

# 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 November

Global equities closed November with mixed returns. US stocks rallied strongly as Donald Trump's landslide victory in the US presidential election boosted hopes of tax cuts and looser regulations. However, threats of tariffs weighed on the performance of other markets, particularly in Europe, Japan and many emerging markets.

It was a volatile month for global bonds as Donald Trump's decisive win raised fears that rate cuts may be scaled back if higher tariffs reignite inflation. The yield on the 10-year US Treasury bond touched a four-month high of 4.5% in the aftermath of the election result but closed the month at 4.2%, slightly lower than the level at the end of October, as the president-elect's choice of Treasury Secretary reassured investors. Meanwhile, European bond yields declined sharply as the threat of higher tariffs for the region's US exports further depressed the growth outlook. Japan proved the exception, with bond yields rising amid increasing speculation the Bank of Japan (BoJ) may hike rates again in December.

Emerging market debt returns were mixed in November. US dollar-denominated debt rose, helped by a slight decline in US Treasury yields and tighter credit spreads.

## Portfolio Review

The equity investments focus on themes and topics of strong secular drives to generate long-term alpha. From a sector perspective, the overweight to Materials and Utilities created a burden as well as the underweight to Financials as classical banks benefitted from a steepening in the yield curve in Europe and the US because of the US election. Connected to the US elections, we got rid of our exposure to the theme "Next Generation Energy". By reinvesting the proceeds, we took a very US centric view as we expect US markets and the USD to outperform over the next month. We have added the proceeds across different themes like US focused Industrial companies in the Clean Water and Land theme. From a sector perspective the overweight to Materials and Utilities created a burden as well as the underweight to Financials as classical banks benefitted from a steepening in the yield curve in Europe and the US because of the US election.

The fixed income investments in the fund focus on global and emerging markets investment grade corporate bonds. The fixed income portfolio returned positively in November driven by US Treasury rates retracement and stable credit spreads. This put us slightly ahead of the respective broad markets and generated positive contribution to the fund. US elections took the center stage during the month with Donald Trump being elected as the 47th president and Republican party also won a majority in both the Senate and the House. The election results shifted investors' focus to the implication of Trump's policy on tax reduction, immigration scrutiny and import tariffs. US rates rose on the concern on US's fiscal dynamics and inflationary pressure. Meanwhile, credit spreads were resilient tracking the robust sentiment in equity markets. The expectation is for continued US exceptionalism as an economic backdrop into 2025, but this is likely to come at a cost for other regions including European countries. Euro weakened around 3% against US dollar to reflect an increasingly challenging macro outlook. As a result, our Euro-denominated credit positions were the worst performer during the month. On emerging markets front, Trump's policies are likely to be hostile and create uncertainty on their growth outlook. However, we believe that our focus on investment grade rated credits with strong fundamentals provides comfortable cushion against the headwinds.

During November, we have maintained overall equity exposure, with some rotation out of European and Asian markets into US market. Within fixed income, we have reduced duration in US and Europe. Exposure to gold has been slightly increased.

## Outlook and Strategy

Following the clear result of the US elections, the outlook for riskier assets such as equities remains favourable, as both the US and the global economy look set to do well, even though there may be temporary volatility. US equities in particular should benefit; from our vantage point, they are still attractive despite their high valuations. The divergence in global growth – with the US expanding more strongly than the euro area or Japan – is likely to continue under a second Trump administration. Recent data from China point to a macroeconomic stabilisation and even an upswing in the financial sector in that country. In addition, the (moderate) uptrend in corporate earnings is continuing and contributing to the overall encouraging picture. Corporate earnings are the most important driver of investment and therefore a significant leading indicator for the overall economic development. Nevertheless, some risks remain. In fact, financial market participants expect the central banks to cut their key interest rates considerably. However, that may not happen if inflation picks up again. Moreover, several geopolitical crises remain unresolved, and the second Trump administration may take decisions that have a negative impact on the world. With US import tariffs and trade conflicts looming on the horizon, active management will be key for success in a global environment in which opportunities and risks are unevenly distributed.

The US elections have led to increased volatility on the bond markets and caused the US Federal Reserve (Fed) to cut the Fed funds rate by another 25 basis points. Now that they are over, the global bond markets have calmed down somewhat. Many market participants expect the major central banks to reduce their key rates further. If this assumption materialises, bond prices are likely to remain supported. In fact, the global inflation outlook has improved, and inflation has moved towards the central bank targets in the major economies. Against this background, many investors may decide to shift money held in bank deposits or money-market funds into higher-yielding bonds. Still, there is a risk of a renewed pick-up

in inflation. Investors should be prepared for potential market setbacks if rate cuts take place later or are smaller than expected. Nevertheless, we continue to regard bonds as an attractive asset class. Many segments offer acceptable returns, and investors' portfolios should benefit from bonds' defensive characteristics during a phase of economic weakness. Nevertheless, dealing with the challenges in 2025 will require a flexible investment approach in terms of duration, yield curve, currency, spread and inflation positioning.

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All data sourced from Allianz Global Investors and Bloomberg as at 30 November 2024 unless otherwise stated.

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