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 August

Global equities moved higher in August. Stocks rebounded from losses on the first day of the month as President Trump's postponed 'Liberation Day' tariffs came into effect. While Russian forces stepped up the offensive in eastern Ukraine, market sentiment was lifted by dovish commentary from US Federal Reserve (Fed) Chair Jay Powell at the Jackson Hole annual symposium. This fuelled expectations of a rate cut at the US central bank's September meeting and unleashed a global equity rally. During August, materials, health care and communication services were the strongest sectors in the MSCI All Country World Index, while utilities and industrials were weakest.

Global government bonds delivered mixed returns in August. US bonds rallied, boosted by growing hopes that the Federal Reserve would cut rates in September, although gains were capped by President Trump's escalating campaign to undermine the US central bank's independence. European bonds were mixed, with government bonds selling off, particularly in the UK and France, while corporate bonds moved higher. 10-year Japanese government bond yields also rose modestly, with yields hitting a 17-year peak, following Bank of Japan comments which lifted expectations of a further rate hike.

Emerging markets bonds delivered positive returns over August. US dollar-denominated bonds rose, mirroring the advance in other higher risk areas of the US credit markets. In local currency markets, returns in US dollar terms were positive as flat local currency returns were lifted by renewed weakness in the US dollar.

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. Exposure to Infrastructure and Generation Wellbeing supported returns, while Intelligent Machines detracted. The underweight to the index heavyweights (Magnificent Seven) has been a minor benefit over the course of August, especially given the softer returns of two of them.

The fixed income investments in the fund focus on global and emerging markets investment grade corporate bonds. The fixed income portfolio generated a positive return in August 2025, outperforming the broader market. The key driver was a decline in US Treasury yields, with a steepening bias, as expectations for a September Fed rate cut rose following a sharp downward revision in US jobs data and a dovish speech by Fed Chair Powell at Jackson Hole. In contrast, European rates were largely unchanged, partly pressured by the political turmoil and fiscal concerns in France. Credit spreads remained stable, supported by strong technicals and upbeat corporate earnings. European credits led performance, mainly due to FX gains, while other regions posted fairly even return benefited from general rate moves.

During August, we have mainly increased exposure to Asian equities. Fixed income investments have remained stable.

Outlook and Strategy

We forecast a global economic slowdown for the second half of 2025, mainly as a consequence of US tariff policies. At the same time, a soft landing in the US is still our baseline scenario, as the US economy will be supported by productivity gains related to the use of Artificial Intelligence (AI) and a generally high willingness to invest. Moreover, the Fed might reduce its target rate during the remainder of the year. In the European Union (EU), fiscal policy stimulus might counteract structural growth weaknesses. The Chinese government looks set to adopt stimulus measures, too. Nevertheless, increased uncertainty might weigh on investors' risk appetite. In combination with the fact that some equity valuations are no longer cheap, this development might make the markets vulnerable to setbacks in the short term. Investors should be prepared for more volatility and select their investments carefully. The environment is difficult to navigate, and developments in the individual sectors and regions look set to diverge considerably. Against this background, we believe that it is useful to take an active investment approach based on long-term fundamentals.

The current environment still supports a cautious and differentiated approach to the bond market. While inflation risks increase, growth remains weak – a mix that makes it difficult for the central banks to take effective monetary policy measures. The Fed continues to remain on the sidelines for now, as the economic consequences of the US trade policy are still unclear, but political pressure and splits within the Federal Open Market Committee (FOMC) are increasing. Against this background, a rate cut by 50 basis points (bp) during the remainder of the year seems probable. The European Central Bank (ECB) has already reduced its key rates significantly since mid-2024, but might take another 25 bp step in autumn. The considerable rise in government debt in many developed economies suggests that monetary policymakers may try to keep interests rates low in the longer term. High-quality corporate and emerging markets bonds appear still a good option to generate modest additional income. However, investments in lower-rated bonds carry higher risks against the background of general economic uncertainty. That is why it is more important than ever to analyse issuers' individual situations in order to avoid uncompensated risks and identify particular opportunities.

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

Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this material but should seek independent professional advice.

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.

Allianz Global Investors Asia Pacific Limited (32/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong) is the Hong Kong Representative and is regulated by the Securities and Futures Commission of Hong Kong (54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong).

ADM-W4839825