

tamsharia

DURING

Q2

2023

TAM Sharia during Q2: What did well and what did even better

There is no doubt the narrative in markets has swung between tremors of optimism and pessimism. Monetary policy remains restrictive and a diversity of economic challenges facing the world's regions has made asset allocators more picky. Whilst those underweight tech play catch up following the recent rally fuelled by Artificial Intelligence (AI) enthusiasm. Whether we now enter an economic or earnings recession has become a blurry scenario to predict.

In the TAM Sharia portfolios, we have been agile in our positioning. Keeping alert on investment opportunities even in a market that's struggled for direction. At the turn of Q2, investors steered clear of more so-called growth assets, namely technology stocks, given their increased sensitivity to interest rates. However, upward revisions in earnings and further disruption through AI have made the sector difficult to ignore. These early signs of momentum influenced our decision to invest in the Franklin Shariah Technology Fund. The fund soared over 16% in May following our initial investment allowing the portfolios to fully participate in the tech led rally. Moving forward we've now trimmed this position whilst we assess the sustainability of current valuations and determine if the AI euphoria fatigues.

We also like the resilience shown in the US economy. With the Federal Reserve slamming the brakes on to bring inflation under control, many investors were expecting a deep recession. This narrative is losing legs, simply because of the US's robust labour market. As the case for a US hard landing (whereby aggressive rate hikes tip an economy into recession) has become more subdued we've been increasing our US equity exposure, and this has contributed positively to portfolio performance.

Europe has also been attractive, and we remain bullish in our overweight to the region. The Eurozone managed to sidestep a deep recession, energy price pressures have eased, and cheap valuations provided an opportunity to increase our position in the Comgest Growth Europe Shariah fund.

Diversification is core in our approach to portfolio construction and becomes increasingly important when traditional assets fluctuate. Principal's Global Multi-Asset fund is one of the first Shariah-compliant multi-asset strategies and since its introduction into the TAM Sharia portfolios we're confident the strategy will continue to perform well as a dynamic alternative to equities or sukuk bonds. HSBC's Global Sukuk fund is another addition to the portfolio, a passive strategy which tracks the FTSE IdealRatings Sukuk index. It's ability to reduce active manager risk whilst providing a cheaper alternative to achieve global sukuk exposure continue to excite us about this investment.


The strong performance in TAM Sharia underscores the benefits from our nimble approach towards asset allocation - ensuring we manage the portfolio in line with the current economic climate and enabling us to invest in the best in-class managers to execute these views. However, challenges do remain ahead, and these warrant a degree of caution. The lagged effects of monetary tightening are beginning to seep into the real economy with manufacturing activity slowing. The recent banking sector turmoil is also contributing to more restrictive credit conditions reducing business investment, whilst global and domestic conditions are weighing in on the Chinese economy.

Despite these headwinds we favour our current positioning, and believe pockets of opportunities do exist. Should our base case for a more shallow recession come to fruition and we see a pause from the Fed, growth stocks will be the ultimate beneficiary. We also retain our Sukuk and alternatives exposure to act as cushion if markets take a gloomy spin.

If you would like to speak with us about our approach to Sharia-compliant investing or our TAM Sharia portfolio performance, or to discuss our discretionary investment management services in general, please get in touch with our UK business development manager David Terry today.

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