Allianz Global Investors

Allianz Global Metals and Mining

Quarterly commentary

Investment Objective

The Fund invests in global equity markets with a focus on natural resources. Natural resources may comprise of nonferrous metals, iron and other ores, steel, coal, precious metals, diamonds or industrial salts and minerals.

What Happened in Q1

Q1 was dominated by President Trump's return to the White House. Right after the inauguration on 20 January, the incoming administration set off onto its unorthodox course in all policy fields. One of the declared focus areas was trade. On 1 February, Trump imposed tariffs on Canada and Mexica as well as China, only to announce that the tariffs were paused two days thereafter. What followed was an unpredictable flurry of news headlines and retaliation threats, which culminated in the so-called "Liberation Day" on 2 April, where Trump managed to wreak havoc in financial markets. The obvious consequence in financial markets was uncertainty, which ended the positive momentum in equity markets and sent in particular the US equity indices down hard. Since the excessive use of tariffs was expected to boost inflation in the US, during a period of a struggling US economy, the scenario of stagflation dominated the economic projections. In general, commodities benefitted from the devaluation of the US dollar (5% versus euro in Q1), as the metals did the best. Gold obviously could benefit strongly from the rise of uncertainty and prices spiked up 15% in Q1. Copper prices showed a steep premium in the US as there was strong buying pre-empting the tariffs. London Metal Exchange (LME) notation of copper ended the quarter up 11%, while the COMEX notation shot up 26%. The energy complex underperformed as the Trump administration touted a Ukraine peace deal, which exerted pressure on oil notations and liquefied natural gas (LNG) prices in Europe.

Portfolio Review

The Fund rose over the course of Q1, broadly in line with the comparison. The most important contributor to relative performance was the exposure to gold producers such as AngloGold Ashanti, which benefitted from the strong gold momentum. Also, a Swedish steelmaker was among the best relative contributors as the company was seen as a beneficiary of US steel import tariffs given its local production footprint. As detractors, the holdings in Teck Resources and another Canadian-based metals producer hurt performance as their share prices declined in the flight from Canadian assets. In addition, both companies presented slightly disappointing Q4 results and production outlooks. Similarly, the stocks of an American steel manufacturer fell over the quarter and completed the bottom contributors. The company reported weak Q4 results and announced to halt a steel plant in Michigan due to lack of demand from automotive clients.

Over the recent month, there have been significant trades. Given the large dispersion of performance within gold stocks, relative outperformers AngloGold Ashanti and a gold mining firm were neutralised and the funds redistributed to a Canadian-based gold and silver mining company and some laggards in the copper industry like a diversified Canadian mining company.

Market Outlook

Uncertainty around global trade is currently overshadowing commodities and associated stocks, while the long-term structural market trends do not come to the fore. Mergers and acquisitions (M&A) attempts like BHP's approach on Anglo American shed light on the mispricing of mining assets in the stock market. The structural trends in electrification with the massive investments to harness our power grids for this shift is trumped by the short-term cyclical data or interpretation of central bank comments. Synchronised to the revolution in the semiconductors space, we should be concerned about the availability of key ingredients for the new setup of the economy. First assumptions indicate that new technologies might add a couple of percentage points to demand for key ingredients like copper by the end of this decade. In order to account for this growth, the industry should invest now to make sure the material is available by then. However, the opposite is happening as commodity prices are far too low to incentivise creation of new capacity by the miners. This lack of investment begins to make a difference for pricing and the longer the market ignorant, the larger the deficit will become.

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All data are sourced from Bloomberg and Allianz Global Investors as at 31 March 2025 unless otherwise stated.

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