

## SUB-MANAGER'S COMMENTARY



### Market Overview

Global equities gained in July, in US dollar terms, as investors awaited more clarity on tariff negotiations. However, returns for non-US-denominated assets were weakened, in US dollar terms, by a strengthening greenback.

US President Donald Trump and European Commission President Ursula von der Leyen reached an agreement on a trade framework on 27 July, relieving some investor concerns weighing on European equities. The deal includes a 15% tariff on most European goods imported into the United States. Earlier during the month, the United States reached trade agreements with Japan and South Korea. US and emerging market (EM) stocks outperformed their global peers, including European equities.

Strong corporate earnings reports that exceeded expectations helped drive US equities higher in July. The combination of positive earnings news, low unemployment levels and steady inflation supported stocks, as did the announcement of trade agreements with the European Union (EU) and Japan. Economic indicators remained benign, and the US Federal Reserve (Fed) left the federal funds rate unchanged, bucking political pressure to lower rates. US annual Consumer Price Index (CPI) inflation increased in June to 2.7%, while annual core inflation (less energy and food) ticked upward to 2.9%. Employment remained resilient, as the unemployment rate remained at 4.1% and non-farm payrolls increased by 147,000 in June. While services sector activity increased in June, reversing a decline in May, manufacturing activity contracted in June, its fourth consecutive month of contraction. Imports fell notably in June, leading the US trade deficit to its lowest level in nearly two years.

European equities collectively finished lower, in US dollar terms. As the month concluded, investors continued to weigh implications and await details from the US-EU trade deal. Certain European equity trade-sensitive sectors drew investor concern, including pharmaceuticals and automobiles. Pharmaceuticals, which represent a large export to the United States, are now subject to a 15% tariff. Alternatively, some investors expressed relief that the agreement avoided a 30% US tariff on European exports that was set to take effect 1 August. Although economic activity has been weak in recent months, services and manufacturing Purchasing Managers' Indexes both increased in July, according to a flash estimate. The European Central Bank and the Bank of England held their key interest rates at 2.0% and 4.25%, respectively.

Emerging markets climbed in July, with robust gains for several Asian markets, including China, South Korea, Taiwan and Thailand. The International Monetary Fund raised its 2025 growth outlook for EM economies from 3.7% to 4.1% following a reduction in US-China tariffs. In contrast, markets in Brazil and India declined.

The MSCI ACWI Islamic Index returned 0.76% in US dollar terms during July, while the Dow Jones Sukuk Index returned 0.65%. Gulf Cooperation Council (GCC) bonds rose in July, with the FTSE MENA Bond – GCC Index posting a 0.87% return in US dollar terms.



### Performance and Positioning

The portfolio posted a net return of 0.66% (in US dollars) during July, broadly in line with its custom benchmark, which returned 0.68% (also in US dollars).

The equity element of the custom benchmark was changed to MSCI ACWI Islamic Index on 8 May, when the previous benchmark (MSCI ACWI Islamic ex-Japan Index) was decommissioned.

The fund held an underweight to fixed income, relative to the benchmark, balanced by off-benchmark positions in cash and gold. Our equity allocation was broadly neutral, including the equity element of a position in Franklin Shariah

31 July 2025

Global Multi-Asset Income Fund. This positioning proved a marginal detractor, in aggregate, amid ongoing “risk-on” sentiment.

Our US and EM equity holdings benefitted relative results, outperforming the global benchmark, while our multi-asset holdings had no significant impact on relative results.

Our Sukuk holdings added relative value in aggregate, notably Emirates Global Sukuk Fund, which benefitted from a relatively short duration profile, as US Treasury yields rose across the curve. Elsewhere, exposure to gold shares detracted amid price stabilisation linked to lessening trade tensions, while cash also proved a drag.



## Outlook

Macroeconomic conditions are becoming more positive for risk assets, particularly in the United States, as global trade uncertainty recedes. This is feeding stronger corporate fundamentals and sustained equity market momentum. However, the outlook remains uncertain as we await the full impact of higher tariffs on inflation and growth.

Global equity markets have responded well to progress on trade, as Trump slowly pieces back together the trade jigsaw he dismantled in early April. Clarity on trade has dovetailed with improving economic activity, a robust labour market and strengthening earnings to create a “Goldilocks” environment for stocks. US large-cap equities are leading the way in a broad return to the US exceptionalism trade, as investors eye improved forward earnings revisions amid a resurgence of positive sentiment towards artificial intelligence.

Our indicators suggest that US equity prices are trending above their long-term moving averages, and market breadth is healthy. Other measures of investor sentiment and positioning are also becoming more bullish, which lends credibility to the view that complacency has set in.

We conclude that a neutral approach to risk at a cross-asset level remains the considered choice, set against our assertion that tariffs will soon feed into growth and inflation numbers. We would look for an equity market pullback and an improvement in the equity risk premium before we are comfortable adding to equities, given we see limited upside at current valuations.

Within our Sukuk portfolios, we still think valuations favour benchmark rates over credit spreads, and our outlook continues to support an increase in defensive allocations to higher- quality fixed income sectors.

Against this background, we have been actively managing duration amid rate volatility by trimming exposure during rallies and re-entering as yields rose. We have taken the opportunity to participate selectively in the primary market, focusing on high-quality issuers offering relative value. We have also added some local-currency emerging market currency risk where appropriate.

**Past performance is not an indicator or a guarantee of future performance.**

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