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 the Sustainability Key Performance Indicator Strategy (Relative). In this context, the aim is to outperform the Sub-Fund's Sustainability KPI compared to Sub-Fund's benchmark to achieve the investment objective.

What Happened in November

US shares rallied strongly over November, spurred by Donald Trump's decisive victory in the presidential election and Republican sweep in Congress that boosted hopes of tax cuts and looser regulations. The S&P 500 Index closed the month at a fresh high, although the Nasdaq failed to regain its post-election peak. Meanwhile, smaller US companies soared, with the Russell 2000 Index touching a record high for the first time in three years. However, threats of tariffs weighed on the performance of other markets, particularly in Europe, Japan and many emerging markets.

Corporate bonds delivered positive returns over November. Investment grade (IG) bonds rose the most, with high yield (HY) bonds also outpacing Treasuries. Credit spreads on both IG and HY corporate bonds tightened over the month to trade at historically tight levels. The yield on the 10-year US Treasury bond touched a 4-month high of 4.50%, as Donald Trump's landslide victory raised fears that higher tariffs could reignite inflation and tax cuts would further swell the fiscal deficit. Yields subsequently fell back to close the month slightly lower at 4.20%, as the President-elect's choice of Treasury Secretary reassured investors.

The US Federal Reserve (Fed) cut rates this month by 25 basis points (bps), slowing the pace of its easing after September's 50-bps reduction. Minutes of the meeting revealed that policymakers are considering scaling back future rate cuts if inflation fails to be tamed. While jobs growth was far weaker than expected in October, the US economy appears solid in other areas. In contrast, the growth outlook darkened in Europe, ramping up pressure on the European

Central Bank (ECB) to cut rates further. Meanwhile, speculation grew that the Bank of Japan (BoJ) may raise rates again before year-end.

Oil prices closed the month little changed, with Brent crude trading around USD 72 per barrel. Israel's ceasefire with Lebanon's Hezbollah allayed fears over potential supply disruptions in the Middle East. The Organisation of the Petroleum Exporting Countries plus (OPEC+) next meets in early December with rumours that a planned production increase may be postponed given oversupply concerns in 2025. Gold eased from the record high hit at the end of October as the US dollar strengthened.

From a sector perspective for the MSCI All Country World Index, performance was led by Consumer Discretionary followed by Financials. The Materials and Health Care sectors were the top laggards over the period.

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).

On a single security basis, our positions in Bloom Energy Corp. (convertible, heavy electrical equipment), Celestica Inc. (equity, electronic manufacturing services), and a public safety technology company (convertible, aerospace and defence) contributed to performance. In contrast, our positions in a consulting and engineering services provider (convertible, semiconductors), a provider of semiconductor-based power electronics solutions (equity, semiconductors), and Broadcom Inc. (equity, environmental and facilities services) detracted from performance.

From a sector perspective, Information Technology and Industrials were the top absolute contributors, and Utilities was the top and only absolute detractor over the period.

Outlook

We continue to have a constructive mid- to long-term outlook, given the earnings growth potential over the coming years. However, we could see higher market volatility in the near term as markets digest the outcome of the US elections, potential shifts in some policies and timing of future rate cuts by the Fed. For the upcoming Trump presidency, we continue to maintain a balanced portfolio positioning across our equity, convertible and fixed income holdings. Overall corporate earnings have been relatively resilient year-to-date, although there have been pockets showing some softness given the lag effect of higher rates. As we have done in periods of volatility, we will opportunistically look to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

Since inflation is now moving towards the Fed target of 2% and employment conditions have moderated, the central bank is now in a more comfortable spot to normalise policy. From the most recent Federal Open Market Committee (FOMC) meeting in November, the Chair Jerome Powell highlighted that the central bank continues to pursue interest rate cuts as monetary policy is still restrictive. Minutes from the meeting indicated that Fed recognises inflation continues to ease towards the 2% target and the economy remains resilient and supports gradual rate cuts on a go-forward basis. An easier monetary backdrop should be constructive for the economy to regain its footing, but it may take time for effects to take hold.

We continue to maintain a balanced portfolio of innovative companies with profitable business models, strong management teams, as well as unique products and services that should help navigate the current environment better. Policy support should continue to be constructive for the intelligent cities theme, and the incoming Trump administration will likely cause a shift in policy that affects some areas of global urbanisation differently. As we get a clearer picture of policy direction, we may see tailwinds emerge in other areas for intelligent cities. Fundamental bottom-up research will be key for identifying companies that are best positioned to navigate through a changing policy backdrop. Ongoing secular trends, which include the growing demand for data centre infrastructure, power grid upgrades, electrification, smart buildings and factories as well as investments in the energy and industrial transition, provide 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 technology could eventually do to significantly improve the quality of life in urban environments. As an example, we continue to see advances in technology around Internet of Things (IoT – sensors and devices connected by networks to computing systems). IoT has enormous potential to advance how smart cities work. Research on big data and analytics from massive streams of real-time data is being applied to numerous initiatives. The resulting work can transform cities by improving infrastructure, creating more efficient and cost-effective municipal services, enhancing public transportation, reducing traffic congestion and keeping citizens safe and more engaged in the community.

Citizens and businesses will benefit from improvements in air quality, convenience, cost, energy provision, health care, safety, traffic, waste management and more. The growth of intelligent cities should only accelerate over the coming years and their potential is limitless. We are excited about the investment opportunities presented and believe our research-driven, bottom-up process 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 30 November 2024 unless otherwise stated.

Allianz Global Investors and Voya Investment Management have entered into a long-term strategic partnership, and as such, as of 25 July 2022, 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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