

Monthly Islamic Equity Market Report

February 2023

HANetf & Saturna Capital

Saturna Al-Kawthar Global Focused Equity UCITS ETF

AMAL

75 bps

IE00BMGRZP89

Product Inception Date: 28/09/2020

(Saturna Capital took over the management of AMAL. The rebalancing was done on 24.11.2021)

For Professional Clients Only. Capital at risk.

All data as of 31/01/2023

This report was written by, and is the opinion of, the AMAL index providers Saturna Capital.

Key Takeaways

The Federal Reserve met expectations by hiking rates a further 25bp at its first meeting of the year, while sticking to its story that rates will continue to move higher until assured victory over inflation. The ECB followed suit the next day with a 50bp hike of its own, perhaps reassured that a mild winter and receding concerns over energy shortages provided the leeway for aggressive anti-inflationary measures.

Markets took the Federal Reserve's action in stride with the probability of two additional 25bp rate hikes even declining to 30% the day after the meeting from a bit higher the previous week. Then the January jobs report was released showing non-farm payrolls jumping by an expectations-busting 517,000 and the unemployment rates dropping to a 53-year low of 3.4%. Of such things are higher wages, continued inflationary pressures and future rate hikes made and the market-implied probability of two additional hikes promptly doubled to 60%, while equity markets rolled over following strong January performance.

It appears the inflation/rates tug-of-war between the hawks and the doves will continue for some time, perhaps leading to a choppy market than we have seen year-to-date, at least in the United States. European markets have fared relatively better, boosted by the aforementioned moderating of energy concerns and decent economic performance from various countries, not including the UK. A renewed Russian offensive in Ukraine could chill the enthusiasm.

In January the Saturna Al Kawthar Global Focused Equity UCITS ETF gained 5.17% in USD, broadly in line with diversified global Islamic indices but lagging the more tech-centric examples. Everything that happened in December reversed in January as a "junk rally" drove market returns. The largest positive contributors to Saturna Al Kawthar performance were all technology related, including Alphabet, Apple, Taiwan Semiconductor, Microsoft, Murata Manufacturing and Trimble, all of which appreciated by double-digit percentages. On the negative side of the ledger were 2022 standouts such as AstraZeneca, Merck and Eli Lilly. In fact, Denmark's Novo Nordisk provided the single positive return among the ETF's pharmaceutical holdings.

Sources available upon request. **Please note that all performance figures are showing net data.** Past performance is not indicative of future performance and when you invest in ETFs your capital is at risk.

Macro Outlook

Currently, two questions figure prominently among investors: 1) What are your market expectations? 2) Growth or Value? In 2023 such queries carry greater urgency given the significant decline in 2022 combined with recessionary worries in the coming year. In response, we typically reply that we are not market prognosticators, preferring to focus on the long-term outlook for the individual stocks in which we invest. Regarding the first question, however, every four years we arrive upon a phenomenon with an unblemished multi-decade record of calling the market over the next year, at least in the United States – the Mid-Term Effect. From 1945 through 2019 the calendar year return of the S&P 500 has been positive in 19 of the 19 years following a US mid-term election. Over that span returns for the S&P 500 in the years following a mid-term election have averaged 16.28% compared to an average return of 7.99% in other years.

Additionally, since 1942 there have been 17 down years for the S&P 500 but over the same period there have been only three pairs of consecutive down years (1973-1974, 2000-2001 and 2001-2002). Considering the market's 2022 downdraft this perhaps provides another reason for optimism regarding the prospects for 2023 and for remaining engaged with the markets.

The growth versus value question involves several considerations. Firstly, how do we determine the constituents of a growth versus value index? As determined by well know index providers, in 2022 value outperformed growth for the first time since 2016. Given that these indexes make no distinction for sector, that mostly tells us that Energy, Utilities, Real Estate and Financials generally outperformed Technology. We think a more nuanced approach, examining intra-sector valuation has an important role to play. Secondly, what are the relative valuations? Several years of growth outperformance pushed relative valuations to levels not seen since the end of the 1990's. Finally, what are the external factors that influence the dynamic? Monetary policy is certainly one and if we look back to those same late 1990's we find a period of loose monetary policy in the run-up to Y2K followed by a period of tightening. We also find value in the driver's seat for several years following 2000. As noted above, we are not market prognosticators but neither do we ignore the evidence.

Islamic Equity Performance Table

As of 31.01.2023

	1M	3M	6M	YTD	12M	2Y	SI
Saturna AI-Kawthar Global Focused Equity UCITS ETF	5.17%	8.74%	0.94%	5.17%	-9.05%	-16.71%	-10.47%

Please note that all performance figures are showing net data. Source: Bloomberg / HANetf. Data as of 31/01/2023. Performance before inception is based on back tested data. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. Past performance for the index is in USD. Past performance is not an indicator for future results and should not be the sole factor of consideration when selecting a product. Investors should read the prospectus of the Issuer ("Prospectus") before investing and should refer to the section of the Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in this product. When you invest in ETFs and ETCs, your capital is at risk.

Product Details

The Saturna AI-Kawthar Global Focused Equity UCITS ETF aims to achieve capital appreciation by investing in Islamically-acceptable companies with robust environmental, social, and governance (ESG) policies. We believe such companies offer a reduced risk profile, while operating at no competitive disadvantage, thereby offering the opportunity for superior risk-adjusted returns.

Visit the [AMAL.L Fund Page](#) for more information.

Scott Klimo, CFA

Vice President & Chief Investment Officer,



Scott joined Saturna Capital in May 2012. He received his BA in Asian Studies from Hamilton College in Clinton, NY and also attended the Chinese University of Hong Kong and the Mandarin Training Center in Taipei, Taiwan. Scott has over 30 years' experience in the financial industry with the first several years of his career spent living and working in a variety of Asian countries and the past 20 years working as a senior analyst, research director and portfolio manager covering global equities. Mr. Klimo is a Chartered Financial Analyst (CFA) charterholder and an avid cyclist. He is a supporter of various environmental organizations and served for several years on the Board of Directors of the Marin County Bicycle Coalition.

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