

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 January

Global equities advanced over January, led by European shares. While US stocks also moved higher, gains were limited by profit taking in Technology stocks amid investor debate on the impact of an emerging Chinese startup which launched an open-sourced artificial intelligence (AI) model on the levels of artificial intelligence (AI) spending. Investors also digested a series of executive orders and announcements from the new Trump administration. While deregulation was initially constructive for market sentiment, uncertainty surrounding tariffs weighed on markets at the end of the month.

Global bonds were volatile. Yields rose sharply for the first half of the month, with the yield on the 10-year US Treasury briefly trading at 4.80%, its highest level since 2023, as stronger-than-expected US economic data sparked fears that the next move in US rates may be up rather than down. However, yields fell in the second half of January as these fears appeared overblown. While the 10-year US Treasury yield closed the month little changed, government bond yields ended higher in Japan and Europe. Corporate bonds outperformed government debt, with high yield (HY) posting the best returns.

The US economy grew less than expected in Q4, with gross domestic product (GDP) rising 2.30% on an annualised basis, the slowest pace of growth since the start of the year. Consumer spending was the main driver of economic activity, with job growth ending the year on a strong note. Non-farm payrolls increased by 256,000 in December, the biggest monthly rise in nine months.

It was a mixed month for interest rates around the world. The US Federal Reserve (Fed) left rates on hold. Fed Chair Jerome Powell said US policymakers “do not need to be in a hurry to adjust our policy stance”. Meanwhile, as widely expected, the European Central Bank (ECB) lowered rates by 25 basis points (bps) for the fifth time this cycle, while the Bank of Japan (BoJ) raised rates by the same amount.

Oil prices rose. Brent crude breached USD 82 per barrel for the first time in almost six months after the US said it was planning to increase sanctions on Russian oil companies, causing Indian and Chinese buyers to find alternative suppliers. But crude prices later fell as Donald Trump urged the Organisation of the Petroleum Exporting Countries (OPEC) to lower oil prices and pushed for more domestic oil production. Gold rallied, breaching USD 2,800 an ounce for the first time on record as US investors sought safety ahead of potential tariffs on US imports.

From a sector perspective, for the MSCI All Country World Index, performance was led by Communication Services, helped by constructive earnings results. The Health Care sector was another outperformer. Information Technology was the only sector with negative absolute returns as the uncertainty surrounding the afore-mentioned Chinese AI startup caused some profit taking and rotation away from semiconductors. The Real Estate sector was another underperformer.

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 gross- and net-of-fees basis.

On a single security basis, our positions in Celestica Inc. (equity, electronic manufacturing services), Constellation Energy Com. (equity, electric utilities), and a provider of real-time communications within software applications (equity, internet services and infrastructure) contributed to performance. In contrast, our positions in Broadcom Inc. (equity, semiconductors), a graphics processing units manufacturer (equity, semiconductors), and a thermal solutions provider (equity, technology hardware storage) detracted from performance.

From a sector perspective, Information Technology and Utilities were the top absolute contributors. There were no absolute detractors over the period.

Outlook

We maintain a positive outlook for equity and fixed income markets in 2025, though markets may have periods of volatility due to concerns over stickier inflation, the implementation of Trump's fiscal policies, subdued global growth, and slower interest rate cuts. The Fed looks to be in a comfortable spot balancing inflation with economic stability and should continue its path towards rate cuts, albeit at a more gradual pace. An easier monetary policy backdrop should be constructive for pockets within the US economy to regain its footing and drive more broad-based growth. Convertible securities may outperform the equity market if leadership broadens and new issuance remains steady, while providing downside mitigation if stock prices fall. The US HY market is expected to deliver favourable coupon-like returns in 2025 with upside possible. Credit fundamental factors are stable, near-term refinancing obligations remain low, and spreads can remain tight.

On the changing policy landscape, we believe the upcoming Trump administration represents an evolution of policy, with a net positive effect on innovation. A less regulated and business-friendly environment should be conducive for more technology investments, infrastructure build out and capital markets activity. However, companies heavily reliant on an overseas supply chain in some countries may face greater uncertainty. It remains to be seen how much tariffs and other restrictions could impact certain industries, but overall should be manageable.

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. 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 January 2025 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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