Principal Islamic Asset Management (Ireland) (PLC)

Islamic Global Multi-Asset Fund

I Class March 2024

Market Review

Global inflation edged up to 3.2% yoy in Feb'24 with 14 out of 29 major economies under our coverage printing higher inflation due to rising energy prices. Major global central banks held their policy meeting in Mar'24 in which Chair Powell of US Fed's commentary leaned dovish that recent data didn't fundamentally change the disinflation narrative in the US with the median policymaker forecast for 2024 continuing to see 3 rate cuts in the updated Summary of Economic Projections (SEP). In Europe, ECB, BoE and Riksbank left the key rates unchanged and signaled path towards rate cuts while the Swiss National Bank unexpectedly cut rates by 25bps to 1.5%, being the first major central bank in the developed markets in dialing back tighter monetary policy. On the other hand, BoJ raised rates for first time in 17 years ending its negative interest rate policy as market expected. Our Global Financial Conditions Indicator eased on a combination of spread compressions, stronger equity momentum and improving monetary growth. Our Global Manufacturing PMI rose above 50 for the first time since Sep'22 with US and China returning to the expansionary zone. Our Leading Regime Indicator softened due to weakness in new orders in Japan and Germany while our Global Economic Surprises Indicator remained in the positive territory given the positive surprises in Europe and China.

Uptrends in global equity markets remained intact in Mar'24 and ended Q1'24 on a strong note on soft-landing expectation and dovish central banks. With equity markets pushing higher, sell side analysts continued to upgrade their year end forecasts. As the rally was broad-based, market breadth improved in Mar'24 with small cap equities, utilities, materials and energy being the best performing sectors and with Europe outperforming counterparts in US and Japan. Emerging markets equity underperformed despite the better-than-expected economic data in China. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) gained +2.86% and +70bps respectively in Mar'24 and +5.42% and +3bps respectively in Q1'24. US Treasury's 10yr yield fell -5bps on the dovish comments from Chair Powell while markets continued to pare back rate cut expectations on strong economic data. Sukuk's credit spreads compressed. DXY index was higher on the weakness of Japanese Yen and Swiss Franc while gold rallied to record high on rising geopolitical tensions and central banks purchases.

In March, 10-year US Treasury (UST) yields initially fell by 22bps from 4.25% at end-February to 4.03%, driven by weak US economic data. However, yields subsequently rose to 4.25% after US inflation data came in hotter than expected, raising concerns over the path of US rate cuts in 2024. At the March FOMC meeting, US Fed officials kept rates unchanged at 5.25%-5.50%, and indicated that they may begin slowing the pace of quantitative tightening soon. The overall tone of the FOMC meeting was fairly dovish, as Chairman Powell reiterated that rate cuts are still on the table, and dismissed the recent uptick in inflation. In response, 10-year UST yields trended lower to close the month at 4.20% (m-o-m 5bps lower). M-o-m, the UST yield curve bull flattened with the shorter 2-year yields unchanged, 5-7 year yields dipped by 3-6bps while the longer 10-30-year yields fell by 4-6bps.

Fund Review and Portfolio Strategy

In Mar'24, the fund outperformed the internal reference index with both equity and sukuk sleeve outperforming their benchmarks. Gold allocation in the asset allocation continued to help.

<u>Equities</u>

The portfolio posted a more than 3% absolute return in the month of March while modestly outperforming its respective index. From a sector perspective, outperformance was led by consumer discretionary and health care, while IT and consumer staples partially offset some of the gains. Canada and the United States were the top contributors from a country perspective while Taiwan and France lagged overall.

US economic data released so far continued to confirm a resilient US economy on the back of strong consumer spending and employment while Europe remained weak, though, with some signs of stabilization. China witnessed modestly positive impact on the economies from their policy attempts. Over the month, valuations have become more stretched while technical indicators continue to suggest equity markets are in the overbought zone. We, therefore, maintain a cautious stance on equity in the near term as we believe market is underpricing the lagged impact of monetary tightening on the economies which will eventually increase headwinds to corporate earnings and economic activities. We will be nimble in overall equities positioning upon unfolding inflation, growth and policy dynamics.

Sukuk

Despite the weaker UST market in February, Global Sukuk prices remained relatively resilient, supported by rising oil prices. For the month of February, the Global Sukuk sleeve's return was marginally negative at -0.06%, outperforming the Dow Jones Sukuk TXR Index return of -0.29% by 23bps. The portfolio's holdings in long tenured Saudi Electricity as well as selective GCC sukuk such as Bahrain sovereign and Dubai Aerospace contributed to returns, while its holdings in Asian sukuk e.g. Malaysia sovereign (which are more correlated to UST movements) moderated returns. Meanwhile, the primary Global Sukuk market remained active in February, with most new sukuk oversubscribed by 3-4 times. Notable issuances include Bahrain sovereign, Saudi Electricity, Mazoon (Oman's electricity distribution company) and Saudi Public Investment Fund (PIF). Saudi PIF's USD 2 billion sukuk garnered overwhelming demand of 8 times bid-to-cover ratio, with about 26% allocated to US, UK and European investors, signaling continued robust demand for GCC issuances.

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.

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