

# Principal Islamic Asset Management (Ireland) (PLC)

## Islamic ASEAN Equity Fund

I Class August 2021

### Market Review

The Dow Jones Islamic ASEAN index jumped by 6.14% month-on-month (m-o-m) translating to index performance of -1.07% year-to-date (YTD) for the period under review. For the month of August, better performance was seen across the countries - Philippines (+13.04%) Malaysia (+8.09%), Thailand (+6.88%), Indonesia (+3.33%) and Singapore (+1.65%). Notable macro developments were:

- 1) Singapore's Purchasing Managers' Index was at 51.0 in the month of July, softer from 50.8 in June. While July Consumer Price Index (CPI) contracted -0.2% m-o-m translating to a headline inflation at 2.5% year-on-year (y-o-y). July Industrial Production Index (IPI) expanded 16.3% y-o-y, lower than expansion of 28% in June.
- 2) Indonesia's consumer prices went up 1.6% y-o-y in August, higher compared to 1.5% y-o-y in July. August CPI was declined to 0.03% m-o-m compared to 0.08% m-o-m in July. July trade balance came in at a surplus of \$1.32 billion marginally higher than \$1.31 billion in June. Both exports and imports expanded 29.3% and 44.4% y-o-y, respectively in July.
- 3) Malaysia's July consumer prices went up 2.2% y-o-y, compared to 3.4% y-o-y in June. Exports expanded only 5.0% y-o-y in July slower than 27.2% y-o-y in June. Malaysia's IPI expanded 1.4% y-o-y as at June, easing from 26.1% y-o-y in May.
- 4) Thailand's CPI came in at 0.45% y-o-y in July, with core inflation at 0.1% y-o-y. Exports was softer at 27.1% y-o-y in July from 46.4% y-o-y in June, while imports also expanded by 36.6% in July softer than expansion of 46.0% y-o-y in June.
- 5) Philippine's consumer prices rose 0.4% m-o-m in July higher than 0.2% m-o-m in June. Trade balance in June was at a \$2.8 billion deficit, lesser than the \$3.2 billion deficit in May. While headline exports growth was at 17.6% y-o-y in June, softer than 30.8% y-o-y in May.

Mobility restrictions were being eased progressively in ASEAN and some are in the midst preparing their countries to move from COVID-19 pandemic into endemic phase as major cities entering herd immunity. Economic activities are improving but further monetary and fiscal assistance are required. Successful listing of unicorn, Bukalapak in Indonesia, the emergence of new economy stocks in Indonesia and Philippines and inclusion of SEA Ltd into MSCI Singapore are garnering foreign investors attention. As more investment pours in, this new economy stocks will flourish and create multiplier effects. Earnings revision has been rather mixed depending on the COVID-19 situation. However, ASEAN were seeing positive earnings revisions which means corporates are better ready to manage the current COVID-19 situation.

ASEAN markets saw significant and sustained foreign inflows for the month due to several factors; the rise of new economy stocks; major cities in ASEAN approaching herd immunity and the regulation uncertainty in China/HK are attracting foreign flows. ASEAN currencies appreciated against USD and outperformed other major currencies led by Thai Baht (+2.1%), Indonesia Rupiah (+1.6%), Malaysia Ringgit (1.6%), Sing Dollar (+0.7%) and Phil Peso (+0.6%).

### Fund Review

The Fund posted a return of +4.53% in August and -4.57% YTD. For the month of August at the country level, the key outperformance came from Philippines and Malaysia. At the sector level, Financials and Healthcare contributed positively to performance while negative contributors were from Consumer Staples and Communication Services. Since the fund's inception, the Fund underperformed the benchmark by 5.31%.

### Portfolio Outlook and Strategy

Looking forward, we expect 3Q earnings will be less exciting across the ASEAN countries due to the extended lockdown that were in place, in order to stem the spread of the highly contagious Delta variant. The equity markets have likely priced in weaker earnings. With most ASEAN countries having ramped up vaccination and will likely reach full vaccination levels of about 50-75% by year-end, we anticipate an improvement in sentiment and positive market movement as the market look forward to FY22. We reckon that the reopening of economy, supportive fiscal and monetary policy, weaker USD, underweight positioning in the foreign portfolios and foreign investments rotation out of China may fuel ASEAN equities over the coming months.

MSCI ASEAN is currently trading at 15.5x forward 12 months Price-to-Earnings Ratio vs. the 5year historical average of 14.2x. Thailand is trading richly whereby the rest are trading near the mean valuation.

**Table 1: Foreign fund flows**

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines~	Thailand	Vietnam^	Total
Aug21	252.1	311.2	32.7	174.4	(277.3)	493.1
YTD21	(1,058.8)	1,570.3	(1,694.2)	(2,816.2)	(1,597.9)	(5,596.8)
2009-YTD21	(6,567.9)	5,361.7	2,016.6	(24,872.7)	1,985.4	(22,076.9)

\*<sup>1</sup> There were approximate inflows of \$4 billion in 2019 due to BDMN acquisition by MUFJ and MAPA IPO.

\*<sup>2</sup> There were approximate inflows of \$1.4 billion in May 2020 due to Bank Permata acquisition by Bangkok Bank.

^ A consortium led by KKR invested \$650 million of Vinhomes in June 2020.

~ KKR acquired \$192 million stake in First Gen Corporation in late June 2020.

Source: Bloomberg

After seeing continuous foreign outflows, ASEAN ex Vietnam started to see significant and more sustained inflows lately. Laggards also outperformed whilst outperformers, Singapore and Vietnam, lagged. The latter was due to the surge of COVID-19. Hence, the strategy remains the same which is geared to cyclical sectors such as financials, consumer, energy, basic materials and real estates. Meanwhile, we continue to add into new economy stocks such digital banks and major e-wallet provider.

The ASEAN equities will provide investors a combination of recovery plays and long-term structural themes. Hence, we have adopted a barbell approach of cyclicals & growth and yielders. As economic activities continue to improve and vaccination progresses, we are increasingly more positive on cyclical sectors and stocks benefiting from reopening such as tourism-related. Cyclical sectors include financials, consumer, basic materials, real estates. We continue to like structural growth themes of ASEAN e-commerce & fintech, Vietnam and technology & supply chain shift. Whilst the dividend yielders will provide buffer to the current market volatility. From a technical viewpoint, ASEAN has been under-performing North Asia since 2018 and we do think that 2021 will be a year where this asset class will shine simply because it is under-owned and foreign investor positioning is too underweight.

## 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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