Allianz Global Investors

Allianz Global Sustainability

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets of developed countries in accordance with the Sustainable and Responsible Investment Strategy (SRI Strategy). The Investment Manager may engage in foreign currency overlay and thus assume separate foreign currency risks with regard to currencies of OECD member states, even if the Sub-Fund does not include any assets denominated in these respective currencies.

What Happened in January

Global equities were mixed in January, with central banks dampening rampant speculation of rate cuts as soon as March. Japanese stocks rallied, while eurozone and US shares recorded modest gains. However, emerging market equities declined, dragged down by steep falls in China. At a sector level, Communication Services, Information Technology and Health Care were the strongest sectors, while Materials, Real Estate and Utilities declined the most.

Headline inflation rates reaccelerated modestly in December 2023, and heightened geopolitical tensions in the Red Sea raised concerns over higher shipping costs and extended delivery times. Escalating geopolitical tensions in the Middle East sent oil prices higher amid fears of supply disruptions.

Early indicators of purchasing managers' indices (PMIs) for January suggested a moderate uptick in economic activity. Central banks in developed markets kept rates on hold, but policymakers stressed that hopes of rate cuts as soon as March were likely to prove premature.

Global ESG ETF flows were off to a weaker start in 2024, slipping into slightly negative territory for the first time since March 2023. Outflows were driven by US-listed ESG ETFs. Ex-US ESG ETF flows stayed positive in January, though they have eased back from levels seen in Q4 2023. ESG darlings' performance has weighed on sustainable fund performance in early 2024, with clean energy and sustainable transportation darlings in particular seeing meaningful underperformance.

Portfolio Review

The Fund returned positively in January, underperforming its Dow Jones Sustainability Index benchmark.

Positions in Technology, Consumer Staples and Health Care stocks performed strongest, offset by picks in Financials and Utilities stocks. Our underweight in Consumer Discretionary helped performance, whilst an underweight in Technology stocks impaired.

Contributors

After disappointing performance, a health care manufacturing company was the Fund's top performing stock in January and is now recovering the losses experienced last year. The headwinds the company faced previously are slowly receding, and it reported better-than-expected results and guidance in January, sending the shares higher. The Health Care sector is attractively valued and year-to-date is one of the best performing sectors in the index. The overweight allocation is now proving to be a tailwind to performance.

Stock selection in Technology was also beneficial. A leader in endpoint detection and response (EDR) continued its strong performance in January, undoubtedly benefitting from the rallying technology sector, as well as leveraging the buzz around artificial intelligence (AI). A semiconductor company and competitor to a graphics processing units manufacturer also performed strongly, having reported strong revenue growth for Q4 2023.

Detractors

A private sector bank in India was the biggest detractor to performance over January. The bank posted an unimpressive set of numbers. However, the outlook remains optimistic, buoyed by robust growth prospects, enhanced profitability and the advantages stemming from its merger, including the opportunity of cross selling products which would drive operating leverage.

An UK energy company also detracted from performance over the month. The share price fell following a decline in power prices and the weak performance of the Utilities sector over the month, with a particular decline in integrated names and “power plays" including renewable electricity generation companies. We remain positive on the stock. It has clear attractions as a stable company, with long-term inflation-linked revenues and a clear plan to grow via the UK's investment needs for the energy transition.

Market Outlook

Uncertainties about growth, monetary policy and geopolitical events will persist and continue to make life difficult for equity investors for the foreseeable future. The major central banks will remain in the focus of attention. In fact, both the US Federal Reserve (Fed) and the European Central Bank (ECB) have recently tried to dampen exaggerated rate-cut expectations. Whilst the newsflow around the election is likely to gather momentum with over half of the population heading to the polls this year, we believe that the trajectory of interest rates will remain the main driver of markets' direction. As ever, we expect stockpicking to be the biggest driver of our performance and we see considerable opportunities in the Fund's current positioning.

All data are sourced from Bloomberg and Allianz Global Investors as at 31 January 2024 unless otherwise stated.