Allianz Global Investors

Allianz Global Sustainability

Monthly commentary

- The Fund aims at long-term capital growth by investing in global equity markets of developed countries in accordance with the Sustainable and Responsible Investment Strategy (SRI Strategy).
- The Fund is exposed to significant risks of investment/general market, company-specific, emerging market, liquidity, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund is exposed to risks relating to SRI strategy investment (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, and/or selling securities when it might be disadvantageous to do so or relying on information and data from third party ESG research data providers and internal analyses which may be subjective, incomplete, inaccurate or unavailable). The Fund focuses on SRI which may reduce risk diversifications and may be more susceptible to fluctuations in value.
- The Fund may invest in financial derivative instruments ("FDI") which may expose to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. The Fund's net derivative exposure may be up to 50% of the Fund's net asset value.
- This investment may involve risks that could result in loss of part or entire amount of investors' investment.
- In making investment decisions, investors should not rely solely on this material.

Note: Dividend payments may, at the sole discretion of the Investment Manager, be made out of the Fund's capital or effectively out of the Fund's capital which represents a return or withdrawal of part of the amount investors originally invested and/or capital gains attributable to the original investment. This may result in an immediate decrease in the NAV per share and the capital of the Fund available for investment in the future and capital growth may be reduced, in particular for hedged share classes for which the distribution amount and NAV of any hedged share classes (HSC) may be adversely affected by differences in the interests rates of the reference currency of the HSC and the base currency of the Fund.

What Happened in May

After a weak performance in April, markets returned to positive returns for May with the US charging the way, boosted by a jump in technology companies, particularly chipmaker which blew past earnings' forecasts. After a continued rise throughout the month, the rally stalled in the last part of the month as rate fears came once again to the surface. The strong performance was highly concentrated in just a handful of stocks as the S&P 500 outperformed its equal-weighted version for the fifth consecutive month of 2024. In Europe, the picture was similarly positive with all indices in the green but lagging their US peers. Asian equities struggled for a firm direction in May but generally added to gains. At sector level, information technology rallied the most, with communication services and utilities also areas of notable strength.

In the US, Federal Reserve (Fed) Chair Jay Powell signalled that investors would need to be "patient and let restrictive policy do its work" in reducing inflation: however, he also confirmed that the likelihood of a further increase in rates was "very small". In the eurozone, the European Central Bank (ECB) gave its strongest hint yet that rates would be cut in June, despite higher-than-expected wage growth. Hopes that the Bank of England would also cut rates in June were dashed when UK inflation fell less than forecast and the government unexpectedly called a general election, to be held on 4 July.

In the US, information technology was the standout performer as shares of a chipmaker soared after it beat quarterly earnings' forecasts, announced a stock split and increased its quarterly dividend. The chipmaker is now the third largest US company by market capitalisation, beaten only by two technology companies.

The British pound strengthened, reaching a 21-month high against the euro, as fading hopes of a UK rate cut in June contrasted with a growing belief that the ECB would reduce borrowing costs at its next meeting. Nevertheless, the euro gained ground against both the US dollar and the Japanese yen.

Portfolio Review

The Fund outperformed its benchmark Dow Jones Sustainability Index. Stock selection and sector allocation were both positive over the month with strong stock selection in healthcare and consumer staples specifically.

Outlook and Strategy

The performance continues to be highly concentrated in just a handful of stocks as been showcased by the S&P 500 that outperformed its equal-weighted version for the fifth consecutive month of 2024. We haven't largely changed the positioning of the fund and continue to have conviction in our portfolio and our investment cases that are trading at attractive valuations.

On the macro front, the pricing-out of rate cuts has continued globally. Bit by bit, across the developed world, investors are giving up their hopes that central banks will cut policy rates this year. The market has been sanguine about shifting rate-cut expectations so far in 2024. But with stocks near record highs, AI losing steam as a catalyst, and rate hikes entering the conversation again, the summer months may become more frantic.