

## Principal Global Investors Funds

# Islamic Asia Pacific Dynamic Income & Growth Fund

I Class February 2025

## Market Review

MSCI AC Asia Pacific ex Japan Islamic Index was down 3.23% in US\$ terms in February. The US 10-year bond yield declined to 4.2% while Brent crude fell to US\$73/ barrel.

## Fund Review

In February, the Fund was flat in US\$ terms; contributed mainly by China.

## Portfolio Outlook and Strategy

### Outlook

Tariffs, deregulation and tax cuts are integral to President Trump's policies. Uncertainty in US tariff policy has caused volatility in exchange rates but the Dollar Index is flat year-to-date. The 10% additional tariff on China was more modest than market expectations. China raised tariffs on certain imports, but these only account for approximately US\$14bn worth of goods. DeepSeek has demonstrated that efficient AI models can be developed at significantly lower costs, challenging the notion that AI requires significant capital and the most advanced chips. US big tech companies have reiterated expectations of similar AI capital expenditure intensity for now, but the area of spending may shift, potentially redistributing profits and winners in the AI race.

The Chinese economy remains soft, but property sales appear to be stabilizing, with primary sales of top developers clocking -1% y-y change in January 2025, compared to declines in the past four years. The good news is that Beijing has vowed to boost consumption in 2025. Estimates suggest that a 10% tariff could shave 0.3% off GDP growth. Currency depreciation is an option to counteract the impact of very high tariffs, e.g., more than 20%. The upcoming National People's Congress in March and review of the US-China economic relationship are key things to monitor.

### Strategy

During the month, we trimmed positions in selected global technology stocks with the risk-off sentiment, and have partially deployed the proceeds to a few ideas in China and India. We are positioned in the following areas a) diversified technology names across foundry, internet, IT services b) select Indian companies where demand is resilient, or where growth is bottoming out c) ideas where return drivers are not major macro factors, such as ASEAN telcos and pharmaceutical contract manufacturers.

## Risk Considerations

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