

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 June

Global equities closed June higher as "tariff fatigue" took hold after months of heightened volatility. However, as Sino-American trade relations thawed, mounting geopolitical tensions in the Middle East moved sharply into focus. Shares sold off on news of Israeli strikes against Iran with oil prices spiking on fears of supply risks. But the risk-on mood returned as oil prices slumped after Tehran's restrained response to US strikes paved the way for a de-escalation in tensions and a ceasefire between Israel and Iran appeared to take hold.

June was a mixed month for global bonds, with US, UK and Japanese bonds rallying while euro-zone bond returns were broadly flat. US bonds were boosted by growing hopes for US rate cuts and weaker-than-expected inflation data, while yields on euro-zone government bonds rose after the European Central Bank (ECB) suggested it may be nearing the end of its rate-cutting cycle. In general, corporate bonds outperformed sovereign debt.

Emerging market (EM) debt delivered positive returns over June. Hard currency bonds, which are issued in currencies such as the US dollar or the euro, rallied, helped by tighter credit spreads in other high-risk areas of the bond markets, such as high-yield debt. Local currency bond returns were also positive, with EM currency appreciation versus the US dollar further boosting returns in US dollar terms.

Portfolio Review

The equity investments focus on themes and topics of strong secular drives to generate long-term alpha. Theme selection and stock selection both had positive effects to the overall results. 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. Given the recently increased Beta and the focus on growth related equities, the equity strategy continues to benefit from the current recovery.

The fixed income investments in the fund focus on global and emerging markets investment grade corporate bond. We achieved a positive return in June, outperforming the broader market. Performance was supported by the tightening in credit spreads and decline in US Treasury yields, while the rebound in Bund yields partially offset gains in European credits. Currency movements were favorable, with the Euro and British Pound appreciating amid continued US dollar weakness, contributing positively to returns. From a country perspective, European and Saudi Arabian credits outperformed, with no country posting negative returns.

During June, we have slightly reduced overall equity exposure, mainly through Asian market. Fixed income exposure remained stable.

Outlook and Strategy

Most of the global growth indicators we regularly watch have recently declined, reflecting the impact of the trade conflicts with some delay. In the US, the indicators were down for the fourth month in a row, and we saw setbacks in Japan, the UK and China as well. In contrast, a positive trend was visible in the euro area. That is why we come to different assessments for the individual regions. In Europe, the focus on "self-sufficiency" should provide some stimulus for the economy, as policymakers intend to boost investments in infrastructure and strategically important industries. We expect that the earnings growth gap versus the US will narrow by 2026. In Asia, particularly in China, new developments in the area of Artificial Intelligence (AI) look set to become an important driver of growth and innovation. In Japan, reflation and corporate governance reforms will drive the markets, which might also benefit from a "safe haven" effect as capital is withdrawn from the US. And in India, fiscal and monetary stimulus should result in a re-acceleration of growth. In the short term, our outlook for US equities is dampened by tariff uncertainties and high valuations. However, many of the factors behind the US's considerable success are still intact, such as the high return on equity of US companies, their leading position in the field of Artificial Intelligence and the favourable demographic development.

In the US, the administration's turnabouts are weighing on the growth outlook, as the resultant uncertainty is dampening business, consumer and investor confidence. At the same time, import tariffs might drive up inflation in the second half of the year. We believe that the Federal Reserve (Fed) will remain on the sidelines for now and gradually reduce the Fed funds rate to about 4% by the end of 2025. In Europe, the commitment to closer pan-European collaboration, higher government spending in Germany and rising defence expenditure across the region should prop up growth. Nevertheless, economic activity is likely to remain subdued, and the trade conflict with the US is a risk. We expect inflation to slow down further so that the ECB has room to reduce its key rate to 1.5 – 1.75% by the end of 2025. In contrast, the Bank of Japan (BoJ) is likely to raise its rates gradually further on a medium-term horizon. Overall, we expect the yield curve to steepen in many bond markets. This applies particularly to the US, as growth risks and concerns about the fiscal situation gain ground. The US dollar is likely to remain under pressure as well. Prime government bonds from the euro area look appealing, as inflation slows down and the region is currently regarded as a "safe haven". Euro-area peripherals might also benefit from the macroeconomic and political environment. Valuations of investment grade corporate bonds appear quite high, but corporate fundamentals are favourable overall. Turning to high yield bonds, we do not believe that the spreads adequately compensate investors for the default risks. In the emerging markets, local currency bonds appear promising, particularly in those countries where the central banks have room for rate cuts.

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hk.allianzgi.com

+852 2238 8000

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All data sourced from Allianz Global Investors and Bloomberg as at 30 June 2025 unless otherwise stated.

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