

# Principal Islamic Asset Management (Ireland) (PLC)

## Islamic Global Multi-Asset Fund

I Class November 2022

### Market Review

Global inflation remained unchanged at 6.9% in Oct'2022 showing signs of peaking. 13 of the 29 countries under our coverage printed higher readings in which global inflation surprised to the downside last month with all regions except Japan registering misses. In the US, inflation had its first miss since August driven by core prices. Expectation-based inflation measures was also lower with 10-yr breakeven inflation implied by US TIPS falling -14bps to 2.37%. It helped the capital markets' sentiment despite the 4th straight +75bps rate hike by the US Fed. Driven by the improvements in credit and volatility components, our Global Financial Conditions Indicator (FCI) saw a strong comeback last month but remained at their most restrictive level since the Euro crisis in 2011.

Economic activity continued to normalize lower where our provisional Global PMI edged lower to 48.7 from 49.5 a month prior with 65% of the countries being in the contractionary territory and with only 8% of them seeing positive growths over the past 12 months. Our Global Economic Surprises Index was negative barring the Euro Area.

Global equity markets extended the broad-based rally on a combination of downside surprise of inflation in US and developed Europe, Fed's signal of slowdown in pace of interest rate hikes and reopening of China. The Covid policy pivot evident in the 20 measures to roll back mass testing, quarantine and mobility restrictions stimulated market sentiment in the Hong Kong & China equity market which ended the month with an over 20% gain. Compounded by a weaker US dollar, Japan and developed Europe outperformed US in Nov'22. Both value and growth registered a decent gain with materials being the best performing sector. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) rose +8.49% and +2.49% respectively in November. US 10yr yield lowered -44bps to 3.61% while sukuk credit spreads compressed.

US Treasury prices posted gains in November, with yields plunging across the board after US CPI for October came in lower than expected, fueling expectations that the US Fed may slow the pace of rate hikes going forward. During the month, 10-year US Treasury yields initially rose from 4.05% at end-October to touch 4.24% on 8th November, after US Fed Chairman Jerome Powell warned that the peak Fed Funds Rate may be higher than indicated in September, due to the strong labor market and elevated inflation. However, 10-year UST yields fell sharply to close the month at 3.61% (m-o-m 44 bps lower), after data showed that US headline and core CPI slowed in October. M-o-m, the US Treasury yield curve bull flattened, with 2-year yields falling by 17bps, while other tenures plunged by 39-49bps.

The broad Global Sukuk market also rallied strongly in November. During the month, we participated in a new issuance from Dubai Islamic Bank 2027 given the attractive offered yield. In early December, we continued to deploy cash into longer-tenured sukuk papers, namely Indonesian and Malaysian sovereign sukuk, effectively lengthening portfolio duration. We look to maintain our overweight position in the GCC region as the issuers are well positioned to weather a potential global economic slowdown, benefitting from OPEC+'s continued commitment to maintain stability in oil prices. Furthermore, China's recent announcement on easing its strict Covid-19 restrictions is expected to boost global oil demand, driving prices higher.

### Fund Review and Portfolio Strategy

The fund returned +5.17% in Nov'22 primarily contributed by the equity sleeve while sukuk sleeve also added positively to the total return. The fund underperformed the internal reference index in which both equity and sukuk sleeve underperformed their benchmark. While our tactical cash allocation detracted the relative performance during market rally, we have reduced the cash allocation in the overlay sleeve and increased our allocation to sukuk sleeve on higher yields and as a hedge against recession. We maintain our slightly cautious stance on equity given the rising odds of recession triggered by global central bank's monetary policies' tightening, potential headwinds to earnings by elevated production cost & slowing consumer demand, geopolitical risks and uncertainty about China reopening. However, we are neutralish equities in very near term given the extreme bearish sentiments. We will be nimble in our positioning in response to changing market condition especially when there is more clarity in the development of global inflation and on central bank policies.

## Equities

The Global Islamic Equities sleeve rose by 8.3%% in the month of November, performing inline with its respective index. Sector performance was mixed with outperformance in the IT and consumer staples sectors being offset by weakness in materials and real estate.

## Sukuk

For the month of November, the Global Sukuk sleeve posted gross return of 2.09%, slightly underperforming the Dow Jones Sukuk TXR index return of 2.49% by 40bps, as selective GCC sukuk lagged the US Treasury rally. Nevertheless, the portfolio continues to strongly outperform the index on a YTD basis and over a one-year period, by 273bps and 282bps respectively.

## 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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