

# 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 May

After a weak performance in April, markets returned to positive returns for May with the US charging the way, boosted by a jump in Technology companies, particularly a graphics processing units (GPU) manufacturer which blew past earnings' forecasts. After a continued rise throughout the month, the rally stalled in the last part of the month as rate fears came once again to the surface. The strong performance was highly concentrated in just a handful of stocks as the S&P 500 outperformed its equal-weighted version for the fifth consecutive month of 2024. In Europe, the picture was similarly positive with all indices in the green but lagging their US peers. Asian equities struggled for a firm direction in May but generally added to gains. At sector level, Information Technology rallied the most, with Communication Services and Utilities also areas of notable strength.

US Federal Reserve (Fed) Chair Jerome Powell signalled that investors would need to be "patient and let restrictive policy do its work" in reducing inflation. However, he also confirmed that the likelihood of a further increase in rates was "very small". In the eurozone, the European Central Bank (ECB) gave its strongest hint yet that rates would be cut in June, despite higher-than-expected wage growth. Hopes that the Bank of England (BoE) would also cut rates in June were dashed when UK inflation fell less than forecast and the government unexpectedly called a general election, to be held on 4 July.

In the US, Information Technology (IT) was the standout performer as shares of the afore-mentioned GPU manufacturer soared after it beat quarterly earnings' forecasts, announced a stock split and increased its quarterly dividend. It is now the third largest US company by market capitalisation, beaten only by Microsoft, and a computer hardware and consumer electronics maker.

The British pound strengthened, reaching a 21-month high against the euro, as fading hopes of a UK rate cut in June contrasted with a growing belief that the ECB would reduce borrowing costs at its next meeting. Nevertheless, the euro gained ground against both the US dollar and the Japanese yen.

In the commodity markets, oil prices eased, touching their lowest level since March on fears of a looming supply glut. Conversely, metals prices moved higher.

### Portfolio Review

Stock selection and sector allocation were both positive over the month with strong stock selection in Health Care and Consumer Staples specifically.

#### Contributors

A maker of specialist treatments for long-term illnesses performed well on the back of strong Q1 performance in delivering strong revenue growth, regulatory approvals and commercial launches. News on the resumption and progression of programmes within the pipeline, particularly in the later stages is proving that revenue diversification is getting ever closer.

A wireless infrastructure provider seems to be turning the corner, Q1 results highlighted strong global demand driving organic tenant billings growth and improving margins from the inherent operating leverage of the assets, alongside a deliberate focus on cost management. Management's commitment to disciplined capital allocation and an improved financial profile through a reduction in floating rate debt was well received by the market.

Semiconductor equipment maker Applied Materials benefitted from the strong performance of Technology stocks over the month.

An aluminium producer also continued to perform well supported by the rally in metal prices.

#### Detractors

On the negative side of the ledger, shares of a financial management software maker derated on the back of investor concerns around topline revenue durability, particularly after management commented that a tax preparation software will lose unit share. However, revenues and margins have exceeded consensus expectations and forward guidance have been revised upwards, showcasing the strength of the company's franchise and earnings power.

An IT consulting firm experienced weak share price movement despite posting revenue declines slower than expected. Weakness in the broader sector stoked investor concerns, but also on a company level, falling headcount, a proxy for growth was taken negatively. Management comments and key metrics such as book-to-bill ratio is positive and our conviction remains.

## Significant Transactions

We sold out of a precious metals streaming company. Shares of the company benefitted from a sustained rally in gold and silver prices. However, we think the valuation is rich despite expected growing production volumes and uncertainty around elevated metal prices.

## Market Outlook

The performance continues to be highly concentrated in just a handful of stocks as has been showcased by the S&P 500 that outperformed its equal-weighted version for the fifth consecutive month of 2024. We have not largely changed the positioning of the Fund and continue to have conviction in our portfolio and our investment cases that are trading at attractive valuations.

On the macro front, the pricing-out of rate cuts has continued globally. Bit by bit, across the developed world, investors are giving up their hopes that central banks will cut policy rates this year. The market has been sanguine about shifting rate-cut expectations so far in 2024. But with stocks near record highs, artificial intelligence (AI) losing steam as a catalyst, and rate hikes entering the conversation again, the summer months may become more frantic.

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