

Allianz European Equity Dividend

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in companies of European equity markets that are expected to achieve permanent dividend returns in accordance with environmental and social characteristics.

What Happened in January

European equities delivered strong gains over January. Shares benefitted from increased interest in the region as favourable relative valuations helped investors overlook lacklustre growth and the threat of higher US tariffs. A rotation away from richly-valued US Technology stocks was a further tailwind. At a sector level, Financials, Communication Services and Consumer Discretionary stocks rallied the most. Meanwhile, the Utilities, Consumer Staples and Real Estate sectors lagged.

Eurozone gross domestic product (GDP) growth was flat over Q4 as contractions in Germany and France offset robust growth in Spain. Italian GDP growth was also flat. The flash HCOB eurozone composite purchasing managers' index (PMI) rose in January, marking the first expansion in the eurozone's private sector activity since August 2024. Headline eurozone inflation rose to a 5-month high of 2.4% in December, but core inflation held steady at 2.7% for the fourth consecutive month.

The European Central Bank (ECB) cut rates by 25 basis points (bps) for the fifth time this cycle and warned that economic risks were "tilted to the downside", due in part to the risks to trade of higher tariffs. German equities were among the strongest performers on a global basis over January, with the DAX Index touching a new high. Germany's economy unexpectedly shrank 0.2% in Q4, due to lower exports. Germany goes to the polls on 23 February. Current polls suggest the centre-right Christian Democratic Union (CDU) and the Christian Social Union in Bavaria (CSU) are best placed to form a new coalition government, with support from either the Greens or Chancellor Olaf Scholz's Social Democrats likely to give them an overall majority.

UK equities rallied strongly over January. The FTSE 100 Index closed the month at a fresh high, despite a slew of disappointing trading updates with companies starting to lay off workers in the face of higher employer national insurance contributions. UK ministers are said to be considering joining the Pan-Euro-Mechanism Convention, a customs agreement between the European Union (EU) and several countries in the Middle East and Balkans, as part of the Brexit “reset” talks that start in earnest in 2025.

Portfolio Review

The Fund returned positively (in EUR, gross of fees), underperforming its benchmark, the MSCI Europe. Markets were volatile during the month as investors tried to anticipate Trump's first policy moves. Meanwhile, a Chinese startup which launched an open-sourced artificial intelligence (AI) model has made a significant impact on the Technology stocks sector by announcing a powerful yet low-cost alternative to an established AI model. This development has had a notable effect on the semiconductor industry, including our holding, a semiconductor assembly equipment manufacturer. The breakthrough of the Chinese startup in AI technology has led to questions from investors regarding the future demand for traditional high performance chips. This technological advancement has led to a decline in the share prices of several semiconductor companies, as market participants fear a potential drop in demand for expensive, high performance chips. Conversely, software companies, notably an enterprise software company, have performed exceptionally well, and the absence of the company in our portfolio has proven to be a notable disadvantage.

Luxury goods companies delivered the strongest returns after a luxury goods company reported strong results. The Fund benefitted from its holding in the company, which gained almost 30% over the month, but the rise in other luxury goods companies detracted from returns. However, good stock selection in Pharmaceuticals (Sanofi and Roche) and Industrials (Volvo and Siemens) contributed to returns. A pharmaceutical company's published results for Q4 did not meet analysts' expectations, which led to a negative market reaction and meant that the non-holding of the share had a particularly positive impact on the portfolio.

While our holding in a UK bank was among the best active contributors, our overweight in KBC was a negative contributor. A seafood company, one of the world's largest producers of farmed salmon, achieved record sales in Q3, supported by high harvest volumes, and was one of our top performers in the portfolio in January. Our overweight positions in a hygiene and health company, and a consumer goods company detracted. Our positions in two advertising and media agencies were also detrimental. Our holding of a hospitality company faced cost increases, particularly due to higher energy prices and labour costs, and is currently undergoing extensive restructuring, including the conversion of restaurants into hotel rooms, which led to a short-term drop in sales. The general market volatility and economic uncertainties have also put pressure on share prices, which we consider to be temporary, but had a negative impact on performance in the month under review. We remain confident about the company's potential.

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All data are sourced from Allianz Global Investors, Eurostat, IHS Markit and Office for National Statistics, as at 31 January 2025 unless otherwise stated.

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