

# Allianz Global Artificial Intelligence

## Monthly commentary

### Investment Objective

The Fund aims at long-term capital growth by investing in the global equity markets with a focus on the evolution of artificial intelligence in accordance with environmental and social characteristics.

### What Happened in November

Global equities were mixed in November, ending the month broadly unchanged after early volatility. The S&P 500 eked out a gain after trading down more than 4.5% at one point, pushing higher for a seventh straight month. The Nasdaq underperformed amid heightened scrutiny on artificial intelligence (AI) spending trends. In other markets, European markets posted modest gains while Asian equities underperformed, pressured by softness in select Asian technology hubs, including South Korea and Taiwan, alongside continued challenges in China. Turning to sectors in the MSCI All Country World Index, Health Care stocks rose the most, as investors rotated out of the high-growth areas. Utilities was another outperformer. Consumer and Real Estate were the weakest performing sectors.

The 43-day US government shutdown ended, allowing for a backlog of economic data releases. Delayed non-farm payrolls data revealed that the US economy added 119,000 jobs in September – exceeding consensus estimates. However, the unemployment rate in the US ticked up to 4.4% in September. There were notable swings in monetary policy expectations over the month, as December rate cut expectations fell below 30% before a meaningful reversal following dovish comments from the Federal Reserve Bank of New York's President Williams. The Bank of England (BoE) kept the base rate at 4.0% ahead of the Autumn Budget, while a decline in headline inflation led to increased rate cut expectations. In Japan, rising inflation and continued yen weakness bolstered expectations of further monetary policy normalisation.

Brent crude oil prices eased in November, closing at just over USD 63 a barrel as oversupply concerns mounted against a backdrop of deteriorating global demand. Prices came under additional pressure as a potential ceasefire between Russia and Ukraine raised the possibility of previously sanctioned Russian crude re-entering global markets. Gold prices

rose in November, bolstered by safe-haven appeal amid higher equity market volatility. The precious metal closed November at over USD 4,200 an ounce, as the US dollar softened amid growing expectations of further US Federal Reserve (Fed) easing in December.

## Portfolio Review

From a sector perspective, Health Care and Information Technology were the largest contributors, while Consumer Discretionary and Consumer Staples were offsetting. AI-enabled industries was the top performing theme, helped by positive stock selection in the Health Care sector. AI infrastructure and AI applications slightly underperformed the custom benchmark amid heightened investor scrutiny on data centre investment trends.

### Contributors

Eli Lilly and Co. is a leading pharmaceutical company, complemented by AI-driven drug discovery initiatives. Shares outperformed following the company's Q3 results, which was driven by strong uptake of its glucagon-like peptide-1 (GLP) therapies for weight management and diabetes, alongside robust performance in its core biopharma portfolio. Looking forward, the company's growth prospects remain attractive driven by its robust drug pipeline and franchises, which include oncology, diabetes and central nervous systems. Eli Lilly's innovation in obesity treatments with promising oral treatments is another key growth driver to expand its addressable market.

Another contributor on a relative basis was Nvidia Corp. Although the stock was a meaningful position in the Fund, it was a relative underweight in the blended benchmark, which had an average weight of 12.76% versus the Fund's average allocation of 8.06%. Despite delivering solid earnings results, Nvidia shares pulled back amid greater investor scrutiny on the AI spending trends and the success of a technology conglomerate's latest AI model, which was developed outside the Nvidia's ecosystem.

### Detractors

A top detractor over the period was a provider of cloud networking solutions that includes high-performance data centre switches, routers, and network security products. Despite delivering solid earnings results, shares underwent some profit taking as the company provided revenue guidance that missed elevated expectations due to supply constraints and long lead times for certain components. Though, we expect these bottlenecks to resolve over time. The company remains well positioned to capitalise on the rapid expansion of AI supercomputing clusters, with their high-performance networking solutions playing a critical role in enabling thousands of graphics processing unit (GPU) to communicate seamlessly, which is essential for complex AI workloads.

Our underweight position in a smartphone and personal computer giant was another relative detractor due to its significant weighting in the custom benchmark. The company had an average 10.52% weight in the benchmark, while the Fund had an average exposure of 3.53%. The stock was higher amid strengthening smartphone sales in the US and China, with additional benefit from a product mix towards the higher-priced offerings.

### New buys and sells

We added a global leader in photonics technologies, designing, manufacturing, and marketing engineered materials, optoelectronic components, lasers, and optical transceivers. We initiated a position at this time as we believe the company is poised to benefit from strong optical networking spend associated with the AI data centre buildout, which we believe can drive upside revisions to the company's revenues and profits over the next year.

We also initiated a position in a leading provider of optical networking systems, routing and switching solutions, and automation software as we believe the company is poised to benefit from strong optical networking spend associated with the AI infrastructure investment cycle, which we believe can drive upside revisions to the company's revenues and profits over the next year.

We exited the position in a technology platform that connects customers with local restaurants, grocery stores, and retailers for on-demand delivery as the management indicated that they would be stepping up their spending to modernise the company's information technology (IT) infrastructure. This investment is expected to present a headwind to 2026 cash flows, which could limit upside potential for shares.

We sold the position in a home improvement retailer as the company reported disappointing results and lowered guidance. It continues to be impacted by macroeconomic headwinds that appear to be getting worse near-term rather than showing stability.

## Market Outlook

We remain positive on the long-term outlook for equities, with Q4 historically being a seasonally favourable period for stocks. With the market starting to look forward towards a re-acceleration in earnings in 2026 across more sectors, this setup is conducive for the market to broaden out more to underappreciated areas of AI-enabled industries and AI applications. This includes tailwinds from the Fed resuming its rate cut path and implementation of the One Big Beautiful Bill Act as well as the Trump administration's other pro-business agenda.

However, it is possible that markets undergo short periods of volatility, as we could see more profit taking after a strong run, growing fears of an AI bubble, and a more complicated policy backdrop balancing risks of inflation and economic growth. For now, equity markets have been on an upward trajectory since early April and we believe the outperformance of AI-related stocks could continue with a more benign policy environment.

As we continue to follow the fundamental factors of the AI ecosystem, we maintain the view that growth trajectory remains in its early stages. From a demand perspective, the landscape continues to experience tailwinds from new AI data centre announcements and rapidly growing compute workloads from adoption of new AI reasoning models. The spending environment remains disciplined from across the ecosystem. At the downstream end, semiconductor and component suppliers have yet to materially ramp capital spending in response to the surge in AI infrastructure announcements. Unlike prior hype cycles, suppliers are responding with caution, choosing to wait for firm purchase commitments. Further upstream, cloud hyperscalers and internet leaders are increasing data centre spend, supported by solid earnings and AI growth opportunities. While the aforementioned AI research company has captured headlines with sizable investment ambitions, they are part of a much wider movement advancing AI innovation. Taken together, these dynamics suggest that the current AI investment cycle remains early, broad-based, and underpinned by solid fundamental factors rather than speculative excess.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities becomes readily available from the robust "phase one" infrastructure buildout. We are beginning to enter "phase two" where new generative AI use cases and application adoption drive significant benefits over the coming years. Our analysis suggests that investments in AI could lower the marginal costs of operations, much like the IT revolution did. Furthermore, the advanced features of AI-enhanced products or services can drive new levels of productivity, cost savings and revenue opportunities across industries in "phase three". Given the transformative potential of AI investments, we believe profit

margins may not simply hold steady but could in fact grow, supporting valuations for innovative companies that are investing now to disrupt the status quo.

**AI infrastructure:** Spending on AI infrastructure should continue to be robust over the next several years as more powerful AI data centres are built around the globe. Nvidia's upcoming Blackwell AI chips provide up to a 30 times performance increase compared to the previous generation and more hyperscalers are designing custom AI chips to meet their unique specific needs. This is driving demand for new data centre architectures that can handle the higher power, cooling, space, and networking requirements. Overall demand for generative AI training remains durable as more companies across the ecosystem are rushing to build better foundational models or fine-tune other models. Growth in AI inference systems is also expanding to process and respond to new data in real-time and support applications that require low latency and high reliability at the edge of the network. Newer reasoning engines require more "think time" to yield better results, driving additional workload demand.

**AI applications:** Generative AI applications are evolving into their next phase with the emergence of AI agents. Unlike AI copilots designed to answer a single question, AI agents have decision engines that allow them to operate autonomously and complete complex tasks. AI agents can be easily customised to handle repetitive tasks and have human-like decision making capabilities to adapt to different situations. This can create a new level of automation and dramatically cut costs and improve productivity. We believe there will be an upcoming surge of new generative AI infused applications across many areas of consumer and enterprise workflows over the next several years, driving more investment opportunities.

**AI-enabled industries:** AI continues to open up new possibilities to drive true industry transformation across every industry. Many companies in AI-enabled industries are increasing investments in generative AI to train one's own industry-specific model on its proprietary content or knowledge to compete better. In Health Care, the application of AI could dramatically speed up the time for drug discovery, accelerate clinical trials and dramatically improve efficacy of medical devices. Within Financial Services, there are companies with significant volumes of data related to transactions, customer interactions and research. This allows for the creation of AI solutions to enhance operational efficiency, improve fraud detection and personalise client service. There are similar opportunities within Automotive, Consumer, Industrials, Energy, and even Mining. We think this is only the beginning as innovative companies embrace AI to enhance efficiency, lower costs, launch new products, take market share and drive higher levels of profitability.

We are still in the early innings of the AI era. Despite significant advancements, there is a lot more potential to be unlocked in the future. The industry is rapidly evolving, with major investments and innovations continuing to drive progress towards artificial general intelligence, possibly within the next decade. AI is becoming more integrated into various fields, from finance to health care to humanoid robotics. It is an exciting time, and we are likely to see even more transformative changes in the coming years.

Our view remains that the compounding effect from AI disruption will create opportunities for innovative companies across every sector. We believe that stockpicking will be essential to capturing the benefits of this opportunity, as today's AI winners may change in the future in an environment characterised by rapid change and disruption. We remain focused on identifying the companies that can best leverage AI to deliver the most shareholder value creation over the long term.

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All data are sourced from Bloomberg and Allianz Global Investors as of 30 November 2025 unless otherwise stated.

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