

# Principal Islamic Asset Management (Ireland) (PLC)

## Islamic Global Multi-Asset Fund

I Class May 2024

### Market Review

Global inflation was stable at 3.1% yoy in Apr'24 with 10 out of 29 major economies under our coverage printing higher inflation. The softer than expected US CPI report eased market concerns over stubborn inflation with market-based inflation measures, 2yr breakeven inflation, falling -17bps in May'24. Major central banks such as US Fed, BOE and RBA kept their policy rates unchanged in their May'24 policy meetings with Riksbank cutting rates by -25bps as market expected. While US Fed officials reiterated more confidence in disinflation is needed prior to rate cuts, ECB policymakers hinted a possible rate cut in their Jun'24 meeting but emphasized their data dependent approach in the subsequent policy actions. Our Global Financial Conditions Indicator improved on falling rates, tighter spreads, better equity momentum and improving monetary growth. Our Global Manufacturing PMI remained steady in which weakness in US and China was offset by improvement in Europe. Our Global Economic Surprises Indicator remained positive despite negative surprises in US and China while our Leading Regime Indicator was stable though new orders lost momentum relative to a strong April.

Global equity markets resumed the uptrend in May'24 as market sentiment improved on a combination of a relatively dovish press conference by Chair Powell in May'24 FOMC meeting, economic data in support of a less restrictive monetary policy prospect and better than expected corporate earnings. The rebound was broad based led by US large cap technology companies and Utilities in which the earnings beat of Nvidia keeps the AI theme intact whereas value and cyclical sectors such as energy and materials underperformed. Japan and emerging markets underperformed counterparts in US and Europe. It was a roller-coaster month for China equity markets which had seen a strong rally on positive housing policy combo and supportive policy tones from Beijing but gave back most gains by month end on disappointing economic data. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) added +2.29% and +1.08% respectively in May'24. US Treasury 10yr yield fell -18bps to 4.50% while sukuk's credit spreads widened. DXY index fell on the weakness against Euro and British Sterling. Gold and other precious metals extended the rally.

At the FOMC meeting on 1st May, the US Fed kept interest rates unchanged at 5.25-5.50%, citing concerns over lingering price pressures in the US economy. Policymakers also reaffirmed the need for more evidence that inflation is cooling before they begin cutting interest rates. Despite this, the US Treasury (UST) market rallied strongly in May, with benchmark 10-year yields plummeting by 37bps from 4.68% at end-April to touch 4.31% in mid-May, after a series of weaker-than-expected US economic data reignited hopes for potential US rate cuts. Nevertheless, 10-year UST yields subsequently rose to reach 4.64% amid hawkish Fed speak, and as investors digested back-to-back new issuances of 2, 5 and 7-year UST totaling USD 183bil. Towards month-end, 10-year UST recovered to settle at 4.50% (m-o-m 18bps lower) after US 1Q24 GDP was revised lower from 1.6% to 1.3% q-o-q (consensus 1.3%, 4Q23: 3.4%), mainly attributed to weaker personal consumption. PCE inflation, personal income and personal spending also declined more than expected in April, paving the way for potential rate cuts this year.

### Fund Review and Portfolio Strategy

The Fund returned (gross) +2.39% in May'24 in which equity and sukuk sleeve as well as gold allocation added value to the total return with equity sleeve being the primary contributor. The fund outperformed the internal reference index where equity sleeve outperformed and sukuk sleeve was in line with the benchmark.

#### Equities

The portfolio posted a gain of 3.7% in the month of May while outperforming its respective index by almost 150 bps. From a sector perspective, IT and consumer discretionary led the relative upside while was partially offset by weakness in materials and utilities. The United States and Switzerland were the top contributors from a country perspective while Australia and Finland lagged overall.

While US economic data released recently continued to suggest a resilient US economy, it's showing a few signs of slowdown in some leading economic indicators. European economies had seen some positive economic surprises on subdued expectation, but we believed its outlook remains challenged. China witnessed modestly positive impact on the economies as policy actions helped which we expect the government will continue to introduce more supportive policies to fix the economic problems. Technical indicators are broadly neutral whereas valuation remains expensive. We still believe the lagged impact of monetary tightening will eventually pose

headwinds to corporate earnings and economic activities. We will be nimble in overall equities positioning upon unfolding inflation, growth, and policy dynamics.

## Sukuk

The positive sentiment in UST spilled over into the Global Sukuk space, driving prices higher. The Global Sukuk sleeve was well-positioned to capture this rally, recording 1.11% returns for the month of May, outperforming index returns of 1.08% by 2bps. YTD up to 31st May, the portfolio's return stood at 0.17%, outperforming index returns of -0.16% by 33bps. Meanwhile, the primary Global Sukuk market picked up during the month, with new sukuk offerings continuing to garner sizeable demand.

## 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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