Principal Global Investors Funds

Islamic Global Multi-Asset Fund

I Class June 2024

Market Review

Global inflation was slightly higher at 3.3% yoy in May'24 with 16 out of 29 major economies under our coverage printing higher inflation. The cooler than expected US CPI report supported the disinflation narrative with the market-based inflation measures, 2yr breakeven inflation, falling -16bps to 2.11% by the end of June. In Jun'24, policy divergence across major central banks globally took place in which ex US central banks such as ECB, BOC and SNB cut their benchmark rates while US Fed kept the policy rates unchanged and reiterated more confidence is needed prior to rate cuts. Our Global Financial Conditions Indicator tightened marginally as wider credit spreads and weaker equity momentum offset contribution from monetary growth and falling rates. Our Global Manufacturing PMI Indicators slightly declined on weaker Europe while our Global Economic Surprises Indicator lowered on the negative surprises in US and China.

Global equity markets extended the rally in Jun'24 primarily on the back of gains across large cap technology companies on the AI enthusiasm. Market breadth further narrowed with growth outperforming value. Political election was the key theme driving market performance in Jun'24 where election results in South Africa, Mexico, India and EU surprised the markets. A surprise snap election called in France following a strong performance for the far-right parties in the EU elections dragged European equity. Emerging markets ended the month positively supported by major semiconductor manufacturers in Taiwan and South Korea despite the selloff in China and Latin America. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) added +1.91% and +81bps respectively in Jun'24 and gained +60bps and +62bps respectively in Q2'24. US Treasury 10yr yield fell -10bps to 4.40% in Jun'24 while sukuk's credit spreads widened. DXY index was higher on global election turmoil. Gold and precious metals fell with preliminary signs that PBoC paused gold purchase in the latest FX reserve holdings data.

In June 10-year US Treasury (UST) prices rallied significantly, with yields diving 31bps lower from 4.50% at end-May to touch 4.19% on 14th June, as softer US economic data bolstered expectations of rate cuts this year. At the FOMC meeting, the US Fed kept interest rates unchanged at 5.25%-5.50% and signaled one potential rate cut this year, and four cuts in 2025. Nevertheless towards month-end, 10-year UST yields edged higher to settle at 4.40% (m-o-m 10bps lower), weighed by hawkish Fedspeak, hotter-than-expected inflation data in Australia and Canada, as well as concerns that the Bank of Japan may reduce its bond purchases and raise rates in the coming months. M-o-m, the UST yield curve bull steepened, with shorter 2-7 year UST yields falling by 12-13bps, while the longer 10-30 year yields declined by 6-10bps.

Fund Review and Portfolio Strategy

The Fund returned (gross) +1.49% in Jun'24 in which equity and sukuk sleeve helped the total return with equity sleeve being the primary contributor. The fund outperformed the internal reference index as both equity and sukuk sleeve outperformed their individual benchmark.

Global economic data released recently suggested further signs of slowdown in global economy. While US economy remains relatively resilient, we expect economic outlook in Europe remains challenged. India's economic growth thesis remains intact despite reduced majority for the incumbent government in the recent election. China continued to see tepid economic growth data and we expect Beijing will continue to introduce more supportive policies to fix the economic problems. Technical indicators are turning slightly overbought while valuation remains expensive. We believe the lagged impact of monetary tightening will eventually pose headwinds to corporate earnings and economic activities. We are neutral to slightly underweight equities and will be nimble in overall equities positioning upon unfolding inflation, growth and policy dynamics. 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.

<u>Equities</u>

The portfolio posted a gain of 2.1% in the month of June while outperforming its respective index by almost 22 bps. From a sector perspective, industrials and materials led the relative upside while was partially offset by weakness in consumer discretionary and consumer staples. The United States and the Netherlands were the top contributors from a country perspective while Canada and Taiwan lagged overall.

Sukuk

The Global Sukuk market rallied in tandem with UST, benefitting the portfolio. During the month, the portfolio took profit on its Malaysia sovereign holdings to lock in the UST rally, and is looking to re-enter at attractive prices for tactical positioning. Other contributors to performance include Saudi and Philippines sovereign, while detractors include the Omani complex e.g. Oman sovereign, Energy Development Oman and Oman Telecommunications, where prices stayed fairly flat m-o-m. For the month of June, the Global Sukuk sleeve delivered 0.89% return, outperforming the index return of 0.81% by 8bps. YTD up to 30th June, the portfolio's return stood at 1.06%, 41bps above the index return of 0.65%. Meanwhile, the primary Global Sukuk market continued to be active. Notable issuances include Indonesia sovereign, Energy Development Oman and Sharjah Islamic Bank.

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 30 June 2024. This advertisement had not been reviewed by the Securities Commission Malaysia.