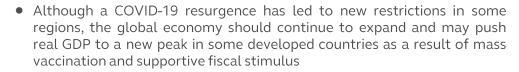
Market Outlook - Asset Class 3Q 2021



Equities



Slightly Overweight



- The recent surge in inflation should be transitory. Fed tapering is unlikely to start soon or be in a massive scale, while accommodative monetary policy is still a tailwind to risk assets. Global financial conditions are likely to remain easy and continue to act as a backstop for equities
- Fundamentally, earnings growth expectations remained on a positive track, driven by cyclical sectors, and drove multiple compression. Strong inflow into equities has led to an improvement in investor sentiment
- A sustained pickup in inflation and therefore a premature shift in monetary policy could create volatility to the stock market



 Government yields may stay subdued in the quarter while inflation expectations may have peaked



Neutral

- Fed's patience in rate hikes is likely to anchor interest rates at record-low level for at least two more years
- With a strong economy driving fundamentals and keeping a lid on default risks, credits may continue to be supported



Overweight



Slightly Overweight



Neutral



Slightly Underweight



Principal®信安

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

Market Outlook - Equities 3Q 2021

U.S.

- Existing savings buffers with US consumers due to fiscal transfers and potentially more stimulus provide further upside to US growth
- Although the Fed has a chance to commence the discussion on reducing debt purchases, the initial trim is expected to be relatively small. The ample liquidity could still serve as a cushion for U.S. equities
- If inflation stays for longer, signals of faster-thanexpected rate hikes might trigger volatilities in stock market

Eurozone

- Several regions are pressing ahead with reopening amid falling COVID-19 infections while vaccination rate picks up steadily in Eurozone
- In a reflationary backdrop, investors may continue to focus on value and cyclicality. Eurozone could benefit from the rotation with more skewness towards traditional value sectors
- European Central Bank is expected to remain highly accommodative for some time. Easy financial conditions should be supportive to equities



Asia ex-Japan

- COVID-19 vaccine rollouts have accelerated in many Asian countries, increasing the possibilities of a sooner-thanexpected easing of some of the pandemic restrictions
- Robust global manufacturing outlook and rising commodity prices lend further support to the growth in Asian economies
- Asian equities may face headwinds from capital outflow if USD strengthens amid the Fed hawkish shift in tone

Japan



- Slower Japan vaccination rate than other developed markets elevates risk for Tokyo Olympics and raises concerns of COVID-19 resurgence
- Monetary policies are likely to stay accommodative given low inflation expectations
- Japan's equities may benefit from the relatively low valuation and well capitalized companies in the long term



China



- Secondary listings are making Hong Kong a more important fund-raising venue and may attract further inflow of international capital
- China's credit growth continues to slow as the central bank urges better control over rising debts
- China's economic growth is likely to moderate in the second half of year as the catch-up of investment and domestic consumption might take longer



Overweight



Slightly Overweight



Neutral



Slightly Underweight

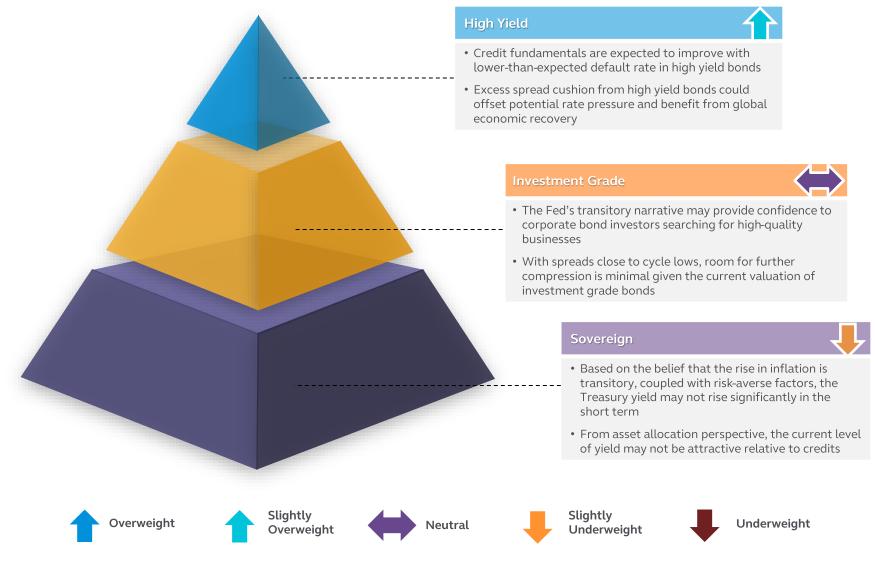


Underweight

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 3Q 2021





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