Allianz Global Investors

# 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 June

Euro-zone equities fell modestly over June, as sentiment was undermined by an unexpected stagnation in eurozone economic activity and rising political uncertainty. French President Emmanuel Macron unexpectedly called a snap parliamentary election. A victory for the far-right could threaten the integrity of the European Union (EU) and lead to a sharp increase in government spending, further increasing France's already large budget deficit. As a result, French stocks declined sharply to a 5-month low, underperforming the broader region.

The HCOB eurozone composite purchasing managers' index (PMI) slumped in June from a 1-year high in May. The weaker-than-expected reading was mainly down to a slump in manufacturing activity which contracted at the fastest pace in six months. Headline eurozone inflation quickened to 2.6% in May, up from 2.4% in the previous two months, although early inflation indicators for France and Spain indicated that inflation may have slowed again in June. As widely expected, the European Central Bank (ECB) cut rates by 25 basis points (bps) in June, its first reduction in five years, but signalled that movements thereafter would be data dependent.

German equities declined but held up better than the broader eurozone market. On the political front, Germany's coalition government faces some tough decisions as it seeks to agree to next year's budget ahead of a deadline of early July. Finance Minister Christian Lindner wants to slash spending to bring debt under control, but other coalition partners disagree. UK equities closed the month slightly lower amid uncertainty ahead of July's general election. The Bank of

England (BoE) kept rates on hold, although hopes of a cut grew after May's inflation rate fell to 2.0%, the lowest level in almost three years.

## Portfolio Review

The Fund posted a negative return (in EUR, gross of fees) in June, underperforming the MSCI Europe Index. For the quarter, the Fund achieved a positive performance.

With most sectors declining during the month, the Information Technology sector was a rare standout, rising positively. The Fund struggled due to the lack of dividend-paying stocks in that sector. Similarly, in the Health Care sector, major companies like a pharmaceutical company performed well but paid low dividends, which impacted the Fund as they do not fit our dividend-focused strategy. Our position in UK pharmaceutical company GSK detracted from performance due to an unexpected legal ruling against them in Delaware, US.

On the positive side, despite significant positions in French-domiciled companies, the declines in the French indices did not significantly impact the Fund's performance. The Fund holds several internationally focused stocks that showed resilience during the elections and avoided major fallers like a financial services company and an aircraft manufacturer.

In terms of single stocks, major positive contributions resulted from our overweight positions in Roche, Deutsche Telekom, Unilever, a Spanish clothing company, an airport management company, and two reinsurance companies including Muenchner Rueck. Negative impacts came from not holding a semiconductor equipment maker and an enterprise software company, as well as from being overweight in TotalEnergies' a French construction company; a global financial services firm; a provider of water, waste, and energy management solutions.; an Irish bank; and a sustainable construction materials company.

## Market Outlook

After the economic data had improved for several months in a row, the environment in the US and some emerging markets has recently deteriorated somewhat. At the same time, inflation has remained stubborn, which is why the major central banks will probably continue their data-dependent course. While our overall outlook for equities is still optimistic, volatility may increase due to the timing of the expected rate cuts and numerous (geo)political uncertainties. If the US manages a "soft landing", corporate earnings should grow and rate cuts by the US Federal Reserve (Fed) should support equity prices. However, there is a risk of rate-cut delays ("no-landing scenario") or disappointments about corporate earnings (recession scenario), and political uncertainties are increasing as well. In particular, the outcome of the elections in France and in the US might make the markets nervous. From our vantage point, it makes sense to pursue an active investment approach based on fundamentals, which will ultimately be key.

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





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