

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 October

Global equities mostly ended October lower. Early gains were more than offset by a weak close to the month. At a sector level, Health Care, Materials, Consumer Staples and Real Estate fell the most, while Financials, Communication Services and Energy moved higher.

Global bonds sold off, with yields rising sharply in the US as polls indicated Donald Trump was likely to win November's presidential election. The former president has promised to hike import tariffs substantially, while tax cuts are likely to further swell the fiscal deficit. The yield on the 10-year US Treasury bond rose 50 basis points (bps) over the month to close just below a 4-month high of 4.3%. On a global basis, corporate bonds outperformed government debt, with high yield debt faring better than investment grade securities.

With economic data continuing to indicate a soft landing for the US economy and a solid jobs market, expectations grew that the US Federal Reserve (Fed) may slow the pace of its rate cuts. In Europe, the European Central Bank (ECB) lowered interest rates by 25 bps, marking its third cut of this year. The People's Bank of China (PBoC) also reduced its 1- and 5-year loan prime rates by 25 bps. The rates are used as a reference point for most loans and mortgages in China. In Japan, hopes of higher government spending came up after the ruling Liberal Democratic Party lost its parliamentary majority for the first time in 15 years.

The US dollar strengthened as investors moderated their forecasts for the pace of rate cuts by the Fed. While the euro fell against the dollar, it rose against the Japanese yen. Oil prices initially surged past USD 80 a barrel after Iran launched hundreds of rockets at Israel, sparking fears that Israel may retaliate by attacking Iranian oil facilities. Gold prices surged

to a fresh record high of almost USD 2,800 an ounce amid ongoing geopolitical tensions and as investors evaluated political risks ahead of the US presidential election.

Portfolio Review

The Fund returned negatively (in EUR, gross of fees) in October, underperforming global equity markets as represented by the MSCI AC World Index.

The theme selection contributed negatively to overall performance, while stock selection among the themes has been slightly negative. The largest thematic detractor has been the theme Next Generation Energy which suffered most over the month of October. While the market was starting to price in a win of Donald Trump in the presidential election on 5 November, this created a negative sentiment for this theme over the course of October. Intelligent Machines also did weaker as the semiconductor industry negatively reacted to a weaker guidance by a supplier of semiconductor manufacturing equipment, specifically machines for the production of chips through lithography. Digital Life contributed well to overall performance driven by positive stock selection.

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. From a single stock perspective, positive performance occurred from a manufacturer of semiconductor testing devices and electronic measuring instruments which reported better-than-expected quarterly results. A consumer electronics manufacturer (Digital Life) benefitted from the tailwind in the Chinese market after the government announced further stimulus programmes as of the end of September.

A solar panels manufacturer (Next Generation Energy) has been among the detractors as rising interest rates are generally lowering the speed of the energy transition. A specialty chemicals producer (Clean Water and Land) suffered from muted quarterly results. The biggest detractor was the underweight to technology company that designs graphics processing units, while being underweight a technology conglomerate has been a positive contributor.

In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year. At the same time, both earnings growth as well as sales growth are expected to come in well above global equity markets average.

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

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