Principal

Principal Global Investors Funds

Islamic Global Multi-Asset Fund

I Class March 2025

Market Review

Global inflation slightly edged higher to 3.0% yoy in Feb’25 while inflation expectation in the US has risen in recent weeks reflected in University of Michigan 1-year and 5-year inflation and 1-2year breakeven inflation implied by TIPS. Market mostly read the March FOMC meeting dovish on Powell’s comments about Michigan inflation expectations being an outlier and on the bigger than expected QT tapering. While US Fed held the policy rates unchanged as market expected, central banks in Europe, Canada, Switzerland and Mexico continued to lower rates with focus shifting to growth. In recent months, there lied a divergence between hard data and soft data in which recent manufacturing activities were supported by inventory build ahead of potential tariff, trade and tariff uncertainty has softened forward looking outlook with US manufacturing PMI softening to 49 from 50.3. Our leading regime indicator ticked up marginally, staying in mildly expansionary zone while economic surprises were negative in Japan and US but were positive in China and Europe. Global financial conditions tightened on wider spreads and weaker equity momentum despite falling rates.

Global equities continued to sell off in Mar’25 as market increased pricing in the odds of stagflation from spillover of Trump 2.0 trade policy uncertainty. US underperformed other developed market counterparts dragged by large cap technology giants and banks while defensive sectors and energy outperformed. In emerging markets, India rebounded with signs of earnings revision and net foreign fund outflow bottoming out. There were signs of profit taking in Europe and China in the latter half of the month following the official approval of debt brake reform in German parliament and positive earnings reports from major internet platform companies in China. MSCI ACWI ISLAMIC INDEX NTR (USD) fell -2.64% and -2.98% respectively and DOW JONES SUKUK TR EX REINVEST (USD) added +64bps and +2.30% respectively in Mar’25 and Q1’25. US Treasury 10yr yield was flat in Mar’25 while other developed markets’ yield curve witnessed bear steepening as market expected higher German bunds’ supply on their loosening fiscal policies. Sukuk’s credit spreads widened and US dollar weakened. Gold continued its upward trend and hit record high of $3,100 per troy ounce.

In March, benchmark 10-year US Treasury (UST) yields drifted 19bps higher from 4.21% to touch 4.40% on 27th March, as the market took a breather following the strong rally in February, coupled with mixed US economic data. As widely expected, the US Fed kept rates unchanged at 4.25-4.50% on 20th March, and maintained its forecast of two rate cuts this year. Policymakers also downgraded their growth expectations for 2025 and braced for higher inflation, while cautioning that “uncertainty around the economic outlook has increased”. In addition, the US central bank announced that it will slow the pace of its balance sheet runoff beginning April, by lowering the cap on USTs allowed to mature without being reinvested from USD 25bil to USD 5bil. Nevertheless, 10-year UST rallied strongly in the final two trading days of 1Q25 to settle at 4.21% (m-o-m unchanged), driven by flight to safety as investors brace for US President Trump’s scheduled retaliatory tariff announcement on 2nd April. M-o-m, the UST yield curve steepened, with shorter 2-7 year yields declining by 4-11bps, while longer 20 and 30-year yields rose 7-8bps.

Fund Review and Portfolio Strategy

The Fund returned (gross) -2.27% in which gold allocation and sukuk sleeve contributed positively to the total return while equity sleeve detracted. The fund underperformed the risk reference index on the underperformance of equity sleeve offsetting contribution from gold allocation and slight outperformance in sukuk sleeve.

Recent reciprocal tariffs announced by the US administration exceeded market estimates sending risk assets into a freefall. As market sentiment swings to another extreme, we maintained our overweight in risk asset. As policies of the new US administration are expected to focus more on domestic economy and market has been repricing risk of tariff on economy, US economy is expected to fare better than other developed economies despite near term trade uncertainty weighing on US growth sentiments. We believe economic outlook in Europe remains challenging where capital market has already priced in the optimism of Germany's rising infrastructure and defense expense. 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. Lately, we reduced some gold allocation as it has priced in certain amount of tariff uncertainty. We will be nimble in the positioning upon the unfolding policies of the new US administration & global central banks and development in inflation & growth dynamics.

Equities

The portfolio posted a loss of 5% in the month of March while underperforming its respective index. From a sector perspective, consumer discretionary was one of the lone bright spots while was more than offset by weakness in information technology and health care. Canada and Germany were the top contributors from a country perspective while the United States and Denmark lagged overall.

Sukuk

The Global Sukuk market rallied in tandem with UST, as the secondary market remained active despite a typically quieter Ramadan period. When 10-year UST yields weakened to around 4.40%, we added duration by buying Saudi Arabian Mining Company and Malaysia sovereign, and benefitted when the market rallied towards month-end. Other contributors include the Omani corporates e.g. Mazoon, Energy Development Oman and Omantel; while detractors include short Dubai Aerospace and Majid Al Futtaim. For the month of March, the Global Sukuk sleeve delivered returns of 0.66%, outperforming the index return of 0.64% by 2bps. Meanwhile, the primary Global Sukuk market was quiet in March, with only three issuances from Aldar Properties, Islamic Development Bank and Emirates Islamic Bank. Separately, Brent crude oil prices gained 2.1% from USD 73.18/bbl at end-February to USD 74.74/bbl at end-March, supported by prospects of supply disruption caused by President Trump's sanctions and levies. Nevertheless, the rise in Brent prices was tempered by ongoing concerns over softer global demand and rising supply, with OPEC+ scheduled to begin reviving idled production in April.

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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