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 June

Global equities delivered solid gains in June, with the S&P 500 and the Nasdaq Composite hitting fresh all-time highs. The US and China trade relations improved, as the two countries agreed on a framework to implement the consensus reached last month in Geneva. Trade talks with other countries remain underway and reports suggest many can be completed in July. Despite escalating tensions between Israel and Iran that ended with US air strikes on Iran nuclear facilities, the subsequent ceasefire helped investor sentiment towards the end of the month. From a sector perspective for the MSCI All Country World Index, the Information Technology sector was the strongest performer amid growing optimism on the ongoing artificial intelligence (AI) data centre buildout. Communication Services sector was another outperformer. Consumer Staples and Real Estate were laggards over the month.

The US bonds rose over June, with the yield on the 10-year US Treasury bond falling around 20 basis points (bps) to near 4.2%. While the US Federal Reserve (Fed) kept rates on hold at its June meeting, hopes for a July cut were boosted by weaker-than-expected inflation and US gross domestic product (GDP) data. Corporate bonds outperformed Treasuries. Credit spreads continued to tighten, with investment grade (IG) spreads falling back below 90 bps and high yield (HY) spreads closing just above 300 bps. IG spreads are now only about 20 bps above the historically tight levels seen earlier this year, although HY spreads remain about 50 bps wider than the levels seen at the start of 2025.

The Fed maintained its wait-and-see approach, holding benchmark lending rates steady for the fourth consecutive meeting, given the continued uncertainty surrounding the economy and inflation. US recessionary risks abated in June, with the Federal Reserve Bank of Atlanta's GDPNow running estimate indicating solid economic growth for Q2. Non-farm payrolls rose by 139,000 in May, exceeding expectations. The unemployment rate remained unchanged at 4.2%.

The European Central Bank (ECB) cut its key interest rate by 25 bps to 2.0% as inflation continues to stabilise. Meanwhile, Bank of England (BoE), Bank of Japan (BoJ), and People's Bank of China (PBoC) kept rates on hold at their respective meetings during the month.

June was a volatile month for oil prices, with Brent crude falling back early in the month on increased supply from the Organisation of the Petroleum Exporting Countries Plus (OPEC+). The commodity subsequently rallied on the rapid escalation of geopolitical tensions in the Middle East. Oil prices briefly surged to a 5-month high after the US launched a series of strikes on Iranian nuclear facilities amid fears that Tehran could retaliate by blocking the Strait of Hormuz, a major shipping lane for around one-fifth of global oil supplies. However, prices eased on news of Iran's restrained response and reports of a ceasefire between Iran and Israel, ending the month below USD 67 a barrel.

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 Celestica Inc. (equity, electronic manufacturing services), Microchip Technology Inc. (equity, semiconductors), and a provider of engineering, supply chain, and manufacturing solutions (equity, electronic manufacturing services) contributed to performance.

In contrast, our positions in a commercial and industrial heating, ventilation, and air conditioning (HVAC) solutions manufacturer (equity, building products); a cloud-based platform for managing physical operations, leveraging Internet of Things data (equity, application software), and a digital infrastructure company (equity, data centre real estate investment trust (REIT)) detracted from returns.

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

Outlook

We maintain a positive long-term outlook for equities, but markets could 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 9 April, when President Trump announced a 90-day pause on higher reciprocal tariffs.

The outlook across the ecosystem of innovation and companies involved in intelligent cities remains healthy. From Q1 earnings results, companies generally had constructive commentaries on business trends. The landscape also got a boost from new AI data centre announcements, more supportive advanced semiconductor export policies, and executive orders from the Trump administration that supported nuclear power.

As we get more clarity on policy in the coming months, a more constructive backdrop may develop as we see some framework trade deals and look towards Trump's tax cuts and pro-business agenda. 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. Several announcements have been made to further onshore the technology supply chain to the US. More announcements should be constructive for the innovation ecosystem.

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, 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 as well as 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 30 June 2025 unless otherwise stated.