

Principal Islamic Asset Management (Ireland) (PLC)

Islamic Global Multi-Asset Fund

I Class February 2024

Market Review

Global inflation eased to 2.9% yoy in Jan'24 with over 60% countries under our coverage printing lower inflation. Market-based inflation measures, namely breakeven inflation implied by US TIPS, were higher on hotter than expected January US CPI report, rising energy prices and shipping costs but remained within policymakers' target of 2-2.5% range. Officials of major central banks reinforced their message on their patience towards rate cuts this year with greater confidence needed. While central banks of major Asia's economies held their policy rates steady, People's Bank of China (PBoC) lowered its 5y loan prime rate more than expected by +25bps. Global financial conditions were mostly unchanged in which tightening effect from higher rates was offset by loosening effects from falling volatility and equity momentum. Our Global Manufacturing PMI softened to 48.9 mainly detracted by the disappointment in US. Our Leading Regime Indicator remained steady at the mildly expansionary zone while our Global Economic Surprises Indicator rose to the positive territory despite the negative surprises in the US.

Global equity markets witnessed a strong month in Feb'24 with major market indices in US and Japan namely S&P 500 and Nikkei 225 hitting their all time high in history. The big gain in Nvidia's earnings result extended AI optimism increasing polarization in market performances with large cap technology sectors outperforming small cap equities, real estate and defensive sectors and with US equities outperforming other developed market counterparts in Japan and Europe. Emerging markets equity also registered a decent gain with the strong rebound of HK & China equity. In response to January's selloff, Beijing introduced several measures to prop up the capital markets, ranging from replacing the head of its securities regulator to expanding ETF purchases from the sovereign wealth funds. MSCI ACWI ISLAMIC INDEX NTR (USD) added +3.27% while DOW JONES SUKUK TR EX REINVEST (USD) fell -29bps. US Treasury's 10yr yield rose +34bps with the curve bear flattening. Market shifted the expectation of a first rate cut into June from March with the total number of expected rate cut falling to three 25bps cuts, in line with the Fed's Dec'23 median Dot Plot projection. Sukuk's credit spreads compressed. DXY index was higher on the repricing of the Fed's policy path expectation.

In February, US Treasury (UST) yields climbed across the board, as investors continued to reassess their expectations of multiple rate cuts in 2024, taking cue from the US Fed's cautious tone about cutting rates too early during their FOMC meeting on 31st January. Furthermore, US economic data during the month e.g. inflation and labor market indicators came in stronger than expected, validating the US Fed's view that the committee can afford to be patient in deciding when to cut rates, given underlying strength in the US economy. Sentiment was also dented by large UST auction sizes during the month, pushing yields higher. M-o-m, benchmark 10-year UST yields rose from 3.91% at end-January to touch 4.35%, before settling at 4.25% at end-February (34bps higher m-o-m). The UST yield curve bear flattened with the shorter 2-7 year yields rising 40-41bps, while the longer 20 and 30 year yields moved up by a smaller quantum of 21-25bps. Meanwhile, Brent crude oil prices rebounded by 2.3% m-o-m from USD 81.71/bbl at end-January to USD 83.62/bbl at end-February, as investors continued to weigh prospects of a tighter supply market due to the ongoing Israel-Hamas war, against expectations of softer global demand.

Fund Review and Portfolio Strategy

The fund returned +1.95% in Feb'24 with equity sleeve contributing positively to the total return while sukuk sleeve slightly detracted. The fund outperformed the internal reference index with the outperformance of equity sleeve being the primary contributor. Gold allocation in the asset allocation sleeve and outperformance of sukuk sleeve also helped. Asset allocation detracted slightly on slight equity underweight.

Equities

The portfolio posted a more than 4% absolute return in the month of February while outperforming its respective index by almost 1%. From a sector perspective, health care and IT led the upside while was partially offset by weakness in consumer discretionary and communication services. The United States and Ireland were the top contributors from a country perspective while Finland and Japan lagged overall.

US economic data released so far continued to confirm a resilient US economy on the back of strong consumer spending and employment whereas ex-US economies remained weak with Germany entering a technical recession. While valuations become more stretched, technical indicators continue to suggest equity markets are in the overbought zone. We maintain a cautious stance on equity in the near term and are waiting for opportunities as we believe the lagged impact of monetary tightening on the economies will eventually increase headwinds to corporate earnings and economic activities. We will be nimble in overall equities positioning

In alliance with  CIMB

depending upon unfolding inflation, growth and policy dynamics. Over the month, we took some profit on equity's YTD outperformance and increased gold position on pullback as a diversified duration play with a more reasonable market pricing for major central banks' policy path expectation.

Sukuk

Despite the weaker UST market in February, Global Sukuk prices remained relatively resilient, supported by rising oil prices. For the month of February, the Global Sukuk sleeve's return was marginally negative at -0.06%, outperforming the Dow Jones Sukuk TXR Index return of -0.29% by 23bps. The portfolio's holdings in long tenured Saudi Electricity as well as selective GCC sukuk such as Bahrain sovereign and Dubai Aerospace contributed to returns, while its holdings in Asian sukuk e.g. Malaysia sovereign (which are more correlated to UST movements) moderated returns. Meanwhile, the primary Global Sukuk market remained active in February, with most new sukuk oversubscribed by 3-4 times. Notable issuances include Bahrain sovereign, Saudi Electricity, Mazoon (Oman's electricity distribution company) and Saudi Public Investment Fund (PIF). Saudi PIF's USD 2 billion sukuk garnered overwhelming demand of 8 times bid-to-cover ratio, with about 26% allocated to US, UK and European investors, signaling continued robust demand for GCC 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.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

This material may contain 'forward-looking' information that is not purely historical in nature and may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

The interest rate used is a general economic indicator that will have an impact on the management of the Fund regardless whether it is a Shariah-compliant Fund or otherwise. It does not in any way suggest that the Fund will invest in conventional financial instruments. All the investments carried out for the Fund are in accordance with Shariah requirements.

Proprietary model output is based upon certain assumptions that may change, are not guaranteed and should not be relied upon as a significant basis for an investment decision. Forecasts for each asset class can be conditional on economic scenarios; in the event a scenario comes to pass, actual returns could be significantly higher or lower than forecasted. Because of the inherent limitations of all models, potential investors should not rely exclusively on the model when making an investment decision. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. Indices are unmanaged and do not consider fees, expenses and transaction costs are not available for direct investment. The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is intent for use in:

- **The United States** by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- **Germany, Austria and the Netherlands** by Principal Global Investors (EU) Limited, Sobo Works, Windmill Lane, Dublin D02 K156, Ireland. Principal Global Investors (EU) Limited is regulated by the Central Bank of Ireland. **For all other European countries**, this document is issued by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA"). **In Europe**, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID). The contents of the document have been approved by the relevant entity. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (EU) Limited ("PGI EU") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGI EU, PGIE or PGI EU may delegate management authority to affiliates that are not authorized and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland.
- **In Dubai** by Principal Global Investors LLC, a branch registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as a representative office and is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organization. This document is intended for sophisticated institutional and professional investors only.
- **Singapore** by Principal Global Investors (Singapore)Limited (ACRAReg.No.199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act (Chapter 289). This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

- **Australia** by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission. This document is intended for sophisticated institutional investors only.

- **Switzerland** by Principal Global Investors (Switzerland) GmbH.

- **Hong Kong SAR (China)** by Principal Global Investors (Hong Kong) Limited, which is regulated by the Securities and Futures Commission and is directed exclusively at professional investors as defined by the Securities and Futures Ordinance.

- **Other APAC Countries**, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

- **India** by Principal Asset Management Private Limited (PAMC). PAMC offers only the units of the schemes of Principal Mutual Fund, a mutual fund registered with SEBI.

© 2024 Principal Financial Services, Inc. Principal, Principal and symbol design and Principal Financial Group are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company. Principal Global Investors leads global asset management at Principal®. Principal Global Asset Allocation is a specialized investment management group within Principal Global Investors.

Disclosures

The information in this document has been derived from sources believed to be accurate. It contains general information only on investment matters and should not be considered as a comprehensive statement on any matter and should not be relied upon as such. The information it contains does not take account of any investor's investment objectives, particular needs or financial situation. You should consider whether an investment fits your investment objectives, particular needs and financial situation before making any investment decision.

The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment.

All expressions of opinion and estimates in this report are subject to change without notice. This report is not intended to be, nor should it be relied upon in any way as a forecast or guarantee of future events or investment advice regarding a particular investment or the markets in general.

Persons wishing to rely upon this information should consult directly with the source of information or obtain professional advice.

All figures shown in this document are in US dollars unless otherwise noted. The information in this document has been derived from sources believed to be accurate as at 29 February 2024. This advertisement had not been reviewed by the Securities Commission Malaysia.