

Principal Islamic Asset Management (Ireland) (PLC)

Islamic ASEAN Equity Fund

I Class November 2022

Market Review

The Dow Jones Islamic ASEAN index surged in November 6.01% month on month (mom). The strength in ASEAN was led by Singapore (+11.88%), Thailand (+11.53%), Philippines (+9.78%) and Malaysia (+8.88%) with only Indonesia ended in negative (-4.25%). Notable macro developments were:

- 1) Singapore's manufacturing Purchasing Manager's Index (PMI) in November stayed below 50 at 49.8 from 49.7 in October. The headline inflation was 6.7% year on year (yoy) and 0.1% mom in October, while core inflation decelerated to 5.1% yoy.
- 2) Indonesia's November inflation print trended lower to 5.4% yoy from 5.7% yoy in previous month. While PMI in November decelerated further to 50.3 from October 51.8, falling from high of 53.7 in September. October trade surplus rose to US\$5.7b after falling to US\$5.0b September. BI hiked again in November by another 50bps which settled the policy rate at 5.25%.
- 3) Malaysia's headline inflation eased in October to 4.0% yoy from September 4.5% yoy, while core inflation edged higher to 4.1% yoy from 4.0% yoy in previous month. Malaysia's manufacturing PMI stayed weak, printing 47.9 in November lower than 48.7 in October. Minister Of Finance (MOF) target Growth Domestic Product (GDP) to range between 6.5-7.0% in 2022 and slowing to 4.0-5.0% in 2023.
- 4) Thailand manufacturing PMI continued expanding but a slower pace at 51.1 in November from 51.6 in October. Further easing in headline inflation, falling to 6.0% yoy in October from 6.4% yoy in September, after a high of 7.9% yoy in August, whilst core inflation marginally higher at 3.2% yoy. Thailand GDP for 2022 is expected to settle at 3.3% yoy and improving to 3.8% in 2023 supported by recovery in tourism.
- 5) Philippine's manufacturing PMI stayed expansionary at 52.7 in November from 52.6 in October. Headline inflation accelerated to 8.0% in November from 7.7% in October. BSP is expected to hike another 50bps to benchmark rate of 5.5%, following a previous 75bps hike in November. Foreign exchange reserve in November settled at US\$80.6b, lower than US\$1.4b in previous month.

Despite domestic consumptions account for more of the 50% ASEAN GDP, economy activities especially trading nations softened recently due to rising global uncertainty. Signs of inflation peaking in ASEAN, however, interest rate trajectory is still on the uptrend because the pace of rate hike is still behind developed markets. Singapore MAS tightened monetary policy for the 5th time through currency adjustment. However, interestingly, the latter tightened less than expected.

The appointment of Datuk Seri Anwar Ibrahim as Malaysia's 10th Prime Minister ends the political deadlock from GE15 (which resulted in a hung parliament), boosting investors' confidence in Malaysia. Thailand and Indonesia will be entering election mode in coming months. The earnings season has just concluded and using MSCI ASEAN Index as a proxy for ASEAN as a whole, Industrial's FY22 earnings expectation was the most positively revised, followed by Technology. Meanwhile, Consumer Discretionary experienced the most negative revision in this reporting season.

Foreign flows to ASEAN was mostly positive in November except Malaysia as investors sidelined the market due to elections uncertainties. ASEAN FX reversed their weakness against the dollar except for the Rupiah. Indonesia Rupiah (-0.85%) was the worst performer whilst other ASEAN was a strong positive for the month - Thai Baht (7.94%), Malaysia Ringgit (6.35%), followed by Singapore Dollar (+4.05%) and Philippines Peso (+2.48%).

Fund Review

The Fund posted a return of 6.85% mom in November, outperformed the index which was up 6.01% mom. For the month, at the country level, the outperformance was driven by the underweight in Indonesia and stock selection in Malaysia and was offset by stock selection in Thailand and overall underweight in Philippines. At the sector level, the Consumer Discretionary, Industrials and Materials supported performance but was offset by Info Tech and Communication Services sector. Since the fund's inception, the Fund outperformed the benchmark by 5.39%.

Portfolio Outlook and Strategy

Market volatility will persist into next year as the lack of clarity over Fed's pace of hike and its ability to maneuver a soft landing will continue to plague markets. Beyond 1H23 the markets may turn more optimistic over a synchronized global recovery in 2024, particularly if there are signs of stabilization and improvement over geopolitics. But inflation remains a key variable, and a lack of moderation there could derail equity markets. Additionally, the full impacts of 2022's policy tightening are yet to be seen. While slowdown in growth is well anticipated, we expect some liquidity tightness hence mindful of the potential for sharp downturns in US equities in such conditions. Also, concerns for geopolitical risks may continue with new and existing tensions.

Post the 20th Party Congress, the long-awaited policy pivots in both zero-Covid and property was finally announced. On November 11, they released the 20 measures to relax Covid controls and the 16 measures to support the property sector. The "16 measures" led to several policy actions in supporting the property sector. Whilst the "20 measures" which aims to optimize and adjust the zero-Covid policy will hopefully have more clarity and guidance going forward.

Market key risk remains to be persistently high inflation leading to overtightening of monetary policy and a hard landing for developed economies like the US and Europe. Prolonged softness in the Chinese economy leading to second order impacts on consumption and investment.

MSCI ASEAN is currently trading at 14.07x forward 12 months Price-to-Earnings Ratio, which is in line the 5-year historical average of 14.1x. Thailand is the only market trading above historical average.

Table 1: Foreign fund flows

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines~	Thailand	Vietnam^	Total
Nov22	(61.1)	45.2	99.4	847.5	602.1	1,533.1
YTD22	1,192.7	2,293.5	(833.0)	4,255.0	475.4	7,383.6
2009 - YTD22	(5,052.8)	8,773.2	2,873.4	(19,434.6)	1,334.8	(11,506.0)

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

*2 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 and JERA bought \$1.58 billion stake in the Aboitiz Power.

Source: Bloomberg

We believe ASEAN equities continue to provide investors a combination of recovery plays and long-term structural themes. We continue to adopt a barbell approach of cyclicals and growth. As reopening progresses in ASEAN, we focus on quality companies in cyclical sectors and sectors benefiting from reopening such as tourism-related. We also continue to like structural growth themes of ASEAN internet, and technology & supply chain shift, with a focus on quality growth companies at reasonable valuation. Our absolute return strategy continues to aim to capture these ASEAN opportunities of strong fundamentals, taking advantage of the volatilities of external global market sentiments.

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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