Principal Global Investors Funds

Islamic Global Multi-Asset Fund

I Class April 2025

Market Review

Global inflation was stable at 2.6% yoy in Mar'25 while inflation expectation in the US continued to trend higher on tariffs. Economists in major global financial institutions mostly lowered their GDP growth forecasts on the harder than expected tariffs. With focus shifting to growth, ECB and several Asia central banks such as India, Thailand and Philippines cut the policy rates with SNB signaling their willingness to cut rates and intervene in the FX market on Swiss Franc strength. The manufacturing boost ahead of anticipated tariffs seems to be ebbing with our Leading Regime Indicator ticking down and with our Global Manufacturing PMI Index easing to 49 from 49.6. Global financial conditions tightened marginally on widening credit spreads and weakening equity momentum.

Global equities had a volatile month in Apr'25 as S&P 500 posted its worst two-day performance since Mar'20 after President Trump announced the reciprocal tariffs on 2 April then rebounded and posted its best day since Oct'08 on 9 April with Trump's announcement of a 90-day pause on higher level reciprocal tariffs to facilitate trade negotiation. US underperformed other developed market counterparts as US dollar depreciated against other major currencies. Energy was the key laggard as oil prices plummeted over the worries of global growth slowdown while defensive sectors such as utilities and consumer staples were the best performing sectors during the month. Emerging markets mostly outperformed developed market peers. China was the key underperformer which adopted a relatively hawkish approach against the US's reciprocal tariff plan by raising US import tariffs to 84% then to 125%. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) added +55bps and +66bps respectively in Apr'25. US Treasury 10yr yield fell -4bps in Apr'25 with yield curve twist steepening. Sukuk's credit spreads widened and gold continued its uptrend and once hit $3,500 per troy ounce.

In early April, President Trump's Liberation Day announcement sent global markets into a tailspin, driving 10-year US Treasury (UST) yields 35bps lower from 4.21% at end-March to 3.86% on 4th April. The flight to safety was driven by concerns that President Trump's tariff policies may significantly stifle consumer demand, causing a recession. However, UST yields sharply reversed to 4.59% on 11th April, after President Trump announced a 90-day pause on all reciprocal tariffs excluding China. Sentiment was also dented by chatters that China may be dumping its UST holdings amid the "Sell America" theme, impacting the US Dollar as well. Nevertheless, sentiment subsequently recovered in the second half of April, pushing 10-year UST yields 43bps lower to settle at 4.16% (m-o-m 5bps lower). Gains in UST were also supported by easing headline and core US CPI for March, as well as softer US economic data e.g. 1Q25 GDP, housing starts and JOLTS job openings. In addition, remarks from several US Fed members leaned more dovish, supporting the rally in UST. For example, Christopher Waller and Beth Hammack indicated openness to resuming rate cuts as early as June, subject to economic data. M-o-m, the UST yield curve steepened with shorter 2-5 year yields plunging by 22-28bps, while longer 20 and 30-year yields rose by 10-11bps.

Fund Review and Portfolio Strategy

The Fund returned (gross) +1.71% in which gold allocation and both equity and sukuk sleeves contributed positively to the total return. The Fund outperformed the risk reference index on the tactical increase in overall risk exposure, gold allocation and outperformance of equity sleeve while sukuk sleeve slightly underperformed.

While the reciprocal tariff related situation remains fluid, we believe it is likely that the peak uncertainty has already been behind us. Market sentiment has been improving along with the positive development in the tariff negotiation and officials' comments to dial down its impact on capital markets and the real economy. We are comfortable with our risk asset overweight but will be nimble in the positioning upon the unfolding policies of the new US administration & global central banks and development in inflation & growth dynamics. As policies of the new US administration are expected to focus more on the domestic economy and market has been repricing impact of tariffs on economy, US economy is expected to fare better than other developed economies despite near term trade uncertainty weighing on US growth sentiments. While Euro's appreciation helped European markets to outperform in US$ terms, Euro strength might drag the export-oriented economy and complicate the growth picture there. Over the month, we took profits from gold allocation and increased equity allocation from sukuk sleeve on selloff.

Equities

The portfolio posted a gain of 1.3% in the month of April while outperforming its respective index. From a sector perspective, IT and communications services were areas of strength while partially offset by weakness in materials and industrials. The United States and Japan were the top contributors from a country perspective while Canada and Ireland lagged overall.

Sukuk

For the month of April, the Global Sukuk sleeve delivered 0.60% returns, slightly lower than the index return of 0.66% by 6bps. Contributors to return include our new purchase of Malaysia sovereign which tracked the weakness in long-end UST.

Overall, the Global Sukuk market remained relatively in April, stable despite the volatility in UST. GCC sukuk prices were also well supported despite the decline in oil prices, as GCC countries have increasingly diversified their economies from oil. Non-oil sectors now account for around 75% of GDP in the UAE, and 53% of GDP in Saudi. In early April, when 10-year UST rallied to 3.86%, we took the opportunity to take profit on Malaysia sovereign sukuk, which we had recently purchased towards-end March when UST yields were hovering around 4.40%. Subsequently when UST corrected to 4.59% on 11th April, we repurchased Malaysia sovereign and added position in Saudi Public Investment Fund. During the month, we also participated in new issuances.

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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