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 March

Global equities moved higher over March, further bolstering already strong year-to-date returns. Sentiment was lifted by signs of improving economic momentum in Europe and China, as well as by central bank indications that rate cuts were likely to start in the summer. At a sector level, Energy companies advanced the most, followed by Materials stocks, while Consumer Discretionary was the weakest.

The Swiss National Bank became the first major central bank to lower rates this cycle. However, in general, central banks stuck with the mantra that rates would be cut this year, but not before the summer. In contrast, after months of speculation, the Bank of Japan finally raised rates to 0 - 0.1% and ended its yield curve control policy. Headline inflation rates slowed in Europe but ticked higher in the US, Japan and China, with the latter exiting deflation for the first time in six months.

The US dollar, euro and British pound strengthened against the Japanese yen. While the Bank of Japan increased borrowing costs for the first time since 2007 and ended its yield curve control policy, it stressed that borrowing costs would not rise sharply until inflation expectations were anchored at its 2% target.

Commodity prices rallied. Oil prices moved higher given the ongoing conflicts in Ukraine and the Gaza strip, as well as the increased attacks in the Red Sea. Gold prices also advanced, touching a fresh high. However, iron ore prices slumped to a 10-month low given muted Chinese demand and ample supply.

Portfolio Review

The Fund returned positively in March but underperformed the Dow Jones Sustainability Index benchmark.

Stock selection was the major detractor to relative returns especially within Financials, Technology and Industrials.

Contributors: A Swiss pharmaceutical CDMO (Contract Development and Manufacturing Organisation) and an American financial services company. Not owning a cloud-based relationship management software and a multinational medical devices and health care company.

It was reassuring to see the Swiss pharmaceutical CDMO as the top contributor over the month (and the quarter), after having been the largest detractor over the previous quarter. The company had suffered at the end of last year after reducing guidance in the difficult biotech funding environment. They also got impacted by the exit of their CEO. In Q1, they produced a set of positive results and issued reassuring guidance whilst also having appointed a new Chairman, CEO and Head of Investor Relations. The stock reacted positively to the results and the change in management and the company is now well under way to deliver solid growth driven by a further increase in drug administrations and a shift toward biologics and cell and gene therapies. The recently acquired large US financial services company also performed well over the month.

Detractors: An Asia-Pacific focused insurance and financial services company, and Capgemini. Not owning a Taiwanese multinational semiconductor company.

An Asia-Pacific focused insurance and financial services company was the top detractor over the month, having reported results that were taken poorly despite beating sales expectations, taking a one-off hit relating to their expectations of returns in the China portfolio. This came with less clear guidance and the stock has responded badly. We have maintained our position at present.

Capgemini also featured amongst the top detractors, having performed poorly over the month on the back of what was perceived as disappointing guidance for the full year. We are still anticipating a pick-up in revenue growth in H2 and see them as a beneficiary of Generative AI as they have a strong pipeline of projects in this area.

Not owning a Taiwanese multinational semiconductor company which had another strong month featured amongst the top detractors to performance over the month, making the stock the worst detractor over the quarter.

Significant Transactions

We initiated a new position in the afore-mentioned large US financial services company - a contrarian position in the premier wealth manager and investment bank that has had two years of lower net income as capital market activity has been subdued. We expect a recovery in 2024.

Market Outlook

The recent earnings season has been generally healthy with the portfolio companies mainly on the right side of earnings numbers. FY 2023 earnings numbers for the MSCI AC World have been flat but distorted by the extraordinary growth trajectory of the Magnificent 7*. 2024 estimates and where available for 2025, show a slightly wider base of positive earnings. Anecdotally, this is also what we are hearing in company management meetings, where optimism is higher for H2 2024 and beyond. Higher but not yet prohibitive valuations, mean that earnings visibility will be key in the coming months. The recent results from a technology company that designs graphics processing units , a technology conglomerate and an online consumer giant and the following positive share price reaction show that there is still capacity to surprise on the upside. The shares of a technology hardware producer however, dropped after their earning release, as otherwise positive numbers were overshadowed by declining smartphone sales in China, highlighting the fact that at these heightened valuations, a small misstep can have a disproportionate impact on share prices. We are confident that the structural growth, low debt levels and high earnings visibility of our companies means the portfolio is well positioned but will be mindful of valuations and adjust position sizes where we feel appropriate.

The geopolitical landscape remains uncertain, with ongoing conflicts in the Ukraine and the Middle East.
Looking at the quarter performance, it is clear that our natural tendency to invest in future growth has impacted negatively. The crowding within the mega cap tech space where we are almost structurally underweight was also a large factor. Whilst we have had some negative operating results from a few stocks, these have been relatively contained and offset by more positive performance elsewhere. A large part of the underperformance can be explained by simply not owning certain mega caps, detrimental in the short term but tends to broaden out in the medium term.

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

* Magnificent 7 refers to a group of US stocks which includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.