

Principal Islamic Asset Management (Ireland) (PLC)

Islamic Global Multi-Asset Fund

I Class August 2023

Market Review

Global inflation ticked up to 3.8% yoy in Jul'23 in which 18 out of 29 countries under our coverage printed lower readings while market-based inflation measures remained anchored within policy makers' target with 10-year breakeven inflation implied by US TIPS falling to 2.25%. Divergence between central banks in emerging markets and developed markets emerged. While Bank of England (BOE) raised the policy rates by +25bps in Aug'23 policy meetings with top officials of the US Fed and European Central Bank (ECB) reiterating their commitments to taming inflation with restrictive monetary policies, Brazil Central Bank (BCB) and People's Bank of China (PBoC) surprised the market with rate cuts. Global financial conditions tightened on wider spreads, lower equities, marginally higher yields and slower monetary growth. Divergence in economic activities between contractionary manufacturing and expansionary service activities narrowed with the latter showing signs of softening. Our Leading Regime Indicator gained on higher new orders while global employment trends remained strong though slowing.

Global equity took a breather in Au'23 driven by the backup in rates on a combination of repricing of higher-for-longer rate regimes on better US growth outlook, Bank of Japan (BOJ)'s yield curve control policy tweak and US credit rating downgrade. All major regional markets ended in the red with US being the best performer. China was the primary laggard erasing the gain the month prior as slowdown in the economic growth and concerns over property contagion risk weighed on market sentiment again. Growth outperformed value with energy and healthcare being the top performing sectors. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) fell -2.61% and -24bps respectively in Aug'23. US 10yr yield climbed higher by +15bps to 4.11% and the US Treasury yield curve bear steepened. Sukuk's credit spreads widened.

Sentiment in the US Treasury (UST) market was weak in August, driving benchmark 10-year yields higher from 3.96% at end-July to touch 4.36% on 22nd August, after the US Treasury Department raised the size of its quarterly government bond auction for the first time in 2.5 years. UST yields were also pressured higher by stronger-than-expected US retail sales data and hawkish minutes of the US Fed meeting in July, which indicated that more rate hikes may be necessary. Nevertheless, 10-year UST recovered to end the month at 4.11% (m-o-m 15bps higher) on the back of softer US economic data. M-o-m, shorter 2-year yields were little changed, 5-year yields rose 8bps, while longer 7 30-year yields climbed by 13-20bps.

Fund Review and Portfolio Strategy

The fund returned -1.46% with both equity and sukuk sleeve detracting the total return. The fund was in line with the internal reference index where contribution from equity sleeve's outperformance was offset by detraction from underperformance of sukuk sleeve and slight equity overweight.

Equities

The portfolio posted an absolute return of -2.0% in the month of August but did outperform its respective index by 0.6%. From a sector perspective, health care and materials contributed positively, while weakness in IT and energy partially offset the strength. The United States and Denmark were the top contributors from a country perspective while Germany and Japan lagged overall.

Global economic data released recently confirmed a slowing but resilient economy while disinflation process continues. On the back of consumer spending and strong employment, the economy has weathered the higher rate shock better than initially expected. We expect central banks are nearing the end of their tightening cycles to evaluate the lagged impact of monetary tightening on the economies and to contain the financial stability risks. Over the month, we reduced equity allocation to bring down portfolio risk. We are slightly cautious on equity for the later part of the year as headwinds to corporate earnings will increase against the backdrop of tightening financial conditions. We will be nimble in our positioning in response to changing market conditions and continue to monitor the development of global inflation, economic growth and central bank policies.

Sukuk

For the month of August, the portfolio recorded -0.71% return, 47bps below the Dow Jones Sukuk TXR index return of -0.24%, due to our holdings in Asian sukuk which are more correlated to US Treasury movements. YTD, the portfolio delivered 1.74% return, 27bps lower than the index return of 2.01%. Global Sukuk yields rose in tandem with UST movements, even though Brent crude oil prices

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remained elevated. M-o-m, Brent prices gained 1.5% from USD 85.56/bbl at end-July to USD 86.86/bbl at end-August, largely attributed to a tighter supply market due to Saudi Arabia and Russia's production cuts. In addition, the International Energy Agency (IEA) reported that global oil demand hit a record high of 103 million bpd in June, boosted by strong summer air travel, increased oil use in power generation and surging Chinese petrochemical activity.

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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