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 September

Global equities mostly rallied over the month and the US dollar weakened as larger-than-expected-rate cuts were delivered from the US Federal Reserve (Fed), prompted by easing inflation and weak labour market data. Sectoral performance was mixed, with Consumer Discretionary, Utilities, Real Estate and Communication Services rising the most, while Health Care and Energy were the weakest.

Towards the end of the month, a raft of policy measures and stimulus from China had woken the sluggish Chinese market from its slumber, the MSCI China Index surged over September, with both mainland and Hong Kong-traded stocks enjoying robust gains.

Elsewhere in central banking and currencies, the euro rose against the US dollar, it lost ground against the British pound and the Japanese yen. The European Central Bank (ECB) reduced borrowing costs by 25 basis points (bps) in September, while both the Bank of England (BoE) and Bank of Japan (BoJ) kept rates on hold.

In commodity markets, oil prices fell amid ongoing concerns over the health of the US economy, rising US crude inventories and Saudi Arabia signalling it was planning to raise production in December as it seeks to reclaim market share. Industrial metals such as copper, surged following China's announcement of massive stimulus measures, while gold breached USD 2,600 an ounce for the first time on record.

Portfolio Review

The Fund lagged its benchmark, the Dow Jones Sustainability Index.

Sector allocation was mixed, an overweight to Industrial and Consumer Staples helped but was offset by some weakness in other sectors. Stock selection was modest, positive Chinese sentiment, most notably in the Technology sectors, hurt relative performance as shares rallied in some of the companies we do not own.

Contributors

An Asian insurer benefitted from improved Chinese sentiment – shares rallied after a period of weaker performance in the prior periods.

Shares in an aluminium producer were strong as the aluminium price strengthened over the period driven by production curtailments in Australia and India pushing the world ex-China aluminium market into balance. Additionally, the outlook for downstream activities improved. Lower interest rates are expected to boost construction in both residential and commercial sectors, leading to increased aluminium recycling, this should allow for better capacity utilisation and improved margins for the recycling segment.

Shares were strong in a semiconductor manufacturer. Positive management commentary on the industry wide traction of one its recent product, particularly from the hyperscalers, is proving the company to be a credible leader in graphics processing units (GPUs) and artificial intelligence (AI). Additionally, the announced acquisitions are transforming the company into an end-to-end computing solution provider in AI as it becomes a high-performance computing leader across GPUs and central processing units (CPUs).

Detractors

On the negative side of the ledger, not owning a Chinese technology conglomerate hurt performance as shares benefitted from broader positive sentiment on Chinese stocks.

Shares of a biopharmaceutical company were weak on the back of disappointing trail results on one of the pipeline drugs.

Our holdings in an energy and petrochemical group drifted lower as oil price weakened for the period under review.

Significant Transactions

On portfolio transactions, we trimmed the afore-mentioned biopharmaceutical company and an information technology (IT) services and consulting firm. We sold out of another IT services and consulting firm– reducing our exposure to IT consulting companies.

We bought a leading materials supplier to the semiconductor industry. It stands to benefit from increased demand for semiconductor chips and the need for more materials given the rising complexity in manufacturing. The company operates in an attractive oligopolistic market with sustainable competitive advantages from sticky customers.

Market Outlook

As the US presidential election nears, polls indicate the Democrats are ahead at the national level. Whilst we expect some volatility in the near term, we believe our sector and style-neutral approach will position the Fund favourably regardless of the election outcome.

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