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 August

Global equities were broadly higher in August, with the MSCI All Country World Index (ACWI), S&P 500 and Nasdaq notching another consecutive monthly gain while setting fresh all-time highs. The Russell 2000 small cap index also had its best month since November 2024. Despite some initial growth concerns from a weaker-than-expected July non-farm payrolls, markets were supported by healthy corporate earnings, dovish US Federal Reserve (Fed) commentary, consumer resilience, and narrowing trade uncertainties. There was a rotation into cyclicals, value and small caps in August, as growth-oriented names underwent some profit taking. From a sector perspective, for the MSCI ACWI, the Materials and Health Care sectors were the strongest performers. Utilities was the only sector to generate a negative return over the month.

US economic data was generally solid. Gross domestic product (GDP) growth for Q2 was upwardly revised to 3.3% on an annualised basis, and the Federal Reserve Bank of Atlanta's GDPNow running estimate signalled further growth for the current quarter. However, non-farm payrolls rose by just 73,000 in July, below estimates of 110,000, while the figures for May and June were downwardly revised lower. July consumer price index (CPI) services prices saw some reacceleration, but goods inflation was cooler than feared and core personal consumption expenditure (PCE) price Index was in line with consensus. In monetary policy news, central bankers globally are continuing with their wait-and-see approach to monetary easing. The Bank of England (BoE) implemented a 25-basis point (bps) cut, taking the base rate to 4.0%. At the annual Jackson Hole Economic Policy Symposium, Jerome Powell's commentary was more dovish than expected. While policy is in restrictive territory, Chair Powell said that the shifting balance of risks warrant adjusting policy stance.

US bonds were boosted by rising expectations that the Fed would cut rates in September. The odds of such a move increased after non-farm payrolls were far weaker than forecast in July, with data for the previous two months also revised down. While short-dated yields fell (2-year Treasury yields fell more than 30 bps to close near 3.6% for the first time since May), yields at the very long end of the curve rose slightly. Corporate bonds also rose. High yield (HY) bonds, which tend to have shorter durations, performed the best, helped by a notable fall in yields at the short end of the Treasury curve as well as a modest tightening in credit spreads. Investment grade (IG) bond returns broadly kept pace with Treasuries. IG credit spreads closed the month unchanged, remaining near historically tight levels.

Oil prices eased in August, closing the month around USD 68 per barrel. Fears of an oil glut caused the first monthly decline since April as higher production from Organisation of the Petroleum Exporting Countries Plus (OPEC+) coincided with weaker-than-expected demand. Gold prices remained elevated, closing August above USD 3,450 given a growing political pressure from the Trump administration on monetary policy and central banks diversifying their reserves that includes gold.

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 both a gross- and net-of-fees basis. From a sector perspective, Information Technology and Consumer Discretionary were the top positive absolute contributors. Industrials and Utilities were the top absolute detractors.

On a single security basis, our positions in Iris Energy Ltd. (convertible, application software), an electrical solutions provider (equity, electrical components & equipment), and an electronics manufacturing company (equity, electronic components) contributed to performance.

In contrast, our positions in a conglomerate (equity, industrial conglomerates), a critical digital infrastructure company (equity, electrical components & equipment), and an American cryptocurrency exchange (convertible, financial exchanges & data) detracted from returns.

Outlook

We continue to maintain a positive long-term outlook for equities, but markets may undergo short periods of volatility. A more complicated policy backdrop can contribute to potential risks of inflation and slower economic growth. For now, equity markets have been on a recovery path since early April, and we believe the outperformance of cloud-related stocks could continue with a more benign policy environment and re-acceleration in earnings.

A more constructive backdrop is developing as we see a continued narrowing of trade and tariff outcomes as well as more details on Trump's tax cuts and pro-business agenda. We believe the Trump administration wants the US to maintain its leadership in innovation and is focused on bringing more manufacturing back onshore. Moreover, the passage of the One Big Beautiful Bill Act should support US domestic investments by enhancing tax incentives for research and development activities as well as capital expenditures.

The outlook across the ecosystem of innovation and companies involved in intelligent cities remains healthy. From Q2 earnings results, companies generally had constructive commentaries on business trends. The landscape also got a boost 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 and 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 August 2025 unless otherwise stated.