### Market Outlook - Asset Class 1Q 2021



### **Equities**



Overweight

- The global economy is likely to continue its recovery from the COVID-19 related shock in 2021. The prospect of vaccines on the horizon has boosted hopes of an end to the pandemic-wrought downturn
- Global monetary policy remains as easy as it has ever been and will remain accommodative in the future. Negative real interest rates, forward guidance and balance sheet will be used to keep risk premia suppressed
- Global financial conditions reached a new high with ample liquidity flowing towards the capital market and acting as a backstop for equities
- On fundamentals, aggregated bottom-up earnings estimates show that several markets are projected to exceed their pre-COVID (2019) EPS by end-2021
- Fund flows are expected to support the general high valuations with more strategic reallocation towards equities from money market and bonds





Slightly Underweight

- Government yield curve is likely to steepen driven by expectations on the ongoing economic recovery
- Fed's dovish tilt through a revised inflation targeting framework is likely to anchor interest rates at record-low level for a few years
- Central bank's bond purchases and accommodative stance is likely to attract further flows into corporate bonds



Overweight



Slightly Overweight



Neutral



Slightly Underweight





Source: Principal Asset Management Company (Asia) Ltd. & Principal Global Investors - Principal Global Asset Allocation.

## Market Outlook - Equities 1Q 2021

### U.S.

- The U.S. economy is likely to rebound quickly in 2021 after vaccines are widely distributed
- FED policies are expected to be relatively easy for years, which serves as a cushion for U.S. equities
- A divided Congress might limit the size of incremental fiscal stimulus in the U.S.

#### Eurozone

- The Eurozone is expected to be on track for its first double-dip recession in nearly a decade as downside risks continue to materialize
- The area is still suffering from a new wave of COVID-19 infections and the potential new lockdown restrictions could slow the economic rebound
- Improved prospects for value companies may drive the performance of European markets in medium term



#### Asia ex-Japan

- Countries in Asia are less hurt by the spread of COVID-19 and managed to reopen their economies ahead of developed markets
- Weakening U.S. dollar tends to bode well for equity market in Asia as it signals a favorable capital flow direction
- Asian equities have relatively cheaper valuations among global markets

#### Japan



- Greater visibility to a stronger growth path and COVID normalization will be supportive of a gradual rotation to value stocks. It may benefit due to its collection of undervalued companies
- Japan stepped up its economic stimulus package to support the economy
- Relatively low valuations, political stability, and expectations on continued corporate reforms may be the major drivers for further upsides

# HK 🔂

China



- The COVID threat is likely to drag the economic rebound in Hong Kong while the fourth wave of infections hits
- China's economic growth may continue to accelerate as a gradual easing of COVID-19 restrictions in major trading partners lifts demand for the country's exports
- The rising tensions between the U.S. and China are likely to weigh on related companies' performance





Slightly Overweight





Slightly Underweight

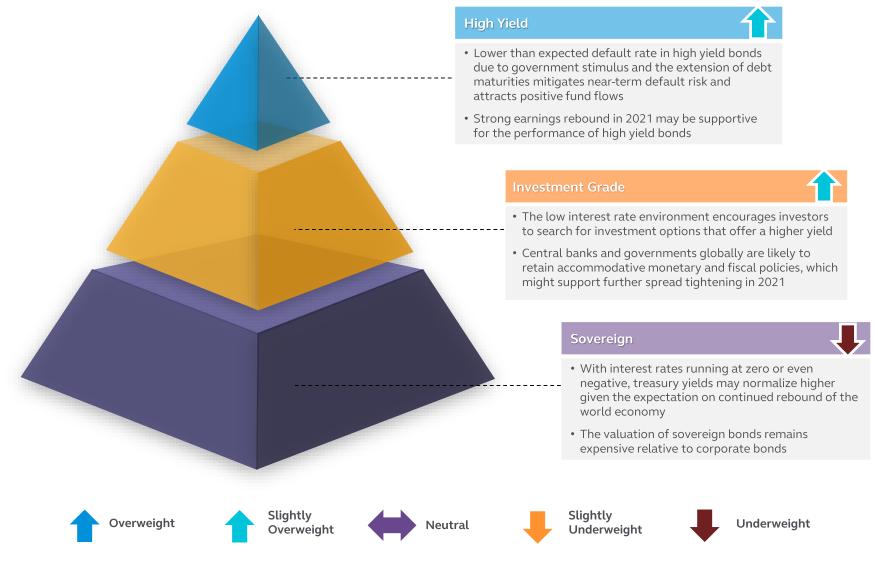


Underweight

Source: Principal Asset Management Company (Asia) Ltd. & Principal Global Investors – Principal Global Asset Allocation. The geographical classification of above listed equity markets is based on MSCI 2020 annual market classification review. For more information, please refer to https://www.msci.com/market-classification



### Market Outlook - Fixed Income 1Q 2021





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