Allianz Global Intelligent Cities Income

Monthly commentary

Investment Objective

The Fund aims at long-term income and capital growth by investing in global equity and bond markets with a focus on companies whose business will benefit from or is currently related to evolution of intelligent cities and connected communities in accordance with environmental and social characteristics.

What Happened in December

Global equities delivered mixed results in December. While the MSCI All Country World Index was modestly higher, helped by Europe and Asia ex-Japan stocks, US equities were slightly lower over the period. The Technology-heavy Nasdaq Composite faced headwinds in December, despite a strong year overall. The underperformance was mostly driven by profit taking in mega-cap tech names, following outsized gains earlier in the year. The end of the government shutdown in mid-November allowed for a clearer flow of economic data in December. This included non-farm payrolls rising modestly, retail sales exceeding expectations, and November consumer price index (CPI) coming in below expectations, while unemployment edged slightly higher. Equity markets also saw a continuation of the cyclical rotation, as the Materials, Financials, and Industrials sectors led performance. Utilities and Real Estate were the weakest performing sectors over the month.

Major central banks around the world were active in December. The US Federal Reserve (Fed) delivered a 25-basis points (25-bps) rate cut, bringing the federal funds rate to 3.5-3.75%, the lowest level in three years. Similarly, the Bank of England (BoE) lowered the base rate by 25 bps to 3.75% – also the lowest in three years. The European Central Bank (ECB) and People's Bank of China (PBoC) both left their key borrowing rates unchanged. Japan remained an outlier, with the Bank of Japan (BoJ) delivering a 25-bps rate rise to 0.75% – the highest level since 1995 – amid rising inflation and continued Japanese yen weakness.

US bonds had a mixed performance in December, with Treasuries and investment grade (IG) corporates declining while high yield (HY) bonds gained. The Treasury yield curve steepened as 2-year yields fell slightly following a 25-bps Fed rate cut, but longer-term yields rose. HY bonds benefitted from tighter spreads and shorter duration, whereas IG corporates fell as rising long-term yields offset modest spread narrowing.

Brent crude oil prices eased in December, closing at just over USD 61 a barrel to round out their worst year since 2020. Prices hit a 5-year low on supply glut concerns and progress in the US-led Ukraine peace talks, before recovering on fading optimism over a potential ceasefire. This diminished the possibility of sanctioned Russian crude re-entering global markets. Gold prices rose early on amid heightened expectations of a Fed rate cut at its final meeting of the year and touched a series of fresh highs into month-end, closing the month of December just below USD 4,350 per ounce.

Portfolio Review

During the period, the Fund outperformed its custom benchmark (70% MSCI All Country World Index + 30% ICE BofAML US Corporate & High Yield Index). From a sector perspective, Information Technology and Communication Services were the top positive absolute contributors. Industrials and Financials were the top absolute detractors.

On a single security basis, our positions in Intuitive Machines Inc. (convertible, aerospace and defence), Lumentum Holdings Inc. (convertible, communications equipment), and Coherent Corp. (equity, electrical components) contributed to performance. In contrast, our positions in Broadcom Inc. (equity, semiconductors), AAON (equity, building products), and Welltower Inc. (convertible, health care real estate investment trusts (REIT)) detracted from returns.

Outlook

As we look ahead to 2026 and beyond, we maintain a constructive outlook for equities. 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 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.

The outlook across the ecosystem of innovation and companies involved in intelligent cities remains healthy. The landscape has been boosted from new artificial intelligence (AI) data centre announcements, more supportive advanced semiconductor export policies and executive orders from the Trump administration that supported power generation.

We continue to maintain a balanced portfolio of innovative companies with durable business models, strong management teams, and unique products or services that can navigate the current environment. There may be opportunities to upgrade select names and add to high conviction ideas amid the market volatility to better position the portfolio for improved performance. Ongoing secular trends, which include the growing demand for data centre infrastructure, power grid upgrades, electrification, smart buildings as well as factories, and investments in the energy and industrial transition, provide significant tailwinds for the modernisation of cities around the world.

As cities get smarter, they become more liveable and more responsive – and today we are seeing only a glimpse of what innovation can do to significantly improve the quality of life in urban environments. Investments are growing to transform cities by improving infrastructure, creating better public services, enhancing transportation and reducing traffic, and keeping citizens safe and more engaged in the community. We are excited about the investment opportunities ahead and believe our research driven, bottom-up process across key asset classes is the most effective means to capture the value generated as we build a better future.

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All data are sourced from Allianz Global Investors and Bloomberg as of 31 December 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").