Principal Global Investors Funds

Islamic Global Multi-Asset Fund

I Class August 2024

Market Review

Global inflation remained steady at 3.2% yoy in Jul'24 in which 17 out of 29 major economies under our coverage printing higher inflation. Nevertheless, policymakers of major central banks expressed optimism over long term inflationary pressure with BoE, Riksbank and RBNZ cutting their policy rates. As Jul'24 unemployment rate in US ticked higher to 4.3% triggering the recession predicting Sahm Rule, market and US Fed has turned more focus from inflation to labor market where Chair Powell confirmed the time has come to adjust the benchmark rate during the annual conference at Jackson Hole. Our Global Financial Conditions Indicator continued to ease on falling rates, tighter credit spreads and improved monetary growth. Our Global Manufacturing PMI Index contracted for the fifth month in a row in which rising inventories in US might suggest headwinds to manufacturing growth in coming months. Our Leading Regime Indicator remained close to 50 implying borderline growth while our Global Economic Surprises Indicators in major regions except Europe were negative.

Global equity markets witnessed a roller coaster rider in Aug'24 where a sharp selloff driven by growth worries and yen carry trade at the start of the month once sent the equity implied volatility, VIX index, above 65, the biggest intraday spike on record. US economic data since then generally surprised positively with global equity market rebounding and ending the month positively. Defensive sectors such as utilities, healthcare and consumer staples outperformed while AI thematic sectors underperformed. European and US equity outperformed Japan which had seen the second highest ever daily selloff following 1987. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) added +92bps and +2.00% respectively in Aug'24. US Treasury 10yr yield fell -13bps to 3.90%, while Sukuk's credit spreads compressed. DXY index fell and gold prices hit record high as market was resetting US growth and major central banks' rate path expectation.

In August, 10-year US Treasury (UST) prices continued to climb, with yields declining from 4.03% at end-July to close the month at 3.90% (m-o-m 13bps lower). The bullish sentiment was supported by waning strength in the US economy, cementing expectations of an imminent rate cut in September to prevent the US economy from stalling. Furthermore, minutes of the US Fed meeting in July revealed that "several" policymakers saw a case for cutting rates in July, even though the committee unanimously voted to keep rates unchanged at 5.25-5.50%. M-o-m, the UST yield curve bull steepened, with the shortest 2-year UST yields plunging by 34bps, 5-7 year yields diving by 15-21bps, while the longer 10-30 year yields fell by 10-13bps.

Fund Review and Portfolio Strategy

The Fund returned (gross) +2.12% in which our gold allocation, equity and sukuk sleeve helped the total return with equity sleeve being the primary contributor. The fund outperformed the internal reference index on the back of outperformance in both equity and sukuk sleeve and gold allocation.

The mixed global economic data with increasing signs of slowdown in global economy released recently heighted market fluctuations. We believe the lagged impact of monetary tightening will eventually pose headwinds to corporate earnings and economic activities. In US, the downside surprise in recent nonfarm payroll data showed signs of weakness in the economy despite its relative resilience. We expect economic outlook in Europe to remain challenging while India's economic growth thesis remains intact. Despite support from the external sector, China continues to see tepid economic growth data on the weak domestic demand where we believe more supportive policies are required from Beijing for sustainable economic recovery. Equity valuation remains expensive while technical indicators become overbought again after the relief rally. We remain neutral to slightly underweight equities as we anticipate higher volatility while market seasonality remains unfavorable in near future. We remain overweight Gold as it should benefit from any upcoming Fed cuts and act as a hedge against slowdown in growth while fundamentally gold remains supported by central bank demand.

Equities

The portfolio posted a gain of 2.2% in the month of August while outperforming its respective index by almost 130 bps. From a sector perspective, consumer discretionary and information technology led the relative upside while was partially offset by weakness in consumer staples and communication services. The United States and Italy were the top contributors from a country perspective while the Netherlands and Germany lagged overall.

<u>Sukuk</u>

Global Sukuk prices soared in August, as it caught up with the UST rally over the previous months. The portfolio was well positioned to capture this, and delivered strong returns of 2.02% in August, slightly outperforming the index return of 2.00% by 2bps. Main contributors to the performance include long Indonesia sovereign as well as GCC corporates e.g. Mubadala and TMS Issuer (Saudi Aramco's gas pipeline network); while detractors include the Omani complex, which rallied by a smaller quantum m-o-m. On 29th August, Moody's affirmed Oman's rating and upgraded the outlook from Stable to Positive. The change in outlook was driven by ongoing improvements in the government's debt metrics, supported by elevated oil prices and prudent fiscal management, which increase the likelihood that Oman's fiscal strength could be sustained at a level consistent with a higher rating. Oman is also rated BB+ (Positive) by S&P and BB+ (Stable) by Fitch. Meanwhile, the primary Global Sukuk market picked up towards end-August.

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

• **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.

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 US dollars unless otherwise noted. The information in this document has been derived from sources believed to be accurate as at 31 August 2024. This advertisement had not been reviewed by the Securities Commission Malaysia.