

Allianz Best Styles Global Equity

Quarterly commentary

Investment Objective

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

What Happened in Q3

For global equities, Q3 was defined by several major developments. The first was a sharp sell-off in early August as weaker-than-expected US jobs data sparked recessionary fears. This was followed by a swift rebound, with many markets finishing the quarter at/near record highs, as the US Federal Reserve's (Fed's) decision to start cutting rates increased hopes of a soft landing. At the end of the quarter, China's announcement of the biggest stimulus measures since the pandemic further boosted shares. The quarter was also notable for a rotation out of highly valued growth stocks, particularly in the Information Technology and Communication Services sectors, into sectors seen to be bond proxies, such as Utilities and Real Estate.

It was a volatile quarter for US stocks. Having hit a record high in early July, the Nasdaq Composite Index subsequently retreated as technology companies, particularly artificial intelligence-related (AI-related) ones, slumped. The sell-off, which also affected the broader-based S&P 500 Index, picked up speed in early August as weaker-than-expected jobs growth sparked fears of a US recession. Shares subsequently recovered sharply as these fears proved short lived, with data supporting a soft landing for the US economy and the Fed giving its strongest hint yet that it would start to reduce rates in September. The S&P 500 Index recorded solid gains over the period, touching a fresh peak in the closing days of the quarter, with the Nasdaq posting a smaller rise as it failed to regain its July peak.

Eurozone equities closed the quarter modestly higher. Having sold off sharply in early August as disappointing US job growth sparked fears of a US recession, shares subsequently recovered strongly, reaching an all-time peak in late August. While economic data remained weak, sentiment was lifted by growing hopes of rate cuts in 2024. At the end of September, China's announcement of massive stimulus measures boosted the outlook for European luxury groups in particular. At a sector level, sectors that are seen as bond proxies, such as Utilities and Real Estate, rallied, while the

Information Technology sector suffered a double-digit decline. Energy companies also fell sharply as oil prices remained under pressure.

Portfolio Review

The Fund returned positively in Q3, underperforming its benchmark, the MSCI World Total Return (Net) Index.

The Fund implements a well-diversified blend of the five long-term successful investment styles – Value, Momentum, Revisions, Growth and Quality.

Thus, the relative performance of the Fund is primarily driven by the performance of these key investment styles.

Analysing the performance from an investment style perspective

Q3 was a rather difficult quarter, with our global investment styles facing headwinds and four of our five investment styles underperforming the market.

The contrarian investment style, Value, delivered strong performance in July. However, August and September were more challenging, as a risk-off environment led to below-average returns. Despite this, Value concluded the past quarter in positive territory overall.

For trend-following styles such as Momentum, Revisions, and Growth, July proved challenging due to a sharp "mean reversion" triggered by the attempted assassination of Donald Trump and the simultaneous collapse of the Magnificent 7* stocks. Trend-following strategies also underperformed in early August as US economic data missed expectations, leading to a stock market sell-off. However, in the following weeks, the market rebounded swiftly, allowing trend-following styles to recover and resume their positive trajectory. In the final week of August, another mean reversion occurred, causing Momentum and Revisions to underperform once more, driven by high-flying stocks like Nvidia falling short of lofty expectations. September continued to pose difficulties, especially for Growth and Momentum, leading trend-following strategies to end the quarter with negative relative performance.

The defensive Quality investment style underperformed in July and September. Despite the moderate gains in August, Quality closed the quarter negatively as well.

Overall, due to the challenging performance of our investment styles, the Fund lagged the benchmark in Q3.

Analysing the performance from a more traditional perspective of regions and sectors

The total sector allocation effect was negative over the reporting period. The most positive contribution came from overweighting Utilities and the most negative contribution came from overweighting Information Technology.

The total regional allocation effect was negative over the reporting period. The most positive contribution came from overweighting the UK and the most negative contribution came from underweighting Pacific ex Japan.

Market Outlook

From our vantage point, a “soft landing” is the most probable outcome for the US economy. However, the growth rate might remain below potential – a development which would increase downside risks. Meanwhile, there are signs of a pick-up in Europe, Japan and emerging markets. Overall, companies should benefit from the central bank rate cuts, which is why we continue to expect corporate profits to develop favourably. We are therefore still optimistic for equities and believe that market participants will begin to broaden their focus beyond a handful of highly capitalised Technology stocks. Nevertheless, the US presidential elections in November and the persistent conflicts in the Middle East and in Ukraine might lead to increased volatility during the last few months of the year. Moreover, there is a risk of a setback in Europe, as France and Germany in particular need to resolve domestic policy difficulties, and growth and financial stability appear vulnerable. Against the background of dynamic developments, which harbour both opportunities and risks, an active approach should be helpful to respond quickly to changes in the market environment.

The Fund will maintain its broadly diversified strategic allocation to long-term rewarding factors including Value, Momentum, Revisions, Growth and Quality.

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

*Magnificent 7 refers to a group of US stocks which includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

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