Allianz European Equity Dividend

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in companies of European equity markets that are expected to achieve sustainable dividend returns in accordance with the Sustainability Key Performance Indicator Strategy (Absolute). In this context, the aim is, at least, a year-on-year improvement pathway on the sub-fund's weighted average Sustainability KPI to achieve the investment objective.

What Happened in April

European equities retreated over April as hopes of a series of rate cuts from the European Central Bank (ECB) were dashed by signs of improving economic activity. At a sector level, Energy companies rose the most, while Consumer Discretionary were among the weakest. Information Technology companies also slumped after disappointing results from a semiconductor equipment maker raised fears of an industry-wide slowdown. The eurozone economy grew by a stronger-than-forecast 0.3% in Q1, marking the quickest pace of growth since Q3 2022. The HCOB eurozone composite purchasing managers' index (PMI) jumped to a 11-month high in April, with services activity rising, the highest level since May 2023, although manufacturing activity contracted at the fastest pace in four months. Headline inflation held steady at 2.4% in April, but core inflation slowed to 2.7%. The ECB left rates on hold but said that the case for a rate cut in June was strengthening, although this would likely be followed by a pause.

German equities sold off. Germany's economy grew 0.2% in Q1, compared with a 0.5% contraction in the final quarter of 2023. The Ifo Institute of German business confidence improved, rising to its highest level in almost a year in April. However, inflation surprised on the upside, with the harmonised rate ticking up to 2.4% in April.

UK equities rallied, bucking the broader sell-off in global stocks, helped by the FTSE 100 Index's sizable exposure to Energy stocks, the strongest sector in April. The UK economy looks to have returned to growth in Q1. While UK inflation slowed to 3.2% in March, it slightly topped forecasts. Markets are now pricing in the first rate cut from the Bank of England (BoE) in September or November of this year.

Portfolio Review

The Fund returned negatively (in EUR, gross of fees) over the course of April, outperforming its benchmark MSCI Europe. Global equity market experienced a small pullback after reaching their peak at the end of March as investors became more concerned about the hawkish stance from central banks. During this period, some typical growth sectors experienced stronger corrections than the overall market. This provided a good backdrop for the Fund to regain some relative performance. The major positive contributors to performance were stock selection in Materials, as well as our clear underweight in Information Technology. Good selection in Consumer Staples also helped. Strong moves of a mining company on acquisition talks and the correction of big tech names such as the aforementioned semiconductor equipment maker provided a good positive contribution. On the negative side, the correction of Auto stocks and the ongoing strength of some Health Care names were main detractors for the month.

Given the long-term investment horizons we take for the Fund, our overall positioning has not changed over the month. Our main focus is on owning high quality and financially sound companies with good valuations justified by attractive dividend yields compared to the general market. The ongoing geopolitical conflict, global growth and inflation outlook remain the key drivers of the Fund's relative performance from a macroeconomic perspective.

Market Outlook

The global economic environment is still supportive of the global equity markets in general. In March, economic data improved on a broad regional basis for the fourth month in a row. Increases in the developed countries were mainly supported by a healthy recovery in the euro area and somewhat better US data. Figures for the emerging markets improved as well, with the data from China rising for the seventh month in a row. Overall, the data suggest that global gross domestic product (GDP) growth may approach its potential rate during H1. However, while the growth outlook is certainly encouraging, inflation figures have deteriorated and the US labour markets remain tight. This will probably make the US Federal Reserve (Fed) more cautious about cutting rates. As equity valuations appear quite high in many instances and prices have risen strongly over the last few months, setbacks cannot be excluded if corporate earnings trends weaken, the economic environment deteriorates or geopolitical shocks occur.

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All data are sourced from Allianz Global Investors, Eurostat, IHS Markit and Office for National Statistics, as at 30 April 2024 unless otherwise stated.

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