

# 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 September

Global equities mostly rallied over September, buoyed by the US Federal Reserve's (Fed's) larger-than-usual cut in interest rates, its first reduction in four years. The S&P 500 Index closed the month at a fresh record high, while the Nasdaq Composite Index remained below its July peak. With only five weeks to go until the presidential election, Vice President Kamala Harris remains ahead of Donald Trump at a national level, but the race is neck-and-neck in the seven swing states that will decide who wins the most electoral college votes. In late September, a raft of further stimulus measures from the People's Bank of China (PBoC) and the Chinese government further boosted sentiment, particularly towards Chinese stocks which surged over the month.

Global bonds rallied as the Fed joined an increasing number of developed market central banks in starting to ease monetary policy. The yield on the 10-year US Treasury bond fell around 55 basis points (bps) over the quarter to close near 3.80%. European bond yields also declined, albeit to a lesser extent, with the 10-year German Bund yield declining 40 bps to 2.10%. Corporate bonds rallied but tended to lag government debt on a global basis.

Headline inflation eased to 2.50% in August, from 2.90% the previous month. At its September meeting, the US central bank cut rates for the first time in more than four years, implementing a bigger-than-usual 50-bps reduction, the first cut of this size since the early pandemic days of March 2020. Policymakers indicated rates were likely to be reduced by another 50 bps in total before year end, with further cuts likely in 2025. The European Central Bank (ECB) also reduced borrowing costs, marking its second cut this year, while the Bank of England (BoE) kept rates on hold but indicated that

borrowing costs were likely to be reduced later this year. While the Bank of Japan (BoJ) also kept rates on hold, the PBoC announced a package of measures aimed at supporting the economy and the property sector, including lowering the reserve requirement ratio for banks and cutting some loan rates.

Oil prices fell, briefly moving back below USD 70 per barrel amid ongoing concerns over the health of the US economy. Saudi Arabia also signalled that it was planning to raise production in December as it seeks to reclaim market share. Elsewhere, industrial metals such as copper, surged following China's announcement of massive stimulus measures, while gold, which is often seen to be a safe haven in times of uncertainty, rallied, with the precious metal breaching USD 2,600 an ounce for the first time on record.

From a sector perspective for global equities, as measured by the MSCI All Country World Index, performance was led by the Consumer Discretionary and Materials sectors. Soft-landing optimism and China stimulus news were constructive for these sectors. Energy and Health Care 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 Constellation Energy Corp. (equity, electric utilities), a provider of industrial Internet of Things (IoT) applications and fleet management solutions (equity, application software), and Trip.Com Group Ltd. (convertible, hotels, resorts and cruise lines) contributed to performance.

In contrast, our positions in a pharmaceutical company (equity, pharmaceuticals); a cloud security company (convertible, systems software); and a supplier of semiconductor manufacturing equipment, specifically machines for the production of chips through lithography (equity, semiconductor materials and equipment) detracted from performance.

From a sector perspective, Information Technology and Consumer Discretionary were the top absolute contributors, and Health Care was the only absolute detractor over the period.

### Outlook

We continue to have a constructive mid-to-long term outlook for equity markets. However, we expect higher market volatility in the near term as markets digest some additional risks. Investors are paying close attention to the potential for slower US economic growth given later timing of interest rate cuts and recent softer employment numbers and consumer spending trends. A closer race in the upcoming US elections may also add to volatility, especially around geopolitics and global supply chain. An unwind of the Japanese yen carry trade in August introduced additional volatility, although concerns have subsided as most expect the BoJ to be slow with future rate hikes if needed. Overall corporate earnings have been relatively resilient year-to-date and investors will be closely analysing upcoming Q3 earnings and guidance. 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.

Since inflation is now moving towards the Fed's 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 September, the Fed started its cutting campaign by reducing the federal funds rate by 50 bps. Chair Powell highlighted that the decision reflects a recalibration of policy stance in order to maintain the labour market, which continues to grow albeit at a slower rate, while inflation continues to ease towards the target of 2%. Since the risk

of inflation has abated, the Fed has greater latitude to pursue its goal of maximum employment. An easier monetary backdrop should be constructive for the economy to regain its footing, but it may take time for effects to take hold.

Separately, a key characteristic of the equity market strength over the past year is that returns have been concentrated among a handful of large technology companies. Coming into 2024, investors were worried over the risk of recession, timing of interest rate cuts and geopolitical tensions, so preferred larger cap, higher quality stocks. Also, the large technology giants were the early beneficiaries of this first phase of artificial intelligence (AI) given their large infrastructure investments. However, we believe some caution is warranted when mega-cap technology earnings begin to slow compared to other sectors as interest rates moderate and the market broadens out more.

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. Ongoing policy support like the US Infrastructure Investment and Jobs Act, European Green Deal and other stimulus proposals from around the world should help to provide more funding over the coming years to improve our cities and fight climate change. Ongoing secular trends, which include the electrification of transportation, energy transition to clean and renewable power, and decarbonisation of industrial infrastructure, provides additional 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 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.

Connect with Us | [sg.allianzgi.com](https://sg.allianzgi.com) | +65 6438 0828 | Search more  Allianz Global Investors

 Like us on Facebook [Allianz Global Investors Singapore](#)

 Connect on LinkedIn [Allianz Global Investors](#)

 Subscribe to YouTube channel [Allianz Global Investors](#)

All data are sourced from Allianz Global Investors and Bloomberg as of 30 September 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”).

The information presented here is intended for general circulation and does not constitute a recommendation to anyone; it also has not taken into account the specific investment objectives, financial situation or particular needs of any particular person. Information herein is based on sources we believe to be accurate and reliable as at the date it was made. We reserve the right to revise any information herein at any time without notice. No offer or solicitation to buy or sell securities and no investment advice or recommendation is made herein. In making investment decisions, investors should not rely solely on this publication but should seek independent professional advice. However, if you choose not to seek professional advice, you should consider the suitability of the product for yourself. Past performance of the fund manager(s) and the fund is not indicative of future performance. Prices of units in the Fund and the income from them, if any, may fall as well as rise and cannot be guaranteed. Distribution payments of the Fund, where applicable, may at the sole discretion of the Manager, be made out of either income and/or net capital gains or capital of the Fund. As a result of the payment, the Fund’s net asset value is expected to be immediately reduced. The dividend yields and payouts are not guaranteed and might change depending on the market conditions or at the Manager’s discretion; past payout yields and payments do not represent future payout yields and payments. Investment involves risks including the possible loss of principal amount invested and risks associated with investment in emerging and less developed markets. The Fund may invest in financial derivative instruments and/or structured products and be subject to various risks (including counterparty, liquidity, credit and market risks etc.). Investing in fixed income instruments (if applicable) may expose investors to various risks, including but not limited to creditworthiness, interest rate, liquidity and restricted flexibility risks. Changes to the economic environment and market conditions may affect these risks, resulting in an adverse effect to the value of the investment. During periods of rising nominal interest rates, the values of fixed income instruments (including short positions with respect to fixed income instruments) are generally expected to decline. Conversely, during periods of declining interest rates, the values are generally expected to rise. Liquidity risk may possibly delay or prevent account withdrawals or redemptions. Past performance, or any prediction, projection or forecast, is not indicative of future performance. Investors should read the Prospectus obtainable from Allianz Global Investors Singapore Limited or any of its appointed distributors for further details including the risk factors, before investing. The duplication, publication, extraction, or transmission of the contents, irrespective of the form is not permitted, except for the case of explicit permission by Allianz Global Investors. This publication has not been reviewed by the Monetary Authority of Singapore (MAS). MAS authorization/recognition is not a recommendation or endorsement. The issuer of this publication is Allianz Global Investors Singapore Limited (79 Robinson Road, #09-03, Singapore 068897, Company Registration No. 199907169Z).