

Equities

The trouble spots in different parts of the world, namely Europe, China, and the US, which started to emerge in first quarter, continued to weigh on markets in the second quarter. In Europe, concerns over high sovereign debt levels in Greece subsequently extended to several other countries and spiraled into concerns of banking crisis. However, as most of these governments have come up with fiscal plans to reduce fiscal deficits, in addition to the aid package from IMF and the EU, market concerns have now eased, although fears of slower economic growth linger. In China, severe tightening measures continued to be introduced, especially targeted at the property sector, and this was the main drag to its equity markets which fell over 20% for the quarter.

Weaker than expected economic data, especially jobs data, from the US, compounded the concerns of slowing growth momentum in advanced economies. And the oil spill in the Gulf of Mexico did not help sentiment in the US. On the other hand, although economic data is generally weaker, which is not unexpected given the strength of the rebound earlier, the uptrend remains largely intact. More importantly, the US Fed is expected to continue to keep interest rates low for an "extended period".

Overall for the quarter, US markets were down over 10%, while MSCI Asia ex-Japan fell less than 6%, underpinned by appreciating currencies on the back of expected revaluation of the Chinese Renminbi. Our Malaysian market showed its usual resilience with a loss of less than 1% for the quarter. In the region, Indonesia remains the best performing market for the first half of 2010.

Domestically, there were several positive developments. Ties between Malaysia and Singapore have improved with the dispute over KTM land being resolved, and Temasek and Khazanah co-operating to develop a wellness township in Iskandar, while looking into various initiatives that are likely to ease labour mobility and spur growth in Iskandar. The 10th Malaysian Plan with a total allocation of RM230 billion was also unveiled, with more emphasis on nonphysical infrastructure aimed to lift income levels of Malaysians. Malaysia has also been recently included as one of China's Qualified Domestic Institutional Investor (QDII) destinations which means China investment funds can now flow into our capital markets. All these developments are likely to underpin growth going forward. Meanwhile, 1Q10 GDP growth numbers came out at a brisk 10.1%.

Fixed Income

During the second quarter, sentiment in the domestic bond market remained bullish despite two consecutive interest rate increases in March and May. Government bonds rallied on the back of persistent Ringgit appreciation and strong foreign purchases. Foreign inflows into the MGS market persisted, driven by prospects of Ringgit currency appreciation given firmer domestic economic fundamentals and potential China Yuan revaluation (which may eventually translate into a firmer Ringgit). Investors were undeterred by Bank Negara's move to raise the Overnight Policy Rate (OPR) by 25 basis points to 2.50% on March 13th, as it had been mostly priced in by the market. The central bank cited that the OPR increase was to further normalize monetary conditions, while remaining accommodative and supportive of economic growth. Malaysia's 1Q10 real GDP surpassed expectations, with a strong 10.1% rise against market consensus of 9.3% (4Q09 4.4%). The local market also benefited from Europe's sovereign debt crisis which has diverted offshore investments into emerging markets debt. As a result, foreign holdings in MGS reached a new high in May surpassing previous peak in April 2008. Demand for MGS remained well supported towards the end of the period as concerns over European sovereign debts escalated, along with early signs of slowing economic growth in the US and China.

Corporate bonds continued to thrive with yields driven lower on strong local demand. Fund raising activities sustained in April with around RM6 billion in primary corporate bond issuances. Towards the end of the quarter, corporate bonds outperformed MGS with yields trending lower amidst active secondary market trading and the lack of pipeline supply of private debt securities.

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Just as the global economic recovery was gaining traction, the outlook has been made murkier by the European debt crisis, hence confidence remains fragile. At the same time, although latest economic data worry some market commentators, global growth remains intact. The rate of growth may be slower than originally hoped for but it is premature to forecast a double-dip recession.

Market volatility may persist for the next few months until a clearer picture emerges on the strength of the global economic recovery, and investors are also awaiting the results of the European bank stress tests (to be disclosed on 23 July). By that time, if there are no negative surprises, and investors are more convinced that economic growth has not been derailed, market sentiment could see a significant lift.

Domestically, there should be news flow on the award of key infrastructure projects or privatisation of government land for redevelopment under the 10th Malaysian Plan. We can also look forward to increased foreign participation now that Malaysia is one of China's QDII destinations.

Fixed Income

Buying momentum from offshore investors on the back of a stronger Ringgit has contributed to a bullish trend in government bonds. Despite the interest rate hikes, the bond market remained buoyant as bond investors have to some extent priced in rate hike expectations into MGS yields in the earlier part of the year. Interest rate increases has been coming in stages as pre-emptive measures to prevent financial imbalances. To some extent, Bank Negara's early measures in normalizing rates ahead of similar moves by its other regional counterparts had been effective in stemming potential capital outflows arising from interest rate differentials and currency play. Reduced supply in government bonds issuance scheduled for the current year in order to rein in fiscal deficit has assisted in stabilizing demand and MGS yields.

Meanwhile, firmer domestic economic fundamentals gave rise to improved investors risk appetite for private debts credits. Given the relatively low MGS yields, fixed income investors were driven to the PDS market in search of higher returns. Secondary market trading volume has been healthy while the tight supply of fresh PDS issuances has elevated corporate bond prices further.

More PDS issuances is expected in the second half of the year, as corporate issuers are likely to rush in to capitalize from the current low interest rate environment. Supply is likely to be centred towards the AAA rating with Danajamin stepping up their efforts to utilize their allocation.

Under the current market environment, we aspire to maintain our flexible duration strategy with the objective of realizing income and capital gains via active trading and portfolio positioning. A flexible duration strategy would also allow us to be more responsive to changes in economic environment and market sentiment, with a view to strike a balance between duration risk management and funds returns.

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Fund Performance

Amanah Saham Wanita (ASnita)

ASnitaBond

Avenue SyariahEXTRA Fund

Performance and Fund Information as at 30 June 2010

	3-month	6-month		3-month	6-month		3-month	6-month
ASnita Fund	-3.24%	-1.43%	ASnitaBond Fund	1.64%	2.93%	SyariahEXTRA Fund	-1.33%	-0.05%
FBM Emas Shariah	-1.81%	2.99%	Maybank 6-month GIA ¹	0.61%	1.15%	Benchmark ²	-0.54%	2.22%
Net Asset Value	RM0.4542		Net Asset Value	RM0.5898		Net Asset Value	RM0.1931	
Fund Size	RM56.50mil		Fund Size	RM56.04mil		Fund Size	RM18.63mil	

Asset Allocation Mandate

Quoted Shariah-compliant Equities and Equity-Related Securities	Max 98%	Sukuk	Max 98%	Quoted Shariah-compliant Equities & Equity-related Securities	Up to 70%
Liquid Assets	Min 2%	Cash, Shariah based Deposits & other Liquid Assets	Min 2%	Sukuk	Up to 70%
				Liquid Assets	Min 2%

Asset Allocation

Equities / quoted debts	71.08%	Fixed income securities	67.68%	Equities / quoted debts	51.50%
Fixed income securities	12.16%	Commercial Papers	12.36%	Fixed Income Securities	20.52%
Liquid assets	16.76%	Liquid assets	19.96%	Liquid assets	27.98%

Top 5 Equity Holdings

1. Tenaga Nasional Bhd
2. Telekom Malaysia Bhd
3. Asia File Corporation Bhd
4. YNH Property Bhd
5. AEON Bhd

Top 5 Fixed Income Holdings

1. TSH Sukuk Ijarah Sdn Bhd
2. KNM Capital Sdn Bhd
3. Jimah Energy Ventures Sdn Bhd
4. Rantau Abang Capital Bhd
5. Sunrise Bhd

Top 5 Equity Holdings

1. Tenaga Nasional Bhd
2. PPB Group Bhd
3. Gamuda Bhd
4. Telekom Malaysia Bhd
5. IOI Corporation Bhd

Unit prices and distributions payable, if any, may go down as well as up. Past performance of a fund is no indication of future performance.

¹ Maybank's Al-Mudharabah 6-month General Investment Account published rate

² 50% of FTSE Bursa Malaysia Emas Shariah + 50% Maybank's Al-Mudharabah 12-month General Investment Account published rate