MARKET OUTLOOK

Bank Muamalat

ISLAMIC PORTFOLIO:
Islamic Portfolio: Resurfacing into the Green

By: iFAST Portfolio Team

(iFAST is the provider for Bank Muamalat Unit Trust Investment Platform)

Historical Performance (31 December 2021)

Global equities ended the year in the black, as the developed and emerging markets recovered by 2.6% and 0.3% respectively in December. While the discovery of Omicron variant has caused global cases to spike, hospitalization rate remains low and also reports have shown to have reduce the effectiveness of the more deadly Delta variant. Furthermore, shopping season such as the boxing day and Christmas sales has also typically boded well for the markets in the last month of the year.

Global sukuks have eked out 0.1% as investors come to terms with the interest rate narrative. Closer to home, Malaysia sukuk posted a mild gain over the month as market participants recalibrate expectations post-Budget 2022 alongside a weak equity market sentiment.

In the US, Covid cases have continued to surge. However, Dr. Fauci have indicated that the Omicron wave may start to recede in early 2022, boosting market sentiment. Furthermore, the White House have reiterated that no lockdown is needed to combat the variant.

In Europe, equity markets rebounded strongly as economic data such as PMI was reported to be robust. Omicron fears have also subsided which led to recovery sectors such as financials and materials to support the region.

In Asia, equity markets traded sideways in December that belied the events that occurred. The COVID outbreak has been reported in Japan and China (Shaanxi province) that weighted down on business operations. Chinese government have imposed lockdown measures to stem the spread of virus. Furthermore, investors digest a slew of slow economic data that points to slowing economic growth. Retail sales in China were lower than expected while industrial production were in line with expectations.

On the flip side however, the Chinese authorities have made moves to ease liquidity concerns, especially to its property sector. High quality property developers are now allowed to issue asset-backed securities for their continued funding. Such supportive policies are expected to continue given the government's likely focus towards recovery amidst a zero-COVID policy, which typically entails province-wide lockdowns. As such, we expect the Chinese government and policymakers to remain supportive over the near term.

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Finally, we continue to hold a constructive outlook on the global economic recovery with a focus on the developing markets. We continue to advocate for a long-term approach to investing and not react to short-term distractions to achieve your long-term financial goals.

With the recent correction in China equities especially the China Technology space, we believe the current valuation offers investors with great opportunity to gain some exposure in such segment.

Global Islamic Equities: MSCI All Country World Islamic Index, US: S&P 500, Emerging Market Equities: MSCI Islamic Emerging Market, Developed Market Equities: MSCI Islamic World Index, China: MSCI China Islamic, Malaysia: FBM Emas Shariah, Global Islamic Sukuk: Dow Jones Sukuk Index, Malaysia Bonds: S&P Malaysia Aggregate Bond. Price returns in MYR terms

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MONTHLY COMMENTARY

By: IFAST Portfolio Team

Portfolio strategy

Fixed Income	Strategy	Equity	Strategy
Malaysia	Neutral	Developed market	Underweight
		Asia ex Japan	Overweight
		China	Overweight
		Malaysia	Underweight
		Technology	Underweight

EQUITY FUNDS *(as of 31 December 2021)*

We have increased our overweight position in equities from 2.5% to 5% due to better economic prospect going ahead due to improving vaccination rate globally. We also believe the earnings upgrade cycle could continue into 2022.

Equity Funds in the portfolio posted **mixed performance** in December with **Aberdeen Standard Islamic World Equity Fund – Class A** posting the best return of **2.0%**, while the bottom performing fund was **Eastspring Investments Dinasti Equity Fund**, which posted a loss of -3.7%.

At this juncture, we continue to remain **Overweight Asia-ex Japan and China** due to their attractive valuation and economic recovery trajectory.

FIXED INCOME FUNDS *(as of 30 November 2021)*

Fixed Income Funds in the portfolio recorded a **positive performance** in December. Amanahraya Syariah Trust Fund was the best performing fund with a gain of 0.4%, while the bottom performing fund was both Kenanga AsnitaBond Fund and AmBon Islam, which posted a gain of 0.2%.

Malaysia's central bank has held the rate unchanged during the recent MPC meeting. We expect such policy accommodation to hold throughout the year. We believe bond yields are likely to stabilize over the coming quarters.

INVESTMENT OUTLOOK

Most countries around the globe have reopened their domestic economy, pointing towards decent economic recovery fueled by the pent-up demand. While the rapid spread of the Omicron variant could pose a threat to the recovery, the lower hospitalization and death rate could suggest a recovery to be postponed, not derailed.

Given that the equity markets have rallied over the past one to two years, returns expectations going forward could be moderated. That being said, while equity market returns are unlikely to be broad-based, we see investable pockets of opportunity within the global economy.

Against a backdrop of rapid inflation arising from supply chain bottlenecks and higher demand, The US Fed is expected to begin its interest rate hike cycle which may inject volatility especially in the bond markets.

Currently, we remain **overweight equities** versus bonds as corporate earnings are expected to show healthy growth in the next one to two years.

Key events to watch out for in the coming months are: uncontrolled inflation, developments of the Omicron or other variants, the momentum of the economic recovery as well as geopolitical risk such as the US-China and US-Russia relations.