

Principal Global Investors Funds

Islamic Global Multi-Asset Fund

I Class May 2025

Market Review

Global inflation fell further to 2.5% yoy in Apr'25 in which market implied inflation expectation proxied by US breakeven remained well-anchored while consumer surveyed inflation expectation remained high. A more conciliatory approach on tariffs by the US administration has been positive for growth expectation. While US Fed held the policy rate unchanged in May'25 FOMC meeting, central banks outside US such as UK, China, Australia and South Korea cut rates by 25bps with PBOC announcing a package of monetary support measures including a 0.5pp cut to its RRR and an expansion of lending facilities for services and consumer sectors. Global financial conditions eased on credit spreads compression and reviving equity momentum despite higher bond yields. Our Leading Regime Indicator ticked up on better durable goods orders in US and stronger industrial orders in Japan and Germany. Our Global Manufacturing PMI Index also ticked up to 49.2 on the recovery in China, Europe and Japan.

Global equities in May'25 had the best month since Nov'23 with de-escalation of tariffs between the US and the rest of the world the primary performance driver. The US agreed to a 90-day cut of tariffs on Chinese goods from 145% to 30% while China cut its tariff on US goods to 10% from 125%. While US came to an agreement with the UK on the trade deal, the White House also claimed it is close to deals with partners including Japan, South Korea and India. US outperformed other developed market and emerging markets counterparts led by the large cap technology companies. Growth outperformed value. In emerging markets, Korea and Taiwan were the best performers partially on the back of their currency strength while India and ASEAN markets underperformed. MSCI ACWI ISLAMIC INDEX NTR (USD) gained +6.88% and DOW JONES SUKUK TR EX REINVEST (USD) returned -2bps in May'25. US Treasury 10yr yield rose +24bps with global yield curve bear steepening over fiscal sustainability concerns. Sukuk's credit spreads compressed while gold was flat pausing its uptrend. US dollar steadied in May'25 partially on the JPY weakness as it depreciated against other major EM and DM currencies.

Fund Review and Portfolio Strategy

The Fund returned (gross) +3.90% in which our equity allocation was the primary contributor to the total return. The Fund outperformed the risk reference index with equity overweight being the biggest contributor. Sukuk sleeve outperformed while equity sleeve underperformed the benchmark.

While we believe the peak uncertainty of tariff war has already been behind us, the related situation remains fluid. We are comfortable with our risk asset overweight as positioning remains light with investors sitting on the sidelines before additional tariff clarity. 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. As policies of the new US administration are expected to focus more on the domestic economy, US equity is expected to fare better than other developed economies over longer term supported by solid corporate fundamentals despite near term headwinds. We believe euro strength might drag the export-oriented economy and complicate the growth picture there. We continue to expect that India's economic growth thesis remains intact on the demographic dividends in addition to the benefits from global relocation of supply chains. In China, we believe a stronger equity market is in line with policymaker interest to restore consumers' confidence on the economy.

Equities

The portfolio posted a strong gain of almost 6% in the month of May though did slightly underperform its respective index. From a sector perspective, materials and utilities were areas of strength while partially offset by weakness in IT and health care. The Netherlands and Taiwan were the top contributors from a country perspective while the United States and Japan lagged overall.

Sukuk

The Global Sukuk market was flattish in May, with the Dow Jones Sukuk Total Return Index recording slight negative returns of -0.02%, in tandem with the weakness in UST. Despite this, the Global Sukuk sleeve delivered strong returns of 0.24%, outperforming the index by 26bps. Main contributors to the performance include our new purchases of Omniyat Properties and Sobha Realty, which rallied strongly since their issuance in early May, reflecting the booming luxury property market in Dubai. Detractors include Malaysia sovereign and Mubadala (UAE's sovereign wealth fund), which weakened in line with UST movements. Meanwhile, the primary Global Sukuk market continued to be active in May, with more new issuers tapping the market for the first time.

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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