Market Outlook – Asset Class 3Q 2020

Equities

Slightly Overweight*

- Assuming the return-to-work strategy moves us forward and not take us a step back, the global economy should start to recover in 3Q'2020
- Both monetary and fiscal policies remain resolutely stimulative, with many governments and central banks indicating that they stand ready to deliver more if necessary
- Global financial conditions rebounded close to their easiest levels ever with ample liquidity flowing toward capital market and acting as a backstop for equities
- Estimates of corporate earnings are likely to be cut further, while epic equity rally from the troughs in March leads to stretched valuations
- Without a vaccine, resurgence of Covid-19 infections is still one of the key risks ahead

Fixed Income

Slightly Overweight*

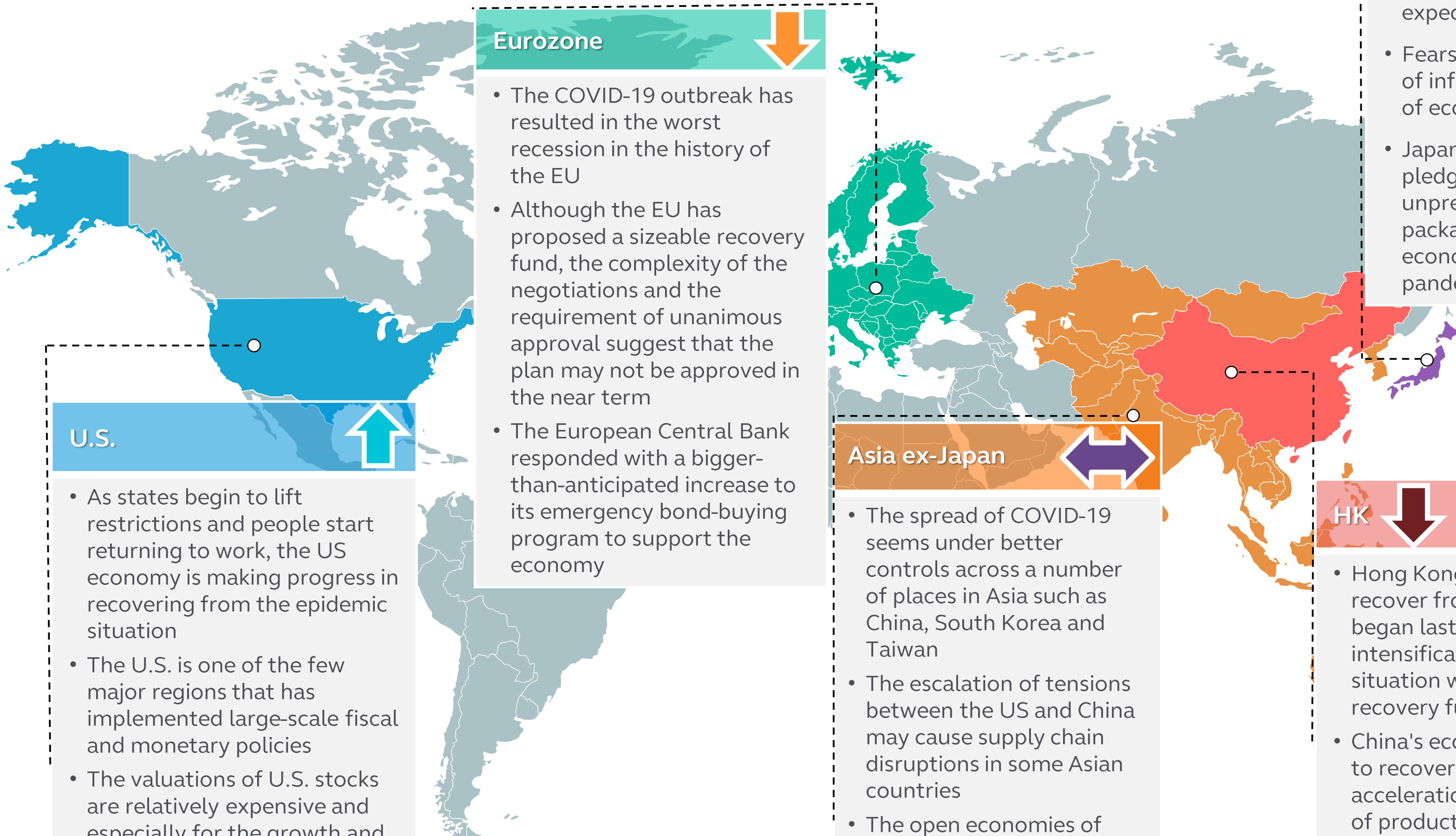
- Liquidity fears eased with central banks promised to support through liquidity enhancing schemes and asset purchase programs
- The stimulus of monetary policy is likely to keep interest rates at record-low level
- Credit spreads remain cheap by historical standards and provide good relative value opportunities

Overweight | **Slightly Overweight** | **Neutral** | **Slightly Underweight** | **Underweight**

*We slightly overweight both equity and fixed income out of cash.

Source: Principal Asset Management Company (Asia) Ltd. & Principal Global Investors – Principal Portfolio Strategies.

Market Outlook – Equities 3Q 2020



U.S.

- As states begin to lift restrictions and people start returning to work, the US economy is making progress in recovering from the epidemic situation
- The U.S. is one of the few major regions that has implemented large-scale fiscal and monetary policies
- The valuations of U.S. stocks are relatively expensive and especially for the growth and large cap stocks

Eurozone

- The COVID-19 outbreak has resulted in the worst recession in the history of the EU
- Although the EU has proposed a sizeable recovery fund, the complexity of the negotiations and the requirement of unanimous approval suggest that the plan may not be approved in the near term
- The European Central Bank responded with a bigger-than-anticipated increase to its emergency bond-buying program to support the economy

Asia ex-Japan

- The spread of COVID-19 seems under better controls across a number of places in Asia such as China, South Korea and Taiwan
- The escalation of tensions between the US and China may cause supply chain disruptions in some Asian countries
- The open economies of Asia are likely to be hit by a major contraction in international trade

Japan

- Japan's economy has entered a recession and is expected to contract further
- Fears about a second wave of infection limit the speed of economic recovery
- Japanese government has pledged to launch unprecedented stimulus packages to cushion the economy from the pandemic

HK China

- Hong Kong is struggling to recover from the recession that began last year and any intensification of the political situation will hinder the recovery further
- China's economy is on the track to recovery with a significant acceleration in the resumption of production
- China still has room for further fiscal and monetary easing

Overweight | Slightly Overweight | Neutral | Slightly Underweight | Underweight

Source: Principal Asset Management Company (Asia) Ltd. & Principal Global Investors – Principal Portfolio Strategies.
The geographical classification of above listed equity markets is based on MSCI 2019 annual market classification review. For more information, please refer to https://www.msci.com/market-classification

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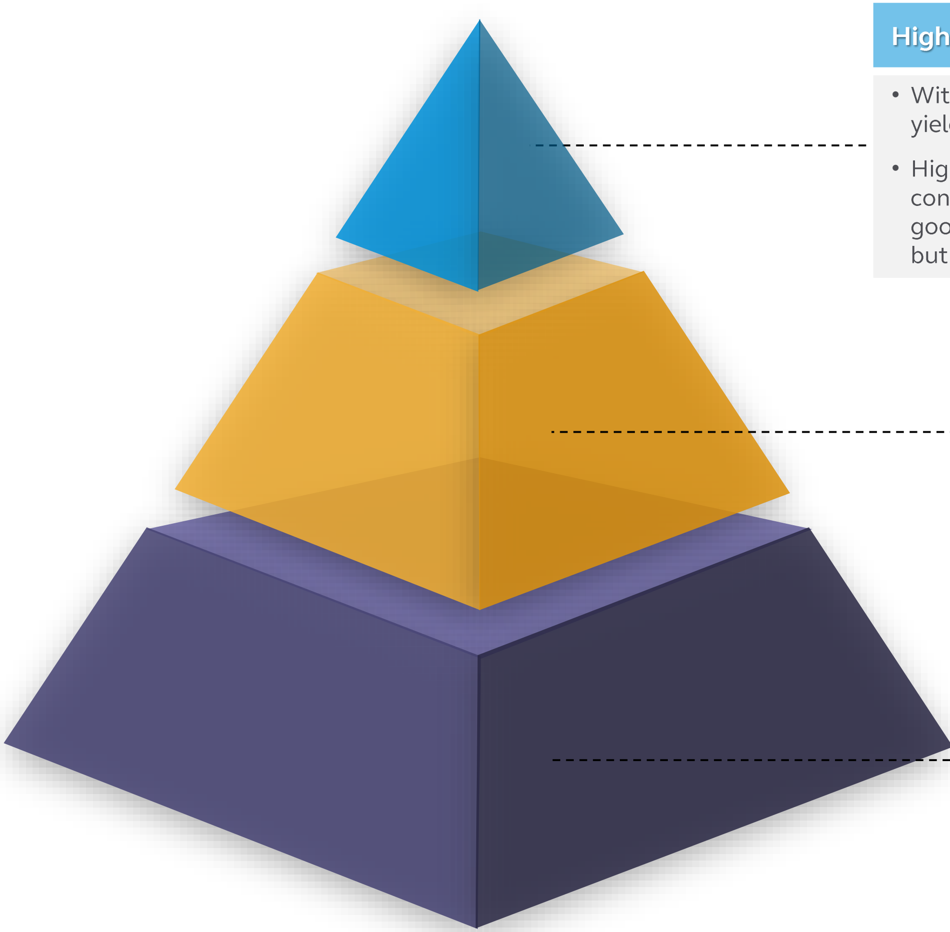
Market Outlook – Fixed Income 3Q 2020



High Yield

- With the help of the Fed's bond-buying program, high yield bonds recovered from the market sell-off
- High yield bonds might experience a period of consolidation after the surge, which could create a good buying opportunity with higher expected returns but lower costs

Investment Grade

- Given the likelihood of a prolonged period of low rates, both borrowers and creditors are encouraged to take on more risk
- Corporate spreads have narrowed in the past few months but are still reasonably cheap despite our expectation that ratings downgrades and defaults will rise

Sovereign

- Sovereign bonds could act as defensive tools to hedge against equity positions during a stock market correction
- With interest rates running at zero or even negative, sovereign bonds have limited room to outperform
- The valuation of sovereign bonds remains expensive relative to corporate bonds

Overweight | Slightly Overweight | Neutral | Slightly Underweight | Underweight

Source: Principal Asset Management Company (Asia) Ltd. & Principal Global Investors – Principal Portfolio Strategies.

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