

# 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 interest 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 May

May brought some welcome respite for global equities following the recent tariff-related volatility. Investor sentiment was bolstered by de-escalating fears of a global trade war and a slew of positive corporate earnings releases. This overshadowed market jitters over the passage of President Donald Trump's 'big, beautiful' bill of sweeping tax cuts and the launch of a new trade offensive against the European Union. However, tariff whiplash was rekindled at month end, with global equities soaring on news that the New York-based Court of International Trade had blocked the US president's tariffs, before pulling back after the tariffs were reinstated by a US appeals court. Market sentiment deteriorated further after an abrupt re-escalation of US-China trade tensions and the announcement of Trump's plans to double tariffs on steel and aluminium to 50%. All but a handful of countries posted positive returns in May, led by offshore China and the US.

Global bonds sold off over May, undermined by escalating concerns that ballooning government borrowing would lead to a glut of new supply. Additionally, easing trade tensions lessened demand for safe-haven assets. Yields rose the most in the US where the 30-year Treasury yield briefly breached 5.0%. UK and Japanese long-dated bond yields also rose, although yields on euro-zone bonds closed the month little changed to slightly lower. Corporate bonds outperformed government debt, particularly high-yield bonds which were boosted by a more risk-on tone in equity markets.

Emerging market debt posted positive returns over May. US dollar-denominated debt advanced, helped by tighter credit spreads in other riskier areas of the US bond markets. Local currency bond returns were also positive, although that was

largely due to currency appreciation, particularly in Asia where many currencies appreciated significantly against the US dollar over the month.

## Portfolio Review

The equity investments focus on themes and topics of strong secular drives to generate long-term alpha. Theme selection has been a positive contributor to overall performance during May, however, stock selection detracted. The exposure to Intelligent Machines as well as Digital Finance resulted positively as those themes benefitted from the strong recovery among technology driven sectors. On the other hand, the exposure to Generation Wellbeing and Clean Water and Land slightly detracted. From a sector perspective, the structural underweight to the Magnificent Seven has been helpful as the market concentration has come to an end. The underweight to traditional banks has pressured performance slightly. The recent easing of the trade restrictions led to a positive contribution from sectors like Industrials and Materials which are benefitting from improved global economic development.

The fixed income investments in the fund focus on global and emerging markets investment grade corporate bond. Portfolio performance was solid in May, outpacing the broader market performance. Risk assets had a strong month as the prospect of a global recession receded following a suspension of US-China trade tariffs. Credit spreads tightened, with emerging market credits leading the rally. Meanwhile, US Treasury bonds sold off, with yields rising after Moody's downgraded the United States' credit rating from Aaa to Aa1. Concerns over fiscal deficits intensified as the House of Representatives passed the bill on tax cut, fueling further yield pressures. In contrast, Euro-denominated credits fared better. The US dollar continued its depreciation trend, falling marginally during the month. The Euro and British Pound gained and contributed positively to portfolio returns. From a geographical standpoint, the United Kingdom and Italy led the developed market gains, while Turkey and India outperformed among emerging markets. Canada and Taiwan detracted from performance.

During May, we have slightly increased overall equity exposure, with increase in Asian and European markets and rotation out of US market. Within fixed income, we have slightly increased corporate bond exposure and reduced developed markets government bonds.

## Outlook and Strategy

It has become obvious during the reporting season that many listed companies are now more subdued about their business outlooks. At the same time, the "revision momentum" was weak, which means that analysts tend to revise their earnings estimates downwards rather than upwards. Uncertainty about the impact of the US trade policy on growth is probably the main reason behind this trend. US consumers' inflation expectations have increased markedly, as the import tariffs threaten to push goods prices upwards. According to surveys, US business sentiment has deteriorated as well. It is not yet clear whether the subdued mood will feed through to the hard data and how the US Federal Reserve (Fed) will respond to the challenge of softer growth and rising inflation risks. From a technical vantage point, the major equity-market indices are currently stable, and the recovery after the tariff shock seems to have broadened. The situation on the equity markets looks set to remain dynamic for now. This environment may provide attractive opportunities for active investors. In particular, it might be useful to consider shifting capital towards the emerging Asian markets, which are increasingly driven by domestic demand.

As Moody's has downgraded its rating for the US and the US fiscal situation remains tense, the markets are having second thoughts about the sustainability of the US debt burden and the potential impact on long-term yields. As downside risks to growth and upside risks to inflation increase, we expect the Fed to take a "wait-and-see" approach until the impact of the Trump administration's disruptive policies becomes clearer. In view of the considerable uncertainty, bond prices are likely to remain volatile in the coming months, and we believe that the US yield curve will steepen further. In the euro area, sluggish growth, trade-related downside risks and the slowdown in inflation will provide the European Central Bank (ECB) with some leeway to cut rates further. Overall, investors will probably learn to appreciate the defensive qualities of prime

bonds in a rapidly changing macroeconomic environment. However, they should be cautious of USD risks. We recommend a differentiated approach for corporate bonds. Since spreads are very low, it makes sense to select investments carefully and analyse each bond and issuer individually.

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