Allianz Global Investors

Allianz

Thematic Income

Monthly commentary

- The Fund aims at income and long-term capital appreciation by investing in global interest bearing securities and global equities with a focus on theme and stock selection.
- The Fund is exposed to significant risks which include investment/general market, thematic concentration, thematic-based investment strategy, asset allocation, emerging market, company-specific, creditworthiness/credit rating/downgrading, interest rate changes, default, volatility and liquidity, valuation, and currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund may invest in financial derivative instruments ("FDI") which may expose the Fund to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. The use of derivatives may result in losses to the Fund which are greater than the amount originally invested. 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 income and/or capital which in the latter case 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 distribution unit 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 July

Global equities rose modestly in July, bolstered by progress in US trade talks for most of the period. A positive start to the second-quarter earnings season also boosted stocks, although gains were capped after President Trump stepped up his campaign against US Federal Reserve (Fed) Chair Jay Powell, raising concerns about the central bank's independence, as well as by ongoing geopolitical tensions. Turning to sectors, information technology and energy were the strongest sectors in the MSCI All-Country World Index, followed by utilities. Conversely, the health care and consumer staples sectors generated negative returns in July.

Global government bonds sold off in July, with yields rising modestly over the month as a more risk-on tone returned to financial markets. Japanese government bonds (JGB) were among the weakest performers: 10-year JGB yields hit the highest level since the 2008 financial crisis amid fears the ruling coalition would lose its majority, potentially leading to political uncertainty and costly campaign pledges. In general, corporate bonds delivered positive returns, outperforming government debt, with high-yield bonds rising the most.

Emerging market bonds sold off over July. Hard currency bonds, which are denominated in currencies such as the US dollar, eased, underperforming other areas of the US credit markets. Local currency bond returns were broadly flat in local currency terms but a rise in the value of the US dollar over the month meant returns in USD terms were negative.

Portfolio Review

The equity investments focus on themes and topics of strong secular drives to generate long-term alpha. Both theme and stock selection weighed on results during July. While global equities advanced, the strategy's performance was held back by underexposure to market leaders and select stock-specific setbacks, offsetting gains from other themes and stocks. From theme perspective, exposure to Infrastructure and Clean Water and Land supported returns, while Digital Finance and Generation Wellbeing detracted.

The fixed income investments in the Fund focus on global and emerging markets investment grade corporate bonds. The fund delivered a modest positive return in July, outperforming the broader fixed income markets. This relative outperformance was primarily driven by strong results in emerging markets corporate credits, which benefited from spread tightening. However, gains were partially offset by weaker return in developed markets credits, impacted by a rates sell-off and negative currency movements. In terms of return breakdown by country, European and US credits underperformed while Panama, Taiwan and Turkey credits ranked at top.

During July, we have mainly increased exposure to Asian equities and gold. Fixed income investments has been slightly increased through corporate bond exposure.

Outlook and Strategy

We remain cautiously optimistic for the equity markets overall, with Europe and Asia currently appearing more attractive than the US in a regional comparison. While corporate earnings in general look set to suffer from the subdued global growth outlook and the US import tariffs, we continue to expect moderate earnings growth in Europe in 2025 and a considerable acceleration in 2026. We foresee a positive impact from the likely improvement in the macroeconomic conditions, companies' efforts to adapt to the new tariff regime and abating foreign exchange (FX) effects. US earnings growth looks set to pick up in 2026, too, but less than that in Europe. As a result, the "earnings growth gap" between the US and Europe is likely to narrow, which means that an important reason for the current valuation discount of European versus US equities should lose significance. Numerous emerging markets appear promising as well, given that they benefit from a strong domestic momentum and solid fundamentals as well as from the US dollar depreciation, better earnings opportunities and favourable political framework conditions. However, we may be in for significant equity market volatility due to persistent geopolitical risks and the fact that markets are, at times, driven more by sentiment than by fundamentals. In the longer term, a thorough analysis at the single-stock level remains key in order to reduce company-specific risks and benefit from particular return opportunities.

Despite the European Central Bank's (ECB's) more accommodating monetary policy and despite the expansionary fiscal policy in Germany, the market consensus only expects growth of about 1% for the euro area. At the same time, the inflation outlook for the euro area continues to improve, with both headline and core inflation being near the ECB's target. After the latest rate cut in June, several ECB Council members have sounded more cautious about further monetary loosening. Nevertheless, negative growth and inflation surprises might make the ECB cut its key interest rates again during the remainder of the year. The US Federal Reserve (Fed) has left its Fed funds target rate unchanged, too. However, comments by Fed members suggest that the Federal Open Market Committee (FOMC) may decide on one or two rate cuts before the end of the year. The persistently strong uptrend in US debt is a risk for the longer end of the US yield curve. Overall, we believe that the growth and inflation environment in the euro area will support an outperformance of European government bonds over US Treasuries. Investments in selected corporate bonds still seem to be a good option to improve total returns. As risk premiums are currently low, we prefer better-quality bonds. Emerging markets bonds should continue to benefit from solid fundamentals, comfortable inflation-adjusted returns and central bank actions.

All data sourced from Allianz Global Investors and Bloomberg as at 31 July 2025 unless otherwise stated.

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Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions.

Investment involves risks, in particular, risks associated with investment in emerging and less developed markets. Past performance is not indicative of future performance. Investors should read the offering documents for further details, including the risk factors, before investing. This material and website have not been reviewed by the Securities and Futures Commission of Hong Kong. Issued by Allianz Global Investors Asia Pacific Limited.

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