

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 August

August was a volatile month for global equities. Wall Street's "fear gauge", the CBOE Volatility Index, hit a four-year high of 65 early in the month when stocks suffered a steep sell-off as weaker-than-expected US job growth sparked recessionary fears in the world's largest economy. This was followed by a swift rebound as subsequent data confirmed these fears were likely overblown. On balance, global stocks closed the month slightly higher. At a sector level, Energy stocks were the weakest while companies in sectors that are seen as defensive (Health Care and Consumer Staples) or bond proxies (Real Estate) outperformed.

Recessionary fears resurfaced when the US economy added just 114,000 jobs in July, far weaker than the expected 175,000. Additionally, US job growth for the 12 months to March 2024 was revised down by 818,000. The data boosted hopes that central banks would pivot to a more dovish stance, a view that was reinforced by positive news on inflation. In July, US inflation fell below 3% for the first time since March 2021, while euro-zone inflation declined to a three-year low of 2.2%. Global bonds gained as fears of a sharp slowdown in US economic activity boosted hopes that the US Federal Reserve (Fed) would cut rates multiple times in 2024, starting in September.

The British pound surged as UK economic activity surprised on the upside and the Bank of England indicated that its decision to cut rates in August was not expected to be the start of a series of swift reductions. The euro also strengthened against the US dollar. While the European Central Bank (ECB) is widely expected to reduce rates again in September, wage pressures may mean that it takes a cautious approach thereafter. In contrast, the US Dollar Index continued to weaken as investors started to price in multiple rate cuts by the Fed before year end. Meanwhile, although the Japanese yen initially depreciated, it recovered to end the month little changed against the British pound and the euro.

Oil prices eased back below USD 80 per barrel as higher-than-forecast US inventories and speculation higher output from the Organization of the Petroleum Exporting Countries Plus (OPEC+) offset concerns over escalating tensions in

the Middle East and fears of a shutdown in Libya. Gold continued to advance, breaching USD 2,500 an ounce for the first time on record.

Performance Analysis

The theme selection contributed positively to overall performance while stock selection among the themes has been a slight drag. Intelligent Machines has been weaker due to the market correction that overly burdened Technology and artificial intelligence (AI) related stocks. Next Generation Energy has been the best performer from a theme perspective.

In anticipation of lower interest rates, several stocks performed well as this could create a turning point for the industry making new projects more affordable. From a sector perspective the overweight to Utilities has been a positive contributor to overall performance while the underweight to Financials created a burden.

Stock selection among the themes has been a neutral contributor to overall portfolio performance. On one hand, the underweight to index heavyweights like a graphics processing and related software maker and a technology giant has been a positive contributor. A home solar panel and battery storage company (Next Generation Energy) continued its strong run after the strong set of numbers the company released in July. A cybersecurity solutions company (Digital life) has a massive spike after the company reported quarterly results well ahead of market expectations. Companies like a manufacturer of equipment servicing multiple applications in the clean energy and industrial gas markets (Clean Water and Land) as well as a producer of aggregates and heavy building materials for the construction industry (Infrastructure) underperformed due to lower industrial and business activity. A semiconductor equipment producer (Intelligent Machines) corrected after a strong run.

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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