

# 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 March

Global equities were lower in March due to multiple factors. Fears of a growth slowdown, geopolitical tensions and tariff uncertainty weighed on investor sentiment. In the US, the Technology-heavy Nasdaq Composite Index closed the month at a 6-month low, while the S&P 500 Index briefly fell into correction territory, having dropped 10% from its early-January peak. Value stocks outperformed their growth counterparts, as investors rotated into more defensive areas of the market. European shares also moved lower as hopes for a ceasefire faltered in Ukraine and trade tensions rose. Emerging markets held up better, with China stocks continuing its recovery from the prior month.

Fears of a global trade war and slowing global growth overshadowed economic news for much of the month. The US Federal Reserve (Fed) and Bank of England (BoE) held rates steady, as did the Bank of Japan (BoJ). Meanwhile, the European Central Bank (ECB) cut its key interest rates by 25 basis points (bps) to 2.5%, as expected, and slashed its gross domestic product (GDP) growth outlook for 2025, citing the tariff environment and heightened economic uncertainty. Meanwhile, German parliament passed a bill to step up government spending to fund higher defence and infrastructure investment.

Oil prices closed March little changed. Brent crude briefly fell back below USD 70 per barrel – the lowest level since December 2021 – amid fears that recently imposed US tariffs will diminish global energy demand at a time when the world's oil producers are increasing output. But prices recovered later in the month after President Donald Trump threatened to impose tariffs on countries buying Venezuelan oil. Meanwhile, gold continued to advance on safe-haven demand, breaching USD 3,100 an ounce for the first time on record.

From a sector perspective, for the MSCI All Country World Index, Energy and Utilities were the only sectors with positive absolute returns given the market's preference for value and defensive characteristics. The Information Technology and Consumer Discretionary sectors were laggards over the month due to profit taking in growth and momentum stocks.

### Portfolio Review

During the period, the Fund underperformed versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). A backdrop of policy uncertainty due to tariffs, softer economic conditions, concerns over the sustainability of artificial intelligence (AI) capital expenditure (capex) spending, and lower earnings growth expectations translated to a more cautious stance by investors. This prompted profit taking, technical-related selling from systematic strategies and hedge funds to de-risk their portfolios, and a rotation into defensive sectors of the market. Such a market environment weighed on the AI ecosystem broadly. This included underperformance of the Fund's exposure to AI infrastructure, AI applications and AI-enabled industries relative to the blended benchmark. From a sector perspective, Information Technology and Financials were the largest detractors, while Consumer Discretionary was the only relative contributor.

### Contributors

A global online travel agency headquartered in China offers a comprehensive suite of travel services, including accommodation reservations, transportation ticketing, packaged tours and corporate travel. Shares outperformed amid solid China domestic and outbound travel trends and continued government stimulus efforts. We continue to believe the company is well-positioned to not only benefit from the Chinese government's efforts to stimulate its economy, but also stands to gain share through its rapid pace of innovation within the travel market.

Our underweight position in technology hardware producer Apple Inc. was among the top contributors due to its significant weighting in the custom benchmark. Apple had an average 12.2% weight in the benchmark, while the Fund had an average exposure of 2.9%. Shares were lower during the period given supply chain risks from tariffs.

### Detractors

Shares of a provider of project management and software development tools that help teams work more effectively underperformed alongside the broader software space due to ongoing macro uncertainty and data that pointed to slightly slower demand trends. The company remains well positioned to deliver on an attractive growth trajectory through pricing changes and product innovation. This includes their AI agent platform, which can catalyse more opportunities for the company's software to penetrate its customer base and enable more automation.

Our position in a provider of task management software that helps teams collaborate and organise projects was another relative detractor over the period. Although the company announced solid quarterly earnings results, shares pulled back on the announcement of its CEO's intentions to retire. In the longer term, it appears the company is near an inflection point where its product can have a broadening appeal among existing and prospective clients with the integration of more AI.

### New Buys and Sells

We initiated a new position in a multinational electronics manufacturing services company. The company specialises in manufacturing critical hardware infrastructure – such as servers, storage solutions and high-speed networking switches

– for AI data centres. It has had notable wins in AI recently, reinforcing its position as a key supplier in the AI infrastructure space.

We exited the remaining stub position in a cyber security company as we have been concerned about the pending departure of the Chief Financial Officer, who announced his retirement.

## Market Outlook

Although we maintain a positive long-term outlook for equity markets, the Trump administration unfortunately is taking a more aggressive approach with reciprocal tariffs. The tariffs were larger than expected with a shorter-than-expected phase-in period. It remains to be seen how other countries will react and the extent of the retaliatory actions, which in turn may take longer to find a compromise. Such a policy backdrop can contribute to potential risks of inflation and a growth slowdown, weighing on investor sentiment.

Longer term, we continue to believe the Trump administration wants the US to maintain its leadership in AI innovation and is focused on bringing more manufacturing back onshore. However, markets will need to settle into this new policy regime, as investors await clarity on the impact on economic activity and earnings expectations. It is important to highlight a lot of uncertainties are now being discounted into equity prices. As we get more clarity over the coming months, markets may begin to stabilise and stage a recovery from oversold conditions.

From a monetary policy perspective, the Fed looks to be in a comfortable spot balancing inflation with economic stability. In a recent interview, Fed Chair Jerome Powell acknowledges the current high level of uncertainty associated with tariffs that includes impacts on inflation. Powell also reiterated that Fed is well positioned to wait for greater clarity before resuming its rate cut path. Eventually, an easier monetary policy backdrop should offset some of the tariff headwinds and help the market find its footing.

We recognise that more caution is warranted given a more uncertain backdrop and favour companies that are better positioned to navigate through a more complicated environment. As markets digest these additional risks, there may be opportunities to add to names that have overshot to the downside relative to their fundamental attributes and growth trajectory. Amid the volatility, we are opportunistically looking to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities becomes readily available from the robust “Phase 1” infrastructure buildout. We are beginning to enter “Phase 2” 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 information technology (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 3”. 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 remained 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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[sg.allianzgi.com](https://sg.allianzgi.com)

+65 6438 0828

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All data are sourced from Bloomberg and Allianz Global Investors as of 31 March 2025 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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