

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 May

Global equities advanced in May, with the MSCI All Country World Index (ACWI) delivered modest gains amid generally supportive risk sentiment. Equity markets benefitted from continued enthusiasm around artificial intelligence (AI) and broadly resilient corporate earnings, particularly in the US. Stocks also benefitted from slumping oil prices on reports that the US and Iran may be edging closer to agreeing a peace deal. From a sector perspective for the MSCI ACWI, performance was largely concentrated within the Information Technology sector, which was the only sector to outperform the global index. The sector benefitted from broadening AI rally, with strong returns across semiconductors, hardware, and software. Conversely, Energy and Utilities were the worst performing sectors. Energy equities were volatile during the month, reflecting sharp swings in underlying commodity prices rather than company-specific fundamental factors.

From a macroeconomic standpoint, incoming data in May suggested a US economy that remained resilient. Labour market releases indicated continued job growth. Non-farm payrolls data showed that the US economy added 115,000 jobs in April, beating consensus estimates and marking the second consecutive monthly rise, while the US unemployment rate held steady at 4.3%. Elsewhere, the annualised Q1 gross domestic product (GDP) print was revised down to 1.6% from an initial estimate of 2.0%, while the Federal Reserve Bank of Atlanta's GDPNow running estimate of annualised economic growth ticked up to over 4% for Q2.

May was a quiet month for the major central bank rate setters, with only the People's Bank of China (PBoC) meeting and leaving its loan prime rates unchanged for the 11th consecutive month. In the US, Kevin Warsh was confirmed by the Senate to serve as the new chair of the US Federal Reserve (Fed), succeeding Jerome Powell.

US Treasuries finished the month largely unchanged, though volatility picked up at times. Yields moved higher through much of May on inflation concerns and elevated Treasury supply, with the 30-year briefly reaching high levels not seen since 2007. Late in the month, sentiment turned more favourable as expectations for a ceasefire extension in the Iran conflict and potential reopening of the Strait of Hormuz helped ease worries around energy supply and inflation. US corporate bonds posted gains and outperformed Treasuries. Investment grade led the high yield segment, supported by tighter spreads, generally solid corporate fundamental factors, and resilient investor demand.

Oil prices eased in May. Brent crude moved off recent highs at the start of the month, falling back below USD 100 a barrel amid hopes of a US-Iran peace deal and news that a handful of tankers had crossed the strait, spurring hopes that the crucial shipping lane might fully reopen. Meanwhile, gold prices fell slightly in May. The precious metal rose early on as mounting optimism around a US-Iran peace deal helped to ease inflationary risks and expectations of higher interest rates. However, prices resumed their descent, closing the month above USD 4,500 an ounce, as cautious optimism mounted around the prospects of a deal to end the conflict.

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). From a sector perspective, Information Technology and Industrials were the top absolute contributors. Utilities and Energy were the top absolute detractors.

On a single security basis, our positions in Okta Inc. (equity, internet services and infrastructure), Flextronics Ltd. (equity, electronic manufacturing services), and Intuitive Machines Inc. (convertible, aerospace and defence) contributed to performance.

In contrast, our positions in Mitsubishi Heavy Industries (equity, industrial machinery as well as supplies and components), Viav (convertible, communications equipment), and GE Vernova Inc. (equity, heavy electrical equipment) detracted from returns.

Outlook

Despite recent volatility, we maintain a constructive longer-term outlook for equities. Ongoing negotiations with Iran have helped provide some additional visibility on the potential path towards de-escalation, although the timing and outlook remains uncertain. At the same time, markets have recently demonstrated a willingness to look through geopolitical uncertainty and refocus on corporate fundamental factors, supported in part by healthy Q1 earnings results. Within this context, we continue to maintain a balanced portfolio of companies benefitting from innovation and favour those better positioned to navigate a more complex environment. There may be opportunities to upgrade select names and add to high conviction ideas amid any market volatility to better position the portfolio for improved performance.

Over the intermediate term, an improved economic and earnings growth backdrop across more sectors should drive a broadening out effect in the equity market. Many major central banks have cut interest rates or signalled a bias for future cuts to keep financial conditions supportive of economic growth. In the US, the Trump administration's pro-business agenda also provides tailwinds through tax cuts, deregulation, domestic investments, and manufacturing reshoring. These efforts should help stimulate growth for both consumers and corporations across more areas of the economy as the conflict with Iran eases.

The outlook across the ecosystem of innovation and companies involved in intelligent cities remains healthy. 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 and reducing traffic, as well as 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 May 2026 unless otherwise stated.

Allianz Global Investors and Voya Investment Management entered into a long-term strategic partnership on 25 July 2022, upon which 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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