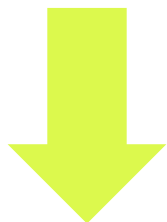


Market Outlook – Asset Class 2Q 2023



Equities



Slightly Underweight

- The global economy has exhibited resilience, yet developed countries remain vulnerable to mounting recessionary pressures, as the effects of tighter policies and financial conditions continue to filter through.
- Despite a fall in headline inflation, core inflation in the U.S. has remained stubbornly high. Credit conditions for households and businesses are expected to tighten, which may help ease inflation together with a weaker labour market later this year.
- The banking crisis that emerged in mid-March poses a significant challenge to the Fed's rate policy by adding an additional consideration to the pressure on financial stability. The Fed may opt to hike rates one or two more times and pause.
- The tighter lending standards of banks may further exacerbate the already-heightened funding costs faced by firms, potentially placing a damper on growth and investment. A deteriorating economic outlook will likely weigh on corporate profitability and lead to downward revisions in earnings.



Fixed Income



Slightly Overweight

- Market expectations on rate hikes by the Fed have cooled due to concerns about the contagion risks, resulting in a sharp drop in bond yields. This trend may signal a halt to the rising yields seen over the past year as we approach the end of the hiking cycle.
- Given the looming global recession risks and potential deterioration of corporate fundamentals, risk assets performance may remain volatile. There may be growing appetites for safer assets, with defensive sovereign bonds with longer durations offering a more attractive total return potential.
- The recent banking crisis may lead to a credit crunch and, together with the effects of the tightening policies coming through, that may result in spread widening and higher default risks on corporate credits, particularly for high-yield bonds.



Overweight



Slightly Overweight



Neutral

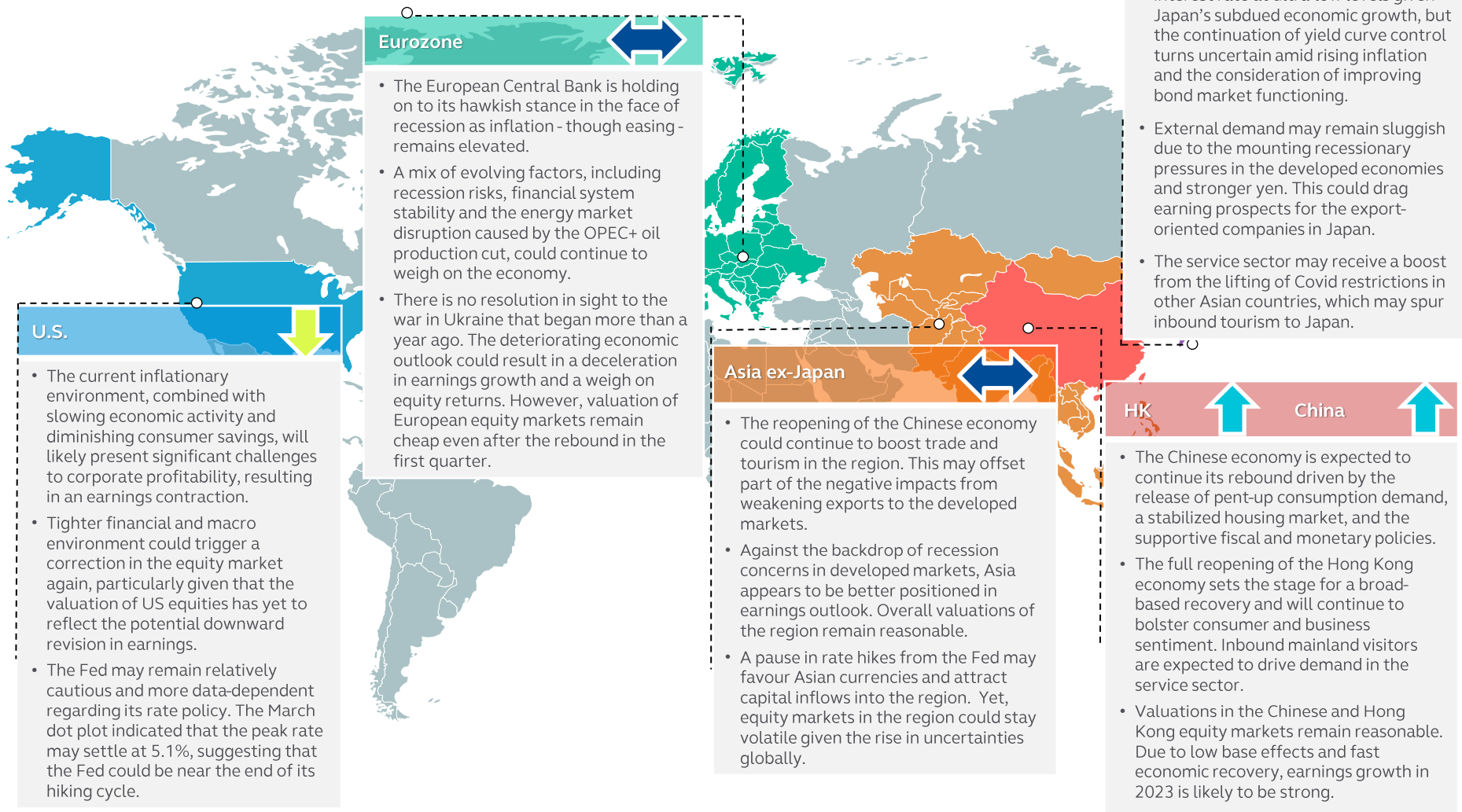


Slightly Underweight



Underweight

Market Outlook – Equities 2Q 2023



Overweight



Slightly Overweight



Neutral



Slightly Underweight

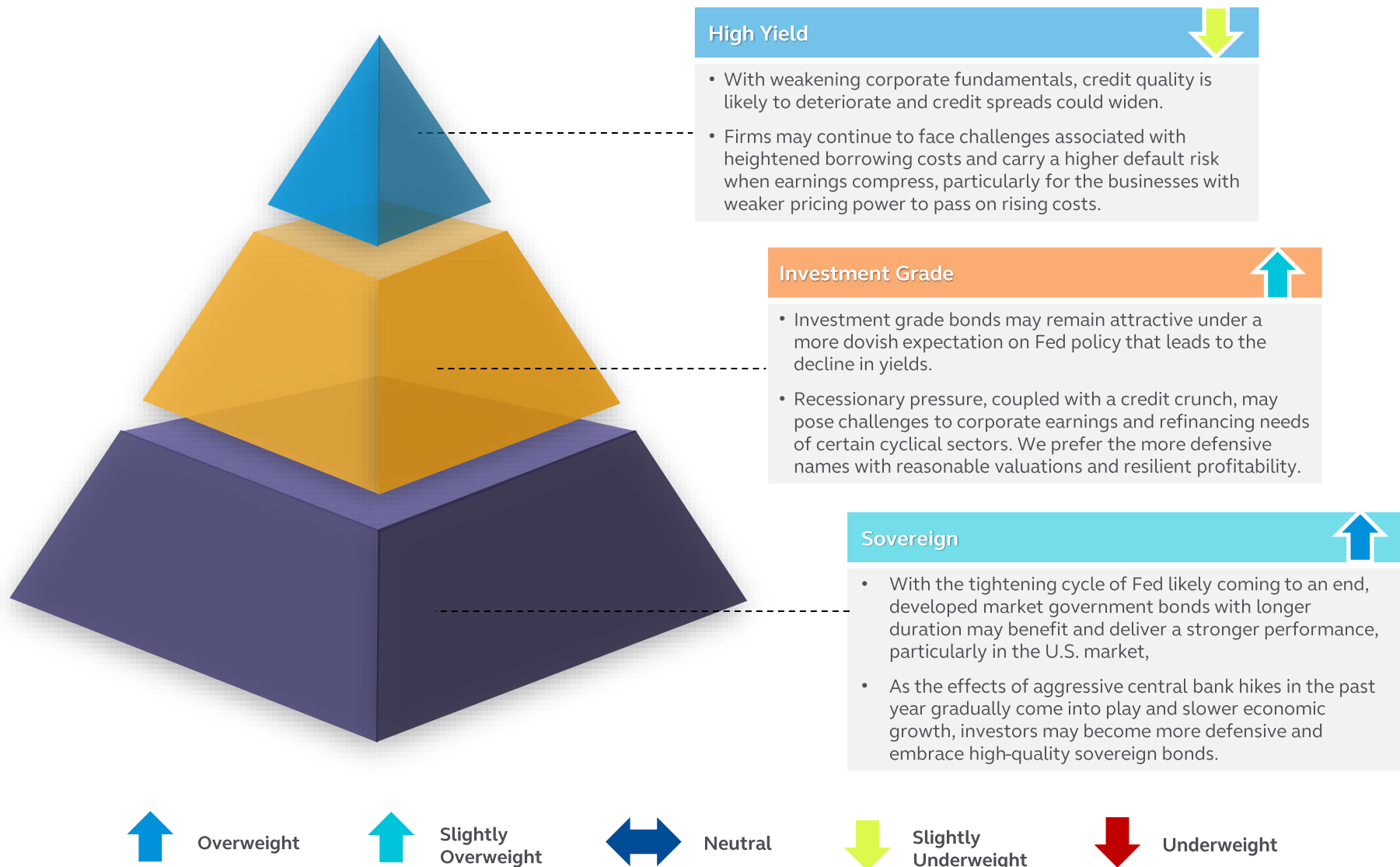


Underweight

Source: Principal Asset Management Company (Asia) Ltd.

The geographical classification of above listed equity markets is based on MSCI 2021 annual market classification review. For more information, please refer to <https://www.msci.com/market-classification>

Market Outlook – Fixed Income 2Q 2023



Source: Principal Asset Management Company (Asia) Ltd.

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