Allianz Global Sustainability

Monthly commentary

Investment Objective

The Fund aims at long-term capital growth by investing in global equity markets of developed countries in accordance with environmental and social characteristics. The Investment Manager may engage in foreign currency overlay and thus assume separate foreign currency risks with regard to currencies of OECD member states, even if the Sub-Fund does not include any assets denominated in these respective currencies.

What Happened in July

Global equities rose modestly in July, bolstered by progress in US trade talks for most of the period. A positive start to the Q2 earnings season also boosted stocks, although gains were capped after President Trump stepped up his campaign against Federal Reserve Chair Jerome Powell, raising concerns about the central bank's independence, as well as by ongoing geopolitical tensions. Turning to sectors, Information Technology and Energy were the strongest sectors in the MSCI All-Country World Index, followed by Utilities. Conversely, the Health Care and Consumer Staples sectors generated negative returns in July.

Trade talks dominated the headlines for much of July. President Trump's 90-day pause on 'Liberation Day' tariffs expired on 9 July, and the president ramped up the pressure on the US's trading partners to sign trade deals by a new deadline of 1 August. Among the most notable trade deals the US signed in July were agreements with Japan and the European Union (EU).

In currency markets, the US dollar clawed back some of its recent losses in July as US economic data remained resilient. In contrast, the euro weakened in the aftermath of the trade deal announced by Washington and Brussels.

JULY 2025

Portfolio Review

Stock selection was positive in Health Care despite continued disappointment in a medical insurer and care operator. The Health Care sector had another poor month of performance and this holding featured as the top detractor over the month. The company has suffered a series of setbacks with the departure of the CEO and a significant profit warning.

This was offset by our position in Thermo Fisher who was the top contributor over the month having posted a solid set of numbers and given guidance that was well received. Life science and tools health care companies had suffered most within the sector in Q2, with the pressure on the sector from Trump, despite showing signs that the industry is stabilising. A recovery in their end markets is now expected and the valuation is extremely attractive.

Amongst the top contributors to relative performance, our holding in Consumer Staples company Reckitt Benckiser contributed to relative returns, performing strongly having released better-than-expected results demonstrating solid growth in emerging markets.

Meanwhile our position in a data provider performed poorly despite posting a solid set of numbers. The stock reacted negatively to the potential impact of artificial intelligence (AI) on their business and their ability to innovate quickly, as well as pointing out a disappointing outlook for subscription revenue growth in an environment of heightened pricing competition. We believe concerns regarding both are overdone and we continue to see a business with compounding earnings growth and improving financial quality trading at a discount to peers.

Market Outlook

The positioning of the Fund continues to be relatively defensive with a focus on predictability of earnings and return in what remains an environment of economic fragility.

We believe there will be a pause in the outperformance of the Magnificent 7*. Market returns are expected to broaden in 2025 and beyond, as valuations and earnings revisions become less compelling for that group of companies. They are spending record levels on capital expenditure and will need to show a return on this spend shortly. Recent narrative suggests that demand still outweighs supply, but this is coming to the point where more questions are being asked. Additionally, 2026 is looking like a tough year in terms of comparison.

From a regional standpoint, Europe is looking more interesting, although the region is lacking economic impulse. Asia is struggling to show better-than-expected growth which leaves investors still focused on the US as the economic engine that is firing.

We continue to find attractive valuations and investment cases that will work well if the market rotates away from the mega cap AI stocks.

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

* Magnificent 7 refers to a group of US stocks which includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

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