

# Principal Islamic Asset Management (Ireland) (PLC)

## Islamic ASEAN Equity Fund

I Class March 2024

### Market Review

The Dow Jones Islamic ASEAN ended higher at 1.39% mom in March. The stronger market performances were recorded in the markets - Singapore (5.11%), Philippines (+2.53%), Indonesia (+2.06%) and Malaysia (+0.79%) with only Thailand (-0.03%) easing during the month. The notable macro developments were:

1. Singapore's March ticked up to 50.7 from 50.6 in February which was a shorter month and Lunar new year. Headline inflation accelerated in February to 3.4% yoy from 2.9% yoy from housing, education and food. The core inflation rose to a seven-month high at 3.6% yoy from low of 3.1% yoy in January. Headline inflation in 2024 is expected to be 3.3% yoy easing from 4.8% yoy in 2023. While Singapore's GDP grew by 1.2% yoy in 2023 and is expected to accelerate in 2024 to 2.9% yoy and further to 3.0% in 2025.
2. Indonesia's PMI in March expanded to 54.2 from 52.7 last month. Indonesia's headline inflation in March also printed higher to 3.1% yoy from 2.8% yoy in previous month from higher food price, accommodation and education. While core inflation ticked higher to 1.8% yoy from 1.7% yoy. February trade surplus shrunk further \$870m from to \$2.01b from drop in manufacturing exports. BI kept interest rate flat at 6.00% in order to defend the IDR and manage inflation within the 2.5% (+/- 1.0%) range for 2024.
3. Malaysia's March PMI dropped sharply to 48.4 from 49.5 from new orders, output and employment shrank. February's headline inflation unexpectedly rose to 1.8% yoy from 1.5% yoy last month due higher housing and transportation. While core inflation was flat at 1.8% yoy same as in February. BNM kept OPR at 3.0% and is expected to remain at 3% for 2024 to ensure it remains accommodative and supportive of the economy.
4. Thailand's March manufacturing PMI recovered strongly to 49.1 reversed lower to 45.3 last month from output recovery. Thailand's deflation in March continued to recover to -0.47% yoy from -0.77% yoy in February while core inflation ticked lower to 0.4% yoy lower than a month ago. BOT maintained interest rates at 2.5% unlikely to cut before the Fed to maintain Baht's strength. The tourist arrivals in 2023 was 28m and the target for 2024 is 36m (40m tourist arrival pre-pandemic).
5. The Philippine's manufacturing PMI in March was marginally lower to 50.9 from 51.0 last month as growth in new order decelerated. Headline inflation in March escalated to 3.7% yoy from 3.4% yoy last month from higher food & non-alcoholic beverages, transport, recreation and restaurant & accommodation services. The core inflation in March continued to tick lower to 3.4% yoy from 3.6% yoy previously. Philippines's trade deficit narrowed to US\$3.65bn from US\$4.39bn January as exports rose. Philippine's GDP is forecasted to expand in 2024 by 6.0%-7.0% yoy driven by acceleration in public investment and exports recovery.

The Fed Fund rate could have peaked hence selective central banks in ASEAN would have more room to cut rate, backed by benign inflation outlook in ASEAN. Across ASEAN economic growth is expected for this year given the no low recession expectations in the US. The Chinese tourist arrivals have been slower than expected, cross-border travel recovery will continue. Thailand saw international tourists increased by +58.6% year-on-year in February.

The markets in ASEAN were lacklustre during the month with no strong catalysts to push markets further. Sentiment in Thailand and Indonesia were still affected by politics and policies, and concerns over trades and currencies. While in Malaysia, the market was anticipating the economic reforms which could be delayed.

Foreign inflows were mixed with inflows into Indonesia and Philippines during the month. ASEAN currencies were largely weakened vs USD in regional currencies. Msia Ringgit (+0.38%), as best performer followed by Phil Peso (-0.03%), Sing Dollar (-0.27%), Indo Rupiah (-0.88%) and Thai Baht (-1.43%).

## Fund Review

The Fund ticked higher in March by 0.4% mom but underperformed the benchmark index which was up by 1.4% mom. For the month, at the country level, the underperformance was attributed to exposure in Indonesia, Singapore and Thailand. While at the sector level, Communication Services, Materials and Consumer Discretion were the major drags on performances. Since the fund's inception, the Fund outperformed the benchmark by 4.14%.

## Portfolio Outlook and Strategy

The US economy remains strong and inflation sticky with headline CPI in Feb running at +3.2% y-o-y (Jan: +3.1% y-o-y). Markets currently expect ~75bp of cuts this year and there is a chance of this being reduced to 50 bps. The US economy keeps defying pessimists. GDP growth, the labour market and financial health of household and business are all in good shape. Immigration has helped boost labour supply in recent times, which partly explains the strong output growth. No surprise that inflation has remains elevated and the Fed has been careful in guiding the pace of rate cuts.

China's economy is stabilizing. Exports rose +7% y-o-y in Jan & Feb, and manufacturing PMIs printed above 50 in March, the first time since Oct 2023. The domestic oriented economy is mixed with property sales remaining weak, retail sales +5.5% y-o-y in Jan & Feb, and aggregate credit growth +9% y-o-y in Feb 2024. The PBoC is also expanding its balance sheet. 1Q24 GDP growth could reach +4.5-5% y-o-y which would be in-line with the full year target of +5%. Policy action is a key determinant of how the macro evolves. China has started drafting a Private Enterprise Law to improve confidence, promote development, motivate businesses to be innovative and enforce rules so that state-owned enterprises and private companies are treated equally.

MSCI AC ASEAN is currently trading at 12.4x forward 12 months Price-to-Earnings Ratio, which is below the 5-year historical average of 14.1x.

**Table 1: Foreign fund flows**

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines~	Thailand	Vietnam^	Total
Mar24	(608.5)	505.6	(45.8)	(1,145.4)	(29.5)	(1,323.7)
YTD24	(186.8)	1,685.7	162.6	(1,933.4)	(78.8)	(350.7)
2009 - YTD24	(6,061.3)	8,775.8	2,064.0	(26,506.5)	946.2	(20,781.8)

\*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 unique opportunities of structural themes. We adopt a barbell approach of growth and yield. We continue to focus on quality companies benefiting from long-term growth of ASEAN income and consumption via sectors such as financials, consumer and real estates. Further recovery of tourism will be a boost to economy. We also like structural growth themes of FDI, technology & supply chain shift, and ASEAN internet. We also take opportunities to lock in attractive sustainable dividend yields. As part of our absolute return strategy, we continue to be disciplined in taking profit from outperformers and rotating to other more attractive opportunities within the abovementioned themes.

## 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.

## Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

This material may contain 'forward-looking' information that is not purely historical in nature and may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

The interest rate used is a general economic indicator that will have an impact on the management of the Fund regardless whether it is a Shariah-compliant Fund or otherwise. It does not in any way suggest that the Fund will invest in conventional financial instruments. All the investments carried out for the Fund are in accordance with Shariah requirements.

Proprietary model output is based upon certain assumptions that may change, are not guaranteed and should not be relied upon as a significant basis for an investment decision. Forecasts for each asset class can be conditional on economic scenarios; in the event a scenario comes to pass, actual returns could be significantly higher or lower than forecasted. Because of the inherent limitations of all models, potential investors should not rely exclusively on the model when making an investment decision. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice.

Indices are unmanaged and do not consider fees, expenses and transaction costs are not available for direct investment. The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is intent for use in:

- **The United States** by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- **Germany, Austria and the Netherlands** by Principal Global Investors (EU) Limited, Sobo Works, Windmill Lane, Dublin D02 K156, Ireland. Principal Global Investors (EU) Limited is regulated by the Central Bank of Ireland. **For all other European countries**, this document is issued by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA"). **In Europe**, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID). The contents of the document have been approved by the relevant entity. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (EU) Limited ("PGI EU") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGI EU, PGIE or PGI EU may delegate management authority to affiliates that are not authorized and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland.
- **In Dubai** by Principal Global Investors LLC, a branch registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as a representative office and is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organization. This document is intended for sophisticated institutional and professional investors only.
- **Singapore** by Principal Global Investors (Singapore)Limited (ACRAReg.No.199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act (Chapter 289). This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- **Australia** by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission. This document is intended for sophisticated institutional investors only.
- **Switzerland** by Principal Global Investors (Switzerland) GmbH.
- **Hong Kong SAR (China)** by Principal Global Investors (Hong Kong) Limited, which is regulated by the Securities and Futures Commission and is directed exclusively at professional investors as defined by the Securities and Futures Ordinance.
- **Other APAC Countries**, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.
- **India** by Principal Asset Management Private Limited (PAMC). PAMC offers only the units of the schemes of Principal Mutual Fund, a mutual fund registered with SEBI.

© 2024 Principal Financial Services, Inc. Principal, Principal and symbol design and Principal Financial Group are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company. Principal Global Investors leads global asset management at Principal®. Principal Global Asset Allocation is a specialized investment management group within Principal Global Investors.

## Disclosures

The information in this document has been derived from sources believed to be accurate. It contains general information only on investment matters and should not be considered as a comprehensive statement on any matter and should not be relied upon as such. The information it contains does not take account of any investor's investment objectives, particular needs or financial situation. You should consider whether an investment fits your investment objectives, particular needs and financial situation before making any investment decision.

The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment.

All expressions of opinion and estimates in this report are subject to change without notice. This report is not intended to be, nor should it be relied upon in any way as a forecast or guarantee of future events or investment advice regarding a particular investment or the markets in general.

Persons wishing to rely upon this information should consult directly with the source of information or obtain professional advice.

All figures shown in this document are in U.S. dollars unless otherwise noted. This advertisement had not been reviewed by the Securities Commission Malaysia.