

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 July

For global equities, the big story in July was the strong rotation away from technology companies in favour of value stocks. Artificial intelligence-related (AI-related) and semiconductor stocks were particularly badly hit. There were various factors behind the technology sell-off. US inflation was slower than expected in June, boosting hopes that US rates would soon be cut – an outcome that could weigh on mega-cap companies' cash piles; an electric vehicle (EV) manufacturer and a technology conglomerate delivered disappointing earnings; Donald Trump said Taiwan, which is at the core of the global chipmaking industry, should pay for its own defence; and the Biden administration threatened severe export curbs if non-US companies continued to provide China with access to advanced chips.

As expected, central banks in the US and eurozone kept rates on hold. However, expectations of a September cut grew after the US Federal Reserve (Fed) Chair Jerome Powell signalled that rates could be cut in September if inflation continues to moderate. European Central Bank (ECB) President Christine Lagarde said the decision on a possible rate cut in September was "wide open", but downplayed fears of sticky price pressures. In contrast, the Bank of Japan (BoJ) tightened monetary policy, raising rates to 0.25% and setting out plans to halve its monthly bond purchases.

The Japanese yen surged against the US dollar, boosted by speculation that the BoJ may raise interest rates at its meeting at the end of July. The British pound also strengthened against the euro and the dollar, buoyed by growing hopes of political stability following a landslide victory for the Labour Party in the UK general election. Meanwhile, the US dollar weakened against the euro amid growing hopes that the Fed would start to cut rates in September. Presidential candidate Donald Trump also signalled he might seek to weaken the US currency if he wins November's election.

Commodity prices were hit by signs of slowing growth, particularly in China. Oil prices fell, with Brent crude briefly trading below USD 80 a barrel for the first time since early June. Copper slumped to around USD 9,100 a ton, compared with a high above USD 11,000 in May.

Performance Analysis

The Fund lagged global equity markets as represented by the MSCI AC World Index. The theme selection contributed negatively to overall performance, while stock selection among the themes did well. Over the course of the month, the Infrastructure theme contributed most to overall performance, while themes like Generation Wellbeing and Intelligent Machines created an overall burden.

From a sector perspective, the overweight to Utilities and Industrials helped, as the underweight to Financials has been a drag. Stock selection among the themes has been a positive contributor to overall portfolio performance. This is mainly due to the underweight to index-heavyweights like a graphics processing units manufacturer and a multinational technology company. Additionally, a home solar panel and battery storage company (Next Generation Energy) and Lonza (Health Tech) reported decent numbers over the last month which resulted in a favourable share price reaction. On the other hand, index-heavyweights like the aforementioned EV manufacturer and a cell phone, computer and communications equipment giant which showed a decent performance have been a burden for the portfolio. The largest detractor to overall performance has been a cyber security company (Digital Life) which suffered after a failure of a global update process caused severe harm in the global economy and resulted in cancelled flights and production issues.

After the recent shake-out on global equity markets, we see several turning points for infrastructure-related themes. We are seeing a stabilisation across utilities, as well as electric vehicle (EV) and renewables within the Next Generation Energy theme. Water engineering consultancy and engineering companies we recently met mentioned an increase in order activity with funding now becoming available from infrastructure acts, etc.

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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