

# Allianz Thematica

## Monthly commentary

- The Fund aims at long-term capital growth by investing in global equity markets with a focus on theme and stock selection in accordance with environmental and social characteristics. The Fund aims to achieve the Sustainability Key Performance Indicator Strategy (Absolute Threshold) ("KPI Strategy (Absolute Threshold)"). The Fund does not constitute as an ESG fund pursuant to the SFC's circular issued on 29 June 2021.
- The Fund is exposed to significant risks of investment/general market, concentration, thematic-based investment strategy, company-specific, emerging market risks, currency (such as exchange controls, in particular RMB), and the adverse impact on RMB share classes due to currency depreciation.
- The Fund is exposed to sustainable investment risks relating to KPI Strategy (Absolute Threshold) (such as foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, selling securities when it might be disadvantageous to do so, and/or relying on information and data from third party ESG research data providers and internal analyses which may be subjective, incomplete, inaccurate or unavailable).
- The Fund may invest in financial derivative instruments ("FDI") which may expose to higher leverage, counterparty, liquidity, valuation, volatility, market and over the counter transaction risks. 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 capital or effectively out of the Fund's capital which 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 share 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.

### What Happened in December

Global equities slid as the euphoria of Trump's decisive election victory faded and the US Federal Reserve (Fed) issued a more hawkish outlook for interest rates in 2025. Artificial intelligence-related (AI-related) stocks in the Consumer Discretionary, Communication Services and Information Technology sectors continued to hold up well, but elsewhere returns were mostly negative. Real Estate, Materials and Energy were the weakest sectors in the MSCI All Countries World Index.

Global bonds sold off as investors became less optimistic on the Fed's willingness to cut rates in 2025. The yield on the 10-year US Treasury bond rose to a 7-month high of 4.6%. Eurozone bonds fared better, although yields still moved higher with the 10-year German Bund yield rising to 2.4%. In contrast, 10-year Japanese Government Bond yields closed the month little changed, while 10-year Chinese yields fell to a record low of 1.7%. High yield bonds continued to outperform investment grade debt.

As widely expected, the Fed cut rates by 25 basis points (bps) in December, but policymakers issued more cautious guidance for 2025, reducing the number of expected 25-bps cuts to two from four at the previous Federal Open Market Committee (FOMC) meeting. Concerns that progress against fighting inflation had stalled were cited for the change. It was mostly a different story in Europe, with the European Central Bank (ECB) cutting rates by 25 bps, while the Swiss National Bank reduced borrowing costs by 50 bps, its largest cut in nearly a decade. However, the Bank of England (BoE) kept rates on hold as inflationary pressures remained stubbornly high. The Bank of Japan (BoJ) also maintained its monetary stance.

The Fed's more hawkish stance at its last meeting of the year provided a further boost to the US dollar. In contrast, the euro strengthened against the Japanese yen. The BoJ refrained from enacting another rate increase in December, given concerns over the growth prospects of the global economy and whether Japan's inflation rate is sustainably above 2%.

## Portfolio Review

The Fund returned negatively in December, underperforming global equity markets as represented by the MSCI AC World Index. Stock selection as well as sector allocation have been a drag to overall performance.

From a sector perspective, the underweight to Energy, Financials and Real Estate created a tailwind, while the overweight to Industrials, Materials and Utilities has been a headwind. Stockpicking has been favourable among Communication and Consumer Staples, while being negative among Industrials, Information Technology and Materials.

From a theme perspective, the exposure to Intelligent Machines and Digital Life has been positive, while themes like Clean Water and Land as well as Infrastructure have been detractors. This once again shows that Technology dominates the current market as both themes have a very high exposure to the sector. Once again, the moves in the Technology sector remain driven by the index heavyweights, resulting in a continuation of the recent market concentration. As a result, the underweight to a smartphone and personal computer (PC) producer and a technology conglomerate has been one of the largest burdens for the portfolio, as well as having no exposure to an electric vehicle (EV) manufacturer. On the positive side, the Fund benefitted from the exposure to a consumer electronics and smartphone manufacturer (Digital Life), as well as a high-speed connectivity solutions provider and a computer networking company (both Intelligent Machines).

In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year.

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Source: Bloomberg and Allianz Global Investors as at 31 December 2024 unless otherwise stated.

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