Allianz Global Investors

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 February

Global capital markets delivered mixed returns over February. US equities were lower, as Trump administration policy uncertainty, conservative outlook from earnings, and softer economic data points weighed on investor sentiment. Chinese stocks outperformed, boosted by strength in Technology companies. European shares also advanced, underpinned by growing optimism over a potential end to the war in Ukraine.

US bonds rallied, reflecting lower economic growth expectations. The yield on the 10-year US Treasury bond, which had traded as high as 4.8% in mid-January, tumbled, falling back below 4.3% for the first time since mid-December 2024. Meanwhile, 2-year yields closed the month at 4.0%, the lowest level since mid-October 2024. Corporate bonds delivered positive returns, helped by the decline in Treasury yields. However, a modest widening in credit spreads meant returns on both investment grade (IG) and high yield (HY) bonds lagged those on government debt. HY bonds lagged Treasuries the most, held back by their shorter durations and the smaller decline in yields at the short end of the curve.

February brought growing signs that the US economy was slowing, with inflation expectations higher. Retail sales, consumer sentiment and home sales slumped in January and early indications showed services activity in February contracting. While the US Federal Reserve (Fed) indicated it was in no rush to cut rates, the European Central Bank (ECB) is expected to continue to reduce borrowing costs. Conversely, accelerating Japanese inflation increased the likelihood of another rate hike from the Bank of Japan (BoJ).

Oil prices eased over February, with Brent crude closing the month back below USD 73 per barrel as slowing US growth and the threat of a global trade war dampened the demand outlook. Gold rallied further, touching a fresh record high of USD 2,950 an ounce, amid robust demand for safe-haven assets.

From a sector perspective, for the MSCI All Country World Index, Consumer Staples was the best performing sector given its defensive characteristics. Real Estate was another outperformer amid lower interest rates. The Consumer Discretionary and Communication Services sectors were laggards over the month due to profit taking.

Portfolio Review

During the period, the Fund underperformed its custom benchmark (70% MSCI All Country World Index + 30% ICE BofAML US Corporate & High Yield Index) on a gross- and net-of-fees basis.

On a single security basis, our positions in Welltower (convertible, health care real estate investment trust), a Chinese ecommerce giant (equity, broadline retail), and Ecolab Inc. (equity, specialty chemicals) contributed to performance.

In contrast, our positions in a heating, ventilation and air conditioning manufacturer (equity, building products), a provider of end-to-end electronics manufacturing services (convertible, semiconductors), and Constellation Energy (equity, electric utilities) detracted from performance.

From a sector perspective, Real Estate and Communications Services were the top absolute contributors. The Information Technology and Industrials sectors were the top absolute detractors over the period.

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 tariff and 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.

In the months leading up to and following the election results, we had taken action to reposition the portfolio to optimise our positioning to the changing policy landscape. On the changing policy landscape, we believe the upcoming Trump administration represents an evolution of policy, with a net positive effect on innovation. A less regulated and business-friendly environment should be conducive for more technology investments, infrastructure buildout 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.

Although volatility may continue as investors look to reduce risk, we believe this is a normal and healthy event in bull markets. While the recent equity market pullback has been sharp, it is in line with previous drawdowns over the past few years. We continue to have a constructive outlook on the long-term fundamental factors for the cloud ecosystem. Moreover, HY bond spreads have remained tight, signalling that the US economy remains in expansion territory. A large portion of investor concerns are macro related, and we will be paying attention to any policy responses that can help stabilise the economy and investor sentiment. Better clarity and certainty on the Trump administration's policies should help markets find better footing. As markets digests through these short-term risks, we believe this represents an opportunity to add to names that have overshot to the downside relative to their fundamental attributes and growth trajectory.

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. 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 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.

All data are sourced from Allianz Global Investors and Bloomberg as of 28 February 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").