

Global Outlook

In February 2025, global equity markets were generally lower. Gainers were H-shares, Europe and Shanghai at 14%, 3.3% and 2.2% respectively. Indonesia, Thailand and Japan dropped 11.8%, 8.4% and 6.1% respectively. Bond indices rose by 1.4-1.8%.¹

The Fed maintained the Fed Fund rate at 4.50% during the January 2025 FOMC meeting. The Fed also guided that there could only be two cuts in 2025. The ECB cut interest rate by 0.25% to 2.50% in March 2025 based on weak economic fundamentals and better-behaved inflation.

We are a Buyer of Asian equities. Our ideas include beneficiaries of Emerging Technologies, selective Chinese domestic consumption and selected cyclical, industrial names with infrastructure and defence capex exposure, and strong consumer and banking franchises in Southeast Asia. There is a possibility of Asian markets broadening in the second half should economic conditions improve, currencies stabilise, and exports grow.²

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

Region: Developed economies

Fixed income	Equity
<ul style="list-style-type: none"> Our view: Neutral. The Fed maintained the Fed Fund rate at 4.50% during the Jan 2025 FOMC meeting. The Fed also guided that there could only be two cuts in 2025.⁴ Looking to buy UST after the recent sell off. Will take profit on secondary and switch into new credit issuances offering wider spreads. Stay nimble while re-investing the cash into new issuances with more attractive spread.⁵ 	<ul style="list-style-type: none"> Our view: Positive. The Fed maintained the Fed Fund rate at 4.50% during the Jan 2025 FOMC meeting. The Fed also guided that there could only be two cuts in 2025.⁴ Maintained US at slight Overweight. Reduced EU to slight Underweight and cut Japan to Neutral. Increased exposure to off-benchmark assets, including gold ETF, Treasury ETF & Asian stocks.

Region: Regional (Asia-Pacific ex-Japan)

Fixed income	Equity
<ul style="list-style-type: none"> Our view: Neutral. Pockets of opportunity in local currency Asian and Chinese credits as yields remained relatively attractive.⁶ We expect investment-grade Asian bonds to provide a gross yield of 5.50% to 6.00% in 2025.⁶ 	<ul style="list-style-type: none"> Our view: Positive. We remained positive on Asian equities underpinned by cheap valuation & China's continued execution of more friendly policies.⁷ Our ideas include AI, selected Chinese domestic consumption and cyclical, infrastructure and defence capex, and strong consumer and banking franchises in Southeast Asia.³

Region: China

Fixed income	Equity
<ul style="list-style-type: none"> Our view: Neutral. Net credit bond supply in Jan 2025 rose to RMB296bn from RMB42bn. Non-financial bonds underpinned the increase. LGFVs saw net redemption, and non-LGFV SoEs and PoEs posted net increases.⁸ The default rate for Jan 2025 eased to 0.1% from 0.12% as of Dec 2024. 	<ul style="list-style-type: none"> Our view: Positive. China continued to announce policies to support the economy after the tariffs imposed by the US. The policies include a higher budget deficit, larger issuances of bonds and larger consumption support. Manufacturing PMI for Feb 2025 recovered to 50.2 from 49.1 previously. The Services PMI improved to 50.4 from 50.2 over the same period.⁹

Region: Domestic (Malaysia)

Fixed income	Equity
<ul style="list-style-type: none"> Our view: Positive. BNM maintained the OPR at 3.00% during the Mar 2025 MPC meeting. The move was well anticipated.¹⁰ Aimed to take profit on the rich tenors and reduce some duration risk amid the heavy duration supply in the near term. Continue to take profit on overvalued credits but will remain OW on credits.³ 	<ul style="list-style-type: none"> Our view: Positive. The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalize domestic investment and buoy consumption.³ Seek opportunities in companies with defensive profiles that provide stable dividend payout and value-beaten-down names. We stay focused on sectors such as utilities, construction, property, and financials.

Investment Implication:³

Global: We have adjusted the stance on the US to Slight Overweight, reduced Japan to Neutral, increased Europe to Slight Underweight and increased exposure to off-benchmark assets including Gold ETF, Treasury ETF and stocks. The US economic dominance remains intact, in contrast to weakness in Europe and China. However, uncertainty around the US policies – particularly regarding tariffs, immigration, tax cuts and deregulation – could impact inflation dynamics and the fiscal deficit. 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 continues to evolve, it will shape equity market leadership, reinforcing the need for diversification within and outside the US. Within the US, 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 deflation 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. The greatest market risk is the uncertainty in the trade policy, which is leading to heightened market volatility. Hence, diversification is key. We are invested in factors such as AI, improving domestic consumption in Asia, rising capex spent, which benefits industrial names, etc. We like

companies with a clear growth path, strong cashflows, and those with clear or improving shareholder return policies, strong consumer and banking franchises in Southeast Asia, and selective Indian companies reasonably valued for growth.

Malaysian Equities: The Malaysian market continued to fall, driven by a disappointing earnings season, concerns over potential new US tariff threats, and index rebalancing at the end of the month following MSCI's Feb review. Volatility is expected to continue in the short term due to external headwinds, especially about the Trump administration and policies. Given the current macro environment, we have made no changes to our portfolio strategy. We seek ongoing opportunities in companies with defensive profiles that provide stable dividend payout and value-beaten down names, especially in domestic-driven sectors and potential direct beneficiaries of the NETR. We stay focused on sectors such as utilities, construction, property, and financials. Key risks are the derailment of Malaysia's macroeconomic recovery and corporate earnings growth due to slower global economic growth and heightened geopolitical risks.

Malaysian Fixed Income: We are mindful of the external headwinds due to US trade policy, tariff actions, and intensified geopolitical tensions, thereby leading to a risk-off sentiment. Market volatility will persist in the coming months. Given that the local market has been well supported for the first two months of the year, we aim to profit from the rich tenors and reduce some duration risk amid the heavy supply in the near term. We will continue to look for opportunities to buy on weakness. Similarly, we will take profits on the overvalued credits and cherry-pick primary issuances for the credit segment as more issuers are seen tapping the market with credit spreads at near-record lows. Overall, we remain overweight in the credit segment for better yield pickup. We prefer issuers with strong financial metrics and fewer exposures to external trade shocks.

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 Income:** Quality income and bonds can help protect against market volatility and sustain performance in a range-bound market.
- ✓ **Quality Growth:** An investment style which has historically outperformed, 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	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 Funds 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)

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Sources:

Footnotes:

- 1 Bloomberg, 28 February 2025
- 2 Federal Reserve Board, 28 February 2025
- 3 Principal, 28 February 2025
- 4 European Central Bank, 28 February 2025
- 5 Federal Open Market Committee (FOMC), 28 February 2025

- 6 JP Morgan Research, 28 February 2025
- 7 Bloomberg, 28 February 2025
- 8 BofA Securities, 28 February 2025
- 9 National Bureau of Statistics of China, 28 February 2025
- 10 Bank Negara Malaysia, 28 February 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

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