

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 January

Global equities advanced over January, led by European shares. While US stocks also moved higher, gains were limited by a sharp reversal in technology shares after Chinese start-up DeepSeek announced it had developed a chatbot with the same functionality as Open AI's ChatGPT – but at a fraction of the cost. The news added to the uncertainty caused by Donald Trump's return to the White House, with the president swiftly signing a raft of executive orders to progress his disruptive agenda.

Global bonds were volatile. Yields rose sharply for the first half of the month, with the yield on the 10-year Treasury briefly trading at 4.8%, its highest level since 2023, as stronger-than-expected US economic data sparked fears that the next move in US rates may be up rather than down. However, yields fell in the second half of January as these fears appeared overblown. While the 10-year US Treasury yield closed the month little changed, government bond yields ended higher in Japan and Europe. Corporate bonds outperformed government debt, with high yield posting the best returns.

Emerging market bonds delivered positive returns over January, mirroring the advance in other higher risk areas of the fixed income universe. Both hard currency bonds, which are issued in currencies such as the US dollar and the euro, and local currency bonds advanced.

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 Industrials and Materials has been a tailwind to performance during the month, while the underweight to Financials and Communication Services have been a drag. From a thematic perspective themes like Digital Life and Health Technology performed best over the recent month followed by Intelligent Machines. This once again shows that Technology dominates the current market as these themes have a very high exposure to the sector. The structural underweight to technology index heavyweights have been a benefit to overall performance. Nevertheless, the last month showed that the strong outperformance of the magnificent seven has eased. In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year. Regarding the positioning, we have moved to a higher degree of concentration as we have sought to strengthen our investment conviction.

The fixed income investments in the fund focus on global and emerging markets investment grade corporate bonds. In the first month of 2025, our fixed income sleeve has a positive return which slightly outperformed the respective broad markets. Market reaction to the new US administration's initial policies has been sanguine as trade tariffs were not immediately imposed. Most of the policies implemented through executive orders were focused on domestic priorities such as immigration and energy. Trade related rhetoric was limited to threats of imposing 25% tariff on Mexico / Canada and additional 10% on China while internal debate was still ongoing. There was also limited new information from the FOMC meeting where the fed funds rate unchanged at 4.25-4.50% range as widely expected. This brought relief to the market with falling volatility and flat credit spreads. US Treasury yields were higher initially in the month but ended lower by 3-5bps as a result of soft inflation prints. Quarterly earnings from US companies came in strong led by financials and technology. The solid earnings outlook and healthy market technicals are expected to continue supporting credit spreads in the near term.

During January, we have slightly reduced overall equity exposure through both developed markets and emerging markets equities. Exposure to fixed income and commodities was maintained relatively stable during this month.

Outlook and Strategy

Our "Macro Breadth Growth Index", an aggregated, single indicator for the global environment as a whole, continued its upward trend in December and suggests that global gross domestic product (GDP) growth remained above potential in the fourth quarter of 2024. This aggregate figure is supported by a stronger expansion in the US and Japan and a recovery in the euro area and China. While the "hard" economic data improved towards the end of the year, business and consumer confidence seem to be deteriorating. Nevertheless, manufacturing looks set to expand in the coming months, backed by inventory building and increased corporate production efforts ahead of anticipated US tariffs. From our vantage point, conditions remain favourable for riskier assets such as equities, as US growth is likely to remain healthy and corporate earnings are convincing. Still, we are aware of the downside risks stemming from the uncertain impact of the new US administration's plans and sometimes high equity valuations. The risks include a pick-up in inflation and, as a consequence, a tighter US monetary policy. Since the market environment may bring considerable surprises and is characterised by deviating regional developments, we believe that investors should pursue an active portfolio management approach based on fundamentals and involving targeted risk diversification.

The US economy is in good shape, and a significant labour market deterioration does not seem to be on the cards. President Trump's business-friendly policies should support the growth outlook. However, the Federal Reserve's (Fed's) preferred measure of core inflation is still above the target rate. We therefore believe that the Fed will continue its cautious monetary policy and adjust the Fed funds rate in gradual steps as it monitors incoming growth and inflation figures. The situation is different in the euro area. The core euro-area economies have to cope with cyclical and structural headwinds, and potential future trade conflicts are only adding to the risk. At the same time, inflation dynamics seem to be abating. Moreover, financial conditions seem to be improving, supported by expectations of a loose monetary policy by the European Central

Bank (ECB) in the coming months. We continue to expect a rate-curve steepening in both the US and Germany, as maturity premiums still appear too low against the background of persistent inflation risks. With corporate earnings largely robust and default rates moderate, high-quality corporate bonds may be a source of additional income. At the same time, it makes sense to take a selective approach to high-yield and emerging-markets bonds.

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All data sourced from Allianz Global Investors and Bloomberg as at 31 January 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.

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