

# 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 the Sustainable and Responsible Investment Strategy (SRI Strategy). 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 November

Despite widespread fears about a contested US election, things actually went relatively smoothly, at least if markets are to go by with. Against initial expectations, the Republicans have won control of the presidency, House and Senate, for at least the next two years. This, in turn, will give Donald Trump far more scope to implement his agenda. The election outcome ignited a market rally as investors bet on proposed tax cuts and that deregulation would bolster corporate profits. Granted, the initial reaction makes directional sense, but it is unclear how long markets will remain on the optimistic side of the trade. While Trump and his administration are likely to boost corporate profitability, we learned during Trump 1.0 that it is usually not smooth sailing.

Add to that the smallest majority in roughly a century of either party in the House, the margin for error when it comes to policy making is tiny. Financial markets have recently started to reflect this view with yields starting to drop quite hard in the last two weeks of November despite what was initially thought as a pro-growth and inflationary government.

Outside of the US election, geopolitics made some headlines as we saw positive development in the Middle East with a ceasefire reached in the Israel-Lebanon war.

European equities struggled over November as the prospect of Donald Trump's return to the White House raised the spectre of higher tariffs. Rising political uncertainty also undermined sentiment. German Chancellor Olaf Scholz called a

snap election after the 3-year-old coalition government collapsed as it battled to agree a budget. In France, Prime Minister Michel Barnier's minority government also appeared to be in peril as it struggled to gain sufficient support for a budget that contained tax increases and spending cuts.

At a sector level, Consumer Discretionary and Financials stocks rallied the most, while Materials and Health Care were the weakest sectors in global indices.

### Portfolio Review

The Fund outperformed its benchmark, the Dow Jones Sustainability Index.

#### Contributors

For a second consecutive month, our Financial holdings were top contributors to performance with Morgan Stanley and Visa featuring amongst the top contributors with the expectations of a more conducive regulatory environment in the upcoming Trump administration. US bank Morgan Stanley, along with the wider banking sector, performed well, fuelled by an improving capital markets outlook, partly driven by proposed deregulation and lower taxes. London Stock Exchange also performed well and contributed to relative returns as it saw some upgrades following a strong set of results for the quarter.

A potential reversal of sanctions on new US liquefied natural gas (LNG) projects also supported a gas producer, which continued to perform well and featured in the top contributors to performance.

A cyber security provider continued its recovery, boosted by strong quarterly earnings and reports of new business wins and improved cash flow margins. It is now nearing the July level before the global information technology (IT) outage.

The prospects of tariffs weighed on the performance of a Taiwanese semiconductor manufacturer that suffered over the month. Our lack of exposure to the stock was beneficial to relative returns.

#### Detractors

A nutrition expert had a second month of underperformance following strong performance since the beginning of the year. Despite posting a strong set of quarterly results, the market failed to reward it to provide further uplift. We continue to see upside potential from the planned disposal of its animal nutrition and health segment, a re-rating of the consumer ingredients business and a likely share buyback post disposal.

#### Significant Transactions

On portfolio transactions, we sold our position in an oil and gas company and bought a renewable energy company.

The afore-mentioned renewable energy company is an attractive growth story within the defensive US regulated Utilities sector. Combining a best-in-class regulated utility in Florida with a leading renewable energy business, the company is well positioned to maintain sector-leading earnings growth as it leverages its cost leadership to further grow its regulated asset base. It is also delivering on a growing backlog of renewable projects driven by the secular shift away from fossil fuel and accelerating power demand in the US. We saw the weakness post-election as a buying opportunity.

The company featured in the top contributors to performance over the month. Its share price has already recovered since the election move.

## Market Outlook

We had expected a very close election and the financial markets and betting markets had moved aggressively towards a Republican win in October with a meaningful impact on the bond markets along the curve.

This traditionally puts us at a style disadvantage, as we do prefer growth and quality as factors, and this “duration” typically underperforms higher rate expectations. Both the short-end and long-end expectations were higher on both the expectation of more volatility in policy, and also higher inflation expectation as tariffs and tax cuts take centre stage. We concur with the probability of both being higher now. Nevertheless, there are offsetting factors with lower fuel prices and efficiency efforts within the newly formed Department of Government Efficiency which we will need to better understand. Immigration has been such a significant component of recent economic momentum in the US and this will clearly look different under Trump 2.0 and that also would lead to a new inflationary expectation.

So, whilst short-term inflation expectations and higher fixed income markets can impact our style, we do think having the pricing power of our quality compounders offsets that, and we would note our focus on valuation to further prevent that impact.

The performance of the Fund since the election is ahead of the index which is a good indicator that the political agenda does not always translate easily to a view on how sustainable investments and fund flows actually perform.

In fact, the sustainable fund industry thrived under Trump 1.0 as many of the investments required to mitigate and adapt to climatic challenges are beneficiaries of more positive economic impulses.

We will have to be very alert to any new policies (of which we expect many) and feel the Fund is in a good position currently. We are overweight to the US slightly but have a good slate of strong investment cases we feel can deliver in any economic scenario.

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All data are sourced from Bloomberg and Allianz Global Investors as at 30 November 2024 unless otherwise stated.

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