

# 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 January

Global equities advanced over January, led by European shares. While US stocks also moved higher, gains were limited by profit taking in Technology stocks amid investor debate on the impact of an emerging Chinese startup which launched an open-sourced artificial intelligence (AI) model on the levels of artificial intelligence (AI) spending. Investors also digested a series of executive orders and announcements from the new Trump administration. While deregulation was initially constructive for market sentiment, uncertainty surrounding tariffs weighed on markets at the end of the month.

The US economy grew less than expected in Q4, with gross domestic product (GDP) rising 2.30% on an annualised basis, the slowest pace of growth since the start of the year. Consumer spending was the main driver of economic activity, with job growth ending the year on a strong note. Non-farm payrolls increased by 256,000 in December, the biggest monthly rise in nine months.

It was a mixed month for interest rates around the world. The US Federal Reserve (Fed) left rates on hold. Fed Chair Jerome Powell said US policymakers “do not need to be in a hurry to adjust our policy stance”. Meanwhile, as widely expected, the European Central Bank (ECB) lowered rates by 25 basis points (bps) for the fifth time this cycle, while the Bank of Japan (BoJ) raised rates by the same amount.

Oil prices rose. Brent crude breached USD 82 per barrel for the first time in almost six months after the US said it was planning to increase sanctions on Russian oil companies, causing Indian and Chinese buyers to find alternative suppliers. But crude prices later fell as Donald Trump urged the Organisation of the Petroleum Exporting Countries (OPEC) to

lower oil prices and pushed for more domestic oil production. Gold rallied, breaching USD 2,800 an ounce for the first time on record as US investors sought safety ahead of potential tariffs on US imports.

From a sector perspective, for the MSCI All Country World Index, performance was led by Communication Services, helped by constructive earnings results. The Health Care sector was another outperformer. Information Technology was the only sector with negative absolute returns as the uncertainty surrounding the afore-mentioned Chinese AI startup caused some profit taking and rotation away from semiconductors. The Real Estate sector was another underperformer.

### Portfolio Review

During the period, the Fund outperformed versus the blended benchmark (50% MSCI ACWI Index/50% MSCI World Information Technology Index). From a sector perspective, Information Technology and Utilities were the largest relative contributors. The Materials and Energy sectors were slightly offsetting. AI-enabled industries was the strongest performer and benefitted from the equity market broadening out. Our exposure to Financials and clean power names also contributed to returns. AI applications outperformed, helped by strong earnings results and positive generative AI trends. AI infrastructure underperformed as our AI chip holdings underwent some profit taking amid the uncertainty caused by the Chinese startup which launched an open-sourced AI model recently.

### Contributors

Constellation Energy Corp is leading American energy company specialising in clean energy generation, primarily through its nuclear, wind and solar assets. Shares were higher after the company announced a USD 1 billion power supply agreement with the US government and the acquisition of a power utility company that should be accretive to earnings. The company is positioning itself to meet the growing energy demands from AI and digital infrastructure. The demand for data centre power is anticipated to drive significant growth in energy consumption. The rise in AI-driven electricity demand could lead to substantial power contracts with data centre operators over the coming years.

Another contributor is a developer of project management and software development tools that help teams work more effectively. Shares were higher as it reported strong results, which was helped by paid seat expansion, stabilisation from the small-medium business segment, better large deal activity, and positive trends with new generative AI products. The company remains well positioned to deliver on a favourable growth trajectory through pricing changes and product innovation. This includes its AI agent platform, which can catalyse more opportunities for the company's software to penetrate its customer base and enable more automation.

### Detractors

The top relative detractor over the period was Broadcom Inc. The company designs, develops and supplies a broad range of leading semiconductor, enterprise software and security solutions. Shares pulled back on uncertainty caused by the Chinese AI startup. Looking forward, the company is on track for meaningful acceleration in revenue and earnings growth driven by AI-related computing and networking programmes, software infrastructure and a recovery in its wireless semiconductor business.

Another detractor is a provider of enterprise AI software. Its platform empowers organisations to develop and deploy enterprise-scale AI applications. Shares underwent some profit taking following the rally in Q4. The company is currently benefitting from the developments of large language models (LLMs) and generative AI. Bookings trends have been solid given new products and increased interest from various organisations to leverage AI technologies.

## New Buys and Sells

We initiated a position in a provider of commercial banking services as we believe the reward-to-risk ratio is favourable. We believe the proposed acquisition of a digital bank could prove more accretive to earnings than expected given the potential for better business scale, cost savings and revenue synergies. The company is a bank holding that heavily leverages big data, AI and technology to improve its overall operations.

We also bought a provider of cloud networking solutions that include high performance data centre switches, routers and network security products. It stands to benefit from the growth in AI in several ways, including increased demand for high performance networking that enables the creation of AI supercomputing clusters, and solutions for distributed edge environments that ensures AI applications can scale without networking bottlenecks.

We exited the position in an industrial automation company as it is seeing a longer recovery period in its end markets than we anticipated. Also, we sold a digital payment services company as shares had appreciated towards our near-term target price, providing a less favourable reward-to-risk ratio.

## Market Outlook

We maintain a positive outlook for equity markets in 2025, though markets may have periods of volatility due to concerns over stickier inflation, the implementation of Trump's fiscal policies, subdued global growth, and slower interest rate cuts. The Fed looks to be in a comfortable spot balancing inflation with economic stability and should continue its path towards rate cuts, albeit at a more gradual pace. An easier monetary policy backdrop should be constructive for pockets within the US economy to regain its footing and drive more broad-based growth.

We believe the upcoming Trump administration represents an evolution of policy, with a net positive effect on AI innovation. Trump recognises the US leads in AI and wants to maintain that leadership. A less regulated and business-friendly environment should be conducive for more AI investment and capital markets activity. However, companies heavily reliant on an overseas supply chain in some countries may face greater uncertainty. It remains to be seen how much tariffs and other restrictions could impact certain industries, but overall should be manageable. A wide range of capital is fuelling the AI investment backdrop, including venture capital, private equity, self-funding from larger technology companies and the start of an AI initial public offering (IPO) cycle.

Regarding the Chinese AI startup which launched an open-sourced AI model recently, although the model's cost-efficient design raised some concerns on AI spending, we believe it is more of an incremental step forward and not a game changing event. It is a smaller distillation model trained on outputs from larger foundational models. More model distillation breakthroughs like it should help further drive AI adoption, creating more data to better train the next foundational model. Spending intention from cloud hyperscalers remains healthy, helping push the AI virtuous cycle forward. The industry continues to rapidly evolve, with major investments and innovations still needed to drive progress towards artificial general intelligence.

From an innovation perspective, progress with AI development is accelerating as more powerful capabilities become 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 the 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's 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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All data are sourced from Bloomberg and Allianz Global Investors as of 31 January 2025 unless otherwise stated.

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