Fixed Income & Equity

**Region: Developed economies**

Fixed income	Equity
<ul style="list-style-type: none"> <li>Our view: <b>Neutral</b>.</li> <li>The Fed maintained the Fed Fund rate during the Jan 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025.<sup>4</sup></li> <li>Looking for the window to buy UST after the recent sell-off. We will take profit on secondary and switch to new credit issuances offering wider spreads. We have a risk-on, carry-positive bias on the markets.<sup>5</sup></li> </ul>	<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>The Fed maintained the Fed Fund rate during the Jan 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025.<sup>4</sup></li> <li>Maintained US &amp; Japan at Overweight. Reduced Underweight on EU. Some segments in the EU indicate signs of growth. Retail sales rose to 1.9% YoY in Dec (+1.6% YoY in Nov). Manufacturing PMI showed a modest recovery, although it remained in the contraction zone.</li> </ul>

**Region: Regional (Asia-Pacific ex-Japan)**

Fixed income	Equity
<ul style="list-style-type: none"> <li>Our view: <b>Neutral</b>.</li> <li>Pockets of opportunity in local currency Asian and Chinese credits as yields remained relatively attractive.<sup>6</sup></li> <li>We expect investment-grade Asian bonds to provide a gross yield of 5.50% to 6.00% in 2025.<sup>6</sup></li> </ul>	<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>We remained positive on Asian equities underpinned by cheap valuation &amp; China's continued execution of more friendly policies.<sup>7</sup></li> <li>We prefer tech (beneficiaries of AI investment and application of AI models), selected Chinese domestic consumption, names with exposure to infrastructure and defense capex, consumer and banking in Southeast Asia, and selected Indian companies.<sup>3</sup></li> </ul>

**Region: China**

Fixed income	Equity
<ul style="list-style-type: none"> <li>Our view: <b>Neutral</b>.</li> <li>Credit bonds in 2024 rose 31% to RMB3.1tn, underpinned by non-financials-+159%. Non-LGFV SoEs saw a net issuance of RM2.4tn.<sup>8</sup></li> <li>The default rate for 2024 dropped to 0.12% from 0.17% the previous year.</li> </ul>	<ul style="list-style-type: none"> <li>Our view: <b>Neutral</b>.</li> <li>After the September major policy pivot, China continued to announce more supply policies to support the economy. Additional measures are aimed at spurring domestic demand.</li> <li>Manufacturing PMI for Jan 2025 dropped to 49.1 from 50.1 previously. The Services PMI fell to 50.2 from 52.2 over the same period.<sup>9</sup></li> </ul>

**Region: Domestic (Malaysia)**

Fixed income	Equity
<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>BNM maintained the OPR at 3.00% during the Jan 2025 MPC meeting. The move was well anticipated.<sup>10</sup></li> <li>Recent corrections made sovereigns attractive again but remain cautious on short-term volatilities. Continue to take profit on overvalued credits but will remain OW on credits.<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalize domestic investment and buoy consumption.<sup>3</sup></li> <li>Prefer big caps with strong fundamentals and solid cash flow. Favour Financials and Utilities as well as beneficiaries of NETR and SEZ.</li> </ul>

**Investment Implication:<sup>3</sup>**

**Global:** Reduce the U.S. to Slight Overweight, reduce Japan to Neutral, increase Europe to Slight Underweight and increase exposure to off-benchmark assets including Gold ETF, Treasury ETF and stocks. The U.S. economic dominance remains intact, in contrast to weakness in Europe and China. However, uncertainty around the U.S. policies – particularly regarding tariffs, immigration, tax cuts and deregulation – could impact inflation dynamics and the fiscal deficit. Meanwhile, the rise of China's DeepSeek, raises questions about the sustainability of high capex spending and expensive valuations in major U.S. tech firms. As technology evolves, it will shape equity market leadership, reinforcing the need for diversification within and outside the U.S. Within the U.S., attractive opportunities may arise in economically sensitive sectors, such as financials and small-mid-cap stocks. In Europe, economic challenges persist. However, relatively low-tech sector weight, modestly positive earnings forecasts, and attractive valuation provide a temporary case for diversification. In Japan, the fundamental themes of reflation and ongoing corporate governance reforms remain intact, with monetary policy staying accommodative as real interest rates stay negative to support economic growth.

**Asian Equities:** We have a constructive view of Asian equities. We like companies with a clear growth path, strong cashflows, and/or those with clear or improving shareholder return policies. Our preferences include technology (beneficiaries of AI investment and application of AI models), selective Chinese domestic consumption, industrial names with exposure to infrastructure and defense capex, strong consumer and banking franchises in Southeast Asia, and selective Indian companies that are reasonably valued for growth.

**Malaysian Equities:** Looking ahead, elevated volatility is expected in the short term due to uncertainties on the Trump administration and policies. There was a widespread decline across various markets, and Malaysia was not spared. However, we took the opportunity to deploy some capital in sustainable dividend yielders and value beaten-down names, which we think have been de-rated beyond their fundamentals. Given the current macro environment, we have made no significant changes to our portfolio strategy as we remain constructive on domestic-driven sectors and potential direct beneficiaries of the NETR. We stay focused on sectors such as Construction, Property and Utilities. We remain optimistic about the financial sector due to the rising confidence in Malaysia's structural reforms and the fact that the sector offers a defensive shelter amid periods of uncertainty. Key risks are the derailment of Malaysia's macroeconomic recovery and corporate earnings growth due to slower global economic growth and heightened geopolitical risk.

**Malaysian Fixed Income:** Local market volatility is expected to remain on the back of uncertainties in the global market amidst President Trump flip flop policies. Propose to maintain active portfolio management in anticipation of the rising volatility to ensure better total return in the long run given current tight credit spreads and the flat yield curve. Preference on corporate credit bonds to continue versus government bonds with a bias on primary new credit issuances due to the yield pick-up and better total returns. Active trading is required for tactical positions held in government bonds. We maintain our overweight duration bias relative to the benchmark.

Investors need to remain vigilant to changes in trade and tariff policies. As we navigate 2025, the interplay between the shifting policy landscapes and evolving market conditions calls for active and diversified portfolio construction. Our strategy emphasizes quality growth and income attributes.

- ✓ **Quality Income:** Quality income and bonds can help to protect against market volatility and to sustain performance in a range-bound market.
- ✓ **Quality Growth:** An investment style which has historically outperformed as a whole, with the highest relative returns during volatile markets.

## 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 (Core Funds)	Fund Category
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 (Non-Core Funds)	Fund Category
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 Funds** The scheme consists of the following funds:

Funds (Core Funds)	Fund Category
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 (Non-Core Funds)	Fund Category
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)

## Disclaimer

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## Sources:

### Footnotes:

- 1 Bloomberg, 31 January 2025
- 2 Federal Reserve Board, 31 January 2025
- 3 Principal, 31 January 2025
- 4 European Central Bank, 31 January 2025
- 5 Federal Open Market Committee (FOMC), 31 January 2025

- 6 JP Morgan Research, 31 January 2025
- 7 Bloomberg, 31 January 2025
- 8 BofA Securities, 31 January 2025
- 9 National Bureau of Statistics of China, 31 January 2025
- 10 Bank Negara Malaysia, 31 January 2025

## Glossary of Terms:

UW: Underweight  
OW: Overweight  
MoM: Month-over-Month  
YoY: Year-over-Year  
FOMC: Federal Open Market Committee  
ECB: European Central Bank

UST: United States Treasury  
PMI: Purchasing Managers Index  
SoE: State-Owned Enterprise  
SEZ: Special Economic Zone  
BNM: Bank Negara Malaysia  
MPC: Monetary Policy Committee