

Allianz Europe

Equity Growth

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in European equity markets with a focus on growth stocks in accordance with environmental and social characteristics.

What Happened in March

European equities moved lower over March but held up better than US shares. President Donald Trump's withdrawal of US military aid to Ukraine and comments signalling faltering US commitment to The North Atlantic Treaty Organisation (NATO) and European security initially weighed on sentiment, but shares recovered after the German Parliament agreed to relax its debt brake. The landmark debt reform bill will unleash hundreds of billions of euros for defence and infrastructure spending. However, European markets stumbled further towards month end on heightened uncertainty in the run-up to the president's self-dubbed "Liberation Day" of sweeping tariffs on 2 April. At a sector level, Consumer Discretionary and Information Technology shares fell the most, while Utilities and Energy were the only sectors to post gains.

The flash HCOB eurozone composite purchasing managers' index (PMI) ticked up slightly to 50.4 in March from 50.2 in February. Services activity slowed modestly but remained in expansion territory, while the manufacturing PMI rose from 47.6 in February to 48.7 in March, a 26-month high. Inflation in the eurozone eased to 2.3% in February from 2.5% in January. The European Central Bank (ECB) cut its key interest rate by 25 basis points (bps) to 2.5%, as expected, and slashed its gross domestic product (GDP) growth outlook by 0.2% to 0.9% for 2025 in light of the worrying trade tariff backdrop and economic uncertainty.

German equities declined in March but outperformed the broader European market, despite stumbling towards month end in the run-up to President Donald Trump's self-dubbed "Liberation Day" of sweeping tariffs on 2 April. German lawmakers approved a landmark debt brake reform deal proposed by the country's Chancellor-in-waiting Friedrich Merz. The historic vote will change the German Constitution and ease borrowing limits to fund higher defence and

security spending, as well as the creation of a EUR 500 billion infrastructure fund. Germany's ZEW Indicator of Economic Sentiment soared to 51.6 points in March from 26 points in February, the highest level in over two years, on optimism surrounding fiscal policy.

UK equities fell modestly over the month amid continued economic and geopolitical uncertainty, weakening further into month end in the run-up to President Donald Trump's self-dubbed "Liberation Day" of sweeping tariffs on 2 April. The UK economy unexpectedly shrank by 0.1% in January, following a rise of 0.4% in December. The Office for Budget Responsibility halved its 2025 growth outlook to 1%, while the chancellor's Spring Statement outlined welfare cuts, boosted defence spending and warned of tax hikes to come. The Bank of England (BoE) kept rates on hold at 4.5% at its March meeting, despite a slight easing in the annual rate of inflation.

Performance Review

The Fund fell in March, underperforming the benchmark and the broader MSCI Europe. Optimism initially surrounded Europe, with Friedrich Merz's "whatever it takes" plan to unleash defence spending and overhaul German infrastructure set to usher in the largest economic stimulus since the fall of the Berlin Wall. The ECB cut rates by 25 bps to 2.5% as expected, but signalled that they may slow the pace of rate cuts in future. Despite all the new local market stimulus, US tariff and recession fears eventually dominated sentiment. The withdrawal of US defence support for Ukraine further added to risk aversion.

The best performing European stocks were generally weapons manufacturers and their associated suppliers, with many banks also remaining steadfast. The risk-off mood meant the best performing sectors were Utilities, Insurance, and Energy, while Consumer Discretionary and Information Technology lagged. Overall, these market dynamics led to a significant outperformance of Value over Growth by 6.7% (MSCI European indices), creating a challenging environment for our sharply growth-oriented strategy.

The top active contributor was a domestic online property platform, while the worst active contributor was Adyen, a payments company with weaker consumer spending anticipated. We are engaging with our companies individually on tariff impact and remain confident in their relative market-leading positions pricing power, cost and technological advantages, product and service criticality, network effects, and supply chain flexibility to help mitigate impact.

Top contributors

The afore-mentioned domestic online property platform has a dominant position in German real estate classifieds. It added a further circa 2% in March, to rise over 13% year-to-date. Management increased earnings before interest, taxes, depreciation, and amortisation (EBTIDA) by around 15% in Q4. This was underlined by continued private client growth of circa 25%, and professional client growth of 4%, which has risen consecutively over the last few quarters in challenging property markets that increase criticality for the company's services. German mortgage rates spiked again following recent stimulus, so financial year (FY) 2025 guidance for 12-14% revenue growth and further margin expansion is encouraging. Recent acquisitions of a property data and valuation services provider and a local consulting and analysis companies for the real estate industry, plus a new build marketing company, further support the growth profile of this attractive platform business model.

Stock of a high-quality chocolate producer gained almost 3%, being a highly attractive Consumer Staple in a risk-off oriented market. Its FY 2024 organic sales growth was just shy of 8%, slightly below expectations, however margin exceeded 16%. This is impressive with cocoa prices reaching record highs earlier this year, rising over 150% year-on-year. To deal with extreme cocoa costs, peers shrunk product and reduced cocoa content. Conversely, the company

maintained its high standards, cut costs and took market share. Volume and promotional data remain mixed, but it is an “affordable luxury”, evidenced by its execution of pricing power recently. Management have guided for similar 7-9% organic growth in 2025 with further margin expansion.

Stock of a mining (80% of sales), construction and demolition equipment maker enjoyed a 10% boost this year, with the company helpfully linked to the infrastructure stimulus and potential Ukraine rebuild opportunity. Its Q4 beat on orders, sales and adjusted EBITDA was also well received by investors, even if margins were slightly soft due to transitory factors. Our longer-term, structural investment case is defined by ageing equipment, and the need to electrify and automate, to reduce emissions and meet climate targets. Around 85% of the company’s underground offering is now available as electric, with superior batteries to peers, although adoption is still in the early stages. Electric equipment offers higher margins, also on servicing.

Top detractors

Adyen was the star of the earnings season show, with volume growth rising from 27% in Q3 to 29% in Q4. Net revenue growth accelerated from 20% in Q3 to 23% in Q4. EBITDA margin also ramped up from 46% in H1 to 53% in H2 as the rapid headcount expansion of 2023 annualised. The strong results combined with 2025 guidance for an acceleration in net revenue growth and further expansion in EBITDA margin versus 2024. The stock rallied over 20% year-to-date until the tech selloff and recession concerns erased these gains. The runway for growth remains, with less than a third wallet share on the digital side and below 40% in unified commerce, a major growth lever where volumes also accelerated from 33% in Q3 to 36% in Q4.

A hotel group reported on FY 2024 with few surprises, given the availability of high frequency industry data and its stable, high margins. Revenue increased 7%, driven by 3% revenue per available room (REVPAR) growth and 4.3% net unit growth (in USD). Earnings before interest and taxes (EBIT) also lifted 10.3%, while earnings per share (EPS) was up 15% due to share buybacks. The company has meaningful US exposure, and with recession fears circling, the stock sold slid -18% in March. We continue to appreciate the company for its high single-digit growth in fee revenue expected from REVPAR and net unit gains, where its new hotel pipeline is up 10% year-on-year. Its valuation is now below 20x (12-month forward price-to-earnings ratio (P/E)) and looks compelling versus companies with comparable economics and risk profiles.

Novo Nordisk gave up circa 26%, pressured by a deal between a medicines and diagnostics provider and a biotechnology company to co-commercialise a competitive weight loss drug. Meanwhile, sales of Wegovy (Semaglutide) more than doubled in Q4 despite supply constraints, while management estimate GLP-1 volumes to grow by over 30% this year. Regarding tariffs, management highlighted greater US self-sufficiency in fill-finish, although inputs are imported. Novo Nordisk remains optimistic on its next adjusted CagriSema trial, and data for its newest weight loss drug Amycretin (Semaglutide plus Amylin) suggests its superiority. The Alzheimer’s read out in September appears promising and is not priced in, with the stock trading at a 12-month forward P/E of just 17x.

Purchases

Purchases include a leader (around 45% market share by passengers boarded) in travel technology solutions that help travel professionals better serve their customers – for example with the company’s passenger management platform, airlines can outsource their information technology requirements. The transaction-based pricing model allows customers to convert certain fixed technology costs into costs varying with passenger volumes, making it resilient to economic cycles. The technology and network are difficult to replicate by competitors and attempts to disintermediate the company has largely been unsuccessful.

We bought a global leader in energy management and industrial automation, mostly focused on software, services, and connected solutions. The business benefits from structural trends like electrification, energy efficiency and digitalisation, with leading market positions. Its digital platform and strong presence in high growth spaces like data centres and automation drive recurring revenues. Long-term mid-single digit organic growth is supported by operational excellence, mergers and acquisitions (M&A) and margin expansion. The company has a healthy balance sheet, very strong cash conversion and high cash flow return on investment (CFROI), ticking our boxes.

Sales

After a very strong run, we have decided to sell our position in a manufacturer of braking systems for rail and commercial vehicles. This decision allows us to reallocate the funds towards purchasing stocks with stronger upside potential, aligning with our current investment strategy.

Market Outlook

The sweeping US tariffs announced in April mark a significant escalation in global trade tensions, introducing a material headwind to global growth and sentiment. Tariffs of this scale will pressure supply chains, raise costs, and likely prolong the current period of elevated market volatility. While the risk of recession has undoubtedly risen, particularly if retaliatory measures broaden, history shows that companies that are structurally well positioned can often adapt.

We have faced similar challenges before, albeit at lower intensity: during the US-China trade war of 2018-2019, global markets corrected sharply but had fully recovered by mid-2019. Companies with strong balance sheets, pricing power, and adaptability managed to outperform, and many diversified their production. Some firms even benefitted from reshoring and supply chain investment. While near-term pressure on consumer sentiment and corporate margins is likely, particularly in the US, historical precedent suggests that quality businesses with structural growth drivers tend to navigate these environments relatively well.

Importantly, recent comments from the US administration that tariffs may be wound back for countries offering a “phenomenal” deal, and that “the tariffs give us great power to negotiate,” suggest that a path towards negotiation remains open. If no further escalation occurs, the announced tariffs could represent the maximum impact, though significant supply chain adjustments will still be necessary. Non-tariff measures, however, will complicate negotiations and prolong uncertainty, which markets tend to dislike.

Although unlikely to offset the severity of these tariffs, greater international cooperation among allied countries and accelerated reshoring efforts could help create new demand drivers over time.

Against this backdrop, our high quality, structural growth strategy naturally promotes holdings that are fundamentally resilient, with continued earnings growth key to driving stock prices as tariffs evolve – and potentially dissolve. Many of our companies are leaders in essential industries, have pricing power, asset-light models, or domestic market exposure that help buffer against external shocks. Several are also aligned with long-term secular trends such as reshoring, energy transition, and automation, which are likely to be reinforced as global supply chains regionalise.

After three years of derating, valuations for most of our European companies have fallen to, or below, their 10-year historical averages, meaning much of the current uncertainty is already reflected in prices. A lot of heat has also left our global stocks. While we intend to remain vigilant to downside risks, we are also focused on selectively adding to high-quality companies where short-term dislocations create long-term opportunities. We believe our disciplined approach and focus on quality businesses positions us well to navigate this period of heightened uncertainty.

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