

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 March

Global equities were lower in March due to multiple factors. Fears of a growth slowdown, geopolitical tensions and tariff uncertainty weighed on investor sentiment. In the US, the technology-heavy Nasdaq Composite Index closed the month at a 6-month low, while the S&P 500 Index briefly fell into correction territory, having dropped 10% from its early-January peak. Value stocks outperformed their growth counterparts, as investors rotated into more defensive areas of the market. European shares also moved lower as hopes for a ceasefire faltered in Ukraine and trade tensions rose. Emerging markets held up better, with China stocks continuing its recovery from the prior month.

US corporate bonds declined, lagging US Treasuries as credit spreads widened. High yield bonds recorded the weakest returns as credit spreads jumped, moving back above 300 basis points (bps), reflecting deepening concerns over the outlook for the US economy given policy uncertainty and risks of a growth slowdown. US Treasuries eked out modest gains over the month. The yield on the 10-year bond closed the month little changed. Meanwhile, in the 2-year part of the curve, yields moved back below 4.00% for the first time since October 2024.

Fears of a global trade war and slowing global growth overshadowed economic news for much of the month. The US Federal Reserve (Fed) and Bank of England (BoE) held rates steady, as did the Bank of Japan (BoJ). The European Central Bank (ECB) cut its key interest rates by 25 bps to 2.50%, as expected, and slashed its gross domestic product (GDP) growth outlook for 2025, citing the tariff environment and heightened economic uncertainty. Meanwhile, German parliament passed a bill to step up government spending to fund higher defence and infrastructure investment.

Oil prices closed March little changed. Brent crude briefly fell back below USD 70 a barrel – the lowest level since December 2021 – amid fears that recently imposed US tariffs will diminish global energy demand at a time when the world's oil producers are increasing output. But prices recovered later in the month after President Donald Trump threatened to impose tariffs on countries buying Venezuelan oil. Meanwhile, gold continued to advance on safe-haven demand, breaching USD 3,100 an ounce for the first time on record.

From a sector perspective, for the MSCI All Country World Index, Energy and Utilities were the only sectors with positive absolute returns given the market's preference for value and defensive characteristics. The Information Technology and Consumer Discretionary sectors were laggards over the month due to profit taking in growth and momentum stocks.

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 single security basis, our positions in an online travel agent (convertible, hotels, resorts and cruise lines); a telecommunication tower company (equity, other specialised real estate investment trusts (REITs)); and a European telecommunications provider (equity, integrated telecommunication services) contributed to performance.

In contrast, our positions in a multinational design, manufacturing, hardware platform, and supply chain electronics manufacturing services (EMS) company (equity, electronic manufacturing services); a database and infrastructure software developer (equity, internet services and infrastructure); and a clean energy company (equity, electric utilities) detracted from performance. From a sector perspective, there were no absolute contributors. The Information Technology and Industrials sectors were the top absolute detractors over the period.

Outlook

Although we maintain a positive long-term outlook for equity markets, the Trump administration unfortunately is taking a more aggressive approach with reciprocal tariffs. The tariffs were larger than expected with a shorter-than-expected phase-in period. It remains to be seen how other countries will react and the extent of the retaliatory actions, which in turn may take longer to find a compromise. Such a policy backdrop can contribute to potential risks of inflation and a growth slowdown, weighing on investor sentiment.

In longer term, we continue to believe the Trump administration wants the US to maintain its leadership in innovation and is focused on bringing more manufacturing back onshore. However, markets will need to settle into this new policy regime, as investors await clarity on the impact on economic activity and earnings expectations. US-based companies with extensive overseas supply chains as well as export-oriented companies that sell into the US will likely be most impacted. It is important to highlight a lot of uncertainties are now being discounted into equity prices. As we get more clarity over the coming months, markets may begin to stabilise and stage a recovery from oversold conditions.

From a monetary policy perspective, the Fed looks to be in a comfortable spot balancing inflation with economic stability. In a recent interview, Fed Chair Jerome Powell acknowledges the current high level of uncertainty associated with tariffs that includes impacts on inflation. Powell also reiterated that Fed is well positioned to wait for greater clarity before resuming its rate cut path. Eventually, an easier monetary policy backdrop should offset some of the tariff headwinds and help the market find its footing.

We recognise that more caution is warranted given a more uncertain backdrop and favour companies that are better positioned to navigate through a more complicated environment. As markets digest these additional risks, there may be opportunities to add to names that have overshot to the downside relative to their fundamental attributes and growth trajectory. Amid the volatility, we are opportunistically looking to upgrade select names and add to our highest conviction ideas to better position the portfolio for improved performance.

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 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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sg.allianzgi.com

+65 6438 0828

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All data are sourced from Allianz Global Investors and Bloomberg as of 31 March 2025 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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