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 August

Euro-zone equities rose modestly over August, closing near record highs as they recovered from a sharp reversal early in the month when global stocks took fright over fears of an imminent US recession. At a sector level, Real Estate, Health Care and Communication Services rose the most, while Energy companies were the weakest as oil prices weakened. The HCOB euro-zone composite purchasing managers' index (PMI) rose in August, compared with a five-month low in July, as the Paris Olympics boosted the French economy. The euro-zone services sector expanded at the strongest pace since April, although manufacturing dropped to an eight-month low. Euro-zone inflation slowed to 2.2% in July, its slowest pace in three years, opening the door for the European Central Bank (ECB) to follow its July cut with another reduction in September. Minutes of the ECB's July meeting showed policymakers had an "open mind" regarding September's meeting, despite concerns over wage growth. German equities recovered and outperformed the broader euro zone, with the DAX index reaching a new high on optimism over future interest rate cuts. UK equities rose slightly. The British economy grew by 0.6% in Q2, which was also helped by easing price pressure. Although the Bank of England cut interest rates by 25 basis points, it emphasised that it was 'too early' to declare victory. Inflation in the UK rose more strongly than forecast in July to an annualised rate of 2.2%.

Portfolio Review

The Fund outperformed its benchmark MSCI Europe. Sector positioning and stock selection both contributed positively to performance. Within stock selection, the largest positive impact came from the Fund's positioning in the Financials sector. Our overweight positions in Muenchner Rueck; a reinsurance company; and a private equity and investment advisory firm, in addition to the fact that we did not hold a banking and financial services group contributed to this result. Minor detractors from the sector were our overweight positions in a Belgian universal multi-channel bank-insurer and a Nordic financial services group. Positioning in Health Care also made a positive contribution, with two of our largest overweights, GSK and Sanofi, having a positive impact on the month's performance. This good sector performance was only slightly diluted by the negative impact of not holding two other pharmaceutical companies.

The Fund benefitted from not holding a supplier of semiconductor manufacturing equipment - specifically machines for the production of chips through lithography - which suffered its biggest weekly fall since 2002 in early August due to general tech correction and concerns on further US restrictions on chip exports to China. Overall consumer sentiment in Europe remained weak but improved sequentially in Q2 despite the general economic slowdown. Our overweight in Inditex, the global clothing retailer, bucked this trend with stable earnings growth and was one of our best active contributors. Other negative contributors were our overweight in a courier company, a mining company, a tyre manufacturer and a communications services group, as well as not holding a luxury sports car manufacturer, while our overweight in Deutsche Telekom helped. Energy companies were the month's worst performers as oil prices weakened, consequently our overweight in TotalEnergies detracted. As a result, not holding an oil and gas company was a particularly positive contributor.

All data are sourced from Allianz Global Investors, Eurostat, IHS Markit and Office for National Statistics, as at 31 August 2024 unless otherwise stated.