

## Principal Islamic Asset Management (Ireland) (PLC)

# Islamic Asia Pacific Dynamic Income & Growth Fund

I Class August 2023

## Market Review

MSCI AC Asia Pacific ex Japan Islamic Index returned -6.04% in US\$ terms in August, due to a decline in China and Hong Kong. The US 10-year bond yield increased 10 basis points to 4.1% while crude oil rose to US\$90/ barrel.

## Fund Review

In August, the Fund returned -5.97% in US\$ terms, contributed mostly by Korea. Sector wise, IT was a detractor.

## Portfolio Outlook and Strategy

### Outlook

Chinese macroeconomic policy stance has turned dovish. Over the past month, the chorus of supportive measures announced by the Chinese government has been getting louder. The measures include revising down mortgage rates for existing homes, plans for Urban Village Renovation, officials lauding the importance of innovation and encouraging technology giants to boost employment and various other measures. Whether the measures are sufficient remains to be seen. We are discerning in our stock selection in China should the stimulus tend to fall short of reviving 'animal spirits' and also minimizing exposure to geopolitical risks. In Asia, our investments are centred around the bottoming of the technology hardware cycle and improving private sector confidence in India. The Fed's projection materials from June imply one more rate hike to a median of 5.6% and thereafter a decline by 100bps to 4.6% in 2024 and a further 120bps to 3.4% in 2025. This should provide support to risk assets such as Asian equities. However, in the near term, the US economy is not slowing down fast enough to warrant a Fed rate cut. With increased treasury issuance in the 2H23, we expect US monetary policy to remain relatively hawkish for the next few months. Risks: a) Higher than expected inflation or hard landing in the US b) Geopolitics: E.g. US-China tensions which can range from various sanctions, financial markets and military conflicts.

### Strategy

We remain fully invested and well positioned in the areas of a) bottoming of the tech hardware cycle b) improving private sector confidence in India c) China's reopening and potential stimulus, although we are judicious in which areas.

## Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed.

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