

## Global Outlook<sup>1</sup>

In May 2025, global equity markets experienced a rally. The largest gainers were S&P500, Indonesia and Korea at 6.2%, 6.0% and 5.5%, respectively. Thailand and Malaysia dropped 4.0% and 2.1% respectively. Bond indices ranged from -0.3 to +0.6%.<sup>1</sup>

The Fed maintained the Fed Fund rate at 4.50% during the May 2025 FOMC meeting. The Fed guided that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments. The ECB cut interest rate by another 0.25% to 2.40% in April 2025 based on weak economic fundamentals and better-behaved inflation.

We have a balanced preference between Equity and Cash in Asia. We expect uncertainties over trade policy to remain; but both the US and China have incentives to reach a compromise on the tariff issue. Should the USD weakness persist, it could lead to increased flows into Asian equities. Our portfolios are balanced between growth and cyclical, complemented by dividend yielders. Exposure is via semiconductor tech, internet platform tech, financials (stock exchanges, banks), consumer tech (EV autos), selective domestic consumption, and industrial names with exposure to infrastructure and defence capex. Dividend yielders are spread across communications, financials and consumer sectors.

## Global Outlook of the two capital markets: Fixed Income & Equities

### Region: Developed economies

Fixed Income	Equities
<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>The Fed maintained the Fed Fund rate at 4.50% during the May 2025 FOMC meeting. The Fed guided that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments.<sup>4</sup></li> <li>The de-escalation of trade tensions between the US and China reduces the risk of inflation persistence in the US. Continue to stay nimble while re-investing the cash into new primary issuance with a relatively more attractive spread. Any correction in government bond yields presents an opportunity to accumulate.<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 at 4.50% during the May 2025 FOMC meeting. The Fed guided that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments.<sup>4</sup></li> <li>Marginal Overweight for US &amp; Japan. EU remained Neutral. Reduce off-benchmark exposure while keeping Gold and Treasury ETF as a hedge against tariff and recession risks.</li> </ul>

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

Fixed Income	Equities
<ul style="list-style-type: none"> <li>Our view: <b>Positive</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> <li>Markets are anticipating further monetary policy relaxation in the Philippines, Thailand, and Indonesia.</li> </ul>	<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>We are cautiously optimistic about Asian equities as the US &amp; China are incentivised to reach a compromise on the tariffs.</li> <li>Invested in dividend yielders across telecoms, real estate and financials. Focus on companies with visible growth in technology, consumer tech (EVs), industrials and internet platforms.<sup>3</sup></li> </ul>

### Region: China

Fixed Income	Equities
<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>Net credit bond supply in Mar 2025 dropped to RMB193bn from RMB298bn previously. This came from redemptions for LGFVs, non-LGFVs and SoEs. PoE saw redemption, too.<sup>8</sup></li> <li>Default rate for Mar 2025 edged lower to 0.10% from 0.12% as at Feb 2025.</li> </ul>	<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>Prefer domestic-oriented companies with growth and strong cash flow, such as selected names in technology, domestic consumption, cyclical, infrastructure and defence, communications, and financials.</li> <li>Manufacturing PMI for Mar 2025 recovered to 50.5 from 50.2 previously. The Services PMI improved to 50.8 from 50.4 over the same period.<sup>9</sup></li> </ul>

### Region: Domestic (Malaysia)

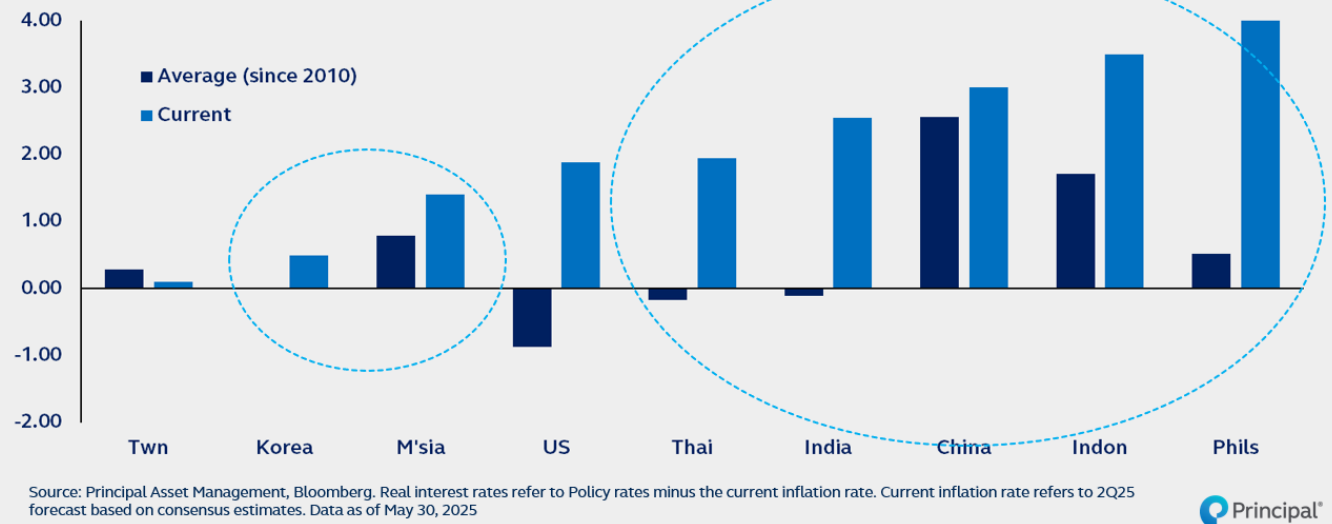
Fixed Income	Equities
<ul style="list-style-type: none"> <li>Our view: <b>Positive</b>.</li> <li>BNM maintained the OPR at 3.00% during the May 2025 MPC meeting. They, however, cut the SRR to 1.00% from 2.00% previously. The move released RM19bn liquidity into the system.<sup>10</sup></li> <li>Look to lock in gains on govies that have priced in the 25bps cut while continuing to have some tactical positions in anticipation of a possible curve correction or repricing. Preference remains for corporate bonds, as recent widening of credit spreads offers a more attractive carry compared to government bonds.<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>Adopt a barbell strategy by pairing high-dividend, big-cap, defensive stocks with selective exposure to undervalued laggards and domestic demand names. Looking for opportunities in sectors such as Construction, Property, Utilities and selective Banks.</li> </ul>

## Recent key takeaway:

**Weaker USD ➔ room for rates cuts:** Asia central bankers have room to cut rates in the event of an economic growth slowdown especially countries with high real interest rates.

- Markets are anticipating further monetary policy relaxation in the Philippines, Thailand, and Indonesia.

## Real interest rates-Average since 2010 vs Current



### Investment Implications:<sup>3</sup>

- Global:** Slight Overweight US & Japan, Neutral Europe and Underweight Cash. US PMIs remain strong, with earnings revisions over the next 12 months being modestly positive, and both consumer demand and the labour market remain healthy. Additionally, recent tech sector earnings have been solid, reinforcing a constructive outlook for US equities. Japan will continue to be supported by structural tailwinds, including the ongoing corporate governance reforms and improving shareholder returns. The domestic economy continues to show resilience, underpinned by solid wage growth. A further moderation in rice prices would provide support for household spending and consumption. Neutral on Europe. While Germany has introduced fiscal stimulus measures, broader regional support remains limited. Many other European countries continue to face fiscal constraints, reducing the likelihood of a coordinated fiscal response. As such, a more constructive stance on Europe would require not only successful implementation of Germany's fiscal plans but also more substantial and coordinated fiscal support across the region.
- Malaysian Equity:** Malaysia has almost fully recovered from the sell-off triggered by Liberation Day tariffs in April. We advocate a barbell strategy by pairing high-dividend, big-cap, defensive stocks with selective exposure to undervalued laggards and stocks with domestic-focused demand. We believe there are still pockets of opportunities to invest primarily in sectors such as Construction, Property, Utilities and selective Banks. Key risks include a further escalation of global trade tensions which could affect business and investment conditions.
- Malaysia Fixed Income:** We will stay cautious ahead of the tariff deadline on 9 July and avoid adding risk early. We expect some profit-taking activities ahead of BNM's MPC meeting in July. We will look to lock in gains on government bonds that have priced in the 25bps cut while continuing to have some tactical positions in anticipation of a possible curve correction or repricing. Preference remains for corporate bonds, as recent widening of credit spreads offers a more attractive carry compared to government bonds. We will continue to focus on primary issuance for more attractive pricing and better allocations while rotating out of selective tighter names where upside is limited.
- Market volatility is likely to remain elevated in the weeks ahead as investors assess rapidly shifting tariff developments and consider the potential implications for growth, inflation, central bank policy, and financial markets. Nevertheless, incremental news flow could become more supportive as we approach the second half of the year, as clarity emerge with countries beginning negotiation and offering concessions.
- We reiterate the importance of keeping sight of longer-term investing principles that can boost risk-adjusted rates of return through portfolio diversification and an emphasis on quality growth and income to navigate the volatility ahead. Our strategy has also emphasized focusing on companies that demonstrate the attributes of large-cap defensiveness, with earnings that are more domestically focused. Additionally, quality bonds have historically provided portfolio stability, especially during times of uncertainty.
- We now prefer both fixed income and equities. Key themes for 2025 include: i) the impact of policy shifts on China's recovery; ii) the U.S. economic outlook; and iii) the influence of tariffs and geopolitical risks on asset prices.

### 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:

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|---|---|
| 1 Bloomberg, 31 May 2025                            | 6 JP Morgan Research, 31 May 2025                     |
| 2 Federal Reserve Board, 31 May 2025                | 7 Bloomberg, 31 May 2025                              |
| 3 Principal, 31 May 2025                            | 8 BofA Securities, 31 May 2025                        |
| 4 European Central Bank, 31 May 2025                | 9 National Bureau of Statistics of China, 31 May 2025 |
| 5 Federal Open Market Committee (FOMC), 31 May 2025 | 10 Bank Negara Malaysia, 31 May 2025                  |

## Glossary of Terms:

UW: Underweight	UST: United States Treasury
OW: Overweight	PMI: Purchasing Managers Index
MoM: Month-over-Month	SoE: State-Owned Enterprise
YoY: Year-over-Year	SEZ: Special Economic Zone
FOMC: Federal Open Market Committee	BNM: Bank Negara Malaysia
ECB: European Central Bank	MPC: Monetary Policy Committee

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