

Tapping into Growth Opportunities in U.S. Islamic Equity Markets

Investors who want to obtain exposure to U.S. Shariah-compliant companies may wish to invest in Public Islamic U.S. Equity Fund (PIUSEQF). With an investment objective of capital growth over the medium to long term, the Fund will invest up to 75%-98% of its net asset value (NAV) in Shariah-compliant equities primarily in the U.S. market with the balance invested in sukuk and Islamic liquid assets.

Numerous multinational companies which are positioned to deliver sustainable earnings growth from their geographically-diversified revenue base are listed on the U.S. stock market. Additionally, U.S. companies generally have strong brand equity and global leadership, which provide them with pricing power and economies of scale.

U.S. Economic Outlook

The International Monetary Fund (IMF) is projecting U.S. GDP growth to sustain at 2.5% in 2019 from 2.9% in 2018 (Figure 1). This pace of growth is supported by resilient consumer spending and continued investment spending on the back of the government's fiscal measures. The main drivers of U.S. GDP growth are domestic consumer and investment spending, which account for more than 80% of the U.S. economy.

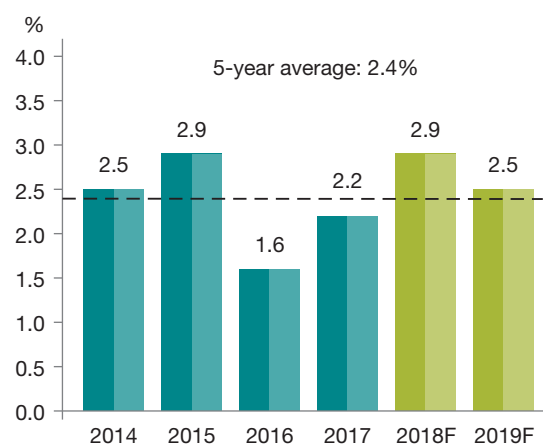
Although the U.S.-China trade tensions have weighed on market sentiment, the U.S. economy is underpinned by a healthy job market and a low unemployment rate. In addition, the U.S. Federal Reserve's recent pause in the interest rate hiking cycle may sustain economic activities.

The U.S. economy continues to evolve as a service-led economy as manufacturing activities move up the value chain.

Its aging demographics are envisaged to underpin the growth in medical services and health insurance. Retiring baby boomers are also expected to spend more on travel and leisure, bolstering growth in food and recreational services as well as accommodation. In the technology sector, internet services have seen exponential growth amid the shift towards e-commerce, social media and cloud computing.



Figure 1: U.S. GDP Growth Trend



Source: IMF World Economic Outlook Update, January 2019

Long-term Potential of the U.S. Market

After undergoing a market correction in 2018, the U.S. equity market has remained resilient; with the Dow Jones Industrial Average currently trading around the 25,000-point level. While concerns over tensions between the U.S. and its trading partners may result in volatile trading conditions in the near term, the long-term prospects for the U.S. market are underpinned by its sustainable corporate earnings growth.

Table 1: Historical Returns of the U.S. Market

Index	Annualised Return in MYR (%)*			
	1-Year	3-Years	5-Years	10-Years
Dow Jones Industrial Average	0.47	14.34	14.27	13.49
S&P U.S. Shariah Index	2.79	12.08	13.50	14.00

*Data as at 31 January 2019

Source: Lipper and S&P Dow Jones Indices, LLC

As shown by the table 1, the performances of the Dow Jones Industrial Average and S&P U.S. Shariah Index were impacted by expectations of higher interest rates and the U.S-China trade tensions in 2018. However, the indices generated commendable annualised returns over the medium to longer term. Over the 5- and 10-year period ended 31 January 2019, the Dow Jones Industrial Average has generated an annualised return of +14.27% and +13.49% respectively.

Sectors that PIUSEQF may focus on

Shariah-compliant counters listed on the U.S. stock exchange include companies engaged in a diverse range of sectors such as healthcare, information technology, consumer goods and various services. The key sectors that PIUSEQF may focus on are:

- (i) **Healthcare** – The healthcare sector is set to benefit from the aging demographics, with healthcare spending per capita expected to continue rising over the long term. The Fund will look into tapping the structural growth opportunities in selected healthcare and pharmaceutical stocks globally.
- (ii) **Information Technology** – PIUSEQF will consider investments in selected technology and Internet stocks in tandem with the increasing shift towards a digital lifestyle.
- (iii) **Consumer** – The Fund will also look to invest in quality consumer companies which are market leaders with stable growth profiles.
- (iv) **Services** – PIUSEQF seeks to invest in selected services stocks which stand to benefit from the steady job growth, healthier household finances and improving consumer sentiment.

The benchmark of PIUSEQF is a composite index comprising 90% S&P United States LargeCap Shariah Index and 10% 3-Month Islamic Interbank Money Market Rate.

Exposure to the U.S. Dollar


As the Fund will invest mainly in the U.S. market, it will be largely exposed to the U.S. Dollar. Should the U.S. Dollar (USD) strengthen against the Ringgit, the Fund stands to benefit from potential currency gains. However, a depreciation of the USD against the Ringgit will result in currency translation losses that could potentially impact the Fund's returns (in Ringgit terms). 

Table 2: Historical Return of the U.S. Dollar vs the Ringgit

U.S. Dollar	Change (%)#			
	1-Year	3-Years	5-Years	10-Years
Total Change	+5.0	-1.4	+22.6	+13.5
Annualised Change	+5.0	-0.5	+4.2	+1.3

Source: Bloomberg, data as at 31 January 2019

#+Change indicates the U.S. Dollar's appreciation against the Ringgit

You are advised to read and understand the contents of the Prospectus of Public Islamic U.S. Equity Fund dated 10 April 2019 and the fund's Product Highlights Sheet (PHS) before investing. The Prospectus has been registered with Securities Commission Malaysia who takes no responsibility for its contents, and neither should its registration be interpreted to mean that Securities Commission Malaysia recommends the investment. You should also note that there are fees, charges and risks involved when investing in unit trust funds; and that the prices of all units and distribution(s) payable, if any, may go down as well as up. Please refer to the Prospectus and PHS for information pertaining to the above. Past performance of the fund and/or the fund's benchmark is not an indication of the fund's future performance. Applications to purchase units must come in the form of a duly completed application form referred to in and accompanying the Prospectus. A copy of the Prospectus and PHS can be obtained from your attending unit trust consultant, nearest Public Mutual Branch/Customer Service Centre or viewed from our website.