

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 September

Global equities mostly rallied over September, buoyed by the US Federal Reserve's (Fed) larger-than-usual cut in interest rates, its first reduction in four years. In late September, a raft of further stimulus measures from the People's Bank of China (PBoC) and the Chinese government further boosted sentiment, particularly towards Chinese stocks which surged over the month.

Global bonds rallied as the Fed joined an increasing number of developed market central banks in starting to ease monetary policy. The yield on the 10-year US Treasury bond fell around 10 basis points over the month to close near 3.8%. European bond yields also declined, with the 10-year German Bund yield declining closing the month just above 2.1%. Corporate bonds rallied and outperformed government debt on a global basis.

Emerging market bonds delivered positive returns over September, mirroring the advance in other higher risk areas of the fixed income markets as the US Federal Reserve started to cut rates for the first time in more than four years.

Portfolio Review

The equity investments focus on themes and topics of strong secular drives to generate long-term alpha. Over the course of the month, theme selection contributed slightly negative to overall performance while stock selection among the themes has been a major driver. While Infrastructure and Digital Life showed decent relative performance compared to global markets themes like Health Tech and Clean Water and Land contributed negatively as the themes slightly consolidated after a strong year to date performance. Stock picking worked very well among the Digital Life theme mainly driven by Chinese e-commerce companies and digital finance companies that benefitted from the massive boost in Chinese markets after the government announced several stimulus activities to boost economic activity in China.

The fixed income investments in the fund focus on global and emerging markets investment grade corporate bonds. In September, our portfolio outperformed the broad market indices and generating a positive contribution to the Fund. Key return drivers were US rates which moved lower by 12-14bp and coupon income while credit spreads held roughly flat during the month. The kickstart of a US Fed easing cycle with a larger than usual 50bp policy rate cut amid a still strong US economy provided a favorable macro backdrop for corporate credit bonds. Meanwhile, China policy makers announced a package of monetary and financial stimulus measures was positive to risk assets. In terms of country attribution, Greater China credits were top performers followed by US and developed European credits. No country returned negatively during the month. Looking forward, we are entering the countdown of US presidential election which might restrain the near-term market sentiment and keep credit spreads range bounded. The geopolitical risks in the Middle East have so far been localized and brings limited impact to the fixed income portfolio.

During September, we have slightly reduced equity exposure, mainly through US equities. We have also trimmed some exposure in HK equities to lock in profit. Exposure to Chinese equities have increased mainly due to market movement. Exposure to fixed income as well as gold was maintained relatively stable during the month.

Outlook and Strategy

From our vantage point, a “soft landing” is the most probable outcome for the US economy. However, the growth rate might remain below potential – a development which would increase downside risks. Meanwhile, there are signs of a pick-up in Europe, Japan and the emerging markets. Overall, companies should benefit from the central-bank rate cuts, which is why we continue to expect corporate profits to develop favourably. We are therefore still optimistic for equities and believe that market participants will begin to broaden their focus beyond a handful of highly capitalised technology stocks. Nevertheless, the US presidential elections in November and the persistent conflicts in the Middle East and in Ukraine might lead to increased volatility during the last few months of the year. Moreover, there is a risk of a setback in Europe, as France and Germany in particular need to resolve domestic policy difficulties, and growth and financial stability appear vulnerable. Against the background of dynamic developments, which harbour both opportunities and risks, an active approach should be helpful to respond quickly to changes in the market environment.


As inflation is slowing down and growth is stuttering, more and more central banks are reducing their key interest rates in order to boost growth. The US Federal Reserve will probably reduce the Fed funds rate by another 50 basis points during the remainder of the year. On the one hand, excessive rate cuts may cause inflation to accelerate again, and on the other, insufficient rate cuts might result in the economy falling into a recession. Weak productivity growth and quick wage growth have dampened the economic momentum in the euro area. However, the negative impact is slowly abating, and growth looks set to pick up again in 2025. We expect the European Central Bank (ECB) to cut its benchmark rate by another 50 basis points during the remainder of 2024. In contrast, the Bank of Japan (BoJ) is likely to hike its key rate further. Against this background, the return outlook for traditional government bonds appears mostly favourable. We believe that longer durations and yield-curve steepening positions offer opportunities. In contrast, the spreads of corporate high-yield bonds and, to a smaller extent, investment-grade bonds appear quite narrow. Still, high-quality corporate bonds may offer opportunities against the background of declining interest rates and considerable demand. However, the spreads of many

high-yield bonds do not offer adequate compensation for higher default risks. We therefore recommend a cautious approach. In contrast, select emerging markets bonds offer attractive real returns.

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All data sourced from Allianz Global Investors and Bloomberg as at 30 September 2024 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.

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