Market Outlook – Asset Class 4Q 2021

Equities

Slightly Overweight

- Although global economic growth is decelerating, the global economy should continue to expand as a result of mass vaccination and COVID-19 Delta variant outbreak gradually becoming under control
- As long as the economic momentum remains unchanged, the impact of the FED's tapering on the economy and asset prices may be relatively limited. 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. Strong inflow into equities continues
- A sustained pickup in inflation may change the expectations on FED's rate hike decision. Therefore, a premature shift in monetary policy could create volatility to the stock market. A key risk event to watch for is the expansion of industry regulations in China as it may trigger systematic risk

Fixed Income

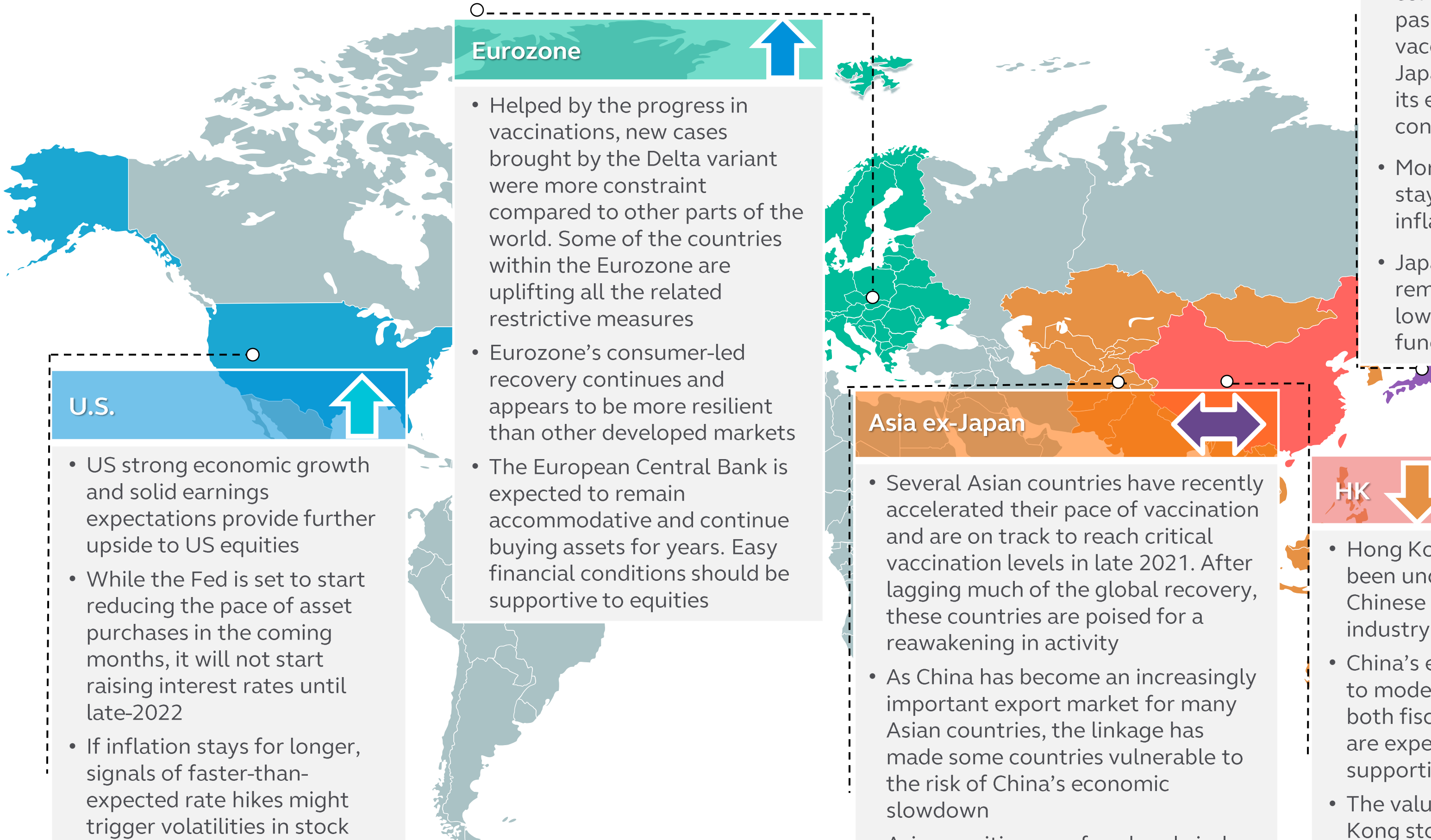
Neutral

- Government yields may stay subdued in the quarter as inflation expectations may have peaked and economic growth continues to decelerate
- The FED is expected to be cautious on interest rate hikes before labor market fully recovers. That may anchor interest rates at record-low levels
- Despite concerns that policy normalization could affect credits, high-quality corporate bonds may still be supported before an overly tight policy stance starts weighing on growth

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

Source: Principal Asset Management Company (Asia) Ltd.

Market Outlook – Equities 4Q 2021



Japan

- The peak of the fifth coronavirus wave has largely passed and the pace of vaccinations is picking up. Japan may be able to reopen its economy and allow consumer spending to recover
- Monetary policies are likely to stay accommodative given low inflation expectations
- Japanese corporate earnings remain strong, while relatively low valuations might attract fund inflow

Eurozone

- Helped by the progress in vaccinations, new cases brought by the Delta variant were more constraint compared to other parts of the world. Some of the countries within the Eurozone are uplifting all the related restrictive measures
- Eurozone's consumer-led recovery continues and appears to be more resilient than other developed markets
- The European Central Bank is expected to remain accommodative and continue buying assets for years. Easy financial conditions should be supportive to equities

U.S.

- US strong economic growth and solid earnings expectations provide further upside to US equities
- While the Fed is set to start reducing the pace of asset purchases in the coming months, it will not start raising interest rates until late-2022
- If inflation stays for longer, signals of faster-than-expected rate hikes might trigger volatilities in stock markets

Asia ex-Japan

- Several Asian countries have recently accelerated their pace of vaccination and are on track to reach critical vaccination levels in late 2021. After lagging much of the global recovery, these countries are poised for a reawakening in activity
- As China has become an increasingly important export market for many Asian countries, the linkage has made some countries vulnerable to the risk of China's economic slowdown
- Asian equities may face headwinds from capital outflow if USD strengthens

HK China

- Hong Kong listed stocks have been under great pressure as Chinese authorities step up industry regulatory restraints
- China's economic growth is likely to moderate in the second half, both fiscal and monetary policies are expected to be more supportive
- The valuations of China and Hong Kong stock markets are relatively reasonable, but A-shares earnings prospects are relatively positive

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 2020 annual market classification review. For more information, please refer to https://www.msci.com/market-classification

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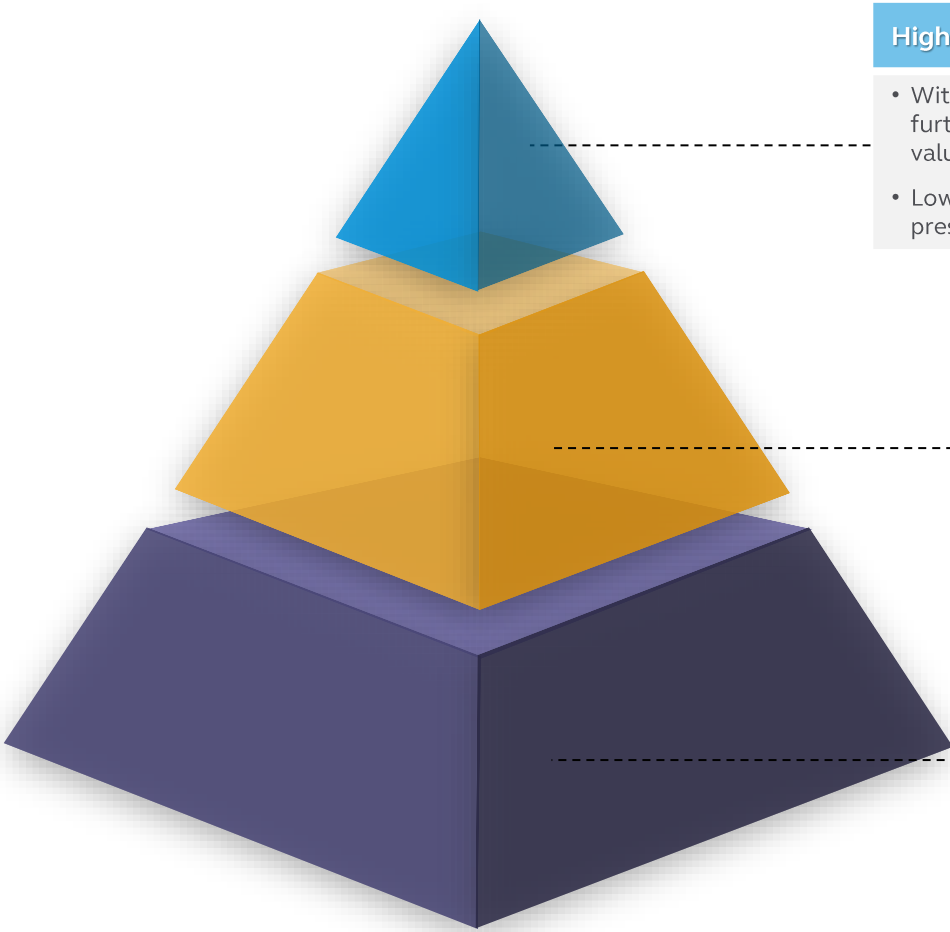
Market Outlook – Fixed Income 4Q 2021



High Yield

- With spreads already close to cycle lows, room for further compression is minimal given the current valuation of high yield bonds
- Low-quality high yield bonds may face outflow pressure amid market volatilities

Investment Grade

- High-quality corporate bonds may be considered a relatively attractive investment tool and serve as a cushion as global economic growth is decelerating
- Record low interest rates environment prompts investors to search for yield in corporate bonds

Sovereign

- In view of slowing economic growth and the belief that inflation expectations may have peaked, the 10-year Treasury yield may not rebound significantly. The yields may even come down further if any risks factors materialize
- From asset allocation perspective, the current level of yields may not be attractive relative to credits

Overweight | Slightly Overweight | Neutral | Slightly Underweight | Underweight

Source: Principal Asset Management Company (Asia) Ltd

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