Principal Global Investors Funds

Islamic Global Multi-Asset Fund

I Class October 2024

Market Review

Global inflation fell further to 2.7% yoy in Sep'24 with 23 out of 29 major economies under our coverage printing lower inflation while our Global Manufacturing PMI Index remained in mild contraction for the sixth month in a row with rising inventories presenting headwinds to manufacturing growth in coming months. In Oct'24, global central banks such as ECB and RBNZ continue their rate cutting cycle with Bank of Thailand unexpectedly lowering rate by -25bps whereas BOJ diverged on their monetary policies as Governor Ueda signaled for rate normalization with rates being held steady. Our Global Financial Conditions Indicator tightened on higher rates and weaker equity momentum. Our Leading Regime Indicator remained close to 50 implying borderline growth while our Global Economic Surprises Indicators turned marginally positive on the back of positive economic surprises in US, China and Europe.

Global equity markets fell in Oct'24 pausing five-month winning streaks along with the backup in US Treasury yields on a combination of rising Trump and Republican sweep odds in coming presidential election and stronger than expected Sep US labor market data. Financials and communication services were the best performing sectors in Oct'24 as Q3'24 earnings results of banks were generally positive while defensive sectors, REITs and materials underperformed. Region wise, US outperformed developed Europe and Japan which were confronted by fiscal concerns and domestic election respectively. China pulled back as the NDRC, finance and housing ministry briefings disappointed markets on lack of concrete fiscal easing details. MSCI ACWI ISLAMIC INDEX NTR (USD) and DOW JONES SUKUK TR EX REINVEST (USD) fell -4.45% and -1.47% respectively. US Treasury 10yr yield rose +50bps while credit spreads compressed further. US dollar strengthened against major currencies on rising yields and market repricing of US Fed's monetary policies and of coming US presidential election results. Gold continued to rally against rising geopolitical uncertainties.

In October, US Treasury (UST) yields were pressured higher across the board amid a series of stronger-than-expected US economic data and hawkish Fedspeak, pushing investors to adjust their expectations of the future pace of monetary policy easing. In addition, market sentiment was hampered by growing possibility of a second Trump administration which may feature more tariffs, tax cuts and increased spending, thus fueling inflationary concerns. During the month, benchmark 10-year UST yields soared by 56bps from 3.78% as at end-September to touch 4.34% on 29th October, before settling at 4.28% (m-o-m 50bps higher). The UST yield curve shifted higher, and bear flattened, with 2-10-year yields rising by 50-60bps, while the longer 20 and 30-year yields climbed by 36-42bps.

Fund Review and Portfolio Strategy

The Fund returned (gross) -2.62% in which our gold allocation helped the total return with equity and sukuk sleeve being the detractors. The fund outperformed the internal reference index on the outperformance of equity and sukuk sleeve while gold allocation continued to help.

Recent global economic data remained mixed despite signs of improvement. In US, recent nonfarm payroll data, though distorted by strike and hurricane, suggested labor market is still on the loosening track. Nevertheless, compared with other major economies, we still believe US economy remains resilient while economic outlook in Europe remains challenging. We believe India's economic growth thesis remains intact. While recent upside economic data surprises in China might suggest the preliminary contribution of the stimulus earlier announced, we believe more supportive policies are still required with effective implementation to sustain the economic recovery. We maintain a neutral to slight overweight stance in equity on a combination of a supportive stance from US Fed towards soft landing and a resilient US economy. We remain overweight Gold as it should benefit over the rate cutting cycle and act as a hedge against slowdown in economic growth and geopolitical uncertainty while fundamentally gold remains supported by central bank and Asian consumer demand.

Equities

The portfolio posted a loss of 4.0% in the month of October but did underperform its respective index by almost 50 bps. From a sector perspective, IT and communication services led the relative upside while was partially offset by weakness in health care and consumer discretionary. Taiwan and the United States were the top contributors from a country perspective while the United Kingdom and the Netherlands lagged overall.

<u>Sukuk</u>

The overall Global Sukuk market weakened in tandem with UST movements, albeit by a smaller quantum. For the month of October, the Global Sukuk sleeve delivered returns of -1.25%, outperforming the index return of -1.35% by 10bps. Main contributors include the Omani complex, which were more resilient. Detractors include Indonesia sovereign and Mubadala (UAE's sovereign wealth fund), which tracked UST movements more closely. YTD, the portfolio's return of 4.45% outperformed the index return of 3.83% by 62bps.

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

• **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.

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