Market Review and Outlook

July 2024

The content of this document is supplementary to the Monthly Fund Factsheets.

For the following funds:

Allianz Life Master Bond Fund (“MBF”)
Allianz Life Master Equity Fund (“MEF”)
Allianz Life Master Dividend Fund (“MDF”)
Allianz Life Master Dana Ekuiti (“MDE”)
Allianz Life Master ASEAN Plus Fund (“AMAF”)
Allianz Life Managed Fund (“MF”)
Allianz Life Equity Fund (“EF”)
Allianz Life Dynamic Growth Fund (“DGF”)
Allianz Life Equity Income Fund (“EIF”)
Allianz Life Bond Fund (“BF”)
Allianz Life Dana Padu (“DP”)
Allianz Life ASEAN Plus Fund (“AAF”)

Market Review

During the month under review, the MSCI World Index and Dow Jones Index rose by +1.70% and +4.41% mom, respectively. In the US, the positive market sentiment was driven by expectations that the Federal Reserve is nearing its first interest rate cut since 2020. This optimism was further fueled by Federal Reserve (Fed) Chair Jerome Powell's comments at the end of the month, which reinforced expectations of potential rate cuts. Additionally, the market began pricing in the possibility of further U.S. corporate tax cuts under a potential Trump 2.0 presidency, adding to the positive sentiment. July’s S&P Global US Composite Purchasing Managers’ Index (PMI) reading of 54.3 indicated that it was still expansionary, albeit -0.7 points lower compared to the prior month.

On the other hand, Euro Stoxx 50 Index was down -0.43% mom. The June HCOB Eurozone Composite PMI Index which still had an expansionary reading of 50.9, was down as compared to 52.2 in the previous month. Meanwhile, the Eurozone unemployment rate remained stable at 6.5% in June (May: 6.4%). The Shanghai Composite Index in China slid by 0.97% mom as the July Caixin China PMI Composite Index declined to 51.2 from 52.8 in the previous month. The July Manufacturing PMI also showed a slight contraction at 49.4, down from 49.5 in June. Additionally, Industrial Production in June grew at a slower pace of 5.3% yoy, compared to the previous month’s 5.6% yoy growth rate. Furthermore, China kept its 1-year and 5-year Loan Prime Rates unchanged in July 2024.

Throughout the month, Brent crude oil declined 6.6% mom to USD80.72/bbl on the back of weakening demand from China, which is expected to reduce imports amid slowing economic growth. On the other hand, crude palm oil price rose +1.3% mom to RM4028/MT largely due to a +39% mom surge in imports in India in anticipation of a duty hike in India's budget.

On the ASEAN front, equity markets were generally positive in July 2024. For us at home, the FBMKLCI rose +2.23% mom on the back of positive sentiment from key economic growth prospects such as the anticipated recovery in the global semiconductor sector and trade diversification opportunities from the 'China Plus One' strategy. Additionally, the rally was also helped by July’s net foreign equity inflow of RM1.3bn which resulted in the cumulative YTD net foreign equity inflow turning positive at RM497.8m. It is also likely that the resurgence in foreign investor interest was partly due to the government's commitment to enhancing the nation's fiscal position and implementation of vital reforms such as the diesel fuel subsidy rationalization. In addition, Malaysia’s 2Q24 advance GDP growth came in at +5.8% yoy, which was ahead of consensus’ and the previous quarter’s growth rate of +4.7% yoy and 4.2% yoy respectively. The Singapore’s Strait Times Index also enjoyed a rise of +3.69% mom on strong earnings expectations by major banks and expectations for US interest rate cuts. However, its June Non – Oil Domestic Exports (NODX) still contracted by 8.7% yoy, behind consensus’ estimate of a contraction of 1.3%. The Stock Exchange of Thailand inched up 1.53% mom. Aside from the positive spillover euphoria from the expectation of US rate cuts, the anticipated implementation of the Uptick Rule, aimed at curbing short selling, helped to further contribute to the positive sentiment. Last but not least, the Jakarta Composite Index went up 2.72% mom, in-line with regional peers on interest rate cut expectations. Bank Indonesia kept its policy rate unchanged at 6.25% in July.

The US Treasuries (UST) yield curve declined across the tenors by 26 – 49 bps mom as unemployment rate rose to 4.1% mom (Survey: +4.0% mom, May: +4.0% mom) and job growth in the prior 2 months i.e. May and April, were revised downwards to +218k mom (from +272k mom) and +108k mom (from +165k mom) respectively. In June, the nonfarm payroll increased by +206k mom (Survey: +190k mom). In addition, US CPI was below expectations at +3.0% yoy (Survey: +3.1% yoy, May: +3.3% yoy). In the Federal Open Market Committee (FOMC)'s July meeting, the Fed left the rate unchanged at 5.25% – 5.50% and indicated a potential rate cut in September should inflation continue to decline towards its 2% target whilst the labour market remained stable. As of the end – July 2024, the market – implied total rate cuts by December 2024 increased to 73 bps from 44 bps as of end – June 2024 and market had priced in more than two rate cuts by end-2024.

Similarly, Malaysian Government Securities (MGS) yields also declined across the tenors by 8 – 18 bps mom amidst weaker – than – expected industrial production, exports and CPI. At the Monetary Policy Committee (MPC) meeting in July, Bank Negara Malaysia (BNM) maintained the overnight policy rate (OPR) at 3.00% as per consensus expectations. May industrial production expanded by +2.4% yoy (Survey: +3.6% yoy, April: +6.1% yoy) largely due to the sustained growth in manufacturing and electricity sectors which was partially offset by a contraction in the mining sectors. Exports in June recorded a smaller growth at +1.7% yoy (Survey: +3.3% yoy, May revised: +7.1% yoy), which was mainly dragged by lower exports of manufactured and agriculture products. June CPI remained at +2.0% yoy but was below consensus expectation of +2.2% yoy despite diesel subsidies rationalization in early June (May: +2.0% yoy).

Foreign funds turned net buyers in July with net inflows of RM7.8bn (June: -RM0.6bn). Foreign share of both MGS and MGS+MGII rose to 34.2% (June: 33.3%) and 22.2% (June: 21.7%) respectively. Malaysia's foreign reserves climbed by USD0.9bn to USD114.7bn as of end – July 2024 (June: USD113.8bn).

Market Outlook

With inflation easing, we note that some developed markets have started their rate cutting cycle to support growth, but the pace of policy easing remains to be seen. Externally, we would be monitoring the developments surrounding the US Presidential elections and several ongoing geopolitical conflicts. Domestically, we believe that investors would continue to focus on the government's gradual implementation of policies. Aside our resilient consumption growth story, on supply-chain diversification efforts, Malaysia appears well positioned to attract investments.

Notwithstanding the different rates of disinflation across the various global economic powers, the advent of a monetary easing cycle should be supportive of those assets with a skew towards growth – centric investments. As always, we have been steadfast in being partial towards fundamentally sound investments over long – term investment horizons. Furthermore, we might partake in a modicum of trading activities to capitalize on any prevailing market volatility. Even so, omnipresent geopolitical risks as well as potentially easing global growth would dictate that we should be mindful of the necessity to adapt to new strategies as and when required to acclimatize to new and volatile market conditions.

Bond market volatility in the fixed income market could persist although recent yield movements proved positive for bond yields. The Fed has signaled a possible downward rate move as soon as September, subject to the totality of economic data. The FOMC statement also acknowledges that inflation risks and employment must be balanced. With inflation under control in Malaysia and the latest indicators pointing towards sustained strength in economic activity in the second quarter of 2024, the market expectation is for BNM to stand pat on the OPR for 2024. However, inflation is expected to trend higher in the second half of the year due to the recent rationalisation of diesel subsidies, the potential spillover effects from other domestic policy measures, global commodity prices and financial market developments. We would continue accumulating bonds at favorable valuations while prioritizing good quality names.

For Allianz Life Global High Payout Fund:

Target Fund Manager's Comment (For Allianz Global High Payout Fund)

What helped?

- During a volatile July, the Fund could outperform the benchmark MSCI World.
- The defensive dividend concept could contribute positively during a month where Growth-related stocks and market leaders were considerably weaker.

What hurt?

The Fund's exposure to emerging markets stocks was not helpful.

Market Review and Outlook

For global equities, the big story in July was the strong rotation away from Technology companies in favour of Value stocks. AI-related and semiconductor stocks were particularly badly hit. There were various factors behind the technology sell-off: US inflation was slower than expected in June, boosting hopes that US rates would soon be cut – an outcome that could weigh on mega-cap companies' cash piles; an electric vehicle manufacturer and Alphabet delivered disappointing earnings; Donald Trump said Taiwan, which is at the core of the global chipmaking industry, should pay for its own defence; and the Biden administration threatened severe export curbs if non-US companies continued to provide China with access to advanced chips.

In the US, the broad-based S&P 500 Index closed the month slightly higher while the tech-heavy Nasdaq Composite Index declined as Technology companies, particularly AI-related ones, slumped. Among the mega-cap Magnificent 7* stocks, a social technology company, Alphabet and Microsoft entered correction territory, having fallen at least 10% from their peak in mid-July. Semiconductor stocks, including Nvidia, also tumbled. In contrast, smaller companies surged, with the small-cap Russell 2000 Index outperforming the larger cap Russell 1000 Index by more than 8% over the month. In political news, Joe Biden announced he would not be standing as president for a second term, with vice-president Kamala Harris unofficially crowned as the Democrat's candidate.

Euro-zone equities closed July flat. At a sector level, Information Technology stocks fell sharply, with a supplier of semiconductor manufacturing equipment, specifically machines for the production of chips through lithography, hurt by reports the US may consider tougher restrictions on what semiconductor equipment can be sold to China. Luxury goods companies were also hit after a French luxury goods group reported slower-than-expected sales in Q2. At the other end of the scale, Utilities companies were the strongest performers. In political news, the second round of France's parliamentary elections resulted in no outright majority for any party, although the far-right National Rally slumped to third place. France now needs to form a coalition government although the process will not commence until after the Paris Olympic Games.

For Allianz Life Asia Multi-IncomePLUS Fund:

Target Fund Manager's Comment (For Allianz Asian Multi Income Plus)

Market Review

Equity markets in Asia Pacific delivered mixed returns in July. The tech-heavy markets of Taiwan and South Korea sold off, and China stocks retreated to 5-month lows, undermined by ongoing concerns over the trajectory of the domestic economy. Growth data in China was weaker than expected in Q2, while inflation remained close to deflationary levels. India stocks continued their strong year-to-date performance, buoyed by domestic liquidity and despite the budget announcement of a hike in the capital gains tax. ASEAN markets generally rallied, supported by the weaker US dollar. Finally, Australia equities delivered solid gains, benefitting from a softer inflation print that allayed fears of an interest rate hike in August.

Asian credits enjoyed another strong month in July, delivering 1.3% as measured by the JACI composite index. Asian high yield returned 1.5%, supported by high carry and strong returns from US Treasuries. As the direction of policy rates in the US became clearer, US Treasury yields decreased more decisively, and investment grade credits also delivered attractive returns of 1.3%. July was a fairly active month for the new issue market with USD 16 billion printed, bringing year-to-date Asia ex Japan G3 currency bond issuance to USD 104 billion. In July, Financials were the largest issuers, while we also had a handful of high yield issuers.

The Fund return was negative in USD terms in July.

In the equity portfolio, a top detractor was a global supplier of hardware and software solutions for semiconductor and electronics products. Management guided the next quarter's growth to be lower than market expectations, mainly due to some weakness in auto and industrial end-markets. While this delays the expected recovery, nonetheless the company continues to grow its advanced packaging for semiconductors, and we also expect to see increased orders from a graphics processing units manufacturer's optical communication products.

Conversely, a top contributor was Makemytrip, India's largest online travel platform. Makemytrip sits in a strong position as travel demand in India is still at an early stage. Rising affluence is shifting consumption patterns towards travel and experiences, and there is limited competition among players in this space. We continue to believe that this business will deliver solid earnings growth given consumption tailwinds.

The asset allocation at the end of the month was 68.3% invested in Asian equities and 31.1% in Asian fixed income, with the remainder in cash and others.

Over the month, we initiated positions in a memory technology company in Taiwan, a gaming company in Korea, and selected opportunities in India. On the other hand, we exited our positions in a casino operator in Macau, a power equipment company in China, and a hydropower provider in India.

For the fixed income sleeve, we continued to focus on short-term carry by adding bonds with decent yield and short duration.

At the end of the month, we held 64 equities and 59 fixed income securities. The equity portfolio yield was 2.8% (based on forward 12-month estimates), and the average fixed income coupon was 5.3%, with an average credit rating of BB+ and average duration of 1.8 years.

Market Outlook

Notwithstanding the recent market shakeout, we continue to hold a constructive view on the regional market outlook. We see the pullback in technology stocks as a longer-term opportunity. In our view, the recent decline represents a healthy consolidation after the strong rally over the last year. In China, the outlook remains quite fragile. The weaker property sector continues to weigh on the broader macro environment, and recent policy initiatives have so far been insufficient to change the fundamental outlook. Across India and ASEAN, growth stories are overall less impacted by geopolitical risks, while the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook. Overall, from a regional standpoint, valuations are generally at reasonable levels.

On the fixed income side, given the numerous key central bank decisions and upcoming elections, we could see heightened volatility in markets over the near term. However, Asian credits are likely to be supported by resilient credit fundamentals and limited issuance. For Asian investment grade bonds, credit spreads are generally at the tighter end of the range, but the absolute yield remains attractive for carry. We continue like the outlook of the Asian high yield space despite strong outperformance for this year. Many sectors are at a favourable point in the credit cycle and credit spreads in general still have room to compress. That said, as certain sectors and corporates are navigating the downcycle, credit selection in those sectors is key to outperformance.

For Allianz Life Amanah Dana Ikhlas:

Collective Investment Schemes Fund Manager's Comment (For Maybank Malaysia Balanced-I Fund)

Market Review

Malaysian sovereign yield curve bull steepened for the month, with yields lower by 12-17bps across the curve with front end 3y fell the most by 17bps to 3.35%. Meanwhile, 10y MGS fell 14b to close the month at 3.72%. The cooling labour market in US as well as the inflation in recent data have boosted the chance for a total of 3 FFR cuts in July from 1-2 cuts in June. Domestically, advance 2QGDP came in 5.8%, beating consensus again, after rising 4.2% in 1Q24. Local inflation in June ticked up a tad to 2.0%, after a few months of below 2% prints. On the currency front, Ringgit grossly outperformed major and regional currencies. Against USD, MYR stronger by 2.06% MoM to 4.62. The UST curve bull-steepened as well, stronger by 23-36bps across the curve for the month. 2y and 10y UST yield settled the month at 4.36% and 4.11%. In the latest FOMC meeting, Fed Chair Powell hinted the FFR cut is in the table in upcoming FOMC meeting and no tolerance for further labor market softening. The reaction function has shifted from inflation to labour market.

Global equity markets saw mixed performance for the month with the technology/AI and quality names reversed their gains with the Nasdaq and Taiwan slipping 0.8% and 3.6% respectively while the S&P 500 gained 1.1%. US yields fell back on the back of lower-than-expected US CPI data and overall slower economic data as the US 10-year yields were down 37bps to 4.03%. The Fed signalled (July meeting) that a rate cut in September is highly likely. Elsewhere during the month, China's 3rd plenum and politburo, BOJ's rate hike and India's fiscal budget plan helped markets in varying degrees while the undershooting US CPI and higher-than-expected unemployment data help expectations of a first Fed cut in the coming September.

Closer to home, the KLCI gained 2.2% mom to close at 1,626 pts, bringing year-to-date to 11.7%. On the broader sectors, construction, property and finance were the top performers while technology, healthcare and industrials were decliners. In macroeconomic news, Malaysia's advance GDP was a surprise beat of 5.8% (consensus: +4.7%). It is estimated that the growth was driven by the services sector which grew 5.6% compared to 4.7% in 1Q. Further helped was from tourist arrivals and palm oil production, and the progress of mega projects (contribution from construction). Elsewhere, June CPI rose 0.2% mom, below expectations at 2.0% yoy (street's: +2.2%). Core CPI, which excludes volatile food and controlled goods, rose 0.1% mom, leaving core CPI at 2.0% yoy. June trade surplus rose to US$3.0bn (May: US$2.1bn) due to lower imports of capital goods even as exports fell.

Regionally markets were also higher with the top performers (local currency) on month-to-month basis coming from Singapore (+3.7%), followed by Philippines (+3.2%), Indonesia (+2.7%), and Thailand (+1.5%). Foreigners turned net buyers amounting to US$282 (RM1.3bn) after selling US$13m (RM61m) in June. On year-to-date basis, foreigners recorded a net buying of US$101m (RM0.5bn). Joining the inflow, were Indonesia and Philippines that amounted to US$411m and US$60m respectively. Elsewhere, Thailand reported net selling of US$47m.

In currencies, the USD fell as the DXY weakened by some 1.7% during the month, with the Baht, Ringgit and the Rupiah appreciated 2.9%, 2.7% and 0.7% respectively. However, the Pesos was weaker 0.3% to the USD. Commodities were broadly lower with industrial metals tumbling 7.2% and oil prices slid 6.6%. Safe-haven gold rose 5.2%.

Market Outlook

Sukuk Outlook & Strategy

We expect the recovery in Malaysia's fixed income market to continue into 2H2024, as central banks around the world have peaked on interest rate hikes and are signaling a shift towards more accommodative monetary policy. The end of the central bank hiking cycle would present a more positive dynamic to yield movements globally, positively impacting MGS yields to trend lower. Our view remains that BNM to maintain OPR at 3.00% in 2024 in the absence of demand pulled pressures, especially when Consumer Price Index (CPI) numbers are relatively benign at the back of subsidy rationalisation exercises.

In terms of growth prospects, Malaysia's GDP growth is projected to expand by 4–5% in 2024. This justifies a continuation of the current monetary policy stance. Having said that, the next move in OPR, if any, is likely to be a cut rather than a hike. In addition, govvies duration remains an important hedge in MYR portfolio allocation as global rates dynamics may unexpectedly descend from late-cycle to end-cycle pricing. We believe that government bond yields are likely to decline in 2024, allowing for advantageous trading positioning.

For Allianz Life Amanah Dana Ikhlas:

Collective Investment Schemes Fund Manager's Comment (For Maybank Malaysia Balanced-I Fund)

Strategy wise, we will continue to trade opportunistically and realise profits, reinvesting into longer-duration and higher yield accretive bonds while also considering new primary issuances with higher yields to increase returns. We will maintain our Neutral to long-duration stance as we find current bond yields to be attractive. We continue to Overweight corporate bonds over sovereign bonds to anchor the Fund's income, as corporate bonds are less volatile and provide higher yields to buffer against potential mark-to-market losses. We prefer strong AA-rated and A-rated papers for yield pickup, while our holdings in AAAs and GIIs will be primed for trading and ROI (return on investment) purposes. We will continue to trade opportunistically to realise profits.

Equity Outlook & Strategy

Global equity markets saw violent movements over the past few weeks that led to markets tumbling lower with growth/quality names saw the brunt of the correction. We saw tech heavy giants such as Nvidia and TSMC take a nosedive as markets took profit while also rising concerns on the hype of AI spending etc.

While we do expect volatility to continue given the geopolitical concerns as well as the upcoming US elections with policies tariffs will be questioned, we think that fundamentals remain resilient, especially in the context of the Malaysia market. We have taken the opportunity to reposition or buy back stocks that were oversold, albeit not aggressively.

We maintain diversified with balance exposure in cyclical and defensive segments of the market, and crucially we are focus on thematic names such as: 1) Emphasizing NETR-related segments such as water, solar, and energy-efficiencies businesses perhaps expanding into tech software and hardware, 2) Allocation of additional government spending for Penang & East Malaysia (Sabah & Sarawak) from the 2024 Budget, likely to drive pent-up economic activities in these states; 3) new growth pillars such as datacenters/hyperscale supply chain e.g. land owners, contractors, network/cable providers, energy providers, data security etc.; and 4) Lastly, fostering a closer Malaysia-Singapore relationship which will directly benefit Johor State e.g. ART, HSR.

For Allianz Life All China Equity Fund and Allianz Life All China Equity Fund (USD):

Target Fund Manager's Comment (For Allianz All China Equity)

Market Review

The Fund lagged the benchmark in July. Stock selection in Financials was the key detractor, in particular being underweight or not holding some larger banks and insurance companies, which performed well during the month.

At a single stock level, a key detractor last month was PetroChina, a major oil and gas producer. The stock saw some profit taking after resilient performance in H1, with lower energy prices being the catalyst. With stronger free cash flow, we see the potential for further dividend increases which, along with the close to 5% dividend yield, should provide support to the share price.

Conversely, a leading contributor was a clinical-stage biotech company with a focus on oncology. The share price has rebounded following positive results from a key clinical trial. We believe the company has a strong product pipeline and as it enters into its commercialisation phase, this should help de-risk the growth outlook.

Market Outlook

The last month has been a period of consolidation for China equities. China A-shares have generally been less volatile than offshore equities, with signs that the "national team" were again providing some stability through buying onshore exchange-traded funds (ETFs).

Much of the focus recently has been on China's so-called "Third Plenum", a five-yearly gathering of top policymakers designed to set the high-level economic agenda for the coming years. While there was, as usual, a substantial official communiqué – the English translation runs to more than 17,000 words – very broadly, the main thrust of government strategy remains unchanged.

Overall, it can be characterised as looking to shift resources, capital and talent from out-of-favour sectors such as Real Estate towards future growth areas, mostly related to Technology and Manufacturing. Indeed, most of the document explains how the government will do more to achieve its goal of becoming a "science and technology superpower" by 2035.

One key challenge this shift presents is on timing. What has been evident for the last two years is that the growth of favoured sectors has not been large enough to fully offset the drag from property, leaving the economy as a whole with significant slack.

This was, to an extent, recognised at the Third Plenum. For example, there were notable pledges to "unswervingly achieve the full-year growth target", "proactively expand domestic demand", and "enhance the consistency among various macro policies".

The backdrop is that China recently announced Q2 gross domestic product (GDP) of 4.7%. This was a significant deceleration from the Q1 figure of 5.3%. China has only failed to meet or surpass its official GDP target once in the last 15 years – and that was in 2022 as a result of COVID.

Given the ongoing weakness of the property sector, the economy will very likely need a further injection of government policy support to rebuild momentum if this year's growth target of "around 5%" is to be met. Accordingly, we expect to see further announcements of both fiscal and monetary stimulus.

There have not been significant changes to portfolio positioning over the last month. We selectively trimmed exposure to artificial intelligence (AI) proxies and exited an online financial services stock which had performed well. Overall, we continue to focus on companies with more resilient business models in the challenging macro environment.

At month end, the portfolio has around 40% in China A-shares. Sector weightings continue to be relatively close to the benchmark's allocations. The largest sector overweight is Information Technology (+2.5%), while the largest underweight is Financials (-3.8%).

For Allianz Life Global Artificial Intelligence Fund and Allianz Life Global Artificial Intelligence Fund (USD):

Target Fund Manager's Comment (For Allianz Global Artificial Intelligence)

Market Review

For global equities, the big story in July was the strong rotation away from technology companies in favour of value stocks. Artificial intelligence-related (AI-related) and semiconductor stocks were particularly badly hit. There were various factors behind the technology sell-off. US inflation was slower than expected in June, boosting hopes that US rates would soon be cut; Tesla and a multinational technology conglomerate delivered disappointing earnings; Donald Trump said Taiwan, which is at the core of the global chipmaking industry, should pay for its own defence; and the Biden administration reportedly considered export curbs on semiconductor equipment companies.

As expected, central banks in the US and eurozone kept rates on hold. However, expectations of a September cut grew after US Federal Reserve (Fed) Chair Jerome Powell signalled that rates could be cut in September if inflation continues to moderate. European Central Bank (ECB) President Christine Lagarde said the decision on a possible rate cut in September was "wide open", but downplayed fears of sticky price pressures. In contrast, the Bank of Japan (BoJ) tightened monetary policy, raising rates to 0.25% and setting out plans to halve its monthly bond purchases.

Commodity prices were hit by signs of slowing growth, particularly in China. Oil prices fell, with Brent crude briefly trading below USD 80 per barrel for the first time since early June. Copper slumped to around USD 9,100 a ton, compared with a high above USD 11,000 in May. In contrast, gold prices inched higher over the month.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by the Real Estate and Utilities sectors, which were helped by lower rates. Conversely, the Communication Services and Information Technology sectors pulled back on a rotation that favoured value-oriented stocks.

During the period, the Fund underperformed on a net-of-fees basis versus the custom benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, Information Technology and Industrials were the largest relative detractors. The Consumer Discretionary and Health Care sectors were offsetting. AI infrastructure underperformed the custom benchmark because of policy uncertainty around additional restrictions to China on advanced semiconductor technologies. AI applications lagged the custom benchmark mostly due to stock-specific headwinds. AI-enabled industries outperformed the benchmark from strong performance among our Consumer Discretionary names.

Contributors

Our position in electric vehicle (EV) producer Tesla Inc. was the top contributor over the period. The stock rallied strongly after reporting better-than-expected Q2 delivery numbers, although mixed earnings results caused a pullback later in the period. Looking forward, Tesla has some of the most ambitious innovation agendas of most any public company, spanning EV, energy transition, AI and advanced robotics. We believe the company is making progress on each of these agendas in ways that can unlock significant shareholder value in the future.

Our underweight position in a multinational technology company was another contributor for the period. The company had an average 11.2% weight in the benchmark, while the Fund had an average weight of 3.3%. Although the company reported solid earnings results, shares underperformed after providing guidance on their intelligent cloud business that missed investors' lofty expectations.

Detractors

Our underweight position in a cell phone, computer and communications equipment giant was a relative detractor due to its significant weighting in the benchmark. The company had an average weight of 11.6% in the benchmark, while the Fund had an average weight of 1.8%. Shares outperformed on optimism of a potential device upgrade cycle given the upcoming introduction of the company's new AI features.

Another detractor was a provider of technology hardware and services. Shares underperformed alongside the AI infrastructure and semiconductor space. The company remains well positioned to leverage AI across its business to drive operational efficiencies, gain competitive advantages and offer AI-optimised products to customers that include AI server racks and AI edge devices. Its growing AI business should yield an improving profit profile and drive higher earnings over time.

For Allianz Life Global Artificial Intelligence Fund and Allianz Life Global Artificial Intelligence Fund (USD):

Target Fund Manager's Comment (For Allianz Global Artificial Intelligence)

New Buys and Sells

We initiated a position in a global leader in infrastructure technologies for data centres. The company has positioned itself as a key player in supporting the AI revolution, developing specialised solutions to meet the high-density computing and cooling requirements of AI workloads.

We also purchased a company pioneering in cloud-based solutions to help manage customer interactions, track sales and analyse data. The company leverages AI extensively through its platform, which integrates AI capabilities across its products.

As for complete sells, we sold our position in a provider of software products for marketing, sales and customer service as risk-reward appeared unfavourable relative to other opportunities. We also exited our stub position in a medical device company, as it recently lowered guidance and we could not get comfortable that the worst was over yet.

Market Outlook

We continue to have a constructive mid- to long-term outlook for equity markets given the earnings growth potential from AI innovation and adoption over the coming years. However, we expect higher market volatility in the near term as markets digest some additional risks.

Investors are now fearful of a deeper US economic slowdown and late timing of interest rate cuts, given recent softer employment numbers, economic indicators and consumer spending trends. A closer race in the upcoming US elections is also adding to volatility, especially around geopolitics and global supply chains. An unwind of the Japanese yen carry trade has also introduced additional uncertainty. However, overall corporate earnings appear relatively resilient, as most companies reported better-than-expected earnings and revenues for Q2.

The equity market is now seeing a broad-based pullback following a strong rally in H1. Although the volatility may continue as investors look to reduce risk, this is a normal and healthy event in bull markets, as long as fundamental factors remain solid. Amid the volatility, we are opportunistically looking to upgrade select names and add to our highest conviction ideas to position the portfolio better when markets rebound.

Since inflation is now moving towards the Fed's target of 2%, the central bank is now in a more comfortable spot to normalise monetary conditions. Moderating employment conditions is also conducive for a shift to a dovish stance since the central bank has a dual mandate of maintaining price stability and full employment. Given that monetary conditions have been tight for some time, there are many tools at central banks' disposal to ease conditions. From the most recent Federal Open Market Committee (FOMC) meeting in July, Fed Chair Jerome Powell indicated a rate cut in September is probable.

An easier monetary policy backdrop should be constructive for the economy to regain its footing, but it may take time for the effects to take hold. Although conditions may be choppy ahead, we believe spending in AI infrastructure remains a top priority, more generative AI applications should move from pilot to deployment over the coming years, and more companies in AI-enabled industries are rapidly innovating with AI. Fundamental research and company selection will be key for identifying these opportunities. Further, lower rates should translate to better demand across customer segments, easier access to capital and increased investment in generative AI. There are likely bumps along the way, but we remain optimistic in the years ahead.

AI's impact on every industry is starting to take hold, and we see a growing opportunity set beyond just the Magnificent 7* and the Technology sector. ChatGPT and early use cases of generative AI have proven that these breakthroughs can greatly improve efficiency and drive a new wave of automation. We are likely at the dawn of a long-term AI investment cycle that will have significant growth implications across the value chain and in every sector of the economy.

AI infrastructure: The developments around generative AI and large language models further demonstrate that the demand backdrop for AI infrastructure companies should remain strong given the computing requirements for training complex AI models and subsequent inference needed for edge intelligence. More companies are now motivated to build out their own domain-specific generative AI capabilities through continuous training and refinement. As these launch for broad-based use, demand should also expand to networking and storage infrastructure to support the explosive growth in new AI workloads. Investment also appears to be expanding to smaller cloud providers, governments and corporations in more countries around the world, which should be supportive of the ongoing build-out of critical AI infrastructure in the coming years.

For Allianz Life Global Artificial Intelligence Fund and Allianz Life Global Artificial Intelligence Fund (USD):

Target Fund Manager's Comment (For Allianz Global Artificial Intelligence)

AI applications: A new wave of AI applications is emerging that infuse generative AI capabilities into their software to drive greater value and create more monetisation opportunities. Today's general purpose AI models were trained on the internet, and they cannot respond to questions based on proprietary knowledge or data housed privately within an organisation. Many internet and software companies have a wealth of proprietary data sets and workflows to train AI models that can result in a new era of more intelligent applications and systems, opening up many new opportunities for monetisation and value.

AI-enabled industries: AI is helping to reinvent digital transformation, introducing new generative AI possibilities that can significantly boost productivity and reduce costs. As more processes go digital, the opportunity for AI to react to new information or unexpected changes can revolutionise every industry. Many companies in AI-enabled industries are increasing investments in generative AI to train one's own industry-specific model on its proprietary content or knowledge to compete better and innovate in the future. We are witnessing an increasing number of companies across Automotive, Consumer, Health Care and Finance sectors leveraging proprietary datasets that could yield differentiated AI models and applications that are difficult to replicate and can handle tasks better than general purpose AI. We believe this is just the tip of the iceberg as companies become more comfortable with AI's potential to drive greater efficiencies and automation across every part of their business.

Overall, we continue to believe we are at the very early stages of massive disruptive change brought about by advances in – and the deployment of – AI. We believe these changes will drive meaningful growth for companies that can take advantage and drive disruption within their respective industries. Our view is that the compounding effect from AI disruption will create massive opportunities for innovative companies across every sector. Stockpicking will be essential to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change. As we have done since the launch of the Fund, we remain focused on identifying the companies that leverage AI to deliver the most shareholder value creation over the long term. Compared to the technology innovation ahead of us, humanity is still on day one of our journey through the AI revolution.

For Allianz Life Oriental Income Fund and Allianz Life Oriental Income Fund (USD):

Target Fund Manager's Comment (For Allianz Oriental Income)

Market Review

Equity markets in Asia Pacific were mixed in July. Japan was a bright spot with the yen recovery leading to positive returns for international investors. Economic data was mixed. The au Jibun Bank Japan composite purchasing managers' index (PMI) climbed to 52.6 in July, from a 7-month low of 49.7 in June. However, industrial production remains weak, having fallen for 10 of the past 12 months. Despite this, the Bank of Japan (BoJ) raised interest rates to 0.25% and announced it would halve monthly bond purchases.

Elsewhere, the tech-heavy markets of Taiwan and South Korea sold off, and China stocks retreated to 5-month lows, undermined by ongoing concerns over the trajectory of the domestic economy. Growth data was weaker than expected in Q2, while inflation remained close to deflationary levels. India stocks continued their strong year-to-date performance, buoyed by domestic liquidity and despite the budget announcement of a hike in the capital gains tax. ASEAN markets generally rallied, supported by the weaker US dollar. Finally, Australia equities delivered solid gains, benefitting from a softer inflation print that allayed fears of an interest rate hike in August.

The Fund underperformed the benchmark, MSCI AC Asia Pacific Index. Stock selection was the primary return driver, with Information Technology being a key source of weakness in the month, offsetting better picks in other sectors. At a market level, stock selection effects in Taiwan and Japan detracted.

At a single stock level, a top detractor was Aspeed Technology, a baseboard management controller (BMC) supplier. Aspeed plays an important role in the global artificial intelligence (AI) supply chain with its technology used to remotely monitor the physical state of a server. We think this area is set to be a long-term beneficiary of growing demand for AI chips and servers, especially in the areas of cloud computing and data centres. However, recent market volatility and the broad sell-off in AI-related stocks has made Aspeed vulnerable.

Conversely, a top contributor was Mitsubishi Heavy Industries, a heavy-equipment maker with a focus on power systems, primarily for gas, thermal, and nuclear energy. The company also has verticals such as aerospace, engineering, and infrastructure and is making strides in new energy and sustainability initiatives. Its share price has benefitted from energy transition plays, especially as Japan restarts its nuclear efforts.

The overall positioning of the portfolio remains little changed over the month. We rotated into several new names in Japan, including a manufacturer of motors for auto and industrial companies, along with a key player in the multilayer ceramic capacitor (MLCC) market. Accordingly, we maintain a high weighting in Japan, which represents around 43% of the portfolio.

Taiwan also remains high conviction and at month-end was 22% of the portfolio. Despite an environment of volatility over the last few months, we maintain our exposure to Technology stocks, especially in the semiconductor supply chain. Underlying this, we believe the AI story is a structural market driver that has the potential to deliver productivity gains across nearly all sectors of the economy. We remain broadly underweight Hong Kong/China, along with India and Australia.

At the sector level, Financials remains our largest underweight, along with the Consumer Discretionary area.

Market Outlook

Notwithstanding the recent market shake out, we have a constructive longer-term view on the regional outlook. While there has been some elevated market volatility in Japan in the early days of August, as a result of the sharp yen reversal and the resultant unwinding of the global carry trade, nonetheless we believe that structural drivers remain in place for a more positive outlook. In particular, the combination of higher inflation as well as ongoing governance reforms should contribute both to improved earnings, as well as a greater focus on shareholder value. Despite the near-term rally in the yen, we continue to see the currency as fundamentally undervalued.

Elsewhere in the region, we also see the pullback in Technology stocks as a longer-term opportunity. In our view, the recent decline represents a healthy consolidation after the strong rally over the last year. In China, the outlook remains quite fragile. The weaker property sector continues to weigh on the broader macro environment, and recent policy initiatives have so far been insufficient to change the fundamental outlook. Overall, from a regional standpoint, valuations are generally at reasonable levels.

For Allianz Life Total Return Asian Equity Fund:

Target Fund Manager's Comment (For Allianz Total Return Asian Equity)

Market Review

Equity markets in Asia were mixed in July. The tech-heavy markets of Taiwan and South Korea sold off, while India stocks continued their strong year-to-date performance, buoyed by domestic liquidity and despite the budget announcement of a hike in the capital gains tax. ASEAN markets generally rallied, supported by the weaker US dollar.

The last month has been a period of consolidation for China equities. China A-shares have generally been less volatile than offshore equities, with signs that the "national team" were again providing some stability through buying onshore exchange-traded funds (ETFs). Much of the focus recently has been on China's so-called "Third Plenum", a 5-yearly gathering of top policymakers designed to set the high-level economic agenda for the coming years. While there was a substantial official communiqué, very broadly the main thrust of government strategy remains unchanged. China also recently announced the Q2 gross domestic product (GDP) of 4.7%. This was a significant deceleration from the Q1 figure of 5.3%. However, China has only failed to meet or surpass its official GDP target once in the last 15 years – and that was in 2022 as a result of COVID-19.

The Fund underperformed the benchmark in July. Stock selection in the Information Technology sector was a key detractor, along with weakness in the Health Care sector.

At a single stock level, a key detractor was a leading private oncology-focused hospital group in China. The stock has grown through acquisition to expand its network. It is differentiated from public hospitals in the service provided to patients and also in its transparent and profit-driven compensation scheme, appreciated by doctors. However, the share price has been volatile amidst unconfirmed noise in the market around mergers and acquisitions (M&A) activity.

In contrast, Power Finance Corporation (PFC) from the India market was a top contributor. As the name suggests, PFC is a non-bank financial company dedicated to the funding of private and public projects for power generation, transmission, and distribution. Backed by the Indian government, PFC benefits from low wholesale funding costs, and its management has demonstrated prudent asset-liability matching with many long duration projects but few long-term loans. As India urbanises and electrifies, the power capacity growth story should remain a key market thematic, in our view.

In H1, we repositioned the portfolio somewhat by trimming select positions to fund our conviction ideas in Taiwan, South Korea, and India. During the month of July, there was modest switching among names in the China and South Korea markets, and we initiated a position in the largest mobile operator in Indonesia given its attractive valuation versus its growth potential from network expansion and higher margins. Conversely, we exited a large commercial bank in Thailand, where despite being a market leader, macro conditions remain under stress, and loan growth has been lacklustre. In aggregate, the portfolio is overweight in ASEAN markets.

Despite the recent volatility, we are focusing on artificial intelligence (AI) beneficiaries with strong earnings visibility, reasonable valuations, and attractive dividend yields like Taiwan server names and South Korea memory makers. We maintain an overweight position in India, where corporate earnings momentum remains strong. Conversely, we are broadly underweight Hong Kong/China, as macro conditions are still challenging, and recovery is heavily reliant on stronger policy support.

At a sector level, Real Estate, Financials, and Industrials are the primary overweight positions, while Consumer Discretionary, Consumer Staples, and Communication Services are the main underweights. Top names in the portfolio at month-end include Taiwan Semiconductor Manufacturing Company, Samsung Electronics, and Tencent.

Market Outlook

Notwithstanding the recent market shakeout, we have a constructive longer-term view on the regional outlook. We see the pullback in Technology stocks as an opportunity. In our view, the recent decline represents a healthy consolidation after the strong rally over the last year, especially in the Taiwan market. In China, the outlook remains fragile. The weaker property sector continues to weigh on the broader macro environment, and recent policy initiatives have so far been insufficient to change the fundamental outlook.

Within the region, our preference leans more towards South Asia, where we are finding a number of attractively valued structural growth stories that are less impacted by geopolitical risks. In particular, the more favourable demographics, rising consumption power, and reordering of supply chains associated with "China +1" are boosting the growth outlook across ASEAN markets and India. Overall, from a regional standpoint, valuations generally remain at reasonable levels.

For Allianz Life Global Income Fund:

Target Fund Manager's Comment (For Allianz Global Income)

Market Review

Global equity, convertible, and fixed income markets finished higher in July despite a tangible increase in volatility. The Q2 earnings season got off to a solid start with most companies exceeding top- and bottom-line estimates and year-over-year earnings growth approaching double digits. Cost controls, operating efficiencies, increasing capital expenditures and steady consumption factored into better-than-expected results. Corporate management outlooks varied, however. Economic reports were also mixed. Q2 gross domestic product (GDP) growth, retail sales, and monthly payrolls surpassed forecasts, and inflation gauges continued to ease. Conversely, manufacturing remained in contractionary territory, home sales missed estimates, and weekly jobless claims moved higher. Against this backdrop, the US Federal Reserve (Fed) kept interest rates unchanged at the July Federal Open Market Committee (FOMC) meeting, but Chair Jerome Powell noted if economic data continues on its current path, "a reduction in our policy rate could be on the table as soon as the next meeting in September".

In this environment, global equity markets, as measured by the MSCI World Index, returned +1.76%.* Non-US equities outperformed their US counterparts, and value stocks outperformed growth stocks. Global convertible securities and global high yield bonds finished higher and new issue volumes were steady. Global fixed income, as measured by the Bloomberg Global Aggregate Index, returned +2.76% with non-US exposure outperforming US.^

The portfolio was positively impacted by strength across global risk assets.

Top contributors in the period included Apple and a major electric vehicle manufacturer, both of which rallied after providing better-than-expected read-throughs on production and demand. Vertex Pharmaceuticals gained on optimism around its expanding pipeline, an industrial conglomerate outperformed across all business segments and appointed a well-received new CEO, and a software provider beat estimates as its shift towards a subscription model gained momentum. Another pharmaceutical company, as well as an issue in technology hardware, outperformed after each reported earnings growth that exceeded expectations. Other top contributors included holdings in debt services and software, among others.

Top detractors included technology companies capitalising on secular trends around artificial intelligence (AI) and cloud migration, including Microsoft, Amazon, and a large internet services provider, as well as a number of semiconductor companies led by Nvidia. Several medical device manufacturers sold off on declining procedure volumes and salesforce efficiency losses, respectively, and a design software holding was lower after offering a weaker-than-expected revenue outlook for its Chinese end market.

Exposure increased the most in Financials, Technology, and Real Estate, and decreased in Consumer Discretionary, Communication Services, and Health Care. Covered call option positioning modestly decreased month-over-month.

Market Outlook

2023's economic momentum has carried over into 2024. Economic tailwinds include a healthy labour market, steady consumption, government spending, elevated household net worth, an end to the rate hike cycle, and accelerating earnings. Economic headwinds include persistent inflation, restrictive monetary policy, prolonged yield curve inversion, less personal savings, and US/international political risks, among others.

Global equity valuations reside near long-term averages. Visibility around 2024 and 2025 earnings, US dollar and Treasury market stabilisation, and an end to the rate hike cycle could be positive developments for stocks. Any equity market volatility will present opportunities for active managers to take advantage of better prices in attractive investments.

Global convertible securities should continue to provide benefits to investors, including an attractive asymmetric return profile and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading into 2024. Many securities offer attractive current yields and exhibit defensive characteristics given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside protection if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher debt financing costs should draw issuers to the convertible market for coupon savings. As a result, new issuance is expected to increase materially year-over-year.

The global high yield market, yielding nearly 8%**, offers the potential for equity-like returns but with less volatility. Credit fundamentals are stable, near-term refinancing obligations remain low, and management teams continue to prioritise debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to mitigate downside volatility.

For Allianz Life Global Income Fund:

Target Fund Manager's Comment (For Allianz Global Income)

Global investment grade corporate bond's risk/reward opportunity is also compelling. Rising interest rates are a risk for high grade corporates, however the investment opportunity remains attractive given higher coupons and yields, and a positive fundamental outlook with limited default risk. The asset class trades at a discount to par, offering compelling total return potential and downside cushioning.

A covered call options strategy can be utilised to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualised yields.

Collectively, these asset classes can provide a steady source of income and a compelling "participate-and-protect" return profile.

The Fund is a client solution designed to provide high monthly income, the potential for capital appreciation, and less volatility than an equity-only fund.

All data are sourced from Allianz Global Investors dated 31 July 2024 unless otherwise stated.
* Source: MSCI, as at 31 July 2024
^ Source: Bloomberg, as at 31 July 2024
** Source: ICE Data Services, as at 31 July 2024

For Allianz Life Thematica Fund and Allianz Life Thematica Fund (USD):

Target Fund Manager's Comment (For Allianz Thematica)

Market Review

For global equities, the big story in July was the strong rotation away from technology companies in favour of value stocks. Artificial intelligence-related (AI-related) and semiconductor stocks were particularly badly hit. There were various factors behind the technology sell-off. US inflation was slower than expected in June, boosting hopes that US rates would soon be cut – an outcome that could weigh on mega-cap companies' cash piles; an electric vehicle (EV) manufacturer and a technology conglomerate delivered disappointing earnings; Donald Trump said Taiwan, which is at the core of the global chipmaking industry, should pay for its own defence; and the Biden administration threatened severe export curbs if non-US companies continued to provide China with access to advanced chips.

As expected, central banks in the US and eurozone kept rates on hold. However, expectations of a September cut grew after the US Federal Reserve (Fed) Chair Jerome Powell signalled that rates could be cut in September if inflation continues to moderate. European Central Bank (ECB) President Christine Lagarde said the decision on a possible rate cut in September was "wide open", but downplayed fears of sticky price pressures. In contrast, the Bank of Japan (BoJ) tightened monetary policy, raising rates to 0.25% and setting out plans to halve its monthly bond purchases.

The Japanese yen surged against the US dollar, boosted by speculation that the BoJ may raise interest rates at its meeting at the end of July. The British pound also strengthened against the euro and the dollar, buoyed by growing hopes of political stability following a landslide victory for the Labour Party in the UK general election. Meanwhile, the US dollar weakened against the euro amid growing hopes that the Fed would start to cut rates in September. Presidential candidate Donald Trump also signalled he might seek to weaken the US currency if he wins November's election.

Commodity prices were hit by signs of slowing growth, particularly in China. Oil prices fell, with Brent crude briefly trading below USD 80 a barrel for the first time since early June. Copper slumped to around USD 9,100 a ton, compared with a high above USD 11,000 in May.

Market Outlook

The Fund lagged 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 did well. Over the course of the month, the Infrastructure theme contributed most to overall performance, while themes like Generation Wellbeing and Intelligent Machines created an overall burden.

From a sector perspective, the overweight to Utilities and Industrials helped, as the underweight to Financials has been a drag. Stock selection among the themes has been a positive contributor to overall portfolio performance. This is mainly due to the underweight to index-heavyweights like a graphics processing units manufacturer and a multinational technology company. Additionally, a home solar panel and battery storage company (Next Generation Energy) and Lonza (Health Tech) reported decent numbers over the last month which resulted in a favourable share price reaction. On the other hand, index-heavyweights like the aforementioned EV manufacturer and a cell phone, computer and communications equipment giant which showed a decent performance have been a burden for the portfolio. The largest detractor to overall performance has been a cyber security company (Digital Life) which suffered after a failure of a global update process caused severe harm in the global economy and resulted in cancelled flights and production issues.

After the recent shake-out on global equity markets, we see several turning points for infrastructure-related themes. We are seeing a stabilisation across utilities, as well as electric vehicle (EV) and renewables within the Next Generation Energy 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.

For Allianz Life Elite Income Fund and Allianz Life Elite Income Fund (USD):

Target Fund Manager's Comment (For PIMCO GIS Income Fund (Accumulation))

Market Review

Risk assets moved higher in July, as markets digested second quarter earnings results and softer-than-expected economic data. In the U.S., data released in August showed that labour markets added 114k jobs in July, well below a downwardly revised 179k in June, and forecasts of 175k. On the inflation-front, headline CPI rose by 3.0% y/y in June, below the consensus forecast of 3.3% and the May reading of 3.3%. In the Euro area, the inflation rate came in at 2.5% y/y in June, in line with expectations. Headline inflation in the UK remained on target at 2% for the second consecutive month in June, although forecasts were pointing to a slight drop to 1.9%, and core inflation remained at 3.5%.

Government bond yields generally fell across developed markets, with U.S. Treasury yields declining in response to softer-than-expected economic data. Elsewhere, U.K. 10-year gilts moved lower, and the Bank of England cut the policy rate by 25bps to 5% on the first of August. In the front-end, U.S. 2-year Treasury, U.K. 2-year gilts, and German 2-year Bund yields rallied 50bps, 39bps, and 30bps, respectively. Further out the curve, U.S. 10-year Treasury, U.K. 10-year gilt, and German 10-yr Bundyields rallied 37bps, 20bps, and 20bps, respectively.

July was a volatile month for risk assets, yet the S&P 500 edged 1.2% higher amid softer inflation and labour market data that heightened expectations of rate cuts. In the UK, the FTSE All-Share delivered strong returns of 3.1% on the back of stronger than expected economic growth for the second quarter. Japanese equity markets moved lower pressured by a strengthening yen coupled with an interest rate hike from the Bank of Japan, with the Nikkei down 1.2%. In credit, U.S. investment grade spreads were flat and Euro investment grade spreads tightened by 8bps, whilst U.S. and Euro high yield spreads widened by 5bp and 7bps, respectively.

During the month, the PIMCO GIS Income Fund returned 2.17% after fees (in USD, for the Institutional class, Accumulation share), bringing YTD '24 performance to 4.14%.

For Allianz Life World Healthscience Fund:

Target Fund Manager's Comment (For BGF World Healthscience Fund)

Market Review and Outlook

Market:

• Global equity markets rose in July, with the MSCI World Index returning +1.8% amidst significant volatility as markets absorbed various economic and political events. A sharp rotation in market dynamics saw equity returns broaden, leading the small-cap Russell 2000 Index to return +10.2% over the month.

• The market movement was driven by a lower-than-expected US Consumer Price Index (CPI) reading that put the 12-month rate at 3.0%, down from 3.3% in May. Along with weaker US labour market data, the results supported expectations of an interest rate cut by the Federal Reserve (Fed). Investors now anticipate the first Fed rate cut to occur in September and are currently forecasting three rate cuts in the US for the rest of the year.

• In the US, the S&P 500 index rose by 1.2%. Companies reported strong Q2 2024 earnings, with more than half of the index constituents having reported, and over two-thirds surpassing analysts' expectations. Investment in artificial intelligence (AI) and the pace of AI monetization were key areas of focus, putting pressure on large-cap technology stocks. Signals of easing inflationary pressures led to a sharp rotation in US index performance, resulting in a surge in small-cap stocks in July.

• In Europe, headline inflation dropped to 2.5% year-over-year, prompting the European Central Bank (ECB) to keep interest rates unchanged as inflation remains above the 2.0% target. In the UK, the general election ended 14 years of Conservative governance, with the Labour Party securing a majority. July inflation held steady at 2.0%, in line with the Bank of England's (BoE) target.

• In Asia, the Nikkei 225 index in Japan hit a record high in July, driven by AI-related companies. The Japanese yen reached four-decade lows against the dollar in July, triggering the Bank of Japan's (BoJ) decision to continue to normalise monetary policy by raising its policy rate by 15 basis points to 0.25%.

• From a sector perspective, Real Estate and Utilities were the strongest performing sectors while Communication Services and Information Technology declined.

• Regionally, Japan and the UK had the highest returns while emerging markets declined.

Stocks:

• An underweight position in Eli Lilly was the top contributor to performance over the period. The pharmaceutical stock declined following positive clinical trial results from competitor GLP-1 treatments. Additionally, the company was impacted by a broader rotation into small cap stocks as market participants searched for growth rebound opportunities.

• An overweight position in Argenx was another top contributor to returns as the Dutch biotechnology company reported strong sales growth of its flagship treatment, Vyvgart.

• An underweight position in Boston Scientific was the top detractor from performance as the medical device company declined on a broader market rotation away from large cap companies.

• An overweight position in Novo Nordisk was another detractor from active returns. Successful clinical trial outcomes from competing GLP-1 treatments caused a decline in the pharmaceutical stock. The company was further affected by a broader style exposure shift from market participants.

Changes:

• During the month, we increased our position in a US healthcare provider, expecting improved earnings visibility as medical utilization rates stabilize. Additionally, we added exposure to a pharmaceutical company with a potential GLP-1 product pipeline. Elsewhere, we sourced capital from select pharmaceutical companies lacking near-term catalysts.

For Allianz Life World Healthscience Fund:

Target Fund Manager's Comment (For BGF World Healthscience Fund)

Key Positioning & Outlook:

• We continue to navigate an uncertain political and economic environment. We seek opportunities in segments of the health care sector with attractive valuations, stable growth, and promising product pipelines over the medium-to-long term. We also consider new innovations and technological developments for selective growth opportunities in the biotechnology, pharmaceuticals, and medical devices space.

• From a policy perspective, we believe the environment should be benign in the near-term. With the passage of drug reforms included in the Inflation Reduction Act, there is now more certainty following years of speculation. President Biden announced ten drugs his administration will target for price negotiations as part of the prescription drug provisions included in the Act. The administration aims to leverage Medicare's market power to decrease prices for top-selling drugs treating blood clots, diabetes, cancer, and arthritis. Final prices for this first round of selected drugs will be announced by September 1, 2024, to take effect in 2026.

• We expect continued market volatility and seek attractive opportunities in stable, strong cash flow generating companies across all health care industries. Over the long-term, secular drivers for the sector remain in place; firstly, aging demographics in both developed and developing countries and secondly, innovation in medical technology. The combination of these secular trends, with favorable valuation creates an attractive long-term investment opportunity.

For Allianz Life ESG-Integrated Multi-Asset Fund:

Target Fund Manager's Comment (For BGF ESG Multi-Asset Fund)

Market Review and Outlook

Market Review

• July was a tale of two halves, with the first half of the month being positive for both equities and bonds. US equities hit new highs and bonds rallied after the US inflation report showed a significant softening in inflation leading to growing expectations that the Fed may cut rates in September. This helped government bond returns, though also catalysed a strong rotation within equity markets from growth into value. Also driving the rotation were concerns around equity market valuations and the potential for upcoming earnings to disappoint.

• Developed market equities delivered positive performance despite the underperformance of mega cap technology names as earnings failed to deliver on high expectations and investors increasingly questioning the return on capital from the huge spend on Artificial Intelligence. However, over two thirds of companies did beat earnings estimates underlining the resilience of the US economy and leading to a rally in small cap names.

• European equities underperformed as economic growth slowed coupled with uncertainty around the French election. Japanese equities delivered a negative return driven in part by the strengthening yen. Chinese equities were also negative as stimulus measures disappointed and as the economy continues to face challenges stemming from the real estate sector.

• Fixed income assets performed well over the month with yields generally decreasing across the board as investors priced in more rate cuts. Yields on US Treasury, German Bund and UK Gilts all fell over the period. This also led to investment grade credit outperforming high yield.

• Elsewhere, commodity prices also declined, led by the underperformance of energy, industrial metals and agricultural goods, whereas Gold continued to act as a diversifier in the face of ongoing geopolitical risks. Foreign exchange markets also saw stark moves with the US dollar weakening as interest rate expectations were revised lower and conversely the Japanese Yen strengthened significantly as the Bank of Japan hiked rates.

Performance

• Against this backdrop, the ESG Multi-Asset Fund delivered a positive return. From an asset class perspective, the exposure to Listed Alternatives was the key driver of returns. Also contributing positively was our Non-Government Bond, Developed Market Equities, Government Bond and Cash & FX exposure. Marginal detractors were Commodities and Emerging Market Equities.

• Within the Developed Market Equity allocation we saw significant dispersion of performance from underlying strategies. Notably, the Systematic Active Equity Portfolio and the Developed Market Brighter Futures portfolio provided positive returns over the month, whereas the Global Unconstrained Equity portfolio, given its low-turnover focus on companies that can provide strong earnings growth over the long-term, detracted in absolute terms amidst the rotation out of growth into value stocks. Against this backdrop, technology focused Thematic Equity baskets also detracted, this included the megacap tech completion basket. Contrarily, sustainability oriented exposures, such as the Green Technology basket benefitted from the flow into more attractively valued stocks and the prospect of lower interest rates.

• Fixed Income allocations to both Government and Non-Government Bonds were additive over the month. Investment Grade Credit was a key driver of returns as spreads tightened, with the exposure to Government Bonds, particularly US Treasuries, also additive as increasing expectations of rate cuts from the Federal Reserve drove yields lower.

• Elsewhere, the allocation to precious metals detracted marginally in aggregate. The exposure to Gold continued to provide positive diversification as geopolitical risks remain elevated however the exposure to Silver gave up some of its gains after a period of strong performance.

• It was pleasing to see our Listed Alternatives continue to provide positive returns driven by continued strong performance driven by clean energy names such as Greencoat UK Wind and our allocation to life sciences company Syncona.

For Allianz Life ESG-Integrated Multi-Asset Fund:

Target Fund Manager's Comment (For BGF ESG Multi-Asset Fund)

Positioning

• Over the month we maintained our laser focus on diversification and portfolio construction as well as a flexible approach to asset allocation in order to navigate the heightened volatility in markets.

• As equity markets rallied, we bought some put options at attractive prices to protect the Fund in the of a sell off. Towards the end of the month we reduced our exposure to the growth factor and increased our exposure to the value factor by reentering a long/short value total return swap. We also sold a portion of our large cap technology holdings, reduced our allocation to our Mega Cap Tech Basket and adding to our Green Technology Basket.

• We closed out of our Silver position and reduced our allocation to Gold following a strong period of performance. In FX, took profits on our short Taiwan Dollar position, which has been acting as an effective geopolitical risk hedge and a China growth slowdown play.

Outlook

• Whilst US economic data has weakened, it is more in line with a slowdown, rather than a recession. The unemployment rate is rising, but unlike ahead of past recessions, the main driver is not layoffs – it is an immigration-driven increase in labour supply. Job creation is slowing though still robust whilst consumer spending, despite cooling, remains healthy. Corporate earnings have also beaten expectations. In the near-term inflation is likely to reach the Federal Reserve's 2% target allowing for rate cuts as early as September, though we believe current market pricing around the number of rate cuts to be excessive.

• Within Europe, economic growth picked up over the first half of the year, driven however by external demand rather than domestic growth. Whilst growth is set to continue over the second half of the year, survey data is weakening and presents a downside risk. A constructive disinflation backdrop suggests that further rate cuts from the European Central Bank are likely into the end of the year.

• As we reach the peak in developed market interest rates and dollar strength, fixed income and emerging market assets have become more attractive. Within fixed income, we are managing exposure dynamically, taking relative views preferring the UK and Europe over the US given the dispersion in the inflation and policy backdrops. Whilst interest rate cuts are on the horizon, we believe that there are structural reasons that will keep long-term rates supported, particularly in the US, including strong growth and high fiscal issuance.

• Within emerging markets, continued disinflation, as well as improving economic growth and light investor positioning presents an opportunity, though risks to this view include numerous elections and significant geopolitical tensions. We believe that the increasing dispersion of returns in emerging market countries enhances the appeal of a more selective approach. Chinese equities, for example, have rebounded since lows earlier in the year though have taken a pause ahead of the Third Plenum, in anticipation of further stimulus measures.

• Portfolio resilience is at the fore; we continue to believe that active asset management and dynamic monitoring of positioning remain important parts of our toolkit. They provide an effective means of navigating the new regime in which we are in. In this regime, characterised by higher macro volatility, it is necessary to take a granular approach by narrowing down regional, sectorial, and industry-specific exposures. We emphasize the importance of downside protection and continuously monitor key risks including geopolitical tensions and the impact of the US presidential election at the end of the year. We prefer higher quality assets as companies with stable revenue generation and healthier balance sheets are better placed to withstand the current tighter credit conditions and slowing growth environment.