

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 June

Global stocks advanced over June, driven by a further rally in technology companies. The tech-heavy US equity market was among the strongest performers. Japanese stocks also rose slightly, while European and Chinese shares fell. Political risk re-emerged in Europe after France called a surprise election. At a sector level, Information Technology was the standout sector, while Utilities and Materials stocks declined the most.

Economic news was mixed. Surveys of economic activity suggested that growth was stagnating in Europe and Japan and slowing in China, but US economic momentum picked up. Inflation eased in the US and UK, but central banks in these markets kept rates on hold. In contrast, Canada became the first G7 nation to cut rates, swiftly followed by the European Central Bank (ECB). The Bank of Japan (BoJ) maintained rates at 0-0.1%, but suggested that it would soon start to reduce its monthly bond purchase programme.

The US dollar continued to appreciate as the US Federal Reserve (Fed) left rates on hold. The British pound also strengthened against the euro and the Japanese yen as the Bank of England (BoE) also maintained borrowing costs at a 16-year high. While the ECB cut rates for the first time in five years, it continued to outperform the Japanese yen as Japan's monetary policy remained far more accommodative than in other markets.

In the commodity markets, oil prices rose modestly over the month. Brent crude hit a 4-month low on news that the Organisation of the Petroleum Exporting Countries plus (OPEC+) was to phase out voluntary production cuts, but prices subsequently rebounded to a 7-week high, closing the month around USD 85 a barrel.

Performance Analysis

The Fund lagged global equity markets as represented by the MSCI AC World Index. Over the course of the month, the theme Digital Life contributed well to overall performance, while themes like Infrastructure and Generation Wellbeing contributed negatively.

From a sector perspective, the overweight to Industrials and Utilities created a major burden, just as the underweight to Information Technology did. Summed up, this resulted in an overall negative impact from a sector perspective. Stock selection has been the largest detractor to overall portfolio performance. This is mainly due to the underweight to stocks like a graphics processing units manufacturer; a cell phone, computer and communications equipment giant; a technology conglomerate, as well as other index heavyweights from the Information Technology sector. A health and safety sensor technology group (Clean Water and Land) and two cyber security companies (Digital Life) have been the top contributors to overall performance from a single stock perspective.

The Fund continues to carry a meaningful overweight to Industrials, Utilities and Materials, and remains underweight to Financials and Communication Services. This positioning is - in our view - supported by decent business activity overall with solid capital expenditures, further investment activity in modernisation of equipment etc, a pick-up in economic activity in China, and improvements in Chinese stock markets, as well as the slight decrease in interest rates.

We see several turning points for infrastructure-related themes. After the shakeout of the theme last year, we are seeing a stabilisation across utilities, as well as electric vehicles (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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All data are sourced from Bloomberg and Allianz Global Investors as at 30 June 2024 unless otherwise stated.

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