

# Principal Islamic Asset Management (Ireland) (PLC)

## Islamic ASEAN Equity Fund

I Class July 2019

### Market Review

The Dow Jones Islamic ASEAN index was down in July by -1.10%. For the month of July, Indonesia outperformed, whilst Singapore, Malaysia, Thailand and Philippines underperformed. Notable macro developments were:

- 1) Malaysia Nikkei Purchasing Managers' Index ("PMI") fell to 47.8 in June vs. 48.8 in May. Meanwhile, the Industrial Production Index ("IPI") increased 4% year-on-year in May, above consensus' expectation of 3.5%. Bank Negara Malaysia has maintained the overnight policy rate ("OPR") rate at 3% following the Monetary Policy Committee ("MPC") meeting and said that the monetary policy remains accommodative;
- 2) Bank Indonesia ("BI") cut 7-Day reverse repo rate ("RRR") by 25 basis points ("bps") to 5.75% in July, noting that the motivation was to accelerate growth momentum. BI sees room for further monetary easing owing to low inflation. JPM expects another 25bps cut in September;
- 3) Singapore's June non-oil domestic exports ("NODX") fell 3.2% month-on-month seasonally adjusted, in US dollar terms, leaving headline at -18.2% over-a-year-ago. While this was in part due to a pullback in pharmaceutical exports, but softer tech exports in June also continued to pose a drag on headline NODX in June. The monthly drop left the NODX sequential trend contracting 27.0% 3-month/3-month seasonally-adjusted-annualised-rate, through June and 30.8% 3-month/3-month seasonally-adjusted-annualised-rate, if excluding the volatile pharmaceutical category;
- 4) Philippines' inflation further softens to 2.7% over-a-year-ago in June-19;
- 5) Bank of Thailand tapered 60bn Baht out of July issuance in order to curb hot money inflows and control the baht's rapid gain. Baht depreciated by 0.7% month-on-month against USD in July;

### Fund Review

The Fund posted a return of -1.96% in July and +11.46% for the financial period under review. For the month of July, at the country level, the key underperformers came from Indonesia and Singapore. At the sector level, Basic Materials, Consumer Goods and Consumer Services sectors contributed negatively to performance in the month under review. Since the fund's inception, the Fund has outperformed the benchmark by +10.73%.

### Portfolio Outlook and Strategy

ASEAN markets were seeing rotation within countries and sectors as investors were looking for further guidance from Federal Reserve in terms of interest rates direction. And true enough, Fed chairman disappointed on the quantum of rate cuts but the direction is still for the rate to decline. Trade tensions between US-China remains status quo, hence, companies continue to guide for softer growth if not decline for the remaining of the year. However, there are some bright spots for companies that are exposed to 5G roll-out.

No major policy is being announced yet by the newly elected governments in Indonesia and Thailand. However, we expect these leaders to give some hints in the coming months. Indonesia President will chair 2020 budget on 17 August and Thailand Prime Minister just tabled his first cabinet meeting. For now, markets will now just focus on the corporate results. On results, so far, not much surprises. Except for companies that are exposed to 5G, those who are exposed to domestic consumptions continue to show resiliency and some improvements due to favourable FX rates, low commodities prices and rational price competitions.

MSCI ASEAN continued to outperform the region during this volatile month as it usually does during rising volatility. ASEAN as a group continues to garner interest due the ongoing trade tensions because of its lower beta while the nations are more domestic centric. ASEAN ex Singapore started to see net inflows especially Thailand, after facing the most outflows in ASEAN in past years and partly due to index rebalancing. However, as mentioned before, ASEAN are entering volatile period during August to October.

As mentioned above and in previous month, pocket of opportunities shrank and markets entering seasonally volatile period. We will take this opportunity to re-deploy our cash into companies that have retraced to attractive level. We remain positive on Indonesia and Philippines coupled with companies with high-dividend yield.

## Disclosures

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