

Principal Islamic Asset Management (Ireland) (PLC)

Islamic Global Multi-Asset Fund

I Class August 2022

Market Review

Global inflation showed signs of peaking at 6.7% in July'2022 with 17 of the 29 countries under our coverage printing higher readings, lower than prior month's 25. In the US, Personal Consumption Expenditures (PCE) inflation dropped from 6.8% year on year (yoy) to 6.3%yoy while expectation-based inflation measures also eased with 10-yr breakeven inflation implied by US TIPS retreating -7 basis points (bps) to 2.48%. Nevertheless, global central banks reiterated their tightening stance on their monetary policy at Jackson Hole Conference to tame inflation. Our Global Financial Conditions Indicator (FCI) tightened to the lowest level since March'2022 with all subcomponents deteriorating, most notably in higher rates.

Economic activity continued to normalize lower in which new orders in some countries remained weak bringing our Global Industrial Production Leading Indicator lower to 51.7. Our provisional Global Manufacturing Purchasing Managers' Index (PMI) softened to 51.0 driven by deterioration in Japan and Europe. Only 19% of countries' PMIs are higher than one year ago. On the other hand, our Global Economic Surprises Index turned slightly positive attributable to the lowered expectation.

Global equity markets lost steam in August where Federal Reserve (Fed)'s hawkish message from Jackson Hole weighed on market sentiments and erased the earlier gains from signs of peaking inflation and earnings resiliency. The decline was broad based with emerging markets performing better than counterparts in the developed countries. Confronted by a potential energy crisis, Europe was the worst performing market. Despite the disappointing economic data, China ended the month resiliently where market sentiment was lifted by the preliminary deal between US and China over the audit disputes. Value outperformed growth with energy being the only sector ended in the green. MSCI ACWI ISLAMIC INDEX NTR (USD) dropped -3.81% while DOW JONES SUKUK TR EX REINVEST (USD) edged down -26bps. US 10yr yield climbed +54bps to 3.19% while compression in credit spread helped offset the loss from the treasury return.

After a strong rally in mid-June and July, US Treasury prices weakened in August, with yields pressured higher across the board, as US Fed officials maintained their hawkish stance despite a decline in US inflation. Sentiment continued to be soft ahead of the highly anticipated Jackson Hole economic symposium at end-August, where global central banks (including the US Fed) are widely expected to remain resolute in their fight against inflation, despite slowing economic growth. M-o-m, the US Treasury yield curve shifted higher and bear flattened, with shorter 1-7 year yields rising by 57-71bps, while longer 10-30 year yields settled 28-54bps higher. Meanwhile, Gulf Cooperation Council (GCC) sukuk prices recovered in the first half of August as it caught up with the previous US Treasury rally, but remained relatively stable in the second half of the month despite the correction in US Treasuries, supported by strong demand for GCC credits.

Fund Review and Portfolio Strategy

The fund returned -2.89% in which sukuk contributed positively while equity detracted the total return. The fund underperformed the internal reference index. The outperformance in sukuk sleeve added values whereas equity sleeve underperformed the benchmark and detracted. Monetary policies' normalization by global central banks, potential headwinds to earnings by elevating cost of production & slowing consumer demand, geopolitical risks and uncertainty about the development of Covid situation in China continued to heighten market volatility. We maintain a neutral stance towards equity and will be nimble in our positioning.

Equities

The Global Islamic Equities sleeve declined by 6.1%% in the month of August while underperforming its respective index. Sector performance was weak overall led by IT and health care while industrials modestly offset the weakness.

Sukuk

For the month of August, the Global Sukuk sleeve posted gross return of 0.84%, outperforming the Dow Jones Sukuk TXR index return of -0.26% by 110bps, largely due to our underweight position in high-beta Asian sukuk, which are more highly correlated to US Treasury movements. This also widened the portfolio's outperformance against the index on a YTD basis and over a one-year period, by 272bps and 335bps respectively. In early August, we continued to add GCC laggards such as Aldar, Emaar, Mazoon and Majid Al

Futtam. Given the correction in US Treasuries, we look to re-enter high-beta sukuk for tactical positioning and additional alpha, while maintaining our overweight in the GCC region given the improved economic outlook.

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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