Allianz
Global Investors

Allianz Global Sustainability

Monthly commentary

- The Fund aims at long-term capital growth by investing in global equity markets in accordance with environmental and social characteristics. With the adoption of the socially responsible investment ("SRI") (Proprietary Scoring) strategy ("SRI (Proprietary Scoring) Strategy"), the Fund takes into account sustainability factors based on United Nations Global Compact Principles and follows the principles of SRI.
- 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 (Proprietary Scoring) 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 have an adverse impact on the performance of the Fund.
- 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, particularly if such HSC are applying the IRD Neutral Policy.

What Happened in December

Global equities moved sideways again in December despite the end of the US government shutdown and the 25-basis point (25-bps) US Federal Reserve (Fed) rate cut. The US 10-year closed the month higher despite some delayed US data suggesting inflation surprised to the downside. Markets were very quick to dismiss the data for irregularities and some faster moving indicators looked more inflationary.

What was very notable for equities was a risk-on sentiment despite the flat index level. Cyclicals led with Materials, Banks, Autos and Retail in particular performing well. Silver was up 15% for the month and the liquidity and speculative nature of markets found a new outlet. This is despite bitcoin and other speculative assets having a weaker time lately.

Although overall sales and earnings for Q3 exceeded expectations, this was mainly due to downward revisions made after April. In reality, most US companies are experiencing economic difficulties, and only those with significant exposure to the artificial intelligence (AI) sector are performing well. As a result, the recent uptick in cyclical stocks that depends on lower interest rates may not lead to further positive earnings revisions unless there is substantial tariff reduction or additional economic stimulus. Therefore, it is more likely that earnings forecasts for the average company will return to a negative trend.

Q4 earnings will begin mid-January, and this will be the start of a phase of earnings revisions for the full year (typically lower).

Regional leadership came from Europe (perhaps some increased positivity on Ukraine resolution) and APAC (mainly Korea) with the US slightly lagging.

Portfolio Review

We had slightly positive allocations regionally and neutral by sector, but negative stock selection.

Stock picking detracted over December. A Japanese multinational video game company suffered in December on fears that rising memory prices would reduce the company's profit margins. However, we believe this concern is overstated and we remain confident in the company's prospects linked to the release of the new console.

A US medical equipment company suffered from a slight rotation out of Health Care after recent strength despite a positive news flow. A US electric power and energy infrastructure company was also among the main detractors after its analyst day, where long-term guidance was seen as too vague, prompting some profit taking.

In contrast, our position in UK consumer staples Reckitt Benckiser* continued to perform well despite weakness in the sector. In fact, this was one of our most successful investments of the year and they held an emerging markets-focused analyst day which was well received. Another non-AI investment that is beginning to bear fruit is our holding in pest control Rentokil* which had both an upgrade and a broker's initiation at buy in December.

TSMC* also had a good month as it brought on new lines successfully and publicly contemplated accelerating some capital expenditure (capex) into next year.

There were no significant transactions over the month, but we added to TSMC* following some weakness.

Outlook and Strategy

There seems to be three ways that the market will play out in 2026 but even more likely is that we will have to re-write this outlook as things are likely to change materially throughout the year.

The big three questions for markets will be 1) Can AI pay the capex bill? 2) Will the Trump economy improve excluding AI? 3) If there was peace in Ukraine or a stimulus in China, would it derail momentum elsewhere?

The Fund has a slight overweight positioning in the AI winners group with the remainder being relatively defensive prioritising stable earnings and returns in the current environment of economic uncertainty. That means we do have a marginal position in saying that the broader US economy is weakening which transpires to a marginally defensive posture of the portfolio.

We believe there will be a pause in the outperformance of the Magnificent 7 as a unilateral group, and market returns will broaden in financial year (FY) 2026 and beyond, as valuations and earnings revisions become less compelling for that group. In fact, we can already see dispersion of returns between them beginning to emerge.

The Magnificent 7 companies are spending record levels of capex and will need to show a return on this spend shortly. They are also running the risk that there simply isn't enough power to satisfy the expectations of the market, and this will be interesting during 2026. The recent narrative is that demand still outweighs supply, but this is coming to the point where more questions are being asked about sustaining this level of performance. Power is becoming political in this critical mid-term election year, and we expect to see some volatility.

We continue to find attractive valuations and investment cases that will work well if the market rotates away from its narrow leadership.

It is no industry secret that stockpicking has been agonising in the last two years and generationally successful playbooks in portfolio construction and stockpicking have been tested to the core. We have been ruthless in selling out where we see risk of capital loss and will continue to bring in AI proof investments where we find attractive valuations. When we see a chance to take more risk, you will see us act swiftly as 2026 is highly likely to be volatile.

All data are sourced from Bloomberg and Allianz Global Investors as of 31 December 2025 unless otherwise stated.

*Magnificent Seven refers to a group of US stocks which includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla..

MACS-W-ADM@N/A-P-16822518C
ADM-W5169599