

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 sustainable dividend returns in accordance with the Sustainability Key Performance Indicator Strategy (Absolute). In this context, the aim is, at least, a year-on-year improvement pathway on the sub-fund's weighted average Sustainability KPI to achieve the investment objective.

What Happened in September

Eurozone equities closed the month little changed. To an extent, the US stock market influenced movements in Europe. Shares sold off in the first half of the month as continued weak US job growth raised recessionary fears once more, before rallying in the second half as central banks loosened monetary policy and the Chinese authorities announced additional stimulus measures. Sectoral returns were mixed. Materials, Real Estate and Utilities were the strongest sectors, while the largest losses came from Energy, Health Care and Information Technology.

Eurozone economic activity weakened in September following the short-term boost from the Paris Olympics during the previous month. The HCOB eurozone composite purchasing managers' index (PMI) fell to 48.9, the lowest level since January and moving back below the 50 level that separates expansion from contraction for the first time in seven months.

Eurozone inflation slowed, easing to 2.2% in August, its slowest pace in three years. With growth subdued and inflation nearing its official target, the European Central Bank (ECB) cut rates for the second time this cycle. ECB President Christine Lagarde signalled more rate cuts were expected but downplayed the likelihood of one at the next rate-setting meeting in October.

German equities rallied moderately, outperforming the broader eurozone, with the DAX Index touching a fresh peak towards month-end as another cut in interest rates boosted hopes for an improved economic outlook. UK equities slid modestly over the month, with the FTSE 100 Index dragged lower by its heavy weighting to Energy and Health Care companies, two of the weakest sectors in September. Chancellor Rachel Reeves' stern warning over the state of public finances weighed on consumer sentiment ahead of her first budget at the end of October. With headline inflation holding steady at 2.2 % in August, the Bank of England (BoE) kept rates on hold at its September meeting, although it signalled that rates would likely be cut again before year-end.

Portfolio Review

The Fund closed the month little changed, but positive with a return outperforming the MSCI Europe. The small moves in the overall market mask a month that saw significant news and sector rotation. Although most industry groups rose modestly, a few large sectors fell, namely Pharmaceuticals, Semiconductors and Energy (oil companies). These were driven by a mixture of specific news, oil price declines, and moves in investor sentiment. The Fund was well positioned for this, with positive effects from stock selection (especially in Pharmaceuticals) and sector allocation (semiconductors).

Key positives came from not owning a pharmaceutical company focused on obesity, a chip equipment maker, and a cancer drug specialist. Key holding that helped the Fund's returns was a Spanish airports operator which recovered from previous months' over-reaction to regional government issues. A clothing retailer was also strong after a good H1, unlike competitors which we do not own. As stock selection was very successful during the month, there were only a few minor detractors this month such as GSK, TotalEnergies, Roche, an automotive company, and an energy company.

Following the Fund's recent strong performance, there were more transactions this month. Rising share prices led us to reduce holdings such as Unilever, the afore-mentioned clothing retailer, a digital automation and energy management company, and a financial services company, which now have higher valuations and lower yields. Conversely, we added to companies with lower valuations and higher yields, including Siemens, a logistics company, and an insurance company.

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