

Principal Islamic Asset Management (Ireland) (PLC)

Islamic Asia Pacific Dynamic Income & Growth Fund

I Class February 2024

Market Review

MSCI AC Asia Pacific ex Japan Islamic Index rose 3.7% in US\$ terms in February, amidst a broad-based rally led by China, South Korea and Taiwan. The US 10-year bond yield rose 34bps to 4.25% while the Dollar Index rose by 0.9% during the month. Year-to-date, the MSCI AC Asia Pacific ex Japan Islamic Index declined by 0.6% in US\$ terms.

Fund Review

In February, the Fund rose 3.9% in US\$ terms mainly due to South Korea, Taiwan and India while Australia was a detractor.

Portfolio Outlook and Strategy

Outlook

We are starting to see more forceful measures in China as witnessed by several moves including a 25bps cut in the five-year loan prime rate which affects mortgages, sovereign entities buying more exchange traded funds (ETFs) and some green shoots in the economy with better tourism spending during the Spring Festival. While we have turned incrementally more positive on China, we are mindful that its policies are a work-in-progress and efficacies remain to be seen. Meanwhile, in South Korea, the government's efforts to promote shareholder returns known as 'Corporate Value-up Program' akin to what happened in Japan could result in a re-rating in the stock market in the longer run. In Asia, we are positive on the recovery of the technology hardware cycle and broad-based growth in India. Risks: a) A hard landing in the US b) Geopolitics: US-China tensions which can range from various sanctions, financial markets and military conflicts

The US Fed has gone from raising rates and tackling inflation in 2023 to calibrating how many rate cuts to implement from 2024 onwards. This should be supportive for equities in terms of multiple expansion provided earnings do not disappoint significantly. In the US Fed's December projections, the median policy rate is expected to decline by 80bps to 4.6% in 2024 and a further 100bps to 3.6% in 2025. The magnitude of rate cuts would highly depend on the inflation and economic growth trajectory, whereby a soft landing is currently expected.

Strategy

We remain fully invested and well positioned in the areas of a) bottoming of the tech hardware cycle b) strong private sector confidence in India c) selected global names with resilient demand in the areas of consumption and technology.

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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