

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 October

European equities retreated over October. Sentiment was knocked by the growing possibility that Donald Trump may win November's presidential election, with the former president vowing to impose a 20% tariff on imports from Europe. At a sector level, Information Technology, Real Estate and Materials companies fell the most, while Energy was the only sector in the MSCI Europe Index to deliver a positive return. The eurozone economy expanded by a stronger-than-expected 0.4% in Q3, marking the strongest growth rate in two years. Spain remained the strongest economy in the region, with 0.8% growth, while France's gross domestic product (GDP) grew 0.4%, boosted by the Paris Olympics. Germany also surprised on the upside, with GDP rising 0.2% in Q3. The flash HCOB eurozone composite purchasing managers' index (PMI) rose in October, marginally above September's 7-month low. Growth in the services sector slowed slightly but remained positive, while the downturn in manufacturing softened. Headline eurozone inflation accelerated to 2.0% in October – the uptick was mainly due to base effects. The European Central Bank (ECB) cut rates by 25 basis points (bps), marking its third rate cut so far this year.

German equities declined overall. While the flash HCOB Germany composite PMI improved in October, political risk is rising as the coalition struggles to agree on a budget before mid-November. UK equities also declined in October, with the flash S&P Global UK composite PMI hitting an 11-month low. Investors awaited the new Labour government's budget, where Chancellor Rachel Reeves announced a GBP 40 billion tax increase to address the fiscal deficit and fund public services. UK inflation fell to a 3-year low of 1.7% in September.

Portfolio Review

The Fund continued its outperformance trend of previous months, outperforming the MSCI Europe in a volatile October. After initial corrections led by growth stocks, particularly in the Technology sector, European equity markets regained some ground. However, lacklustre Q3 earnings and growing uncertainty ahead of the US presidential election led to volatility, with the MSCI Europe ending October in negative territory. Our defensive strategy also suffered losses but was still in a better position than its benchmark.

Overall sector positioning contributed positively. In particular, being underweight in Information Technology benefitted the Fund. Although the overweight in Financials had a positive impact, stock selection within this sector detracted somewhat (overweight position in an integrated bank-insurance group, and not holding an international banking and financial services group). Our positions in a UK bank and an Irish bank were negatively affected by the investigation into UK car lending commission practices, placing them among the worst active contributors. However, positive results from this sector came from our overweight positions in a Nordic financial services group and an Italian banking group.

Further positive impact came from not holding a semiconductor manufacturing equipment supplier, a luxury goods company, and a beauty and cosmetics group, as well as from our overweights in Aena, Volvo, a telecommunications company, a communications services group, and a construction and building product manufacturing company. More negative contributions came from our overweight positions in GSK, a tyres manufacturer, and a semiconductor assembly equipment manufacturer. A courier company downgraded its profit targets for 2024 due to weaker economic momentum, declining letter volumes and disappointing air freight margins. As a result, the stock was among the month's biggest detractors.

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

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