

Principal Islamic Asset Management (Ireland) (PLC)

Islamic ASEAN Equity Fund

I Class February 2024

Market Review

The Dow Jones Islamic ASEAN ended lower at -0.92% mom in February. The weak market performances were recorded in the markets - Thailand (-2.88%), Indonesia (-1.92%), Singapore (-1.47%) while markets were stronger in Philippines (+1.57%). And Malaysia (+6.21%). Notable macro developments were:

1. Singapore's February manufacturing PMI was a tad lower at 50.6 from 50.7 last month due to shorter month and Lunar new year. Headline inflation reversed in January to 2.9% yoy from 3.7% yoy in December from softer housing & utilities, transport and food. The core inflation ended to a four-month low of 3.1% yoy from 3.3% yoy in December. Full year inflation was 4.8% yoy lower than MAS's forecast of 5.0% yoy. While Singapore's GDP grew by 1.2% yoy in 2023 and is expected to accelerate in 2024 to between 1-3% yoy.
2. Indonesia's PMI in February was marginally lower to 52.7 from 52.9 last month - indicating sustained expansion. Indonesia's headline inflation in February printed higher 2.8% yoy from 2.6% yoy last month from higher food price, while core inflation was flat at 1.7% yoy. January trade surplus narrowed further to \$2.01b short of forecast of \$2.99b from stronger imports and weaker exports. BI is expected to keep interest rate flat at 6.00% at this juncture, as inflation is expected to stay within their 2-4% target range.
3. Malaysia's February PMI continued to print higher to 49.5 from 49.0 in previous two months, suggesting recovery is underway. January's headline inflation was flat at 1.5% yoy, same as previous month. While core inflation eased further to 1.8% yoy from 1.9% yoy in previous month. BNM is expected to keep OPR at 3.0% in 2024 as the current monetary policy stance is accommodative and remains supportive of the economy. Malaysia 2023 GDP ended at 3.7%, below expectations due to weaker exports but 2024 GDP expected to accelerate to between 4-5% supported recovery in the manufacturing sector and resilient domestic demand.
4. Thailand's February manufacturing PMI reversed lower to 45.3 from 46.7 last month impacted by softer new orders. Thailand's deflation in February narrowed to -0.77% yoy from -1.11% yoy last month while core inflation eased further to 0.4% yoy from 0.5% yoy a month ago. Thailand's GDP 2023 growth printed much slower at 1.9% vs forecast of 2.5% amid weaker exports and lower tourist spend. BOT also revised lower their forecast for 2024 GDP to between 2.2% -3.2%. The tourist arrivals in 2023 was 28m and the target for 2024 is 35m (40m tourist arrival pre-pandemic).
5. The Philippine's February manufacturing PMI was a tad higher at 51.0 from 50.9 last month from improving new orders. Headline inflation in February reversed higher to 3.4% from 2.8% yoy last month from higher food & non-alcoholic beverages, housing & utilities and transport. The core inflation in February continued to tick lower to 3.6% yoy from 3.8% yoy in January. Philippines's trade deficit expanded to US\$4.22bn from US\$4.18b in December as imports grew faster than exports. Philippines 2023 GDP recorded at 5.6% yoy missed government's forecast of 6%-7% yoy. Its GDP is forecasted to expand further in 2024 by 6.5%-7.5% yoy supported by benign inflation and resilient job market.

The Fed Fund rate could have peaked hence selective central banks in ASEAN would have more room to cut rate, backed by benign inflation outlook in ASEAN. In terms of export data, Vietnam, Thailand, Singapore and Malaysia have seen signs of stabilization.

In February, Presidential election was held peacefully in Indonesia. Based on preliminary results, Prabowo-Gibran is leading with majority votes, thereby avoiding the second round of election. We expect continuity of business-friendly policies under the new administration. China tourist arrivals into ASEAN have been slower than expected, cross-border travel recovery will continue. Whilst in Thailand, negative earnings revision was led by Energy and Industrials.

Foreign inflows returned to most ASEAN countries including Indonesia, Malaysia, Philippines and Thailand. ASEAN currencies were mixed vs USD. Indo Rupiah (+0.41%), was best performer followed by Phil Peso (+0.16%), Msia Ringgit (-0.21%), Sing Dollar (-0.36%) and Thai Baht (-1.11%).

Fund Review

The Fund closed positive in February at 0.2% mom and outperformed the benchmark index which was -0.94% mom. For the month, at the country level, the outperformance was attributed by the stock selection in Malaysia and Indonesia. While at the sector level, Consumer Discretion plays in Malaysia and Thailand, and Industrial exposure in Malaysia attributed to better performance, hospital holdings in Thailand were the drags. Since the fund's inception, the Fund outperformed the benchmark by 5.83%.

Portfolio Outlook and Strategy

The US Fed is staying patient in its approach to cutting rates. US inflation is easing slowly with core PCE in January at +2.8% yoy (Dec +2.9%, Nov +3.2%). Labor markets still appear tight, and the US consumer is healthy. Real GDP will probably grow at +1.8% annual rate (a slowdown from +3.2% in 4Q23) but still slightly above trend. The US Fed can cut rates quickly should the economy weaken. But they are in no rush as growth is strong and inflation appears slightly sticky. Markets expect 75bp in cuts this year, which looks reasonable.

China's economy is soft and the outlook hinges critically on government policies. With the economy in deflation, the People's Bank of China (PBoC) has some room to cut rates more aggressively. In Feb, it cut the 5-yr loan prime rate (LPR) by 25bp, which was the largest cut since the LPR reform in 2019. The central bank's claims on commercial banks have also risen significantly since 4Q23. The PBoC is expanding its balance sheet, using various lending facilities to pump liquidity into the banking system. China set its 2024 GDP growth target at 5% at the recent National People's Congress policy meeting in March. The official fiscal deficit target is 3.0% in 2024 (vs ~3.8% in 2023). The growth target will be challenging to meet unless more fiscal and monetary stimulus is carried out, which we think is likely over the next 6 months.

MSCI AC ASEAN is currently trading at 12.2x forward 12 months Price-to-Earnings Ratio, which is below the 5-year historical average of 14.1x.

Table 1: Foreign fund flows

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines~	Thailand	Vietnam^	Total
Feb24	276.5	645.9	128.7	82.0	(102.3)	1,030.8
YTD24	421.8	1,180.1	208.4	(788.0)	(49.3)	973.0
2009 - YTD24	(5,452.7)	8,256.0	2,109.8	(25,361.1)	975.7	(19,472.3)

*1 There were approximate inflows of \$4 billion in 2019 due to BDMN acquisition by MUFJ and MAPA IPO.

*2 There were approximate inflows of \$1.4 billion in May 2020 due to Bank Permata acquisition by Bangkok Bank.

^ A consortium led by KKR invested \$650 million of Vinhomes in June 2020.

~ KKR acquired \$192 million stake in First Gen Corporation in late June 2020 and JERA bought \$1.58 billion stake in the Aboitiz Power.

Source: Bloomberg

We believe ASEAN equities continue to provide unique opportunities of structural themes. We adopt a barbell approach of growth and yield. We continue to focus on quality companies benefiting from long-term growth of ASEAN income and consumption via sectors such as financials, consumer and real estates. Further recovery of tourism will be a boost to economy. We also like structural growth themes of FDI, technology & supply chain shift, and ASEAN internet. We also take opportunities to lock in attractive sustainable dividend yields.

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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