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 July

Global equities rallied for the month of July, with the S&P 500 and the Nasdaq Composite pushing to new record highs. The backdrop was supported by a continued easing of tariffs and trade tensions. The US came to several trade agreements this month before the 1 August, end of the pause on reciprocal tariffs, including with the European Union (EU) and Japan. A resilient macro backdrop, positive artificial intelligence (AI) data centre investment trends, a pickup in capital markets activity and passage of the One Big Beautiful Bill Act were also constructive for investor sentiment.

From a sector perspective, for the MSCI All Country World Index, the Information Technology and Energy sectors were the strongest performers as companies reported healthy earnings results. Consumer Staples was the largest underperformer, as many companies issued cautious commentary regarding the impact of tariffs. Health Care was another underperforming sector, as health insurers and providers were hit by high Affordable Care Act (ACA) and Medicaid costs.

US corporate bonds outperformed Treasuries, helped by a further tightening in credit spreads. High yield bonds outperformed, posting gains despite a modest Treasury sell-off, while investment grade bonds ended the month largely unchanged. US corporate credit spreads have now returned to near historically tight levels.

The US economy grew by an annualised 3.0% during Q2, rebounding from a negative Q1 gross domestic product (GDP) print. Non-farm payrolls in June rose by a consensus-beating 147,000, modestly higher than May's upwardly revised figure of 144,000. On the monetary policy front, the US Federal Reserve (Fed) maintained its wait-and-see approach, holding the federal funds rate steady at 4.25–4.50% for the fifth consecutive meeting. Separately, the European Central

Bank (ECB), Bank of Japan (BoJ) and People's Bank of China (PBoC) also kept key lending rates unchanged. Policymakers took a more measured approach because of ongoing uncertainty surrounding the effects of tariffs on their respective economies.

Oil prices rose modestly in July with Brent crude closing the month just below USD 72 per barrel as trade optimism spurred hopes of increased global demand. Meanwhile, gold prices remained elevated, although prices moved modestly lower to end the month around USD 3,300 per ounce as increased risk appetite undermined the precious metal's safe-haven appeal.

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 net-of-fees basis. From a sector perspective, Information Technology and Industrials were the top absolute contributors. Health Care and Communication Services were the top absolute detractors.

On a single security basis, our positions in a provider of end-to-end product lifecycle solutions (equity, electronic manufacturing services), an electric power company (equity, heavy electrical equipment), and Corning Inc. (equity, electronic components) contributed to performance. In contrast, our positions in a chain of fast casual restaurants specialising in Mexican food (equity, restaurants), a cloud-based streaming music and entertainment platform (convertible, movies & entertainment), and a manufacturer of robotic surgical systems (equity, health care equipment) detracted from returns.

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 early April, and we believe the broadening of the market may continue with a more benign policy environment and re-acceleration in earnings.

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 AI data centre announcements, more supportive advanced semiconductor export policies, and executive orders from the Trump administration that supported power generation.

A more constructive backdrop is developing as we see more framework trade deals and additional details on 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 recent announcements are supportive of more onshoring of the supply chain to the US. 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.

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 July 2025 unless otherwise stated.

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