

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 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 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.

In the US, the appreciation was mostly driven by robust gains from the Technology sector. As a result, the tech-heavy Nasdaq Composite Index outperformed the broad-based S&P 500 Index, with growth stocks topping value ones by a sizable margin. Shares of the afore-mentioned chipmaker soared after it beat quarterly earnings' forecasts, announced a stock split and increased its quarterly dividend. The company is now the third largest US company by market capitalisation, beaten only by two technology giants.

US Federal Reserve (Fed) Chair Jerome Powell signalled that investors would need to be "patient and let restrictive policy do its work" in reducing inflation. However, he also confirmed that the likelihood of a further increase in rates was "very small". In the eurozone, the European Central Bank (ECB) gave its strongest hint yet that rates would be cut in June, despite higher-than-expected wage growth. Hopes that the Bank of England (BoE) would also cut rates in June were dashed when UK inflation fell less than forecast and the government unexpectedly called a general election, to be held on 4 July.

In the commodity markets, oil prices eased, touching their lowest level since March on fears of a looming supply glut. Conversely, metals prices moved higher. Gold touched a fresh high of USD 2,450 a troy ounce, while copper topped USD 11,000 a ton for the first time on record as concerns over curtailed supply added to expectations of a pick-up in demand.

Portfolio Review

The Fund lagged global equity markets as represented by the MSCI AC World Index.

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).

On a single stock basis, the positions in a solar panels manufacturer; a home solar panel and battery storage company; a clean energy company (all Next Generation Energy), a computer peripherals manufacturer (Digital Life), and a manufacturer of semiconductors and wireless telecommunications products (Intelligent Machines) were amongst the key contributors to performance. Not owning the afore-mentioned chipmaker and a computer hardware and consumer electronics company were the most meaningful detractors for the month.

The Fund continues 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 modernisation 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.

We see several turning points for infrastructure-related themes. After the shakeout of the theme last year, we are seeing a stabilisation across Utilities, as well as electric vehicle (EV) and renewables within the Next Generation Energy theme. Recent mergers and acquisitions (M&A) activity boosted the Materials sector overall and benefitted the Infrastructure theme. Water engineering consultancy and engineering companies we recently met mentioned an increase in order activity with funding now becoming available from infrastructure acts, etc.

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 May 2024 unless otherwise stated.

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