

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 May

Global equities advanced over May. US stocks led the rally, boosted by a jump in technology companies, particularly a chipmaker which blew past earnings' forecasts. In contrast, Japanese and UK shares rose only modestly, while the MSCI Emerging Markets Index was pressured by weak returns from Brazil and Mexico among others. At a sector level, information technology rallied the most, with communication services and utilities also areas of notable strength. Meanwhile energy was the only sector in the MSCI All Countries World Index to fall over the month.

Global bonds were mixed. US bonds closed a volatile month with positive returns, outperforming other bond markets as US inflation slowed. In contrast, yields rose in the eurozone as headline inflation rose for the first time this year. Japanese bonds were among the weakest performers, with the 10-year bond yield breaching 1.1% for the first time in almost 13 years amid growing speculation that the Bank of Japan (BoJ) would soon raise rates again and may start to reduce its bond purchase programme. In general, corporate bonds outperformed government debt.

Emerging market bonds delivered positive returns over May. US dollar-denominated bonds rose the most, helped by a late-month rally in US Treasuries. Local currency bond returns were also positive, albeit to a smaller extent.

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, the Next Generation Energy and Infrastructure themes were positive contributors. On the other hand, The Digital Life and Intelligent Machines themes detracted driven by adverse stock selection (underweight in Tech index heavyweights). The strategy continuous to carry a meaningful overweight to Industrials and Materials and underweight to Communication Services. This positioning is in our view supported by decent business activity overall with solid capital expenditures, further investment activity in modernization of equipment etc., a pick-up in economic activity in China and improvements in Chinese stock markets as well as the slight decrease in interest rates.

The fixed income investments in the fund focus on global and emerging markets corporate bonds. In May, our investments outperformed the respective markets and generated a strong total return of 2%. In terms of country breakdown, United States and European credits posted solid returns benefiting from relatively longer duration. Meanwhile, Asia and Middle East also displayed comparable returns driven by better carry and some spread tightening. South American credits lagged but still finished with a positive return in the month. In the lens of sector attribution, information technology and telecommunication services topped the chart on robust earnings announcement. On the other hand, the performance of energy related credits was slower on oil prices dropped.

During May, we have maintained stable equity exposure, with some reduction in developed markets equities and increase in emerging markets equities. Fixed income exposure was modestly reduced mainly in developed markets government bonds.

Outlook and Strategy


The momentum of the global economy was quite encouraging at the beginning of the second quarter, as most regions saw broad-based improvements. At a regional level, data from Europe and Japan improved, whereas the US figures came in somewhat weaker. The uptrend in the emerging markets continued, with the upswing in China going into its eighth month and Brazil, India, Turkey and Mexico all making progress. That means that riskier assets, in particular equities, should have room for positive developments in the coming months, above all against the background of the expected, robust trend in corporate earnings. If, however, the US Federal Reserve (Fed) and other major central banks do not succeed in engineering a soft landing, including low inflation in the long term and loose monetary policies, there may be some setbacks. The corrections might be exacerbated by high valuations in some asset classes. The main risk in this context is that inflation might stubbornly remain above the central banks' targets. We would recommend an active investment approach in this environment.

It seems that the central banks will want to see weaker cyclical data before they decide to cut rates. So far, there are no signs of a pronounced slowdown on the labour markets either in the US or in Europe. And inflation has not yet returned to the long-term targets either. We believe that the European Central Bank (ECB) will probably reduce its key rate earlier than the Fed. After the bond-price correction triggered by the change in rate expectations the outlook for government bonds has improved. Some market participants might underestimate the size of the upcoming monetary policy loosening. Since interest rates are attractive in real (i.e. Inflation-adjusted) terms, too, we think that the environment will be quite favourable for government bonds in the coming quarters. Moreover, prime corporate bonds continue to offer additional returns, as corporate earnings are generally healthy, default rates are moderate and the monetary reins will probably be loosened. However, it seems unlikely that investment-grade bond spreads will narrow further. Chances of a general spread narrowing are small in the high-yield segment, too. That means that investors should attach even more importance to a thorough analysis of issuers' individual situations.

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All data sourced from Allianz Global Investors and Bloomberg as at 31 May 2024 unless otherwise stated.

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