

# Principal Islamic Asset Management (Ireland) (PLC)

## Islamic Asia Pacific Dynamic Income & Growth Fund

I Class June 2021

### Market Review

MSCI AC Asia ex Japan Islamic Index fell 1.4% in US\$ terms in June. Indonesia and Malaysia were detractors due to the Covid situation while Korea and India outperformed. Crude oil surged further to \$75/barrel while industrial metal prices corrected on China's attempt to clamp down rising prices via releasing its reserves. The Dollar Index strengthened 2.7% on Federal Reserve (Fed) officials' earlier than expected interest rates increase from 2023 onwards vs 2024 previously.

### Fund Review

In May, the Fund gained +0.6% in US\$ terms, due to good stock selection in Hong Kong SAR China, offsetting negative contribution from Australia. Sector wise, Information technology and Consumer Discretionary contributed positively while disappointing stock selection in Materials and Communication services weighed on fund's performance. Year-to-date, the Fund posted a return of +7.1% in US\$ terms.

### Portfolio Outlook and Strategy

#### Outlook

Equities look attractive on a 12-month basis. Asian equities offer high domestic driven growth, quality companies, less over-owned markets and reasonable valuations.

Despite the near-term Covid deterioration especially in ASEAN, the vaccination rollout should improve in Asia from the second half of the year. Economic activities should gradually return to normal as we head into 2022 and support our view that the market leadership should broaden out, both sector or country wise.

Although the US Fed signaled that they may raise rates in 2023, sooner than previously thought, Fed Chair Powell remarked the focus was on returning the economy to the conditions of early 2020. The fact that US 10-year yields have eased and global equity markets have continued to run since suggests that it was a welcomed move. Market expectations of inflation have begun to stabilize since mid-May as observed by the 10-year breakeven inflation rate in the US. The recent correction in commodity prices should alleviate some pressure on inflation. We believe that the fiscal and monetary stance of the Asian governments would continue to be supportive of economic growth and Asian equities.

#### Strategy

As economic activities gradually return to normal as we head into 2022, we see incremental opportunities as market leadership broadens out. During the month, we had continued to increase our holdings in India as the Covid situation had improved substantially and initiated a new position in a Thailand hospital operator.

The Fund is positioned structurally in the following areas: 1) Innovators and market share consolidators in their respective fields e.g automation in China, digital healthcare platform in India, power tools in US 2) Consumption oriented stocks in China and India which are positioned in growing sub-sectors (e.g. decorative paints, duty-free, jewellery). These are countries which have deep domestic economies with population and demographic advantages; 3) Defensives, e.g. fiber broadband network operator in Singapore, Hong Kong suburban mall operator.

## 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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