

Allianz Thematica

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets with a focus on theme and stock selection in accordance with the Sustainability Key Performance Indicator Strategy (Absolute Threshold). In this context, the aim is to target a specific minimum allocation into sustainable investments to achieve the investment objective.

What Happened in April

Global equities generally sold off over April, undermined by fears that the conflict in the Middle East may be spreading and concerns that the US Federal Reserve (Fed) may keep interest rates higher for longer to bring inflation back to target. The retreat was led by US shares, with eurozone and Japanese stocks also falling over the month. In contrast, UK and emerging market equities advanced. At a sector level, Real Estate and Information Technology suffered the largest falls, while Utilities and Energy were the only sectors to advance.

Global bonds moved lower as investors dialled back their hopes for interest rate cuts in 2024. US bonds were among the worst performers, with the yield on the US Treasury closing the month just under 4.7%, a rise of almost 50 basis points (bps) over the month. European and Japanese bond yields also moved higher, albeit to a lesser extent, with 10-year yields in Germany and Japan rising around 30 bps and 15 bps, respectively. In general, corporate bonds outperformed government debt, with high yield bonds holding up the best.

Hopes of a summer rate cut from the Fed were dashed given stronger-than-expected jobs growth and stickier-than-forecast inflation. Financial markets are now starting to consider that the Fed may not cut rates before the end of the year. While the European Central Bank (ECB) is widely expected to reduce borrowing costs in June, investors are expecting this to be followed by a pause as policymakers wait to see how inflation evolves. In contrast, the weakness of the Japanese yen led to speculation that the Bank of Japan (BoJ) may increase rates once again.

After the brief tit-for-tat exchange, tensions between Israel and Iran appeared to calm a little, helping Brent crude to close the month slightly lower at just under USD 85 per barrel. Industrial metals surged on signs of improvement in China's manufacturing activity, with copper prices rising to a 2-year high.

Performance Analysis

The Fund returned negatively (in EUR, gross of fees) in April.

Themes that have contributed well to overall performance have been Next Generation Energy, Clean Water and Land, and Digital Life. Next Generation Energy is currently seeing some turnaround due to an increase of copper producers which relates to the takeover of a mining company through a resources company. Negative contributors have been themes like Infrastructure and Generation Wellbeing. Infrastructure suffered slightly due to weaker market development overall, putting pressure on cyclical companies, while Generation Wellbeing was pressured by concerns regarding consumer spending trends which we see as unwarranted given the expected interest rate cuts.

From a sector perspective, the Fund benefitted from the overweight to Utilities which show some relative strength. Negative contribution occurs from the underweight to Communication Service sector which is mainly due to an index heavyweight technology conglomerate. Overall, the underweight to the big Technology stocks created a minor negative effect. An orthodontic company has also contributed weakly after it did not match ambitious market estimates.

On a single stock basis, the afore-mentioned mining company was the best contributor due to ongoing mergers and acquisitions (M&A) activity which also benefitted holdings in a molybdenum producer and a copper miner.

The portfolio continues to have a high degree of diversification. In our view, a diversified multi-thematic portfolio continues to offer many opportunities for investors to benefit from structural megatrends in the current year. At the same time, both earnings growth as well as sales growth are expected to come in well above global equity markets average.

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

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