Allianz Global Investors

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 May

European equities moved higher in May, with defence names leading the way amid faltering hopes of a ceasefire in Ukraine. Having sold off sharply mid-month after President Donald Trump threatened to slap 50% tariffs on all of the bloc's exports to the US from 1 June, European markets rebounded on news that Trump had delayed implementation until 9 July to allow more time for negotiations. At a sector level, Information Technology and Industrials stocks were the strongest performers amid a slew of positive earnings releases. Health Care stocks brought up the rear, but still managed a modest positive return during the month.

In its Spring Forecast, the European Commission slashed its gross domestic product (GDP) growth outlook for the eurozone on the back of heightened macro uncertainty and trade tensions. The bloc's economy is now expected to grow by 0.9% this year and 1.4% in 2026, down from previous forecasts of 1.3% and 1.6% respectively. Data for May demonstrated that the eurozone is falling back into stagnation, with the flash estimate of the HCOB eurozone composite purchasing managers' index (PMI) unexpectedly dipping into contractionary territory, falling to 49.5 from 50.4 in April (above 50 signifies growth). This was largely due to a slowdown in services activity, which has long been the bloc's main growth driver. Inflation in the eurozone held steady at 2.2% in April, defying consensus expectations of a slowdown. German equities advanced strongly in May, with the DAX Index touching a record high on US-European trade deal optimism. Friedrich Merz won the second Bundestag vote to become Germany's new chancellor after a humiliating defeat in the first vote signalled discontent in the country's newly formed coalition government. Germany's GDP growth for Q1 was upwardly revised to 0.4% from a previous estimate of 0.2%, due to stronger output in manufacturing and exports than initially assumed.

The UK economy recorded its strongest pace of growth in a year, expanding 0.7% in Q1, up from a lacklustre 0.1% in the final three months of 2024. The Bank of England (BoE) cut rates by 25 basis points (bps) to 4.25%, as expected, but the hawkish 5-4 vote split prompted markets to price in reduced odds of a third rate cut later this year.

Portfolio Review

In May, the Fund gained, underperforming the MSCI Europe index. Despite continued volatility, European equity markets advanced on growing investor confidence in increased government spending on defence and infrastructure. This environment favoured cyclical sectors, which led the rally – particularly capital goods, banks, and semiconductors.

Our holding in a producer of semiconductor assembly equipment benefitted from this trend, while the absence of a semiconductor equipment manufacturer detracted from relative performance. The Fund also profited from strong positioning in the Banking sector, with overweight positions in an Irish bank and KBC contributing positively. Additional support came from our overweights in a courier company and a hospitality business, reflecting strength in selected consumer and logistics names.

On the other hand, negative contributions came from our overweight positions in Münchener Rück and a water, energy and waste management company, representing the Insurance and Utilities sectors respectively. Münchener Rück posted a modest positive Q1 return but underperformed relative to the broader Financials sector, which was led by strong gains in banks. The water, energy and waste management company, despite delivering resilient operational results, saw its share price lag behind the broader market rally.

Sectors less tied to economic growth underperformed. Within Health Care, our overweight positions in a pharmaceutical company and Roche detracted from performance, while the absence of another pharmaceutical company proved beneficial. Similarly, our exposure to the Food and Beverages sector – namely a supplier of food and beverage ingredients to industrial markets – also weighed on returns. Our holding in a sales, marketing and business support services group, which reported lacklustre results, further detracted from performance. The Fund did not hold defence companies such as a German automotive and arms manufacturer, a British aerospace and defence company, and a French aerospace, defence and security corporation, all of which posted double-digit gains during the month.

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

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