Allianz Global Investors

Allianz Global Equity Unconstrained

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global Equity Markets to achieve a concentrated equity portfolio with a focus on stock selection in accordance with environmental and social characteristics.

What Happened in April

Global equities had another volatile month in April. Stocks initially plummeted amid fears that the global response to President Donald Trump's "Liberation Day" tariff offensive would plunge the global economy into recession but recovered most of their earlier losses when the president announced an abrupt U-turn to provide scope for trade negotiations. Trump's subsequent attack on US Federal Reserve (Fed) Chair Jerome Powell for not cutting interest rates heightened concerns over the central bank's independence and prompted a renewed sell-off, although easing tariff tensions and optimism around Q1 corporate earnings releases brought some welcome respite near month-end.

At a sector level, Energy was the weakest sector in the MSCI All Country World Index, dragged lower by falling oil prices. Meanwhile, Consumer Staples and Utilities delivered positive returns as investors rotated into defensive sectors. Information Technology and Communication Services stocks also staged a partial comeback near month-end on optimism around corporate earnings releases.

Escalating fears of a global trade war and slowing global growth dominated the headlines for most of April, with investors and policymakers alike grappling with President Donald Trump's whipsawing tariff chaos. The Bank of Japan (BoJ) and the People's Bank of China (PBoC) held key lending rates steady at their meetings during the month. Meanwhile, the European Central Bank (ECB) cut interest rates by 25 basis points (bps) to 2.25%, as widely anticipated, citing the deteriorating growth outlook due to rising trade tensions.

In currency markets, the US dollar plunged in April on heightened market volatility triggered by President Donald Trump's erratic trade policy and the deteriorating US growth outlook. The US Dollar Index, an indication of how the dollar is faring versus other major currencies, touched a 3-year low towards the end of the month. The euro, Japanese yen and British pound all rallied against the greenback, with USD/JPY breaching the psychological barrier of 140 for the first time this year.

Oil prices fell in April as heightened trade tensions clouded the outlook for global energy demand. Brent crude prices tumbled in the immediate aftermath of President Donald Trump's sweeping "Liberation Day" tariff announcement on 2 April, briefly dipping below USD 60 a barrel – the lowest level in more than four years. Fears of a global supply surplus also weighed on oil prices after the Organisation of the Petroleum Exporting Countries Plus (OPEC+) announced plans to increase output in May. Meanwhile, gold continued to soar on safe-haven demand, breaching USD 3,500 an ounce for the first time on record before retreating modestly into month end on profit-taking.

Portfolio Review and Strategy

In April, the portfolio returned negatively.

Contributors

A designer and manufacturer of interconnect systems and sensors for a broad set of applications was the largest contributor to performance. The company benefitted from structural tailwinds linked to efficiency, connectivity, and higher speed data. Its high-performance, reliable products for mission-critical, harsh environments create sticky customer relationships, as switching involves significant cost and performance risk. Strong execution from decentralised management and culture support its competitive advantage, allowing for strong margins and cash flow. Historically, the company delivered about 5% organic and 5% inorganic growth. It was the star of the Q1 earnings season show: sales rocketed 48% to a record of USD 4.8 billion, with organic growth up 33% year-on-year. Sales and earnings per share (EPS) exceeded consensus by 13% and 22% respectively, and the stock gained 17%. Information technology and datacom was primarily responsible, with artificial intelligence (AI) related demand driving around two-thirds. Mobile (+20%), military (+14%), and communications networks (+11%) all made strong organic contributions, and highlight the resilience of the company's diversified end markets. There was little evidence of any tariff related impact and the company's outlook on Q2 was again well ahead of consensus. It is an active acquirer, which could help compensate for any potential sales slowdown ahead.

A Canadian discount retailer of everyday goods continued its strong recent performance in April. The company operates over 1,500 stores nationwide. Its direct sourcing model and efficient supply chain underpin exceptional margins (31.7% in financial year (FY) 2024) and cash flow. Over 80% of revenues are from consumables and seasonal categories, providing resilience across economic cycles. Structural drivers include value and convenience, and the company would be expected to be relatively recession resilient. Sales increased 16% in 2024 and the chain added 65 new stores (net). The company is expanding internationally through a majority stake in a retail company in Latin America and the recently acquired a grocery chain in Australia. The company rallied over 15% on the back of robust FY Q4 and FY 2025 results that exceeded market expectations. Annual sales increased over 16%, and comparable same store sales increased circa 13%, surpassing original guidance. EPS grew by 29% and earnings before interest, taxes, depreciation, and amortisation (EBITDA) margins expanded to 31.7% due to improved logistics costs. The superb results were presented with a 30% dividend increase and optimistic FY 2026 guidance. Looking ahead, the company's flexible sourcing abilities should help to counter tariff effects and currency pressures. Its value proposition remains highly relevant in an uncertain economy. Canadian store openings will increase in FY 2026, while their new Australian opportunity awaits.

Detractors

A scientific tool company was the biggest detractor to performance. The company offers a comprehensive suite of analytical instruments, software, services, consumables, and reagents. In FY 2024, its customer base comprised biopharma (42%), academic (19%), clinical and diagnostic (23%), industrial (14%), and applied science (2%) sectors. The company has a strong focus on innovation and is geographically expanding into high-growth markets. In terms of quality, it is typically highly cash generative with strength in capital allocation. As a lab equipment leader, it has delivered a 10-year EPS compound annual growth rate (CAGR) of approximately 15%. The company declined in April after it revised down its FY 2025 organic revenue guidance (from 3-4% to 1-3%) as well as EPS guidance, due to the anticipated impact of tariffs. A decrease in US-made goods sold in China, and an increase in cost of China-sourced parts and sub-assemblies, requires a one-off mitigation effort. Management highlighted how their scale was a significant advantage, having numerous twin factories in different geographies, allowing them to move with speed, and suggesting even potential market share gains ahead from less agile peers. While China and capital equipment spend remain muted, pharma and biotech are slowly improving. The company has been active in mergers and acquisitions (M&A) recently.

A US health care holding also detracted to performance in April. The company operates through two synergistic platforms: insurance and health services. Its insurance business covers over 50 million people, while health services delivers pharmacy, care, and tech-enabled services to more than 130 million individuals. The company benefits from scale, recurring revenues, and integration across payor and provider systems. Its health services, now nearly half of earnings, is growing faster than insurance, supported by the shift to value-based care. The insurance business has delivered a 10-year EPS CAGR of over 15% with strong free cash flow, enabling reinvestment and shareholder returns. A disappointing Q1 update with EPS missing expectations, alongside a major downward revision to their 2025 earnings guidance provided a major headwind during the month. The company cut its FY 2025 EPS by roughly 12%, citing higher-than-expected medical costs, particularly in its Medicare Advantage plans, where care utilisation increased at double the forecast rate. Changes in member profiles of the health services and lower-than-expected reimbursements also contributed to the weaker outlook. Management have acknowledged the miss and committed to corrective actions.

Significant Transactions

We initiated a new position in a UK-based industrial technology group, funded by selling a Danish pharmaceutical company.

The former operates in niche safety, health, and environmental markets. It benefits from structural growth drivers such as aging infrastructure, increasing safety regulations, and health care innovation. The company operates with a highly decentralised operating model, allowing operating unit managers to fully exploit growth opportunities. Its consistent M&A roll-up strategy creates additional value. The company benefits from strong pricing power, high return on invested capital (ROIC), and resilient free cash flow. While trade tariffs pose a potential risk, its local-for-local production strategy and pricing flexibility should limit the impact. Trading at an attractive valuation, it remains a high-quality, long-duration compounder, albeit with some cyclical sensitivity.

The Danish pharmaceutical company mentioned above is a global leader in diabetes care, obesity treatments, and rare disease therapeutics, with market-leading GLP-1 products. However, the investment case has become increasingly binary, hinging on the future success of next generation drug (still some time away) where we have no proprietary insight into the likelihood of success. In the meantime, the company is expected to lose market share in its existing GLP-1 portfolio to key competitors. Management’s credibility has been strained due to underwhelming execution in production scale-up, declining research and development (R&D) productivity, and weaker handling of emerging competitive threats. Given reduced visibility, execution risks, and better opportunities elsewhere, we are exiting the position.

Market Outlook

Amongst all the noise of tariffs and threats of a pending recession, the half of European companies that have reported their earnings have done so significantly ahead of expectations, averaging earnings growth of 3.8% so far versus estimates of a 1.4% decline. Sales growth is also ahead of estimates overall. At the time of writing, stocks were recovering well and the Stoxx 600 Europe index had returned to its pre-Liberation Day levels. While style factors remain volatile, quality companies with pricing power and operational flexibility are beginning to distinguish themselves, even in sectors under broader macro pressure.

Taking a broader global perspective, China continues to be a drag, and the US economy unexpectedly shrank in Q1, with gross domestic product (GDP) falling 0.3% on an annualised basis as companies accelerated imports ahead of threatened tariff hikes. Nevertheless, corporate earnings in the US remain broadly resilient too, with many global champions delivering stable or growing cash flows and maintaining strong balance sheets. There is a growing divergence between companies with global scale and adaptability – and those more vulnerable to inflation volatility, regulatory shifts, or capital intensity.

In response to the evolving tariff landscape, our high-quality holdings have taken a range of proactive measures and very few have proactively downgraded guidance. Several intend to diversify their manufacturing footprints while others are optimising cost structures through targeted headcount reductions. Companies with pricing power (the world-leading lock maker Assa Abloy is a prime example), are selectively raising prices to protect margins. Amazon has negotiated supplier price reductions on China-sourced goods, while some firms such as Nvidia are expanding US operations to support onshoring efforts. Some portfolio names, particularly in software and semiconductors, or those that have already enabled US production, will see no direct impact. A few leaders such as the aforementioned scientific tool company are signalling opportunities to gain market share.

We believe this backdrop reinforces the importance of a consistent focus on global quality growth equities. Our companies are typically capital-light, cash-generative, and positioned in structurally growing end markets, and are therefore well placed to navigate the current noise and emerge stronger on the other side. With valuations for many quality growth names now sitting at or below long-term averages, and some sectors like semiconductors poised for recovery, the medium-term outlook is increasingly constructive for disciplined investors.

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