Principal Islamic Asset Management (Ireland) (PLC)

Islamic ASEAN Equity Fund

I Class January 2024

Market Review

The Dow Jones Islamic ASEAN reversed its December gain to end -4.62% mom in January. The weak market performances were seen across the markets - Thailand (-7.64%), Indonesia (-4.11%), Singapore (-3.82%), Malaysia (-2.32%) and Philippines (-1.83%). Notable macro developments were:

1) Singapore's January manufacturing PMI ended at 50.7 higher than 50.5 in the previous month from faster growth fo new orders and exports. December headline inflation unexpectedly rose to 3.7% yoy from 3.6% yoy in December from higher transport cost during the holiday season. The core inflation also ended higher at 3.3% yoy from 3.2% yoy in November. Full year inflation was 4.8% yoy lower than MAS's forecast of 5.0% yoy. Singapore's GDP grew by 1.2% yoy in 2023 and is expected to accelerate in 2024 between 1-3% yoy.
2) Indonesia's PMI in January printed higher at 52.9 from 52.2 in December suggesting sustained growth. Indonesia's headline inflation in January was ended at 2.6% yoy, marginally lower than 2.6% yoy December, while core inflation also ended lower at 1.7% yoy from 1.8% yoy previously. January trade surplus narrowed further to $2.01b short of forecast of $2.99b from stronger imports and weaker exports. BI is expecting to keep interest rate flat at 6.00% with first potential rate cut only in 1H24 as inflation is expected to stay within their 2-4% target range.
3) Malaysia's January PMI reversed stronger to 49.0 from 47.9 in previous month, hopefully indicating recovery. December headline inflation was flat at 1.5% yoy, same as previous month. Core inflation eased to 1.9% yoy from 2.0% yoy in November. 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 December manufacturing PMI ticked higher to 46.7 from 45.1 previously on the back of recovery in output. In January Thailand's deflation worsened to -1.11% yoy from -0.83% yoy last month due to lower fuel costs while core inflation eased further to 0.5% yoy from 0.6% 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 January manufacturing PMI eased further to 50.9 from to 51.5 last month due to softening demand. Headline inflation in January further eased to 2.8% yoy from 3.9% yoy due to lower costs across multiple sectors. The core inflation in January also ticked lower at 3.8% yoy from 4.4% yoy in December. Philippines's trade deficit further narrowed to US$4.01bn from US$4.69b in December as imports fell 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 may have peaked giving selective central banks in ASEAN the more room to cut rate. This is also backed by benign inflation outlook in ASEAN. In terms of export data, Vietnam, Thailand, Singapore and Malaysia have seen signs of stabilization. While China tourist arrivals have been slower than expected, cross-border travel recovery will continue particularly in Malaysia and Thailand where visa free policy is in place.

In Thailand, the delayed fiscal stimulus has dampened on investors' sentiment. But a potential 50bps cut by BOT would ease the debt burden for households and businesses, and surge in FDI applications in 2023 should underpin manufacturing expansion and labor income which is constructive for the market. Over in Indonesia, all attentions are on election which will take place on 14 February 2024. Depending on one or two round of election (candidate to secure >50% of votes) may have different implications on the market. Investors' concerns are focused on issues that relates to reform agenda, policy continuation/reversal and stable/safe election process.

Foreign inflows returned to most ASEAN countries including Indonesia, Malaysia, Philippines and Vietnam. USD strengthened following better-than-expected economic data in US and more hawkish tones from Fed officials. Sing Dollar (-1.47%), was best performer followed by Phil Peso (-1.61%), Indo Rupiah (-2.43%), Msia Ringgit (-2.94%) and Thai Baht (-3.76%).

Fund Review

The Fund closed lower in January, down 3.82% mom but outperformed the benchmark index which was -4.62% mom. For the month, at the country level, the outperformance was attributed by the stock selection in Malaysia and Thailand. While at the sector level, Energy and Industrial sector in Malaysia drove better performance but was dragged by the Consumer and Material space in Thailand. Since the fund's inception, the Fund outperformed the benchmark by 4.75%.

Portfolio Outlook and Strategy

The US inflation is easing with core PCE decelerating in December at +2.9% yoy (Nov +3.2%, Oct +3.4%). US labor market conditions remained strong with nonfarm payrolls surging by 353k in Jan (vs the 3m average of 289k). With inflation gradually rolling over, central banks including the Fed have hinted at peak interest rates and potential cuts in 2024. But with economic activity remained robust with strong consumption and resilient jobs market, the risk is that the interest rates may stay elevated for longer.

In China, Chinese authorities are believed to planning to support the stock market. Potential sources of funds are State-Owned Enterprise's cash, Central Huijin, insurers and pension funds. While not hugely inspiring, it does mean that the government is concerned about equity markets. More interestingly is the rise in share buybacks in China and HK. China's economy is soft and the outlook hinges critically on government policies. GDP growth in 2024 could decelerate from +5.2% in 2023 to ~4-4.5% in 2024 if the present momentum continues. The general opinion on the policy response so far is that they have been reactive and insufficient. It is expected that the weak economy will probably spur authorities to announce more policies although it is difficult to predict when the cumulative impact of all the measures announced so far will work.

MSCI ASEAN corrected and is currently trading at 13.2x 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
Jan24	145.3	534.2	79.7	(870.0)	53.0	(57.8)
YTD24	145.3	534.2	79.7	(870.0)	53.0	(57.8)
2009 - YTD24	(5,729.2)	7,624.3	1,981.1	(25,443.1)	1,078.0	(20,503.1)

*[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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