

# Principal Islamic Asset Management (Ireland) (PLC)

## Islamic ASEAN Equity Fund

I Class December 2019

### Market Review

The Dow Jones Islamic ASEAN index rose in December by +3.39% and +8.85% for the year under review. For the month of December, Malaysia and Singapore outperformed, whilst Indonesia, Thailand and Philippines underperformed. Notable macro developments were:

- 1) Malaysia trade balance recorded a surplus of MYR17.3billion in October, higher than the surplus of MYR8.3billion in September;
- 2) Indonesia inflation reported at 3.00% over a year ago in November, lower than 3.13% in October;
- 3) Singapore Purchasing Managers' Index (PMI) rose slightly to 49.8 in November, up from 49.6 in October;

### Fund Review

The Fund posted a return of +3.98% in November and +12.33% for the year under review. For the month of December, at the country level, the key outperformers came from Indonesia, Thailand and Philippines. At the sector level, Consumer Goods and Basic Material sectors contributed positively to performance in the month under review. Since the fund's inception, the Fund has outperformed the benchmark by +11.71%.

### Portfolio Outlook and Strategy

Trade tensions eased off in December as US - China trade negotiation progressed with the previously scheduled new tariffs being cancelled. Markets await Phase 1 trade deal and potential roll back of existing tariffs. After a series of easing measures throughout the year, central banks in the region largely paused in December. Economic data continues to be a mixed bag, however, there are signs that manufacturing recovery is gaining traction. China Official Manufacturing PMI registered at 50.2 for December, staying above 50 for the second month. Singapore Non Oil Domestic Exports declined -5.90% year-on-year (YoY) for November, sequentially less negative after hitting the worst of -17.40% YoY in June 2019. Due to rising geopolitical risk in the Middle East, crude oil price rose in early January 2020. Crude palm oil futures prices also breached MYR3,000/metric ton (mt), a 3-year high, coming from the lows of MYR2,000/mt over the past one year. Certain commodities seem to have passed the worst but a sustainable rally in overall commodities complex would require more fiscal expansion from major economies.

ASEAN as a whole had a smaller foreign outflow in December than in November. The bright spot is Indonesia was receiving foreign inflow. Regional currencies were strengthening against USD. A weaker USD is typically positive for Emerging Market including ASEAN. At 13.9x, ASEAN is trading near both 10-year and 5-year historical Price-to-Earnings Ratio average of 13.4x and 14.0x. Malaysia, Indonesia and Thailand are trading at a premium to historical average, partly due to high valuation in defensive sectors.

We maintain our stance to stay invested on high-dividend yielder names whilst added into cyclical names. We like Malaysia and Singapore for cyclical exposures such as oil & gas, plantation and basic material sectors. Singapore also offers high dividend yields. We also like Indonesia for the reform to be implemented by President Jokowi. The Philippines still faces risk premium, for example regulatory risk, as recently seen in water utilities and media sectors. We stay underweight in Thailand market due to lack of growth. Nevertheless, we will be more active in realising profit in the current stage of late economic cycle. Over the longer-term, we continue to like companies that benefit from rising consumption and infrastructure spending, technology (5G spending), tourism, trade diversion and high-dividend payout.

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All figures shown in this document are in U.S. dollars unless otherwise noted.