



October 2023

## MONTHLY FUND PERFORMANCE UPDATE AIA STRATEGIC FIXED INCOME FUND

### Investment Objective

The Fund aims to provide a steady stream of income returns through investments in both domestic and USD-denominated fixed income securities and money market instruments. The secondary goal of the Fund is to provide medium to long-term capital appreciation whilst preserving the capital invested.

While the Fund predominantly focuses on domestic fixed income securities, it may invest up to 50% of its NAV in USD-denominated fixed income securities.

**Notice:** Please refer to the Fund Fact Sheet for more information about the Fund.

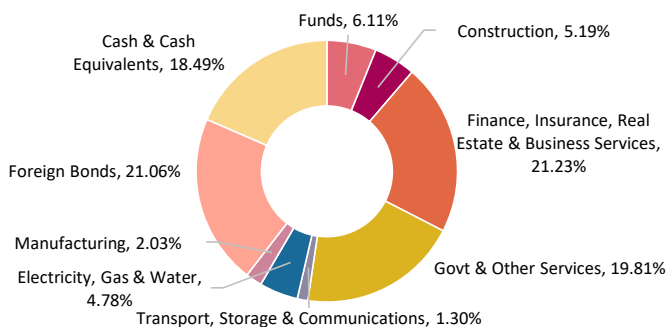
### Fund Details

Unit NAV (31 Oct 2023)	: RM 1.03966
Fund Size (31 Oct 2023)	: RM 212.768 million
Fund Currency	: Ringgit Malaysia
Fund Inception	: 6 May 2020
Offer Price at Inception	: RM1.00
Fund Management Charge	: 1.00% p.a.
Investment Manager	: AIA Bhd.
Basis of Unit Valuation	: Net Asset Value
Frequency of Unit Valuation	: Daily

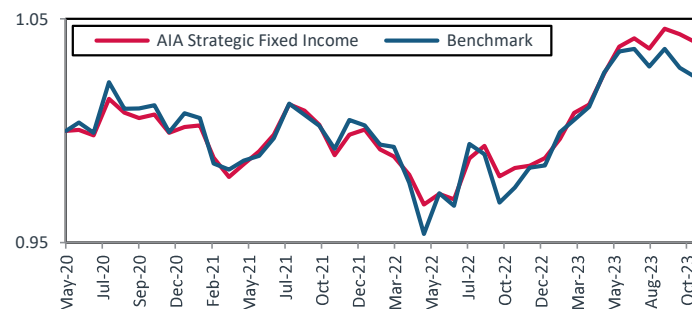
### Top Holdings

1	MALAYSIA GOVERNMENT SECURITIES	16.52%
2	DANAINFRA NASIONAL BHD	6.21%
3	JOHOR CORP	4.75%
4	AIA DIVERSIFIED FIXED INCOME FUND	4.36%
5	AIA US HIGH YIELD BOND FUND	4.35%

### Asset and Sector Allocation



### Historical Performance



Cumulative Performance	1-Mth	6-Mth	1-Year	3-Year	5-Year	Since Inception
Fund <sup>a</sup>	-0.33%	1.38%	5.72%	3.22%	N/A	3.97%
Benchmark <sup>a</sup>	-0.39%	-0.17%	5.07%	1.27%	N/A	2.42%
Excess	0.06%	1.56%	0.65%	1.95%	N/A	1.54%

<sup>a</sup> Calculation of past performance is based on NAV-to-NAV. This is strictly the performance of the investment fund, and not the returns earned on the actual premiums/contributions paid of the investment-linked product.

\* 70% MGS ALL Index (Source: RAM QuantShop @ [www.quantshop.com](http://www.quantshop.com)) + 30% Bloomberg Barclays Global Aggregate USD Total Return Index Unhedged (Source: Bloomberg)

**Notice:** Past performance of the Fund is not an indication of its future performance.

### Market Review

#### Local Market Review

The Malaysian Government Securities ("MGS") yield curve shifted higher during the month in tandem with the surge in US treasury ("UST") yields following strong labour market data releases in the US which continued to support the "higher for longer" rates narrative. Locally, sentiment was also weighed down by concerns on potentially higher government bond supply in 4Q23. However, the bond sell-off was partially cushioned by rising geopolitical risks in the Middle East which sparked a flight to safe haven assets as well as the emergence of more dovish narrative from US Federal Reserve ("Fed") officials indicating that the higher UST yields could reduce the need for further rate hikes. On the currency front, Malaysian ringgit ("MYR") weakened against the US dollar ("USD") by 1.45% to end the month at 4.7632. MGS levels as of end-Oct 2023 were: 3Y at 3.65% (+8 bps), 5Y at 3.84% (+12 bp), 7Y at 4.06% (+18 bp), 10Y at 4.10% (+12 bp), 15Y at 4.25% (+9 bp), 20Y at 4.40% (+11 bps) and 30Y at 4.51% (+9 bps).

Fixed income foreign flows recorded the second consecutive month of outflow in September 2023 at MYR4.4 billion (August 2023: -MYR5.0 billion). Foreign holdings in MGS and Government Investment Issue ("GII") fell to 23.1% in September 2023 (August 2023: 23.4%).

There were 3 government securities auctions during the month: 20Y MGS 10/42 reopening auction with a tender size of MYR5.5 billion including a private placement of MYR2.0 billion drew a bid-to-cover ("BTC") ratio of 1.772x at an average yield of 4.487%, 10Y GII 8/33 reopening auction with a tender size of MYR5.5 billion drew a BTC ratio of 2.733x at an average yield of 4.093% and 7Y MGS 4/30 reopening auction with a tender size of MYR5.0 billion drew a BTC ratio of 1.406x at an average yield of 4.134%.

On the economic data front, Malaysia's foreign reserves declined further by USD1.2 billion to USD108.9 billion as of 13 October 2023 (29 September 2023: USD110.1 billion). The reserves are sufficient to finance 5.1 months of retained imports and 1.0x of short-term external debt. Malaysia's exports continued to contract 13.7% Year-on-Year ("YoY") in September 2023 (August 2023: -18.6% YoY), driven by a dip across the Mining, Agriculture and Manufacturing sectors. Meanwhile, imports also declined 11.1% YoY (August 2023: -21.2% YoY) on the back of lower imports of consumption, intermediate and capital goods. Trade balance widened to MYR24.5 billion (August 2023: MYR17.3 billion). Separately, Malaysia's headline inflation edged lower to 1.9% YoY in September 2023 (August 2023: +2.0% YoY) primarily due to a continued moderation in the prices for Food & Non-Alcoholic beverages, Transport, Health, Recreation Services & Culture, Education and Restaurants & Hotels. Core inflation was unchanged at 2.5% YoY (August 2023: +2.5% YoY). Malaysia's industrial production for August 2023 dipped 0.3% YoY (July 2023: +0.7% YoY). The decline was attributable to the drop in the manufacturing sector, which offset the growth in the mining and electricity sectors. Malaysia's Gross Domestic Product ("GDP") in 3Q23 grew by 3.3% YoY according to advanced projections by the Department of Statistics Malaysia ("DOSM"). Separately, Malaysia's budget for 2024 was tabled during the month. The budget targets a fiscal deficit of 4.3% of GDP for 2024 (2023: 5.0%), a GDP growth target of 4.0%-5.0%, and an inflation rate of between 2.1% to 3.6%. A targeted approach to subsidies was also announced and will be implemented in phases, starting with chicken, eggs, electricity and diesel. Among the other measures announced to broaden Malaysia's revenue base included an increase in the sales and service tax ("SST") from the current 6% to 8%, a capital gains tax on unlisted shares at a rate of 10% as well as a luxury goods tax of 5% to 10%.

On the primary corporate bond space, notable issuances included MYR3.47 billion Cagamas IMTN, MYR1.0 billion Affin Islamic Bank IMTN, MYR1.0 billion Imtiaz Sukuk II Berhad IMTN and MYR1.0 billion Pengurusan Air Selangor IMTN. In terms of rating revisions, the rating of Country Garden Real Estate Sdn Bhd's IMTN programme has been downgraded to B3 from BBB3 previously. The outlook on the rating remains negative. The outlook on the AA2 rating of AEON Co (M) Bhd's Islamic Commercial Papers/IMTN has also been revised to positive from stable, while the long-term corporate credit rating and long-term financial institution rating of AMMB Holdings Berhad have been upgraded to AA2/P1 from AA3/P1. Concurrent with this upgrade, the outlook on all the ratings has been revised to stable from positive.

### Foreign Market Review

October 2023 was yet another challenging month for markets as heightened geopolitical risks and higher long-end rates continued to weigh on sentiment. Meanwhile, the US economy displayed resilience in 3Q23 as its GDP growth showed strong results. The 2Y US Treasury ("UST") yield rose 4 bps to 5.09%, while the 10Y UST yield rose 36 bps to 4.93%. Within spreads, USD investment grade widened 7 bps to 132 bps, while USD high yield credit widened 39 bps to 442 bps.

In the monetary space, US Federal Reserve ("Fed") Chairman Jerome Powell's speech on the economic outlook indicated a cautious approach to monetary policy. He mentioned that the Fed will proceed carefully and acknowledged that financial conditions have tightened significantly in recent months, which may reduce the need for further action. Moreover, other central banks started to signal that they may have reached the peak of their rate-hiking cycle. The European Central Bank ("ECB") held interest rates unchanged at 4%, reflecting the ECB's commitment to maintain a restrictive monetary policy stance while monitoring economic indicators to support price stability and sustainable economic growth in the Eurozone. The Bank of Japan ("BoJ") further tweaked its yield curve control policy framework towards increased flexibility, removing the +/- 0.5% yield reference range and abolishing the cap of 1% on the 10Y Japanese Government Bond yield.

With regards to macro prints, the US printed strong GDP growth for the 3Q23, at 4.9% Quarter-on-Quarter ("QoQ"). Non-farm payrolls surprised on the upside at +336k, while signs of partial weakness came from the unemployment rate, which remained unchanged at 3.8%. Meanwhile, US core CPI fell for the 6<sup>th</sup> consecutive month, to 4.1% YoY. In the UK, core CPI printed at 6.1% YoY, while headline CPI remained unchanged from August at 6.7%. Eurozone core inflation printed at 4.5% YoY, while headline inflation printed at 4.3% YoY for September 2023. The fall in the headline figure was mainly driven by energy and food inflation.

Global investment grade credit spreads widened 7 bps, ending the month at 127 bps. The sector returned -0.92%, underperforming like duration government bonds by -0.25%. Credit spreads widened amid continued interest rate volatility and an escalation of geopolitical tensions in the Middle East.

### Market Outlook

Although recent inflation readings and economic data from the US have shown signs of moderation, the Fed continues to reiterate the need to maintain tighter monetary policy amidst robust labour market data. Despite this, it is apparent that we are at the tail-end of the rate normalisation cycle, with potentially one final hike by the Fed in 2023. Domestically, Bank Negara Malaysia ("BNM") has kept the Overnight Policy Rate ("OPR") unchanged at its recent Monetary Policy Committee ("MPC") meeting. For the remainder of 2023, we expect rates volatility to linger due to uncertainties surrounding economic data and central banks' future monetary policy moves as market conditions evolve.

This document is for informational use only. Investments are subject to investment risks including the possible loss of the principal amount invested. The value of the units may fall as well as rise. Past performance of the fund is not an indication of its future performance. This is not a pure investment product such as unit trust and please evaluate the options carefully and satisfy that the Investment-Linked Insurance / Takaful plan chosen meets your risk appetite. Please refer to the Fund Fact Sheet for more information about the fund.