Allianz Global Investors

Allianz Best Styles Global Equity

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets.

What Happened in February

Global equities delivered mixed returns over February as markets struggled to navigate President Trump's deliberately disruptive and unpredictable agenda. Chinese stocks surged, boosted by strength in Technology companies. European shares also advanced, underpinned by growing optimism over a potential end to the war in Ukraine. In contrast, US and Japanese equities lost ground. At a sector level, defensive Consumer Staples companies were the best performing area in the MSCI All Country World Index, with Energy and Real Estate companies also faring well, while the Consumer Discretionary and Communication Services sectors suffered notable setbacks.

US equities retreated over February, underperforming most other developed markets, as sentiment was knocked by rising inflation expectations and signs of slowing momentum in the US economy. President Trump remained unpredictable, continuing to announce deliberately disruptive policies. Additionally, President Trump stepped up the trade war, slapping an additional 10% tax on Chinese exports and announcing that the 25% tariffs on exports from Mexico and Canada, which had been postponed by a month, will now start on 4 March. Growth shares lagged value stocks over the month, with small-cap stocks, which are more exposed to domestic growth, especially weak. The retreat meant that US stocks have now lost most of their gains so far in 2025.

European equities rallied over February, as President Trump's push for peace in Ukraine raised hopes that the three-year war would soon end, although markets closed the month on a weaker note after he hinted that he may introduce 25% tariffs on European exports to the US. Defence stocks, in particular, benefitted from signs that European governments will be forced to increase military spending sharply. At a sector level, Financials, Communication Services and Consumer Staples rallied the most, while Information Technology was the only sector to close the month with notable losses.

Japanese equities fell over February, pressured by a further appreciation in the yen and higher Japanese government bond yields. Japan's headline inflation rate climbed to a 2-year high of 4.0% in January, while core inflation rose to a 19-month high of 3.2%. This data reinforced the view that the Bank of Japan (BoJ) will continue to raise rates this year.

Portfolio Review

In February the Fund returned negatively (in EUR, gross of fees), underperforming its benchmark, the MSCI World Index.

February was a mixed environment for global investment styles. Our predominant investment style Value recovered and added to relative performance. On the other hand, the trend-following investment styles Revisions and Momentum contributed negatively, while Growth performed in line. The more defensive style Quality detracted.

Market Outlook

While a "soft landing" of the US economy remains the most probable scenario for us, strong US data, persistently high inflation, and uncertainty about the impact of President Trump's policies increasingly raise doubts about both the outlook for the economy and a complete normalisation of the US Federal Reserve's (Fed's) monetary policy. At the same time, US equity valuations appear high in a historical comparison. Obviously, investors' earnings growth expectations are very optimistic, above all in the Tech segment. This may ultimately lead to higher volatility on the US equity market. In this environment, risk-aware investors might turn to more favourably valued markets. In fact, it seems that they have recently channelled more capital into the European markets, not least because a number of companies pursue global business models which are less affected by the weak macro environment in Europe. In addition, several political initiatives from the US, in particular the dialogue with Russia about an end to the conflict in Ukraine, might support higher investments and a better business environment. While there are considerable political uncertainties, corporate earnings should remain robust for now, and healthy corporate earnings are usually favourable for equity investments. However, in view of concentration risks, it makes sense to diversify the portfolio and pursue a dynamic approach at both the sector and the individual stock level.

All data are sourced from Bloomberg and Allianz Global Investors as of 28 February 2025 unless otherwise stated.