

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 May

Global equities advanced in May, with the MSCI All Country World Index (ACWI) delivered modest gains amid generally supportive risk sentiment. Equity markets benefitted from continued enthusiasm around artificial intelligence (AI) and broadly resilient corporate earnings, particularly in the US. Stocks also benefitted from slumping oil prices on reports that the US and Iran may be edging closer to agreeing a peace deal. From a sector perspective for the MSCI ACWI, performance was largely concentrated within the Information Technology sector, which was the only sector to outperform the global index. The sector benefitted from broadening AI rally, with strong returns across semiconductors, hardware, and software. Conversely, Energy and Utilities were the worst performing sectors. Energy equities were volatile during the month, reflecting sharp swings in underlying commodity prices rather than company-specific fundamental factors.

From a macroeconomic standpoint, incoming data in May suggested a US economy that remained resilient. Labour market releases indicated continued job growth. Non-farm payrolls data showed that the US economy added 115,000 jobs in April, beating consensus estimates and marking the second consecutive monthly rise, while the US unemployment rate held steady at 4.3%. Elsewhere, the annualised Q1 gross domestic product (GDP) print was revised down to 1.6% from an initial estimate of 2.0%, while the Federal Reserve Bank of Atlanta's GDPNow running estimate of annualised economic growth ticked up to over 4% for Q2.

May was a quiet month for the major central bank rate setters, with only the People's Bank of China (PBoC) meeting and leaving its loan prime rates unchanged for the 11th consecutive month. In the US, Kevin Warsh was confirmed by the Senate to serve as the new chair of the US Federal Reserve (Fed), succeeding Jerome Powell.

Oil prices eased in May. Brent crude moved off recent highs at the start of the month, falling back below USD 100 a barrel amid hopes of a US-Iran peace deal and news that a handful of tankers had crossed the strait, spurring hopes that the crucial shipping lane might fully reopen. Meanwhile, gold prices fell slightly in May. The precious metal rose early on as mounting optimism around a US-Iran peace deal helped to ease inflationary risks and expectations of higher interest rates. However, prices resumed their descent, closing the month above USD 4,500 an ounce, as cautious optimism mounted around the prospects of a deal to end the conflict.

Portfolio Review

During the period, the Fund outperformed versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). The Fund continues to outperform over the year-to-date period, spanning the period before the Iran conflict, through the escalation and recent de-escalation recovery that started in April.

From a sector perspective, Financials and Health Care were the largest contributors, while Industrials and Information Technology were offsetting. Overall portfolio outperformance was driven by the AI infrastructure dimension, with notable strength across hardware, memory, and semiconductor holdings benefitting from strengthening AI data centre spending. AI applications outperformed as the broader software sector recovered. AI-enabled industries delivered positive absolute returns but underperformed amid a narrow market backdrop, as performance was largely concentrated in the Information Technology sector.

Contributors

Flex Ltd. is a leading contract manufacturer, offering solutions that span from initial design to manufacturing through the life cycle of customer product. The key performance driver has been the market's positive reaction to Flex's strong quarterly results, and its decision to spin off the Cloud and Power Infrastructure segment, which investors view as unlocking the value of a high-growth AI data centre power and thermal platform. Looking forward, Flex remains a key provider of advanced manufacturing solutions and operates global supply chains across a diverse set of industries, including AI hyperscalers. Flex is involved in producing high-performance AI server racks as well as power solutions for AI data centres, positioning the company to capitalise on the AI infrastructure buildout.

Our position in semiconductor memory producer Micron Technology, Inc. was among the largest contributors over the period. The stock outperformed in May, supported by growing evidence of a persistently tight memory environment driven by strong AI infrastructure demand, which may support improved dynamic random-access memory (DRAM) and NAND pricing. Micron remains well positioned to capitalise on the strong semiconductor memory market with demand for memory continuing to exceed available supply. The company is also making strides on high bandwidth memory, which is essential for AI infrastructure.

Detractors

Caterpillar Inc. manufactures construction and mining equipment, engines as well as power generation solutions. Shares underperformed amid fears of increased competition in the turbine generator space. In the long term, Caterpillar continues to have a compelling growth trajectory, as its leadership in heavy machinery and onsite power solutions positions it to benefit from the AI infrastructure buildout. The company is also favourably positioned to capitalise on a recovery in global demand for autonomous and efficient industrial systems.

GE Vernova Inc., which manufactures and services energy equipment, was another detractor over the period. The stock underwent some profit taking over the month, as broader heavy-duty gas turbine manufacturing capacity expanded, weighing on investor sentiment. Looking ahead, the strengthening growth in AI data centres is driving electricity demand – projected to double US power needs by 2030 – is directly benefitting the company. This has driven a surge in orders for its gas turbines and grid equipment that should convert to strong revenue and profit growth for GE Vernova.

New buys and sells

We exited the remaining position in Meta Platforms, Inc. after the company reported results that included a continued increase in capital spending plans. We have a more cautious view on Meta's investments, as the company must prove its ability to keep pace on AI innovation and execute internal projects to generate high return from investments. Presently, we view this as a higher risk path that could weigh on shares.

Additionally, we sold the position in Deere & Co., as the company has been experiencing a downturn in its core large agriculture business. Farmers have been deferring equipment purchases amid lower crop prices, higher costs, and elevated interest rates. This has pushed the recovery timeline further out, driven earnings downgrades, and pressured margins. While construction and small agriculture remain relatively resilient, they do not offset the large agriculture weakness.

There were no new buys during the month.

Market Outlook

Despite recent volatility, we maintain a constructive longer-term outlook for equities. Ongoing negotiations with Iran have helped provide some additional visibility on the potential path towards de-escalation, although the timing and outlook remains uncertain. At the same time, markets have recently demonstrated a willingness to look through geopolitical uncertainty and refocus on corporate fundamental factors, supported in part by healthy Q1 earnings results. Within this context, we continue to maintain a balanced portfolio of companies benefitting from innovation and favour those better positioned to navigate a more complex environment. There may be opportunities to upgrade select names and add to high conviction ideas amid any market volatility to better position the portfolio for improved performance.

Over the intermediate term, an improved economic and earnings growth backdrop across more sectors should drive a broadening out effect in the equity market. Many major central banks have cut interest rates or signalled a bias for future cuts to keep financial conditions supportive of economic growth. In the US, the Trump administration's pro-business agenda also provides tailwinds through tax cuts, deregulation, domestic investments, and manufacturing reshoring. These efforts should help stimulate growth for both consumers and corporations across more areas of the economy as the conflict with Iran eases.

The topic of an AI bubble has been a key area of focus for the media and many investors. In our view, it is too early to draw a conclusion. We think it is important to highlight that current valuations and capital intensity are materially lower than the dotcom bubble. Also, the AI capital expenditure cycle is being funded by some of the biggest and most profitable companies in the world. There are likely pockets of speculation with some data centre projects and private companies, and we may see period of digestion at some point in a few years.

While the Technology sector may continue to perform well, we expect improved earnings growth from a wider set of companies across other sectors. This should lead to broader equity market participation, creating a healthier and more balanced environment compared to one dominated by a concentrated group of mega cap stocks. The Fund is designed

to invest across a broad spectrum of technologies and industries embracing the disruptive power of AI. This includes sectors such as Financials, Health Care, Consumer, and Industrials that are beginning to see early benefits from AI. As earnings re-accelerate across more companies and sectors, we believe this creates compelling stock selection opportunities for our diversified AI investing approach.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities become readily available from this robust infrastructure buildout wave. We are beginning to enter the next wave, where AI pilots go into production. The advancements of AI-enhanced products or services can drive new levels of productivity, cost savings and revenue opportunities across industries. 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: The ongoing expansion of global AI data centres remains stronger than many investors appreciate, and concerns about capital spending are likely to persist as we climb the wall of worry. There are many bottlenecks to this new AI industrial revolution buildout, which continues to provide many compelling opportunities. Some key areas include accelerated computing chips, semiconductor manufacturing equipment, power production and power efficiency, and advanced networking.

AI applications: Over the next few years, AI applications and software will evolve from being helpful tools to a partner that acts on our behalf. We are moving away from the era of “static apps” toward a future of “collaborative autonomous agents” that can reliably act, remember context over time, and adapt to any situation. This new wave of intelligent applications should drive more automation, deliver significant efficiency gains, and open new monetisation opportunities. While the 2025 software spending environment has been mixed, we believe the backdrop could stabilise and improve in 2026.

AI-enabled industries: We are still in early stages of true AI adoption across industries. Innovative companies that have been early AI adopters are moving more pilot projects into production, accelerating financial and competitive benefits compared to their peers. We believe leading AI adopters in the Financial Services, Health Care, Industrials and Consumer sectors are beginning to see the early benefits of AI driving better financial results. These opportunities remain underappreciated by investors and represent an attractive area for alpha generation in our view.

The AI revolution is only beginning, and its trajectory promises to dramatically reshape the global economy. Recent advancements in AI demonstrated its potential, yet we are only in the early chapters of a much larger transformation that will gain momentum as innovation brings us closer to artificial general intelligence – potentially within the next decade. AI is rapidly redefining processes and competitive dynamics in every sector. In the next decade of AI, we believe more alpha generation may come from the companies that help enable AI transformation. The innovators in each industry will be ones that truly embrace AI to significantly boost productivity, reduce costs, and launch new products or services. Stockpicking will be essential to capturing the benefits of this opportunity, especially in an environment characterised by disruption and change. As we have done since the launch of the Fund almost a decade ago, our focus remains on identifying the innovative companies best positioned to 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 31 May 2026 unless otherwise stated.

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which the investment team transferred to Voya Investment Management. This did not materially change the composition of the team, the investment philosophy nor the investment process. Management Company: Allianz Global Investors GmbH. Delegated Manager: Voya Investment Management Co. LLC ("Voya IM").

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