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 June

Global stocks advanced over June, driven by a further rally in technology companies. June brought some dispersion within global equity markets performance as European indices were dragged into the red, whilst the tech-heavy US market continued to climb. A graphics processing units manufacturer briefly became the largest global company by market capitalisation, overtaking Microsoft and another multinational technology giant. The month started hectic with a handful of macro data boosting enthusiasm among investors. In the US, jobs data was mixed but inflation data continued its downtrend stirring excitement for the widely expected Fed cut. Throughout the month, political news from elections in India and Mexico kept investors on edge, while French president Macron's decision to call a snap election caused some jitters throughout Europe, causing equity markets in France to mostly end in the red for June.

The US central bank kept rates on hold despite the US Federal Reserve's (Fed's) preferred measure of inflation, the core personal consumption expenditures (PCE) Index, eased in May. Policymakers signalled that US interest rates would likely remain higher for longer. The Bank of England (BoE) kept rates on hold, although hopes of a cut grew after May's inflation rate fell to the lowest level in almost three years. Elsewhere in the eurozone, inflation slightly accelerated but remained subdued and the European Central Bank (ECB) cut rates by 25 basis points (bps) in June as expected – its first reduction in five years.

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The US dollar continued to appreciate as the Fed left rates on hold. The British pound also strengthened against the euro and the Japanese yen as the BoE also maintained borrowing costs at a 16-year high.

In the commodity markets, oil prices rose modestly over the month to close around USD 85 a barrel. Gold prices eased a little over June, but copper prices plunged to their lowest level since mid-April on growing concerns of slowing industrial demand, particularly in China.

Portfolio Review

The Fund lagged its benchmark, the Dow Jones Sustainability Index over June (In EUR, gross of fees).

Stock selection was in positive territory driven by good picks in Energy and Financials. Sector allocation was a bit more challenging for the month, driven primarily by the underweight to Technology.

Contributors

Shares of a cyber security company rallied on the back of delivering stronger-than-expected results despite a tough software spending environment – the broader adoption of the company's platform and successful cross-sell allowed it to print record revenue growth and cash generation. The company also delivered considerable year-on-year operating leverage characterised by significant margin expansion leading to strong profitability.

Applied Materials (AMAT) shares continued its upward trajectory following positive results and favourable market comments last quarter. The compelling secular trends in technology, particularly artificial intelligence (AI) and the expansion of data centres, rely on semiconductor chips – driving demand for chips with higher computing power and greater efficiency, which ultimately benefits AMAT products. Additionally, AMAT's service business is experiencing double-digit growth due to an expanding installed base, revenues in this segment are highly recurring and is characterised by long-term contracts.

Shares of a financial services software company rebounded after last month's sell-off driven by investor concerns around the durability of topline revenue, especially after management mentioned that its tax solution would lose unit share. However, we stayed invested because we believed this concern was driven by sentiment rather than fundamentals. The latest quarterly results exceeded consensus expectations, with strong revenues and margins. Forward guidance has also been revised upward, highlighting the robustness of the company's franchise and earnings power.

Detractors

On the negative side of the ledger, not owning a Taiwanese semiconductor company hurt performance. The shares benefitted from broader AI-driven sentiment and increased capital expenditure (capex) spend from cloud service providers.

An insurance company also featured among the detractors as its shares continued to be weak.

Shares of a manufacturer of non-wood decking alternative products faced downward pressure due to deteriorating sentiment surrounding the US housing market. Affordability challenges persist, driven by persistent higher interest rates and an increase in housing inventory. Housing starts and new home sales were softer than expected, with pending home sales hitting a new record low. Despite these headwinds, we maintain confidence in the outlook for US housing spending along with repair and remodel expenditures – particularly as housing starts as a percentage of households remain subdued and continued ageing housing stock. For the company, we are confident by its strong product proposition as proven by the growing demand backlog.

Market Outlook

The rally continued to be underpinned by only a handful stocks. The narrowness of the market advance means that just three companies – Microsoft, a graphics processing units manufacturer, and a multinational technology giant – drove more than 90% of the market advance over the quarter in the US. Clearly, the high concentration within US markets continues to alert investors. Nevertheless, corporate profits have been strong, and signs of easing inflation have bolstered hopes that the Fed will cut rates this year. Whilst we are cautious about valuations in some parts of the market, the overall market valuation remains neutral and we continue to find attractively valued stocks. Our portfolio is well balanced in terms of sector and style.

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All data are sourced from Bloomberg and Allianz Global Investors as at 30 June 2024 unless otherwise stated.

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