Principal Global Investors Funds

Islamic Global Multi-Asset Fund

I Class February 2025

Market Review

Global inflation was stable at 2.9%yoy in Jan'25 with inflation at 2.5% in developed economies and 3.5% in emerging. Potential tariffs could spike inflation in coming months, albeit the effect should wear out after a few months. Manufacturing indicators were mixed with global Manufacturing PMI index stable at 49.9 as China improved to 50.2 from 49.1, EU to 47.8 from 47.2, but US at 50.3 from 50.9. Our leading regime Indicator ticked up marginally, staying in mildly expansionary zone. The threat of tariffs under the Trump administration has been providing a short-term boost. Economic Surprises were positive in China and Europe, but negative in Japan and US. Global financial conditions were easier primarily due to lower interest rates. The spread component was largely flat while momentum/volatility implied tighter conditions.

Global Equities in first half of the month resumed their uptrend, riding improving growth, rate cuts and belief that the new U.S. administration will not push its mercantilist agenda deep enough to dent markets but ended flat this month. Germany's DAX was up 9%, where growth sentiment remains weak but markets are pricing policy support from marginally positive election results. US equities lagged global peers driven by underperformance of large cap tach while defensives outperformed. In emerging markets, China drove the gains as it continued to expect government support and optimism about its AI capabilities by release of DeepSeek's low-cost open-source model though actual monetization of these models remain unclear. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) drop 2.77% and gained 1.12% respectively in Feb'25. US Treasury 10yr yield decreased by 33bps while Sukuk's credit spreads widened. US dollar slightly down while commodities flat with oil weak but metals steady.

The US Treasury (UST) market started the year on a weak note, with 10-year UST yields soaring 24bps higher from 4.57% at end-December to touch 4.81% on 14th January, as December readings of US economic data came out stronger than expected. Nevertheless, 10-year UST yields subsequently reversed course and rallied to 4.57% on 17th January, after US core CPI came in slightly cooler, reigniting expectations that the US Fed may continue to lower interest rates. In the January FOMC meeting, the US Fed unanimously voted to keep rates unchanged at 4.25%-4.50%, citing that economic activity continued to expand at a solid pace, while labor market conditions remain solid despite inflation being somewhat elevated. Towards month-end, 10-year UST yields plunged again to touch 4.48%, before settling at 4.54% (m-o-m 3bps lower), driven by a flight to safety following newsbreak on the Chinese artificial intelligence (AI) model, DeepSeek, which sparked a sell-off in the US stock market. M-o-m, the UST yield curve shifted lower and bull-steepened, with yields falling by 2-6bps across the 2-20 year tenures, while the 30-year yields rose marginally higher.

In February, benchmark 10-year US Treasury (UST) prices continued to rally strongly, with yields plunging from 4.54% at end-January to 4.21% at end-February (m-o-m 33bps lower). During the month, yields initially trended higher to touch 4.66% on 12th February, after a hotter-than-expected US CPI report reaffirmed the US Fed's current stance of keeping rates unchanged for the foreseeable future. President Trump's call for tariffs on all US imports of steel and aluminum to protect vital US industries also fueled inflationary concerns, pressuring UST yields higher. In addition, minutes of the FOMC meeting in January reinforced the need for policymakers to see a further decline in inflation before resuming rate cuts, further weighing on sentiment.

Nevertheless, 10-year UST yields plummeted in the second half of the month, after a sharp drop in US retail sales and consumer confidence data reignited concerns over a slowing US economy, prompting investors to price in a total of three rate cuts this year (vs. US Fed's expectation of two), with the first cut expected to take place in June. M-o-m, the UST yield curve shifted lower and bull-flattened, with yields sinking 21-33bps across all tenures (2-30-year). Meanwhile, Brent crude oil prices fluctuated between the USD 74-77/bbl range in the first three weeks of February, supported by signs of a tighter supply market as President Trump reinforced sanctions on Iran oil exports and waning production from Russia. However, Brent prices weakened to close the month 4.7% lower at USD 73.18/bbl, amid concerns that President Trump's policies may hurt economic growth and oil demand.

Fund Review and Portfolio Strategy

The Fund returned (gross) -1.35% in which gold allocation contributed positively to the total return but dragged by equity and fixed income sleeve. The fund underperformed the risk internal reference index due both to equity and sukuk sleeve detraction.

Recent global economic data remained mixed and continued to suggest an outperformance of US over other major economies. As policies of the new administration in the US are expected to focus on domestic economy over international trades, we expect US economy to fare better than other developed economies despite near term trade uncertainty weighing on US growth sentiments and continue to maintain overweight in US equities. The Fund maintains slightly reduced underweight in European equities as we evaluate impact of recently announced fiscal policies by Europe for defense spending as the longer term impact on the economic growth remain uncertain while European equities valuations have moved towards expansive side as market price optimism in Europe. We continue to expect that India's economic growth thesis remains intact while d earning downgrade cycle has reached a bottom. In China, we believe more supportive policies are required with effective implementation to sustain the economic recovery while we closely monitor if the recent tech-driven rally is sustainable with improving fundamentals. Following the recent selloff, as equity technical indicators turned more neutral and bond yields moved towards highs of the range, we maintain a slight equity overweight and duration overweight in the portfolio. We maintain a slight equity overweight in the portfolio with gold allocation being a hedge against rising policy and geopolitical uncertainty. We will be nimble in the positioning upon the unfolding policies of the new US administration, development in inflation, growth dynamics and global bank central banks' monetary policies, and China macro and tech development.

Equities

The portfolio posted a loss of 3% in the month of February while modestly underperforming its respective index. From a sector perspective, health care and consumer discretionary relatively outperformed while was more than offset by weakness in information technology and utilities. Japan and Denmark were the top contributors from a country perspective while the United States and Taiwan lagged overall.

Sukuk

Meanwhile, the Global Sukuk market rallied in tandem with UST, with sovereign and quasi-sovereigns such as Indonesia, as well as Mubadala (UAE's sovereign wealth fund) and TMS Issuer SARL (Saudi Aramco's gas pipeline network in Saudi Arabia) contributing positively to the portfolio. We also participated in the new issuance of Damac Properties, which performed strongly post-issuance. Towards month-end, we took the opportunity to lock in gains on long-tenured Indonesia sovereign sukuk during the market rally. Nevertheless, the portfolio's return was moderated by higher-yielding Bahraini and Omani sukuk, which lagged the rally in UST. For the month of February, the Global Sukuk sleeve delivered 0.90% returns, underperforming the index return of 1.12% by 22bps.

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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