

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 June

European equities fell slightly in June. Earlier gains were offset by negative tariff sentiment, as a trade deal between Washington and Brussels remains elusive as the 9 July deadline approaches. Failure to reach a trade deal will result in a 50% tariff on all goods imported to the US – the European Union's biggest export partner – which will have a crippling impact on the bloc, particularly Germany. Escalating geopolitical tensions in the Middle East also weighed on sentiment, although the month ended on a more positive note following a ceasefire between Israel and Iran. At a sector level, the Consumer sectors fared worst, while Energy rose the most.

Eurozone gross domestic product (GDP) increased by an upwardly revised 0.6% in Q1 compared with 0.3% the previous quarter, marking the fifth consecutive quarter of expansion. Meanwhile, the flash estimate of the HCOB eurozone composite purchasing managers' index (PMI) remained unchanged in May with a reading of 50.2 (above 50 signifies growth). Inflation in the eurozone fell below the European Central Bank's (ECB's) 2% target to 1.9% in May, down from 2.6% a year ago and from 2.2% in April. The ECB cut its key interest rate by 25 basis points (bps) to 2.0% but signalled that it may be nearing the end of its rate-cutting cycle. The central bank cut its inflation forecast for 2025 to 2.0% from 2.3% in March but left its growth outlook unchanged at 0.9% for this year.

German equities eased over June. The DAX Index hit a fresh record high early in the month on positive factory orders data and optimism around an ECB rate cut, which duly transpired. Sentiment was also supported after the Bundestag approved a EUR 46 billion business-friendly tax relief package aimed at boosting investment. However, German stocks joined the global sell-off as geopolitical tensions soared in the Middle East. The flash estimate of the HCOB Germany

composite PMI nudged into positive territory in June with a reading of 50.4, bolstered by manufacturing activity, which reached a 39-month high. Furthermore, Germany's ZEW Indicator of Economic Sentiment continued to improve, climbing to 47.5 in June from May's 25.2.

UK shares closed June broadly flat. Early in the month, defence names led UK indices higher after the UK government announced an increase in military spending as part of its defence review. Subsequently, heightened geopolitical tensions in the Middle East sent both oil prices and shares in oil majors surging, taking the FTSE 100 to an all-time high.

Portfolio Review

The Fund's relative underperformance versus the benchmark was partly driven by a market rotation favouring growth-oriented sectors, particularly defence companies within Industrials and the Technology sector. In contrast, previously strong areas such as insurance and banks saw their upward momentum pause.

Geopolitical tensions, especially the escalating conflict between Iran and Israel and the involvement of the US, contributed to increased market volatility. Stock selection was less effective during the month, with several overweight positions – including GSK; a hygiene and health company; a mining company; and an advertising and public relations company – detracting from performance. As a dividend-focused approach, the Fund was less exposed to the rally in Technology and defence names. However, the position in a semiconductor equipment company helped offset some of the downside.

On a positive note, the Fund's modest overweight in the Energy sector, including positions in TotalEnergies and a Norwegian energy company, contributed positively, as the sector outperformed the broader market. In addition, overweight positions in Siemens and a construction and building product manufacturing company – both Industrial names – were also positive contributors.

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